

Witness Name: Kate Forbes

Statement No.:3

Exhibits: KF3

Dated: 10 September 2025

UK COVID-19 INQUIRY

WITNESS STATEMENT OF KATE FORBES

In relation to the issues raised by the Rule 9 request dated 28 April 2025 in connection with Module 9, I, Kate Forbes, will say as follows: -

1. I am Kate Forbes, Deputy First Minister of Scotland and Cabinet Secretary for Economy and Gaelic since May 2024. I have previously assisted the Inquiry by providing a written statement dated 16 November 2023 in relation to Module 2a (Core decision making and political governance) and a written statement dated 28 November 2024 for Module 5 (Procurement). I also gave oral evidence to the Inquiry for Module 2a on 30 January 2024. Therefore, while this written statement is self-standing, it may be helpful to refer to my earlier statements and evidence for further information.
2. In preparing this statement, I have received drafting assistance and input from the Scottish Government's Covid Inquiries Response Directorate. Unless stated otherwise, the facts stated in this witness statement are within my own knowledge and are true. Where they are not within my own knowledge, they are derived from sources to which I refer and are true to the best of my knowledge and belief. [References to exhibits in this statement are in the form [KF/number - INQ000000].

Overview of my roles during the pandemic

3. I was appointed as the Cabinet Secretary for Finance in February 2020. I served in this role until May 2021, after which point I assumed additional responsibility for the Economy in my new remit as Cabinet Secretary for Finance and the Economy. I remained in this role throughout the remaining months of Covid-19, until March 2023. My list of responsibilities can be found in [KF3/01 - INQ000268005].

4. As Cabinet Secretary for Finance, I had a central decision-making role on all matters related to finance, although every Cabinet Secretary continued to retain all financial responsibility for their portfolio area. This meant that I managed the overall Budget, including managing all risk related to balancing the Budget, allocating new consequential funding to portfolios, and recycling any funding that was no longer able to be spent due to lockdown. Although I managed the day-to-day functions of the Budget, all significant collective financial decisions were agreed by Cabinet. This included allocation of any additional consequential funding or updates to the Budget. I offered advice and recommendations to Cabinet and the First Minister on these matters. I also informed the Cabinet and the First Minister on the financial implications of all decisions that were made to manage the pandemic. It was a demand led role – where budgets were required, I would respond. I had to ensure that there was budget cover for the decisions that Cabinet took. As Finance Secretary, I was also responsible for identifying and allocating funding for the various financial support to support business, industry, and workers.

5. At the start of the pandemic, I agreed with Fiona Hyslop, who was at that point the Cabinet Secretary for Economy, that I would take the lead on establishing any business support funds as I was closely connected with the consequential funding that was generated when the Chancellor announced business support funds. I therefore took on the responsibility of allocating

funding to new or existing schemes, engaging with stakeholders on the criteria of these schemes and agreeing the process for distributing these schemes. Ms Hyslop's role was to engage with businesses and trade unions on all other economic matters, including how to adapt their operations, draft guidance and to respond to new restrictions or NPIs. Ordinarily, it would have been the Economy Secretary who dealt with distributing financial support to business, but it made more sense for me to manage this work because I was closest to the financial information that was central to the design and implementation of the funding schemes. When I became Cabinet Secretary for Finance and Economy in May 2021, I assumed responsibility for the Economy which meant that I was also involved in the advice and support to businesses as we emerged out of the pandemic and restrictions were being relaxed. I was already extensively engaging with businesses in my Finance role, but that engagement now included discussions about guidance, rules and support for businesses adapting. For example, there was a lot of intricate, complex guidance about certain industries, like the wedding industry, as more activities were permissible like gathering in greater numbers or singing – and I was involved in many discussions directly with business around the interpretation of that guidance.

6. I began to appreciate the scale of the economic emergency in my first week as Cabinet Secretary for Finance. I delivered the Budget unexpectedly on the 6 February 2020 and was appointed Cabinet Secretary for Finance on the 17 February 2020 after acting on an interim basis. I am pretty sure that by Stage 3 of the Budget Bill, there was discussions at Cabinet about the risks posed by Covid-19 and whether or not there would be a need for funding for certain interventions if they were required. I also recall discussions about Covid-19 at the first ever Finance Ministers' Quadrilateral I attended on 10 March 2020. The minutes of this meeting confirm a collective awareness that the spread of Covid-19 was expected to have a negative impact on global economic activity and growth [KF3/02 - INQ000647992]. I highlighted, in the

course of that meeting, that a Covid-19 outbreak in Scotland would impact the economy directly through restrictions on the labour market and the demand for goods and services such as tourism, hospitality and events. I noted that it would be helpful to know how the UK Government was planning on handling additional costs arising from an emergency response and what additional support might be made available for businesses. I asked whether the UK Government anticipated funding a UK-Wide response from the Reserve and queried how the Scottish Government and other devolved nations could best engage on this.

