

Witness Name: Alyson Stafford

Statement No.: 4

Exhibits: AS4

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**UK COVID-19 INQUIRY
MODULE 2A**

WITNESS STATEMENT OF THE DIRECTOR GENERAL SCOTTISH EXCHEQUER

Further to the issues raised by the Rule 9 notices dated 2 February 2023 and 10 March 2023 served on the Scottish Government, in connection with Module 2A, the Director-General Scottish Exchequer (DG Scottish Exchequer) will say as follows: -

Introduction

This statement is one of a suite provided for Module 2A of the UK Covid Inquiry and these should be considered collectively. This statement has been prepared to address further questions from the Inquiry and should be considered an addendum to the statements provided for Module 2A by DG Scottish Exchequer on 23 June 2023.

Impact of funding levels on the decisions to implement NPIs, or to lift restrictions

1. The level of funding available to the Scottish Government did have an effect on the measures taken to address the Covid-19 pandemic. To explain and illustrate this, this statement provides an overview of the Scottish Government's approach to considering Non-Pharmaceutical Interventions (NPIs), an overview of the fiscal landscape at the time, and the funding implications on the implementation of NPIs.

Scottish Government approach to considering NPIs

2. As set out in paragraphs 73-86 of the Director General Strategy and External Affairs corporate statement provided on 23 June 2023, the Scottish Government's strategic aim was to minimise the overall harm of the pandemic.
3. After initial restrictions were imposed in March 2020, the Scottish Government published the *COVID-19 Framework for Decision Making* on 23 April 2020 [AS4/001-INQ000131025] outlining the approach and principles to managing the pandemic, particularly in relation to the use of NPIs. This provided the context for decisions taken by the Scottish Cabinet, which is the main decision-making body in the Scottish Government, as previously described in paragraph 65 of the Director General Scottish Exchequer corporate statement for the Financial Management Directorate provided on 23 June 2023.

Fiscal landscape during the pandemic

4. The Director General Scottish Exchequer corporate statement provided on 23 June 2023 sets out how the Scottish Government is funded and how funding allocations were made by the UK Government during the Covid-19 pandemic. In particular, paragraph 2 of that statement sets out that the sequencing and announcement of UK Government departmental funding decisions dictate the value and the timing of the increases to the Block Grant (described in paragraph 2 of the Director General Scottish Exchequer corporate statement provided on 23 June 2023) to the Devolved Administrations. During the pandemic, UK Government decisions which resulted in the announcement of additional funding were not always aligned with either the rate and spread of the Covid-19 pandemic across the four nations within the UK or the preferred public health responses across different parts of the UK. The lack of alignment in funding was both in terms of timing and scale and this was problematic for the Scottish Government in planning its response to the pandemic as it constrained options for public health measures.

5. This meant the Scottish Government was reliant on UK Government funding for measures that would likely involve significant costs to the Scottish Government or its funded bodies, for example, creation of a testing infrastructure, and later, vaccines supply and roll out. Implementation of some non-pharmaceutical measures such as the use of face coverings, and hand hygiene were less dependent on UK Government funding as they could be achieved through guidance, public health messaging, and legislation without significant financial outlay.
6. As Audit Scotland noted in their report *Scotland's financial response to Covid-19*: [AS4/002-**INQ000182993**] "[...] 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."
7. Health Finance contributed to daily situation reports ('sit-reps') on all aspects of the Covid-19 response during early stages of response. Where considered appropriate in the face of competing pressures, finance information would have been included in the Scottish Government Resilience Room (SGoRR) updates. In sit-reps from March and April 2020, officials highlighted risks around provision of adequate funding to cover the necessary costs of the health pandemic response, noting that estimated costs of circa £700 - 800 million (at that time) exceeded the £410 million of confirmed consequentials arising from the UK Chancellor's £5 billion initial response fund. An example is provided [AS4/003-**INQ000253925**]. Sit-reps continued to further note "we have requested urgent clarity (from HMT) on further funding to be made available".
8. However, while the overall arrangements remained determined by the Statement of Funding Policy (described in paragraphs 15-17 of the Director General Scottish Exchequer corporate statement provided on 23 June 2023), processes and considerations were developed during the course of the Covid-19 pandemic to aid planning and management. For example, following recognition of the need to support planning in Devolved Administrations, HM Treasury (HMT) guaranteed

minimum funding levels in July, October, and December 2020 prior to determining and declaring the UK departmental funding allocations. A timeline of in-year fiscal movement to Scottish Government funding 2020-2022 is set out in Figure 1, at paragraph 102 of the Director General Scottish Exchequer corporate statement provided on 23 June 2023.

