

Finance and Public Administration Committee

6th Meeting 2021 (Session 6), Tuesday 28
September 2021

Tracking the Impact of COVID-19 on Scotland's Public Finances – Briefing Paper by the Auditor General for Scotland

1. The Auditor General provided a written submission to the Finance and Public Administration Committee's call for views on *Scotland's public finances in 2022-23 and the impact of Covid-19*. This was to assist the Committee's scrutiny of the Scottish Government's proposed financial response to the impact of the pandemic on people and the public finances. This highlighted that the key challenge remains getting public money to where it is needed most and in doing so the Scottish Government will need to:

- co-ordinate its approach to address the short and longer-term effects of the pandemic on people, public services and the economy
- keep the public finances on a sustainable footing
- have an effective plan for recovery and renewal over time
- maintain transparent and robust decision making.

2. The written submission is attached at annexe A. It outlined the Auditor General's views on a range of issues about the impact of the pandemic on people and the public finances, including:

- the Scottish Government will need to make difficult decisions as it manage the costs of the pandemic alongside ongoing financial sustainability pressures, for example in the NHS.
- the Scottish Government must be clear about its priorities following the pandemic and how these align with the National Performance Framework and with spending.
- understanding the longer-term pressures facing the Scottish budget is increasingly important as we move towards the recovery and renewal phases of the pandemic. The implications of the pandemic for the people of Scotland are complex, and need to be carefully tracked and managed by the Scottish Government. Addressing these impacts will bring financial pressures and must be managed to prevent a widening of inequalities.

3. The Auditor General also suggested a number of areas where the Committee's scrutiny could have significant impact:

- the links between Scottish Government spending and the impact this has on people's wellbeing;

- the changes in budgets in-year and the Scottish Government's ongoing approach to budget management;
- the Scottish Government's planning for the transition from the response to the recovery phase;
- possible approaches to monitoring Scotland's long-term financial sustainability.

4. The written submission outlined how public audit is using our unique perspective to provide assurance about how Scotland's public services are responding to the pandemic. As part of this Audit Scotland continues to track Covid-19 spending and its implications for the Scottish public finances. It published the third briefing in this series *Tracking the impact of Covid-19 on Scotland's public finances* on 15 September 2021. This considers spending and funding of the Scottish Government's Covid-19 response in 2020/21 and 2021/22 to date, and highlights some of the challenges facing the Scottish Government's financial response.

5. The briefing is attached at annexe B for reference. The Public Audit Committee will consider this paper in November, and the Public Audit and Post Legislative Scrutiny Committee considered the two previous updates at its meetings of 27 August 2020, and 11 March 2021.

6. We are committed to supporting Parliament as the response and recovery from the pandemic continues. Through all our work we will continue to promote financial transparency, support scrutiny and help focus on what difference spending is making to support people through the health and economic impact of the pandemic.

Scotland's public finances in 2022-23 & the impact of Covid

The Auditor General's submission to the Finance and Public Administration Committee

Overview

1. As the Auditor General for Scotland, I am a crown appointment made on the recommendation of the Scottish Parliament. I provide independent assurance to the Parliament that public money is spent properly and is providing value for money. I am committed to supporting Parliament as the response and recovery from the pandemic continues. I work closely with the Accounts Commission and Audit Scotland to deliver public audit in Scotland.

2. The need for an independent voice as events unfold has never been more important. Audit can contribute to this by focusing in on the flow of spending and informing the conversation about the risks and challenges the public sector faces. As the Auditor General for Scotland I take a wide perspective of public sector activity, and in Audit Scotland we are taking a 'whole-system' approach to auditing the Scottish Government's Covid-19 spending across the public sector.

3. I am pleased to provide this written submission to the Committee's call for views on Scotland's public finances in 2022/23 and the impact of Covid, and I set out my views on these issues below. This is to assist the Committee's scrutiny of the Scottish Government's proposed financial response to the impact of the pandemic on people and the public finances. Of course, the key challenge will remain getting public money to where it is needed most. In doing so the Scottish Government will need to:

- co-ordinate its approach to address the short and longer-term effects of the pandemic on people, public services and the economy
- keep the public finances on a sustainable footing
- have an effective plan for recovery and renewal over time
- maintain transparent and robust decision making.

The impact on people

The Scottish Government is responding to a public health crisis with complex and changing implications for people

4. It is likely that the health, societal and economic impact of the pandemic will be felt for many years. While the pandemic had an immediate effect on the nation's health, Covid-19 may have long-term implications for life expectancy, a healthy workforce and mental wellbeing. The pandemic has also led to an increase in NHS backlogs and waiting times.

5. The negative impact on the economy has led to increasing levels of poverty. These will be difficult to reverse quickly, and income inequalities may widen further. Disruption to education could have long-term implications for young people's development and life chances. The long-term effects of the disruption to education are most likely to be felt by those who already economically and educationally disadvantaged.

6. These issues will need to be carefully tracked and managed by the Scottish Government in the future. Addressing these impacts in a way that prevents a further widening of inequalities will bring increasing financial pressures.

Some groups are being disproportionately affected

7. Covid-19 has disproportionately affected Scotland's most vulnerable citizens, and it has exacerbated inequalities that already existed in Scotland. Our recent [report](#), *NHS in Scotland 2020*, we highlighted the diverse impact on Covid-19 on different groups of people. Through *our Tracking the implications of Covid-19 on Scotland's public finances briefing* papers, we have highlighted that increasing inequality is a significant risk emerging from the pandemic.

8. Research shows there are a number of factors in determining an individual's level of risk to Covid-19, including age, deprivation, ethnicity, location, disability, and pre-existing health conditions. Women are around a third more likely to work in shut down sectors or restricted parts of the economy. In addition, people with pre-existing mental health conditions, young adults, women, and individuals in lower socio-economic groups appear to be reporting higher levels of psychological distress.