7. While there had been discussions at that point about what the Scottish Government might do, there was no UK wide funding arrangement at that stage and therefore no available budget to respond in any significant way.

8. The first Scottish Government decision in relation to financial support to business came swiftly after the UK Government announced the first tranche of funding on 11 March 2020 – a £30 billion package of economic support which resulted in the Scottish Government receiving corresponding Barnett consequential funding. On 14 March 2020, we announced how we would spend that money [KF3/03 - INQ000553467], but by the 17 March 2020, the UK Government had increased the funding package to £330 billion, which meant that within 3 days our initial plans were out of date. I will go into more detail on the challenges posed by the timing and lack of clarity around UK Government funding announcements later in this statement. This approach at the very beginning of the pandemic introduced a pattern that would become familiar and common, which is to say that the Scottish Government would base financial packages on announcements made by the UK Government only to discover that the UK Government revised its position and the pressure would immediately increase on the Scottish Government to follow suit.

Engagement across Government and with external stakeholders

9. I worked very closely with Fiona Hyslop, Cabinet Secretary for the Economy until May 2021 and sat on her Economy Cabinet Sub-Committee. Members of this Committee included the Chief Economist and the First Minister. It met on a weekly basis, focusing on the data and analysis of the economic implications of the pandemic and, specifically, lockdown. The Economy Cabinet met during the course of the first lockdown. It was not reconvened for the second lockdown if I remember correctly. I was also in regular discussions with the Cabinet Secretaries for Health, Jeane Freeman MSP, and Humza Yousaf MSP throughout the duration of the pandemic to support health decisions that had significant financial implications. I attended Cabinet meetings which took place on a weekly basis and provided input on budget issues and the economic response to the pandemic. These discussions informed how funding should be spent in order to mitigate the harms that workers and businesses were experiencing. I had budget update meetings with the First Minister, which the Deputy First Minister often attended, as and when these were required and ad hoc meetings with them both to discuss specific announcements of UK Government announcements.

10. Gold Command meetings were chaired by the First Minister and convened on an ad hoc basis to provisionally consider the latest advice on managing the pandemic, in advance of Cabinet meetings. These meetings allowed for the sharing of information, advice, and opinions. They were principally for briefing the First Minister, but it was at Cabinet, not in Gold Command, that the decisions were ultimately made. I am assuming that these meetings only started being referred to as “Gold Command” in late 2020, as I do not recall any reference to Gold Command or Gold meetings prior to that. I do not recall any announcement of Gold Command or Gold meetings being established or launched as a new part of the structure.

11. In my oral evidence for Module 2a, I was referred to a list of Gold Command meetings that took place in 2021 and 2022. This list was provided to the Inquiry by me as an exhibit to my written statement [KF3/04 - INQ000268008]. At paragraph 11 of my written statement for Module 2a, I also make reference to another list of meetings, [KF3/05 - INQ000268007] which has a tab titled "SGORR and Gold Command Meetings". Both lists were provided to the Inquiry and include dates of meetings drawn directly from my ministerial calendar. Reviewing the lists of Gold Command meetings held by the Inquiry, it is clear that the Covid meetings I attended on the 28 September 2020, 20 October 2020, 16 November 2020, and 3 December 2020 correspond with Gold Command meetings. The meetings on 20 October 2020, 16 November 2020 and 3 December 2020 were all included in the list of meetings I provided to the Inquiry in [KF3/05 - INQ000268007] of my Module 2a Statement [INQ000273982]. The meeting on 28 September 2020 is not captured on either list because it was not described as either a SGORR or Gold Command meeting in my diary. The meeting on the 28 September is noted in my diary as "Covid-19 Strategic Issues (Chaired by FM)" and the meetings on 16 November and 3 December are noted as SGoRR meetings. Despite these meetings on 28 September 2020, 16 November 2020 and 3 December 2020 not being titled or described in my diary as Gold Command, they correspond with the list of Gold Command meetings held by the Inquiry [KF3/06 - INQ000429227], [KF3/07 - INQ000429224], [KF3/08 - INQ000429225] and [KF3/09 - INQ000429222]. This explains why I stated in oral evidence that I was not aware that Gold Command meetings existed until later in 2020.