9. This guarantee, referred to as the “Barnett Guarantee” was announced in July 2020 and provided the Scottish Government with more certainty about available funding to respond to the pandemic. However, final allocations to the Scottish Government remained calculated by reference to the standard Barnett calculations (described in paragraph 2-3 of the Director General Scottish Exchequer corporate statement provided on 23 June 2023). Additionally, this guarantee did not continue beyond the end of financial year 2020-21, despite an extension being requested by the devolved administrations, for example, the Cabinet Secretary for Finance wrote to the Chancellor of the Exchequer on 4 July 2020 and Chief Secretary to the Treasury on 18 May 2021 to reinstate and extend the guarantee arrangement, and the First Minister released a statement seeking a number of flexibilities from the UK Government including an extension of the Barnett Guarantee [AS4/004-INQ000182960] [AS4/005-INQ000253923] [AS4/006-INQ000182958]. The funding arrangements meant that Scottish Ministers could only deploy additional resources after the UK Government decisions deploying further funding had been made, rather than proactively being able to respond in accordance with their assessment of priorities.
10. This also impacted on budget planning, for instance in setting the 2021-22 Scottish Budget, a judgement had to be made ahead of the UK Budget about future Covid consequential. This involved making some allocations of funding to Cabinet Secretary portfolios (such as Health and Social Care), ahead of clarity on UK Government fiscal policy and public spending decisions. The Cabinet Secretary for Finance articulated this in the Budget document published in January 2021 [AS4/007-INQ000147383]:

“I have therefore included proposals in this Budget setting out how the Scottish Government plans to deploy anticipated additional consequential funding of £500 million, subject to confirmation of the level of such

funding in the delayed UK Budget. In doing so, I have made a prudent assumption against the UK Government's unallocated COVID-19 funding, based on the overall proportion of such funding that the Devolved Administrations have received so far during the pandemic."

11. The budget challenges facing the Scottish Government in these circumstances were again recognised by Audit Scotland in the same report *Scotland's financial response to Covid-19*: [AS4/002-INQ000182993], which stated that "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."
12. This funding arrangement was important because Scottish Ministers also noted that the UK Government's response to the Covid-19 pandemic did not always mirror the particular needs of all parts of the UK. For instance, it did not always take account of the different rates of infection in different areas across the UK, the easing of restrictions at different times across different sectors of the economy, or even the uniqueness of the composition of the Scottish economy.
13. Scottish Ministers made numerous representations to the UK Government outlining their concern about the lack of fiscal flexibility, the UK Government's last-minute approach to announcing funding and the availability of funding in Scotland throughout the course of the pandemic. Examples of these representations include:
 - A letter from the Cabinet Secretary for Finance to the Chief Secretary to the Treasury (CST) on 24 June 2020, raising a number of matters and seeking temporary budget flexibilities to manage the Covid-19 response [AS4/008-INQ000182957]
 - A letter from the Cabinet Secretary for Finance to the Chancellor of the Exchequer on 04 July 2020 [AS4/006-INQ000182958]
 - A letter from the Cabinet Secretary for Finance to CST on 18 May 2021, highlighting challenges associated with uncertainty on the scale of available

funding and requesting reinstatement of the guarantee arrangement
[AS4/004-INQ000182960]

- A letter from the Cabinet Secretary for Finance to the Chancellor of the Exchequer on 15 December 2021 [AS4/009-INQ000182947].

14. Additionally, in January 2022 Finance Ministers in Scotland, Wales and Northern Ireland also issued a joint request for flexibilities in relation to funding to tackle Covid-19, and for funding to align with the public health situations in each nation. The statement is provided: [AS4/010-INQ000182948]. The Scottish Government was not permitted to carry forward Covid-19 consequential into 2022-23, beyond the limits of the Scotland Reserve arrangements. The Scotland Reserve is described in the Director General Scottish Exchequer corporate statement provided on 23 June 2023.

15. As per paragraph 63 of the Director General Scottish Exchequer corporate statement provide on 23 June 2023, Scottish Ministers' requests for additional budget flexibilities (such as the ability to borrow for the pandemic) under the Fiscal Framework to support their response to the pandemic were not granted. This exposed the limitations of the Fiscal Framework in allowing the Scottish Government to respond to the degree of volatility that the pandemic presented. However, (as per paragraphs 51-53 of the same statement and set out in paragraph 8 above) the UK Government did provide a guarantee of consequential funding uplifts during 2020-21.