9. The Scottish Government stated in *Scotland's Wellbeing: The Impact of COVID-19* that the many effects on people in Scotland are connected. Considering the range of outcomes together will remain important to Scotland's recovery from the pandemic.

Spending needs to be joined-up, balancing different priorities over time

10. Inherent tensions between different policy priorities can bring risks of spending programmes not being well coordinated or even working against one another. These risks are likely to be exacerbated because of the pandemic, with decisions being made at speed to deal with urgent pressures. For example, short term financial support for some business sectors may not necessarily fit well with wider aims in areas such as climate change or wider economic policy.

11. Scottish Government responses also need to work alongside UK Government and local government measures. Having a clear picture of how initiatives at each level of government are working together is needed to properly understand the effectiveness of Covid-19 measures and to support budgeting and financial planning. Effective communication and cooperation between governments will be central to this.

12. We have seen examples of good cooperation and coordination across the public sector in its response to the pandemic. For example, in my joint [report](#) with the Accounts Commission *Improving outcomes for young people through school education* we highlighted effective joint working by the Education Recovery Group (CERG) during the pandemic. Good habits that have been established should be maintained during the recovery phase.

13. The Scottish Government should also be clear about its priorities following the pandemic and how these align with the National Performance Framework. The decisions and trade-offs between areas of spending must be considered alongside how they will affect the desired outcomes for people in Scotland. The Committee may wish to consider how clear links between spending decisions and the anticipated impact on people's wellbeing are.

The impact on the public finances

Difficult decisions lie ahead for Scottish public finances

14. Financial pressures are both acute and unpredictable. Alongside increasing pressures on public revenues and spending, the Scottish budget is subject to ever more volatility, uncertainty and complexity. It will be challenging to match spending to the available funding in the coming years and keep public services on a sustainable footing. This will need to be done in a way that minimises the disruption to individuals, public bodies and services, ensures value for money is maintained and avoids unintended consequences.

15. The pressures on Scotland's public finances will increasingly reflect the financial consequences of delays or disruption to other services caused by the pandemic, such as addressing NHS treatment and courts backlogs. These demands on public finances, must be managed alongside pre-existing financial sustainability pressures in areas such as the NHS and local government.

Fiscal flexibilities can help in the short-term but can't insulate Scottish public finances from the pandemic's effects

16. One of the principles that underpins the Fiscal Framework agreement is that the UK government should continue to manage risks and economic shocks that affect the whole of the UK. This has operated largely as anticipated during the pandemic with the UK Government's fiscal policy decisions flowing through to the block grant. This has then enabled the public spending response implemented by the Scottish Government.

17. The Fiscal Framework was established in a period when there were a small number of decision points during the year. Responding to Covid-19 has required a much more dynamic response from the UK and Scottish Government. Recognising this, the UK Government guaranteed levels of funding to the Scottish budget during 2020/21. This provided the Scottish Government with some additional certainty, but also provided challenges and complexities in other respects. For example, it was not always clear whether specific UK spending announcements resulted in further funding.

18. Existing fiscal framework flexibilities are largely designed to smooth the impact of forecasting errors and enable limited flexibility between financial years. Using flexibilities to meet immediate spending pressures may help to balance the budget, but it does not tackle the underlying challenges to financial sustainability.

Managing in-year changes to funding and spending will remain critical

19. Increasingly, the Scottish Budget is subject to a high degree of change during the financial year. This volatility has been exacerbated during the pandemic. The budget revision process is an important way in which the budget

is updated, and formally approved by Parliament. Scrutinising these revisions will remain a key role for the Committee.

20. The speed at which spending plans have developed in response to the pandemic means that the Scottish Government has had to develop its approach to managing the overall position. Given the increase in financial risk due of the pandemic, the Committee may wish to extend its scrutiny to understand how Scottish Government manages the overall budget position on an ongoing basis.

A thorough understanding of existing commitments is needed

21. As the Scottish budget is increasingly uncertain and volatile, it is more challenging to match spending to the available funding. A key aspect of the Scottish Government's ability to do this will be its ability to control its spending programmes in the short term. This requires understanding how spending supports priority areas and the outcomes set out in the National Performance Framework, as well as the costs of policy decisions over the longer term.

22. Any changes to spending need to minimise the disruption to individual public bodies and services and maintain value for money. Much of the public spending in the Scottish budget is for areas such as staff costs that are difficult to change quickly. The Scottish Government needs to understand where it can quickly alter spending when responding to budget fluctuations.

23. Understanding the financial picture across all devolved public services is important for managing risks. The Scottish Government has committed to produce a consolidated account to cover the whole public sector in Scotland, including total assets, investments and liabilities such as local government borrowing and public-sector pension liabilities. I have recently highlighted that there is a need, more than ever, for Scottish Public Sector Accounts and an outstanding commitment from the Scottish Government to prepare and publish such a complete picture of what Scotland's public bodies own and owe.

Transparent decision making is essential in a fast-moving environment

24. As more spending and funding announcements are made in response to the pandemic, and as Scottish Government moves into the post-vaccine recovery phase, tracking the budget will become more complex. It will likely become increasingly hard to identify what is Covid spending, as spending links more with other goals. In such a fast-moving environment, it is more difficult to demonstrate how each measure has been chosen and how overall spending is being managed. The Committee will continue to play a key role in ensuring the Scottish Government maintains transparency over this.

Longer-term planning is essential for Scotland's recovery and renewal

25. Understanding the longer-term pressures facing the Scottish budget is increasingly important in this environment. The Committee's predecessor recommended that the incoming Committee considers inviting the Scottish Fiscal Commission (SFC) to publish a long-term fiscal sustainability report at least once during each session of the Parliament. In my view this would be a valuable addition to the information available to support Parliamentary scrutiny.