12. As Finance Secretary, I was invited to Gold Command meetings on an ad hoc basis, when my input on Financial matters was required. For example, 19 October 2020, in advance of a meeting the following day, Fiona Hyslop and I sent a Joint Note to the First Minister [KF3/10 - INQ000647993] in which we highlight the need to enhance our financial support for business

and the economy to reflect the new strategic/levels approach to restrictions. In the note, we provide information to the First Minister around a new core package of financial support and proposals for how the funding structure could be applied in each level. There was plenty of opportunity for me to inform the First Minister and Cabinet about the financial position outwith Gold Command and obviously I was undertaking multiple bilateral meetings with colleagues, all the time, on budget implications. I think the budget position was well known and understood. In one sense the budget position did not differ for the entirety of Covid and that was, although there was a constant stream of new announcements and challenges - we were dependent on the UK Government for funding to support the economic response, there was insufficient budget to mitigate against all the harms, and the Cabinet should take the right decision, not just the financially prudent decision. By the time I was Economy Secretary, I was more involved in Gold Command meetings, filling the role that Fiona Hyslop had previously filled. Gold Command placed great emphasis on the four harms analysis and the economic harm was obviously one of those four. Therefore, being present to inform the First Minister about the implications for the economy harm was important.

13. In practice, the First Minister, the Deputy First Minister, and I were all involved in making decisions about funding the important economic interventions. I would feed into Cabinet discussions about the economic impact of restrictions and how that could be mitigated, if at all. Simultaneously, I was engaging directly with business and making decisions around how to plug the gaps in financial support. As First Minister, Nicola Sturgeon would write to the Prime Minister on issues relating to the economic response to the pandemic where it merited her intervention. Often it was where I had previously raised concerns about the inability to fully fund mitigations for the economic consequences of additional NPIs. For example, in September 2020, Nicola Sturgeon wrote to Prime Minister Boris Johnson [KF3/11 - INQ000217057] concerning economic support for those affected by

restrictions and the need for fiscal flexibility. This was after correspondence from me to the UK Government on these very issues, including a letter to the Chief Secretary to the Treasury on 22 May 2020 [KF3/12 - INQ000182956] and 24 June 2020 [KF3/13 - INQ000182957], and to the Chancellor of the Exchequer on 4 July 2020 [KF3/14 - INQ000182958] as well as discussions at Finance Minister quadrilaterals, for example on 24 July 2020 where I highlighted our concerns [KF3/15 - INQ000592259].

14. As Finance secretary I was chiefly advised by officials in the Scottish Exchequer. As Finance Secretary, I do not recall having regular engagement with DG Economy. In November 2021, the DG Economy, Liz Ditchburn retired, and Elinor Mitchell took over the role on an interim basis until April 2022, when Louise Macdonald was appointed. Obviously, I had a longer standing relationship with DG Exchequer than with DG Economy.

15. My working relationship with the UK Government was through the four nations calls, bilateral meetings with the Chief Secretary to the Treasury and written correspondence. I engaged regularly with the Chief Secretary to the Treasury, which was Steve Barclay MP initially, and then Simon Clark MP. My relationship with both Chief Secretaries to the Treasury was constructive. We did not have a standing meeting but instead had ad hoc communications throughout the pandemic period. I often thought that the engagement with the Chief Secretary to the Treasury and with his officials tasked with devolved finance, was good. The one observation that I would make, which I mentioned in my oral evidence in Module 2a, was that the devolved finance officials were very seldom sighted on what the UK Government might be about to do financially. So, in meetings they would give us their best evidence, and they would speak honestly and truthfully when they said no further funding would be provided. Then, sometimes as quickly as 24 hours later, additional funding would be announced. This was largely because officials did not know, rather than because they were in any way being

deceptive. It was down to a breakdown in communication between UK Government and the Treasury Devolved officials, rather than a breakdown between Treasury Devolved Officials and the Scottish Government.