Examples of funding implications on implementation of NPIs

Health and Testing

16. The Director General Health and Social Care corporate statement provided on 23 June 2023 describes how the governance which existed within UK Government departments was not designed to facilitate decision making on an equal basis for the four nations, particularly in areas such as health, where decision making is devolved. This was of lower impact in areas where policy in each nation was fully aligned but became problematic where policies differed or where timescales for

implementation varied. An example of this is the timing of school terms in Scotland, which differ from other parts of the UK particularly at the start and end of summer holidays. This required a different, and earlier timescale for return to school testing. Similarly, on decisions on the level of funding available for Covid-19 services such as testing, these have remained decisions taken by the UK Government, rather than being decisions taken on a four nations basis.

17. In early 2022, the UK Government's decision to cease testing in most circumstances in England impacted on available consequential funding for the Scottish Government. The outcome of this limited the Scottish Government's ability to decide on the length and nature of transition of Test and Protect. The *Coronavirus (COVID-19): Test and Protect Transition Plan*: [AS4/011-INQ000147346], including the changed strategic intent, was set out online. While the Scottish Government chose to continue testing for slightly longer than in England, the lack of any further consequential funding to support this meant that the testing regime for the general population in Scotland was brought to a close, with testing of non-symptomatic people closing at the end of March 2022 and for symptomatic people at the end of April 2022.

18. The then-First Minister set this out in a statement to Parliament on 15 March 2022 [AS4/012-INQ000253924]:

"Regrettably, our freedom of manoeuvre here is severely limited by the fact that our funding is determined by UK Government decisions that are taken for England. However, we have sought, as far as we can, to reach the right decisions for Scotland. It is important to note that we are aiming for the same long-term position as England on testing. However, we consider that the transition should be longer. In England, testing for people without symptoms ended in mid-February and will do so at the end of this month for those with symptoms."

Omicron response

19. In December 2021 Scottish Ministers publicly stated that adequate funding was not available within the constraints on funding imposed by the Statement of

Funding Policy, as set out above, to support their desired response to the Omicron variant, with the Cabinet Secretary for Finance writing to the Chancellor on 15 December 2021. The letter is provided: [AS4/009-INQ000182947]. This made the case for additional funding to be provided to support the response to Omicron and stated that: "Without appropriate additional funding provided now, we will not be able to take decisions to protect public health and the wider economy at this critical juncture when we are trying to both slow the spread of the new variant and provide the financial support necessary to allow that".

20. The First Minister went on to announce additional support for businesses in a statement to the Scottish Parliament on 21 December 2021, that would be partly funded through consequentials however she stated that the UK Government's response was not sufficient to meet the challenge of Omicron and highlighted how the Scottish Government's options were limited: "Current UK funding arrangements mean, firstly, that only the Treasury has the borrowing powers to provide support on such a scale. And second, that financial support at scale is triggered only when the UK Government takes decisions for England. All of this means that our ability to act to protect public health - and to compensate individuals and businesses affected - is curtailed. This cannot be right in a public health emergency."

Coronavirus Job Retention Scheme (Furlough)

21. In October 2020, the infection rate was higher in Scotland than it was in England. So, in addition to national restrictions, the Scottish Government implemented tighter temporary restrictions in some local authority areas on 7 October 2020. At that time, the Coronavirus Job Retention Scheme or "furlough" scheme was being phased out with employers only able to re-claim 60% of furlough costs. Eligibility rules meant that any staff employed after 19 March 2020 were not eligible and would not be paid if their place of employment was closed as a result of the temporary restrictions introduced in Scotland. The furlough scheme was delivered by HMRC through existing systems and processes associated with income tax; the Scottish Government does not have any similar administrative capability, so it was not possible to offer furlough-equivalent support in the

absence of action by the UK Government. The Scottish Government introduced the Covid-19 Restrictions Fund on 9 October 2020 which provided one-off grants to eligible businesses affected by new restrictions. This support package was designed in line with previous levels of Scottish Government support to help maintain cash-flow and business viability during this short period of closure.

22. The furlough scheme was due to be succeeded by the Job Support Scheme (JSS) on 1 November 2020; this would have provided a reduced level of financial support, with employees receiving only two-thirds of their wages for time not worked. However, in response to a further rise in cases in England, the UK Government announced a second national lockdown on 5 November 2020. The JSS was scrapped, and the furlough scheme was extended until the end of March 2021. On 3 March 2021, the Furlough Scheme was extended again until the end of September 2021.