26. Planning for the medium term in periods of significant uncertainty and volatility is difficult, but necessary. The Scottish Government published its latest medium-term financial strategy alongside the 2021/22 Scottish budget. It will be

important that the Scottish Government updates this to ensure that the wider context for the 2022/23 budget is understood. The current strategy includes broad funding and spending scenarios and sets out the Scottish Government's overall priorities. In my view, future updates should include better information about planned spending options and how these could affect outcomes.

Budgeting needs to underpin the transition from response to recovery

27. The pandemic is ongoing and the direct effects of it are still being felt. The initial financial response has continued into 2021/22. Increasingly, financial measures will need to be introduced to support recovery from the wider impact of the pandemic on the economy, wellbeing and public services.

28. In determining its budget proposals, the Scottish Government will need to have a clear understanding of how it plans to transition from its initial financial response to more of a recovery phase. But given the continuing uncertainties about the course of the pandemic it is also likely to need to maintain a flexible approach to its financial planning. The Committee may wish to explore how the Scottish Government is addressing these challenges as part of its scrutiny.

Audit response

29. A key part of the public audit model in Scotland is auditing the accounts of all public bodies ensuring that their financial reporting is robust and transparent. We are using our unique perspective to provide assurance about how Scotland's public services are responding to Covid-19. Our [work programme](#) sets out the audit work we plan to deliver during 2021/22, based on the following priorities:

- Economic recovery and growth: how public money is being used to support the economy and its response to, and recovery from, Covid-19.
- Policy priorities: progress on key policies and public services' ability to deliver on long-term strategic priorities and outcomes.
- Inequalities and human rights: the impact of Covid-19 on different groups in society.
- Innovation and transformation: how public bodies are learning lessons and innovating and transforming public services.
- Governance and accountability: how public bodies are ensuring the proper and effective use of public money within the public sector.

30. We will retain our focus on producing high quality, evidence-led audit judgements and recommendations. The programme also needs to be dynamic, and we are reviewing it every three months to ensure it responds to the current volatile and uncertain context.

31. An important component of our plans is our *Following the Pandemic Pound programme*. In the short term, we will assess how much public bodies have spent on Covid-19, and on what. In the longer-term we'll assess what difference that spending has made. Audit Scotland continues to track Covid-19 spending and its implications for Scottish public finances. We published our most recent

update on this in February, and the next update is planned for September. I would be happy to discuss this further with the Committee once available.

32. Through all our work I will continue to promote financial transparency, support scrutiny, and help focus on what difference spending is making to support people through the health and economic impact of the pandemic.

August 2021

Covid-19

Tracking the impact of Covid-19 on Scotland's public finances

A further update



Prepared by Audit Scotland
September 2021

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The impact of Covid-19 on Scotland's public finances

1. The pandemic has had significant consequences for the people of Scotland, impacting on the way they live, the environment they live in and the services they receive.

2. The Scottish Government [is reporting](#) data against the 'four harms' of Covid-19, each of which will have an impact on Scottish public finances for years to come:

- Direct health impacts: Covid-19 causes direct and tragic harm to people's health.
- Indirect health impacts: Covid-19 is also having a wider impact on health and social services and how people are using those services. These changes will have an impact on people's health in both the short term and long term.
- Societal impacts: the restrictions put in place have slowed the spread of the virus but have caused broader societal harms that can be harder to understand and measure.
- Economic impacts: the provision of direct services and goods, taxes to fund public services like health and welfare, and opportunities for employment and income have all been impacted by Covid-19, and these impacts may continue for some time.

Key messages

- 1 The Scottish Government has been spending unprecedented sums to mitigate the harms of the pandemic.
 - The Scottish Government allocated around £9.3 billion to support Covid-19 spending in 2020/21.
 - The Scottish Government currently estimates its actual spend on Covid-19 in 2020/21 was at least £8.8 billion.
 - The Scottish Government anticipates it will spend at least £4.9 billion more on Covid-19 in 2021/22, and to date has budgeted to spend £3.3 billion.
 - Spending has been widespread across the economy and public services, with over 300 individual spending measures announced to date. The

largest amounts have been spent on direct financial support for business, health and social care and local government.

- 2** Spending has been funded by additional Barnett consequentials and by reallocating some existing budgets.
 - The Scottish Government spent £8.6 billion of Barnett consequentials on its Covid-19 response in 2020/21, carrying £1.15 billion over to 2021/22.
 - The UK Government guaranteed the level of Barnett consequential funding for 2020/21, but has not done so for 2021/22.
 - £1.14 billion was reallocated from existing budgets in 2020/21.
- 3** Transparency is essential but challenging in a fast-moving and unpredictable environment.
 - During 2020/21, Scottish Government directorates exercised judgement over the classification of Covid-19 spending within portfolios in real time.
 - Centrally, the Scottish Government is now collating and analysing portfolios to identify the overall levels of Covid-19 spending.
 - As Scotland moves into the recovery phase, it will likely become increasingly hard to define what is, and what isn't, Covid-19 spending.
- 4** Difficult budget decisions lie ahead.
 - The financial response needed to address the four harms of the pandemic will develop over time.
 - The recovery from the pandemic must be managed alongside other financial pressures which predate the pandemic.
 - Planning for the medium term is difficult, but necessary, to manage the levels of uncertainty and volatility facing the Scottish budget.

Note: The figures used in this paper are unaudited, and we will comment further on actual spending in our Scottish Government Consolidated Accounts audit and future performance audit work on Covid-19 spending.

1. Covid-19 spending and funding in 2020/21

3. In our February 2021 paper, [Covid-19: Tracking the implications of Covid-19 on Scotland's public finances](#), we reported on the spending and funding position up to the end of December 2020. The 2020/21 financial year is now complete, and more information is known about the first year of the Scottish Government's Covid-19 response, and the nature of spending interventions. This chapter sets out what the Scottish Government budgeted to spend in 2020/21, what information is currently available on actual spend during the year, and how this spending was funded.