16. I did not have direct engagement with Rishi Sunak, Chancellor of the Exchequer, other than by correspondence. Sometimes, I would be in wider meetings with the Chancellor, but in terms of face-to-face engagement and discussions, that was with the Chief Secretary to the Treasury and his officials. I did not have any involvement in the UK Government's Economic and Business Response Implementation Group (EBRIG). Fiona Hyslop, as the Cabinet Secretary for Economy, Fair Work and Culture attended the EBRIG (M). I do not recall being invited, and there is no evidence that I was invited. It would have been more appropriate for Ms Hyslop to attend as the lead on all economic matters. I believe that I was copied into briefings and readouts of the meetings for information.
17. As Cabinet Secretary for Finance, I participated in four nations calls on finance. After I assumed responsibility for the Economy, I also participated in four nations calls on the Economy. The finance calls included the relevant devolved Minister and the Chief Secretary to the Treasury. This allowed us to communicate and receive more granular information about any announcements that the UK Government made which generated consequential funding. There was recognition of Devolved Government's responsibilities in terms of health, local government, and education but also that UK Government decisions about economic and financial support had a significant bearing on devolved Government's options.
18. To maximise the effectiveness of working between the UK and Scottish Governments, we agreed to share as much information as possible, sought to schedule as many meetings as possible and agreed to consider alternative mechanisms for example for drawing down emergency funding.

Unfortunately, these alternative mechanisms did not materialise (which I will go on to discuss) and meetings continued to be held on an ad hoc basis. I would have liked to have met more frequently with the UK Government. Although there was a standing agenda item to allow Devolved Governments to brief the Chief Secretary to the Treasury on the latest developments or decisions taken by Devolved Governments, our primary interest was in making requests for budget flexibilities or seeking further clarity on funding announcements which had been made or might be made in future. I worked closely with my devolved counterparts to ensure the meetings were effective and efficient. Whilst we were grateful for the time granted us by the Chief Secretary to the Treasury, we were often frustrated by the lack of information or clarity about upcoming decisions. This was heightened by a series of examples in which decisions were later taken which directly contradicted earlier assurances given to us. For example, we appealed for many weeks for furlough to be extended, which was denied. These requests were made in quadrilateral and bilateral calls, as well as publicly in the press. It was then extended in early November 2020 to coincide with reduced economic activity in England. This was also true of additional funding for business support.

19. I had regular engagement with the other Finance Secretaries. This was useful in so far as it allowed us to share updates. There were some similarities in terms of the need for fiscal flexibility, but each nation was often at a slightly different point in terms of the prevalence of the virus and across the Four Nations there are different levels of powers, which meant, for example that the Scottish Government could take certain steps that were not available to the Welsh and Northern Irish.

20. I engaged extensively with businesses to inform my decision making on the economic interventions. On a constituency level, people knew me as their local MSP, but also as somebody who was responsible for Finance, so I received a huge volume of emails from people asking for information and

assistance. I spent every moment, especially in the first six months of the pandemic, engaged in trying to protect businesses and workers from the economic harms of the NPIs, including personally replying to thousands of emails in my constituency capacity. On top of that, correspondence to Government exploded. Every member of staff I worked with was overwhelmed by the volume of correspondence, but this meant that we knew what the issues were and where there were gaps in support. I also engaged regularly with business and sectoral organisations, often at least once every day if not more often. This included the Federation of Small Businesses (FSB), Confederation of British Industry (CBI), Trade Unions, local authorities, and Scottish Financial Enterprise. I do not think I could have benefitted from different or better engagement with those outside of government because I spent considerable time with business representative organisations.

The Fiscal Framework and need for flexibility in times of emergency

Funding

21. The Corporate Statement of the Scottish Exchequer (second witness statement of Alyson Stafford dated 23 June 2023) for Module 2a [INQ000216653] explains the means by which the Scottish Government raises or receives funding to meet its Budget obligations. I agree with the explanation which is included in paragraphs 1-39 of the Scottish Exchequer's Corporate Statement. I was responsible for budgeting for the way in which the pandemic was managed in Scotland and for securing and allocating funding for it. To meet the costs of the pandemic, I made representations to the UK Government, as detailed in paragraph 46 of the Scottish Exchequer's Corporate Statement for Module 2a. I spoke directly to the Chief Secretary to the Treasury and wrote to the Chancellor. I agree with the Director General Scottish Exchequer that there is no mechanism to formally request

emergency or additional funding over and above any funding that would be generated in the normal way through the Barnett formula. The Barnett formula is the mechanism through which funding is allocated to the Scottish Government by reference to funding that is spent by the UK Government on England only. In other words, the Scottish Government receives funding according to a percentage (as set by the Barnett Formula) of what is spent in England.