23. On 29 November 2021, Covid-19 Omicron variant was identified in Scotland. The furlough scheme had ended on 30 September 2021, and despite representations made in an emergency four nations call: [AS4/013-INQ000130902] for the furlough scheme to be extended, the UK Government did not agree to reinstate it. Without the ability to borrow, like the UK Government had, Scottish Ministers did not have the funds for its own furlough scheme. This meant that the Scottish Government had to streamline its plans and target limited restrictions across the hospitality sector only. Funding was provided by the Scottish Government, through various funds, for all businesses affected by the restrictions. Business closure was limited to the nightclub sector, with targeted grants aiming to provide those businesses with sufficient funding to retain their staff.

24. A number of documents have been provided under general disclosure to demonstrate the Scottish Government's ask of the UK Government.

Attendance at COBR, Ministerial Implementation Groups, Covid-O or -S Committees, SAGE and other scientific meetings

25. The Director General Scottish Exchequer corporate statement for the Financial Management Directorate provided on 23 June 2023 describes the network of hubs that were set up within the Scottish Government to support its Covid-19 response. In particular, the role of the Scottish Exchequer and Finance Group Hub included facilitating communications, co-ordinating briefing, and reporting to the SGoRR. This information flow helped to support Scottish Government Ministers and officials attending meetings with the UK Government and facilitated the feedback of relevant information to the Finance and Exchequer functions. Further information on attendance at these meetings is outlined below.
26. Many of the UK Government-convened fora the Inquiry has asked about had limited attendance and so priority often went to the appropriate ministerial or clinical need. The co-ordination arrangements that were in place within the Scottish Government, including through the hub network, ensured that information was appropriately disseminated, and sufficient information and briefing supplied to those attending these meetings on the Scottish Government's behalf, according to the agenda set. There was no detriment to the operation of those groups where Finance and Exchequer members were not present and there were adequate mechanisms elsewhere within Scottish Government decision making processes to ensure that Finance and Exchequer advice was reflected at the point of decision-making.
27. Additionally, it was not considered necessary for the Chief Medical Officer (CMO) to meet directly with representatives from within DG Scottish Exchequer and Finance Management Directorate. Decisions made by, and for, the Health and Social Care Portfolio were raised by individual Directorates, discussed and agreed with Health Finance (within DG Health and Social Care) for purposes of governance and then decided upon by the Health and Social Care Management Board (HSCMB). The membership of this group comprises the Chief Medical Officer, the National Clinical Director and the Director of Health Finance amongst other HSC Directors.
28. Similarly, for matters of health policy, regular updates on finance, including the provision/availability of consequential funding, were taken to this group ensuring

that all Health directors were sighted on financial matters through the Director of Health Finance, including ongoing discussions with the UK Government Department of Health and Social Care. DG Health's Chief Scientific Officer (CSO) is part of the CMO Directorate management structure and therefore would have been sighted on financial developments through this route.

29. These mechanisms ensured that CMO and CSO could be appropriately engaged on funding decisions and updates through existing channels, therefore there was no need for a separate process or additional meetings to be established.

Scottish Government Decision Making and Strategic Co-ordination

30. As referred to above, Exchequer and Finance had in place robust mechanisms to ensure appropriate information dissemination to ensure that requested attendees of UK Government convened meetings were briefed across a wide range of subjects, and that the outcome of those discussions was fed back appropriately across the organisation. An example of these arrangements is regular contact between Exchequer and Finance and HM Treasury officials, which acted as a key coordination forum for finance as described in paragraph 57 of the Director General Scottish Exchequer corporate statement provided on 23 June 2023.
31. There were also a number of multi-functional mechanisms in place which supported overall decision making and strategic co-ordination across the Scottish Government for example, the Four Harms Group's role in providing advice to Ministers to support decision making. Further details of the Four Harms Group's role is provided in the Module 2A DG Strategy and External Affairs (Covid-Coordination) provided to the Inquiry on 26 October 2023.
32. It should be noted that the Four Harms Group was not itself a decision-making group: it existed to enable the development of well-rounded material to support Ministers' decision-making in Cabinet.
33. Whilst Exchequer and Financial Management colleagues were not listed members of the Four Harms Group, officials ensured that four-harms discussions

were kept aware of the overall budget position and despite the extraordinary circumstances of Covid-19, the fundamentals of the annual budget management process remained in place as Cabinet took decisions about Covid measures. This was achieved through regular working practices, such as direct, working-level engagement between DG Scottish Exchequer officials and policy teams responsible for implementing proposals from the Four Harms Group.