Spending in 2020/21

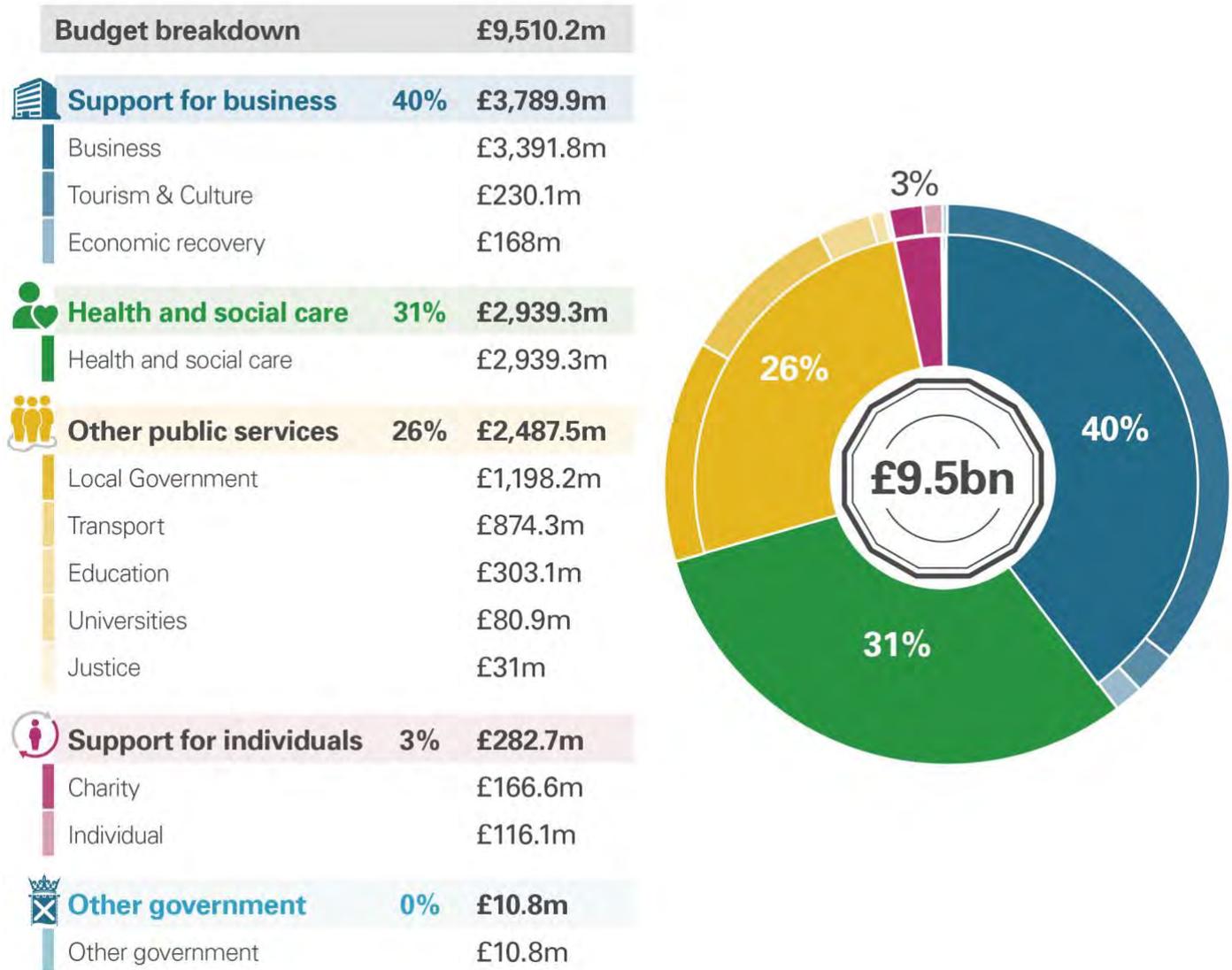
The Scottish Government allocated a gross figure of £9.5 billion for Covid-19 spending in 2020/21

4. Our analysis shows a total of £9.5 billion was allocated for Covid-19 measures in 2020/21. Where the amounts initially allocated were underspent, the remaining balances were redeployed to support other spending through in-year budget revisions. This £9.5 billion figure includes both the original and the redeployed planned spending. Spending that was redeployed includes £183 million of underspends against the first tranche of business support ([paragraph 13](#)). The net allocation of Covid spending in-year was £9.3 billion.

5. This spending supported a wide variety of public bodies, individuals, businesses and third sector organisations during 2020/21. ([Exhibit 1](#))

- The largest area of Covid-19 spending was on business support, which received nearly £3.8 billion. The largest funding measures were for Business Support Grants (£1.2 billion) and non-domestic rates relief (£972 million).
- The second largest area of spending was Health and Social Care, which received over £2.9 billion for Covid-19.
- Local Government was the third largest area of spend, receiving £1.2 billion. Spending within Local Government included £524 million in additional Covid-19 funding to support councils and compensate for lost income, and £155 million to cover funding pressures within Local Government. In addition, local authorities were also responsible for managing and distributing some business grants and other funds.

Exhibit 1
Covid-19 budgeted spending in 2020/21



Source: Scottish Government Budget revisions; Audit Scotland analysis

The distribution of Covid-19 spending changed during the pandemic

6. The Scottish Government makes announcements of spending in real time, and in 2020/21 these were collated at three points in the year through the Budget Revision process.

7. In the early stages of the pandemic up to the Summer Budget Revision in July 2020, the largest area of support was for business support grants. At this stage, funding was primarily concentrated in portfolio areas such as Communities and Local Government, which included much of the business support spend.

8. During the summer and the autumn there was a drop in cases after the first lockdown and the partial re-opening of the economy. In the Autumn Budget Revision (published in September) the largest areas of support were for the health response to the pandemic, and additional support to bus and rail franchises.

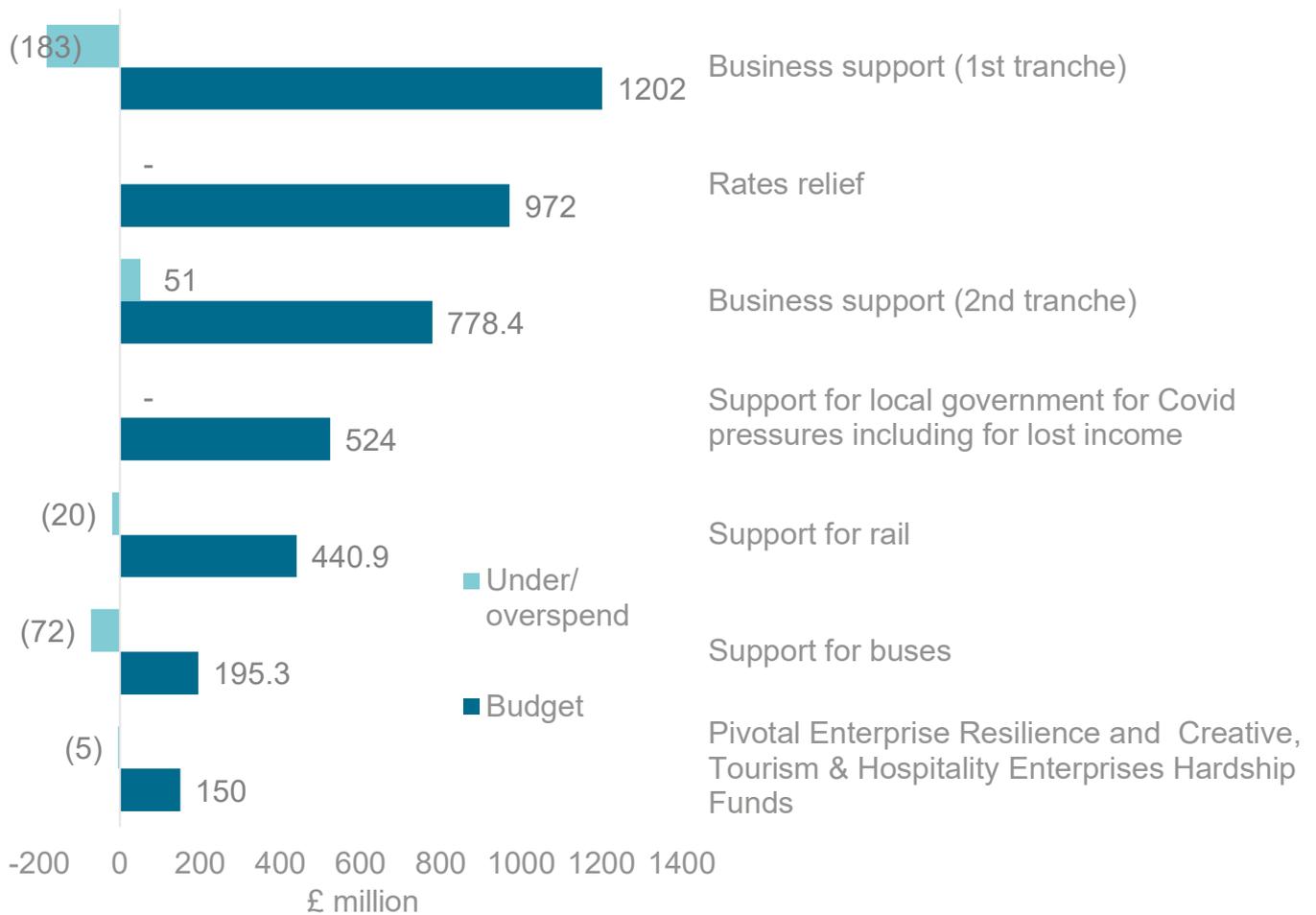
9. Over the winter, case numbers surged again and Scotland went back into lockdown. By the time of the Spring Budget Revision in February, the most significant commitments included an additional £778 million for business support, £524 million in support for local government for Covid-19 pressures including lost income, as well as an additional £439 million in Covid-19 funding for health.

The Scottish Government currently estimates its actual spend on Covid-19 in 2020/21 was £8.8 billion

10. The Scottish Government has provided provisional figures indicating that the actual spend on Covid-19 in 2020/21 so far identified is £8.8 billion. These figures are currently unaudited.

11. The largest proportion of the actual spend was in the Communities and Local Government portfolio, with approximately £3.3 billion recorded. This includes support both to local government and the business support provided through local government in 2020/21. This is followed by the Health and Sport portfolio, with an actual spend of £2.76 billion, and the Economy, Fair Work and Culture portfolio, with an actual spend of £1.2 billion.

12. We have compared the spending lines in the available spending data with the figures included in the budget revisions and selected some of the larger examples for analysis. Our analysis shows that many of these larger funds were fully disbursed or had small underspends ([Exhibit 2](#)).

Exhibit 2**Comparing budget to actual spend for selected large Covid schemes**

Source: Scottish Government, Audit Scotland

13. There are exceptions where there are larger underspends against budget. For example, support for buses reported a £72 million underspend (37 per cent). The Scottish Government has informed us that this was because the initial estimate of the cost of bus operator support was difficult. Some private operators recovered more quickly than anticipated, whilst others could not operate at agreed levels because of self-isolation. The £183 million underspend against the business support figures was redeployed into the Pivotal Enterprise Resilience Fund, the Creative, Tourism and Hospitality Enterprises Hardship Fund and other business support schemes during the year.

14. The Scottish Government is collating and analysing what has been attributed by directorates as Covid-19 spending. The Scottish Government has commented that the tracking of spend is more straightforward across health and social care and the larger support schemes; outside of these, judgements have been made about how Covid-19 disruption to spending on services has been recorded. As such, the Scottish Government considers this to be a minimum total for Covid spending at this stage.