34. In addition to the cross-Scottish Government mechanisms described above, there were mechanisms in place for the co-ordination of Finance and Exchequer related issues, as described in paragraphs 68-74 of the Director General Scottish Exchequer corporate statement for the Financial Management Directorate provided on 23 June 2023, such as regular engagement between Scottish Ministers and officials with HM Treasury, arrangements with the four nations to discuss Non-Domestic Rates, and routine meetings with COSLA (Convention of Scottish Local Authorities).

The role of expert and scientific advice in making decisions on the allocation of additional funding.

35. The Director General Scottish Exchequer corporate statement for the Financial Management Directorate provided on 23 June 2023 sets out how Portfolio Accountable Officers are answerable to the Scottish Parliament for the resources for which they have a designated personal responsibility, and for providing assurances on the systems of internal control within their areas of responsibility that support the achievement of relevant policies, aims and objectives as set by Scottish Ministers.
36. As set out in paragraph 55 of the Director General Scottish Exchequer corporate statement for the Financial Management Directorate provided on 23 June 2023, spending requests to be met from additional Covid funding were accompanied by an Accountable Officer template (AO template) aligning to the wider corporate approach taken across DG Corporate and DG Scottish Exchequer for Covid-19 accountability across the whole of Scottish Government. The purpose of the AO template was to act as a spending control to ensure that portfolio areas had

considered value for money and the effective use of public funds. Whilst Finance functions worked to implement compliance to the AO template process and ensure appropriate governance as part of the funding allocation process, the templates were ultimately used by relevant Portfolio Accountable Officers to support the development of policy proposals or initiatives within their areas of delivery.

37. It was the responsibility of individual policy teams to incorporate relevant expert advice into their policy proposals, which underpinned AO templates generated for consideration. Therefore, neither DG Scottish Exchequer nor Financial Management Directorate sought or commissioned specific scientific or economic advice. Detailed accounts of how this process worked in practice, as well as the processes by which economic analysis, modelling, forecasts or impact assessments were incorporated into advice are included at paragraphs 243-255 of the Director General Health and Social Care statement provided on 23 June 2023, paragraphs 83, 102, and 125-139 of the Director General Strategy and External Affairs Statement provided on 23 June 2023 and, for impact assessments, paragraphs 55-60 of the Director General Communities statement for Equalities provided on 23 June 2023. Work to develop proposals was thus undertaken by policy officials and, where appropriate and necessary, with input from professional advisors. Similarly, within NHS boards, actions to mitigate the impact of the pandemic were developed and recorded in mobilisation plans in conjunction with clinical staff before ultimately being scrutinised by Scottish Government.

38. For example, for DG Health and Social Care, AO templates were considered by the HSCMB which is the main decision-making body of the Health and Social Care Directorates (HSCD), before being passed to Ministers for review and approval. The remit of HSCMB is to be collectively and individually accountable for the strategy and performance of the NHS and HSCD, ensuring that resources are best used to respond to the priorities and deliver the best services possible for the people of Scotland. Membership of the HSCMB includes the Chief Medical Officer, Chief Nursing Officer, and National Clinical Director. As noted in paragraph 27 above, DG Health's Chief Scientist (CSO) forms part of the Chief

Medical Officer's Directorate and frequently attends these meetings but does not form part of the membership.

39. In this way, while strategic decisions relating to the response to Covid-19 were made by Ministers, Director General Health and Social Care (DGHSC), and all Health Directors (including the Chief Medical Officer, Chief Nursing Officer, and National Clinical Director) were responsible for discussing, agreeing, and ultimately submitting recommendations for allocation of additional funding to Scottish Ministers.
40. The guidance, including this sign-off by HSCMB, was designed to ensure that financial and related activities were performed in accordance with Scottish Government policy at all times. This ensured the following key principles of managing public money: probity, accuracy, economy, efficiency, and effectiveness. Documentation relating to decision-making (both within DGHSC and NHS boards / Integration Authorities) during the period of the Covid-19 response has been retained by the Health Finance, Corporate Governance and Value Directorate, including those decisions which were not taken forward or approved by the HSCMB and / or Scottish Ministers.

Statement of Truth

I believe that the facts stated in this witness statement are true. I understand that proceedings may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief of its truth.

Personal Data

Signed: _____

Dated: _____ 06/11/2023 _____