Covid-19 funding in 2020/21

Most of the Scottish Government's spending in response to Covid-19 in 2020/21 was funded by Barnett consequentials from the UK Government

15. Given the volatility and uncertainty that the pandemic brought, from July 2020 the UK Government began to provide guarantees of total Barnett funding in advance of specific UK spending commitments being made. In total, the Scottish Government received an additional £9.7 billion in-year funding for 2020/21, of which £8.6 billion was guaranteed.

16. The Scottish Government applied £8.6 billion of Barnett consequentials to the 2020/21 Scottish budget. The Scottish and UK Governments agreed to apply the remaining £1.15 billion to its 2021/22 budget, due to the last tranche of additional funding being announced relatively late in the financial year (see section 2 below).

The Scottish Government has allocated Barnett consequentials broadly in line with the UK, with some aspects tailored towards Scottish Government priorities

17. The Scottish Government decides how it spends Barnett consequentials. There are no specific requirements for any block grant funding to be spent on initiatives similar to the UK spending decisions from which it derives. Nonetheless, the Scottish Government has committed to spend all Covid-19 consequentials on its pandemic response.

18. We carried out a high-level analysis of UK and Scottish Government spending on Covid-19 to understand where Covid-19 policy aligned and diverged during 2020/21. We compared UK Government spending (and the Barnett consequentials this generated) with our tracking of the Scottish Government's Covid-19 spending commitments.

19. Overall, our findings showed that spending on Covid-19 during 2020/21 was broadly similar between the UK and Scottish Governments. Some examples of similar individual measures of support include:

- **Business support** – for both Governments, the largest individual funding measure was on Covid-19 business support grants.
- **Transport** – the main area of spend within transport for both the UK and Scottish Governments comprised of support to rail operators. Other key areas of financial support within transport were to bus operators and support for active travel (for example, cycling).

20. In some areas, the Scottish Government chose to diverge policy from the UK Government, including:

- **Mental health** – the UK Government's Department of Health and Social Care allocated £25 million to mental health services in England, compared to allocations of over £27 million made by the Scottish Government.

- **Charities / Third sector** - the UK Government spent £453 million on specific support to the charity sector in 2020/21. In Scotland, the charity sector received £135 million in specific support during the same period, which constitutes a higher proportion than the rest of the UK, given the difference in population size between each country.

The Scottish Government also met the costs of Covid-19 spending by reallocating £1.14 billion from other areas of the budget

21. Alongside Barnett consequentials, the Scottish Government has also met the costs of Covid-19 spending by reallocating other elements of its budget. Over the course of 2020/21, the Scottish Government reallocated a total of £1.14 billion from other areas of its budget, though not all of this was to support the Covid-19 response. The majority of this funding (£745.4 million) was reallocated towards the end of the financial year, as part of the Spring Budget Revision.

22. Spending reallocations within and across portfolios have also become more prevalent in-year as a consequence of the pandemic. Most of the funds reallocated to Covid-19 spending in 2020/21 came from underspends in directorates emerging as a consequence of reductions in demand and the cancellation, postponement, or delay of individual programmes because of the pandemic.

23. Some of this reallocated funding was assigned to specific and related Covid-19 measures. For example, in the transport sector, passenger subsidies for bus, rail and ferry operators were repurposed to cover operators' revenue losses due to reduced services and passenger numbers in lockdown.

24. In general, there is no direct link between a given underspend and the new programmes the money was transferred to. The Scottish Government centrally collates under- and overspending reported through directorates before applying these to budget revisions. In these cases, reallocated funds are made available centrally to the overall response to Covid-19, rather than allocated to specific programmes or projects within portfolios.

2. Covid-19 spending and funding in 2021/22 to date

Covid-19 spending in 2021/22 to date

The 2021/22 Scottish budget included £3.3 billion of Covid-19 spending

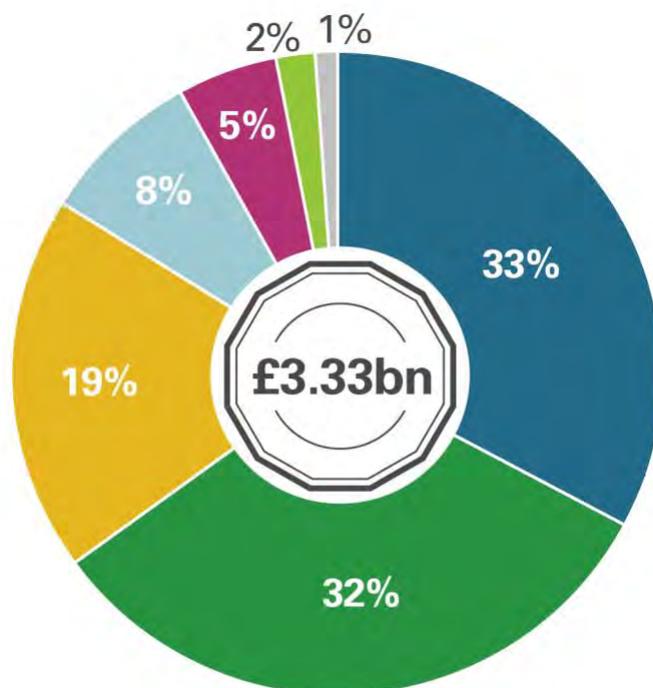
25. The Scottish budget was passed in March 2021, and the final budget included £3.3 billion of Covid spend. This figure increased during the budget stages as more funding information was made available from the UK Government (please see below).

Covid-19 spending in the 2021/22 budget focuses on the health and social care and local government portfolios

26. Nearly two-thirds of the £3.3 billion assigned to Covid-19 during 2021/22 is planned to be spent on the Health and Social Care and Social Justice, Housing and Local Government portfolios. £640 million will be spent in the Finance and Economy portfolio, much of which has been allocated to employability and business support schemes. The majority of the remaining amount that has been allocated to other portfolios is intended to address ongoing disruption from the pandemic, such as support for transport operators. ([Exhibit 3](#))

Exhibit 3**Total Covid-19 spending in 2021/22 budget (£ million)**

| | |
|---|----------------|
| Total Covid-19 funding | £3,330m |
| 33% Health & social care | £1,080.0m |
| 32% Social justice, housing & local government | £1,064.6m |
| 19% Finance & economy | £640.1m |
| 8% Net zero, energy & transport | £277.2m |
| 5% Education & skills | £177.8m |
| 2% Justice | £75m |
| 1% Rural affairs & Islands | £22m |



Source: Scottish Government, Audit Scotland analysis

The Scottish Government's Covid-19 spending response continues to develop

27. In our previous tracker papers, we reported that over 90 publicly available Covid-19 spending announcements had been made between March and the end of July 2020, and that the number of announcements was over 170 by the end of December 2020. We estimate that by the end of the 2020/21 financial year over 230 announcements had been made.

28. The pace of announcements has slowed for the 2021/22 financial year. We estimate that over 70 announcements that apply to the 2021/22 financial year were made up to the end of July 2021. This includes some of the spending that was included in the 2021/22 Scottish budget, and some further announcements that have been made since the budget was passed. Since March 2020, there have been over 300 separately announced spending measures for Covid-19.

29. The largest number of announcements made for 2021/22 relate to business spending (17 announcements) followed by support to individuals (16 announcements) up to the end of July 2021. The highest value of announcements was for health and social care, at over £2 billion.

30. We will continue to track spending announcements related to Covid-19 throughout the year. The Scottish Government will also give an updated position on Covid spending in 2021/22 as part of the Autumn Budget Revision later in September.

Covid-19 funding in 2021/22 to date

£4.7 billion of Covid-19 Barnett consequentials have so far been made available for 2021/22

31. For 2021/22, £4.7 billion of Covid-19 Barnett consequentials have been allocated: £3.7 billion in the budget as amended, and a further £1 billion from main estimate yet to be allocated. Of the £3.7 billion included in the budget, £3.3 billion was resource spending for Covid-19 (see Exhibit 3). A further £70 million of resource and £278 million of capital and financial transaction Covid-19 consequentials were used to support the overall budget.

32. The [Scottish Government has been informed of a further](#) £175 million to be allocated. However, these consequentials will not be confirmed until the UK Government's supplementary estimates are published early in 2022.

Tracking funding applied to the 2021/22 budget is complicated by the timings of Barnett consequentials arising from UK Government fiscal events

33. As mentioned above, the Scottish and UK Governments agreed to apply £1.15 billion of 2020/21 funding to the Scottish Government's 2021/22 budget, due to the last tranche of additional funding being announced relatively late in the financial year. The Scottish Government agreed with HM Treasury that it was not required to carry this funding forward through the Scotland Reserve, instead holding it within UK reserves and reallocating it to the Scottish Government in 2021/22. This type of carry forward has been done before but not on such a large scale. The agreement between the Scottish and UK Governments is outwith the fiscal framework.

34. As a result of this and the announcement of the UK budget in early March, there were substantial changes to funding available and budgeted spending during the stages of the Scottish budget itself ([Exhibit 4](#)). Further funding changes will be reflected through in-year budget revisions.

Exhibit 4**Changes in Barnett consequentials reflected in the 2021/22 Scottish budget, £ billion**

| Barnett consequentials applied to 2021/22 budget | Additional | Cumulative |
|---|-------------------|-------------------|
| UK Spending review 2020 | 1.3 | |
| Assumed additional BCs in advance of UK budget | 0.5 | |
| Barnett consequentials applied to Stage 1 budget (January 2021) | 1.8 | 1.8 |
| 2020/21 Barnett consequentials carried over to 2021/22 | 1.2 | |
| UK budget | 1.2 | |
| LESS UK budget assumed at Stage 1 | -0.5 | |
| Barnett consequentials applied to Stage 3 (final) budget (March 2021) | 1.9 | 3.7 |
| UK main estimates 2021 | 1.0 | |
| Barnett consequentials expected in the Autumn Budget Revision (September 2021) | 1.0 | 4.7 |
| UK supplementary estimates (based on UK funding announcements) | 0.2 | |
| Potential additional Barnett consequentials for 2021/22 known to date | 0.2 | 4.9 |

Source: Audit Scotland. Some figures may not sum due to rounding

Large changes in the budget are likely to continue throughout 2021/22

35. Increasingly, the Scottish budget is subject to a high degree of change during the financial year. This volatility has been exacerbated during the pandemic with big changes required to spending plans.

36. We expect large in-year changes to continue in 2021/22, and the first indications of this will be set out in the Autumn Budget Revision later in September 2021.

37. The UK position is a source of uncertainty for the Scottish budget. Unlike the Barnett consequentials allocated in the 2020/21 budget year, the consequentials announced for 2021/22 are not guaranteed by the UK Government. As such, the total amount may rise or fall throughout the year, depending on in-year UK Government spending changes.

3. The challenges facing the Scottish Government's financial response

38. Looking ahead, there are some emerging challenges that the Scottish Government will face as it manages the public finances through the next stages of the pandemic. The response to the pandemic is continuing and it is likely that many of the challenges highlighted in this briefing will extend into the medium and long term.

Transparency is essential when decision making is happening in a fast-moving environment

39. In 2020/21, the pandemic developed rapidly and there were significant pressures on public services that had to be met by additional spending. The Scottish Government had to make decisions quickly and monitor the budget in a fast-moving and unpredictable environment.

40. The Scottish Government's budget includes episodic reviews through the budget revision process. This is an important way in which the budget is rebalanced (matching spending commitments and anticipated funding), and formally approved by Parliament at specific points during the year. The speed at which spending plans have changed in response to the pandemic means that the Scottish Government has had to develop its approach to managing the overall position.

41. The existing processes for monitoring the budget were not designed to separate out specific spending in areas across portfolios, such as costs attached to the Covid-19 response. There are a number of areas where Covid-19 spending is complex:

- **Actual Covid-19 spending in 2020/21:** in 2020/21, overall budget monitoring was focussed on the aggregate position of under- and overspends against the total budget funding available, rather than spending against specific Covid-19 measures. Covid-19 funding was allocated to business areas to spend on managing and curtailing the impact of the pandemic, and Scottish Government business areas applied judgement over what constituted Covid-19 spending.
- **Reallocations:** budget revisions are managed across Government, which means it is not always possible to establish the detail of reprioritisations within directorates. For 2020/21, the amount of reprioritisations is likely to be higher than that set out in the budget

revisions, because business areas manage the individual under- and over-spending against budget lines of a portfolio budget collectively. This means that the Scottish Government finance team does not have the detail of all reprioritisations of spending that were managed at portfolio level.

- **Spending announcements:** Our tracking of the Scottish Government's Covid-19 public spending announcements shows a total of £8.4 billion for 2020/21. These spending allocations are different to the spending as set out in the budget revisions, because the announcements are made in real time based on an initial assessment of requirements, while budget revisions happen at set points in the year when there is often updated information available.

42. The Scottish Government is currently in the process of collating actual spending data for 2020/21, as well as asking business areas to identify what is Covid-19 spending in their expenditure information for 2021/22.

43. As more spending and funding announcements are made, and as the Scottish Government moves into the post-vaccine recovery phase, tracking the budget will become more complex. As spending links more widely with economic development issues and other government goals, it will likely become increasingly hard to define what is, and what isn't, Covid-19 spending. This means that transparency over spending and budget management processes will remain vital.

Financial management will become more challenging, and difficult decisions lie ahead

44. The Scottish Government's financial response will need to adapt as the pandemic develops, in order to mitigate the four harms it has identified.

45. It is not possible to say at this stage how these harms may develop. We do not know what the direct health impact of the new Delta variant will be, or if any other variants will emerge. The economic impacts of the pandemic may begin to ease as a result of the economy re-opening over the summer, but the Job Retention Scheme (furlough) and Self-Employment Income Support Scheme are both scheduled to close in September. The employment impacts of this are currently unknown. In the longer term, we may increasingly see the financial consequences of the indirect health impacts and societal impacts of the pandemic, for example NHS treatment and courts backlogs.

46. These demands on public finances must be managed alongside existing financial sustainability pressures in areas such as the NHS.

47. With increasing pressures on public revenues and spending, and the Scottish budget subject to ever more volatility, uncertainty and complexity, it will be challenging to match spending to the available funding in the coming years. This will need to be done in a way that minimises the disruption to individuals, public bodies and services, ensures value for money is maintained and avoids unintended consequences.

Planning for the medium term in periods of significant uncertainty and volatility is difficult, but necessary

48. The Auditor General has previously identified the need for improvements to medium-term financial planning to aid Parliament's understanding of the financial risks and opportunities arising from the pandemic. He has also recently highlighted the importance of including better links between spending options and outcomes in any future medium-term financial strategies.

49. The Scottish Government published its latest medium-term financial strategy alongside the 2021/22 Scottish budget. This sets out its assessment of Scotland's economic and fiscal outlook, as well as a broad spending outlook considering the effects of changing funding levels for government spending. It will be important that the Scottish Government continues to update this to ensure that the wider context for the 2022/23 budget and beyond is understood.

Scottish Government responses also need to work alongside UK Government and local government measures

50. The medium-term outlook for the size of the Scottish budget will depend heavily on how the UK Government reacts to fiscal risks, uncertainty and the pressures of recovering from the pandemic during this financial year. The approach set out by the UK Government at its 2021 Spending Review, planned for Autumn 2021, will determine the levels of Scottish funding until 2024/25.

51. Having a clear picture of how initiatives at each level of government are working together to respond to and recover from the pandemic is needed to properly understand the effectiveness of Covid-19 measures and to support budgeting and financial planning. Effective communication and cooperation between governments will be central to this.

Audit Scotland has realigned its planned work programme in response to the pandemic

52. We paused our planned work programme at the start of the pandemic and revised our planned work and approach to public audit to take into account the new issues raised by Covid-19. We will continue to revisit our work programme and refine this as we understand more about how the post-pandemic world will develop, and as the longer-term impact of the pandemic becomes clearer.

Responding to the impact of the pandemic on people in Scotland

53. The unknown course of the pandemic, increasing pressures on public revenue and spending, the uncertain and complex fiscal environment and potentially competing policy priorities, present significant challenges for the Scottish Government. How well these are planned for and managed will directly impact on the delivery of public services and Scotland's people.

54. We will continue to monitor Covid-19 spending and how it relates to the 'four harms' identified by the Scottish Government to provide assurance around sound financial management, value for money and how spending is contributing to improving societal and economic outcomes for people. We will undertake this

through the range of our work, including financial audits of individual bodies and our programme of performance audits.

55. Audit Scotland's strategy for Following the pandemic pound is to take a 'whole-system' approach to auditing the allocation and distribution of Scottish Government funding. Our aim is to provide both the Scottish Government and the public with overall conclusions regarding the level of Covid-19 funding allocated to businesses, communities and public services. We will achieve this in several ways:

- Firstly, we will provide commentary and judgements on the actions taken by individual organisations in distributing Covid-19 funding at all levels.
- Secondly, given the dynamic and ever-evolving nature of the pandemic, we will also make use of shorter blogs and briefings alongside our audit reports in order to provide timely and more frequent insights into how public money is being deployed to address Covid-19.
- Thirdly, we will integrate Covid-19 reporting into our existing programme of audit work. In doing so, we will focus on issues relating to economic recovery and growth, policy priorities, inequalities, innovation and transformation, and governance and accountability. In addition, we will also undertake specific targeted work in response to parliamentary interest.

Covid-19

Tracking the impact of Covid-19 on Scotland's public finances: A further update

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ISBN 978 1 913287 60 3