22. I agree with the Director General Scottish Exchequer that there is no formal requirement on the UK Government to consult with the Devolved Governments on the level and timing of grant funding. This was challenging as the level of infections, and therefore the response, fluctuated across the four nations but the only Government which could generate funding in response was the UK Government. I agree with the Director General Scottish Exchequer that we often had to react or fit in with policy decisions made by the UK Government rather than planning ahead with full knowledge. I refer here solely to funding decisions. As funding was announced for England-only decisions or initiatives, the three other devolved nations received a share of the funding. However, if no decision was made for England, then there was no subsequent funding and therefore no share for the Devolved Governments. I agree with the Director General Scottish Exchequer that therefore the announcement of funding additions were not always aligned with either the rate and spread of the pandemic across the four nations.
23. I do not think that timing and clarity of additional funding provided to the Scottish Government by the UK Government was adequate. I have already referred to the example of the first announcement of funding by the UK Government in March 2020 which changed within days. This meant that we went from an allocation of approximately £600 million, which we had already done some policy work on, to an allocation of £3 billion pounds, so we had to rip up our plans and start again. The point is that when it came to providing

economic support, we tailored our policy decisions to the pot available. So not knowing what the pot was, or the pot changing with little notice, made things very difficult.

24. Another example was in December 2021, when the Omicron variant was posing real concerns. I had engaged extensively with the Chief Secretary to the Treasury to see if additional funding might be granted and was told that there would not be [KF3/16 - INQ000182947], [KF3/17 - INQ000647994], [KF3/18 - INQ000182981] and we had to make decisions on that basis. Then, on 14 December [KF3/19 - INQ000501324], just as the First Minister was setting out in Parliament the Scottish Government's Omicron support to business (which was limited due to funding constraints), we were told that £220 million was coming. I wrote to the Chancellor the following day [KF3/16 - INQ000182947] noting that the forthcoming consequentials were inadequate given the scale of the challenge posed by Omicron and that the £220 million did not represent an increase in funding because it covered two items of funding the Scottish Government had already been notified of or represented anticipated funding related to pre-omicron levels of Covid. Then four days after the announcement of the £220 million, the UK Government doubled the funding to £440 million. Advanced notice of funding announcements and greater clarity about the levels of additional funding would have allowed us to respond more effectively. There were also issues around the timings of the extension to the furlough scheme, which I will come on to. Furlough was extended 6 times and the announcement by the UK Government of the extensions was always at the last minute.

25. As paragraph 49 makes clear in the Corporate Statement of the Director General Scottish Exchequer for Module 2a, the quantum of funding was the only material change during the pandemic, not the processes or mechanisms for generating, accessing, or allocating funding. I made representations, along with my counterparts in Wales and Northern Ireland, for new processes

that would only operate in emergency circumstances like the pandemic that allowed Devolved Governments to access funding without reference to England-only funding. However, this did not progress. The absence of a standardized mechanism meant that we used every means at our disposal. It complicated decision making as we had to make decisions about the health impact of the pandemic without the requisite clarity on funding arrangements. This needs to be considered for all future pandemics.

26. Other minor flexibilities were granted, for example to guarantee funding. This was termed the Barnett Guarantee. Before that, there was always a risk that our funding package would be lower than announced as the Scottish Government is given a share of what is actually spent in England rather than what is promised to be spent in England. Of course, the UK Government only confirms what was actually spent after the end of the financial year. If for example, the Scottish Government had been promised a specific share of funding, but the UK Government had been unable to spend the totality of what was announced then the Scottish Government would have to pay back the difference. Equally if the UK Government announced new spending, but this was funded through savings or cuts to another part of the Budget then we would get the net impact. In some cases, this meant there was no actual increase in Budget. This was particularly challenging to manage if the announcement raised expectations amongst stakeholders that additional funding would be forthcoming. This was a risk that we carried until the UK Government agreed to guarantee the new funding announced, irrespective of what was spent in England. This was helpful.

27. Paragraph 53, in the Corporate Statement of the Director General Scottish Exchequer for Module 2a, provides a useful timeline of key changes to the Scottish Government's Budget. This should be considered alongside a timeline of key Scottish Government decisions about the Budget, which will illustrate that often the Scottish Government was required to make timely

decisions about managing the pandemic independently of financial guarantees or security. I have already referenced, in my Module 2a statement [INQ000273982], the example of PPE, when funding was confirmed several months after the Scottish Government had started to procure PPE. I agree with the Director General Scottish Exchequer that it created operational planning challenges.

28. The primary issue for me as Finance Secretary was the ongoing insufficiency of the Budget provision to mitigate all harms. We had just set our annual Budget, which had to be rewritten in a matter of days. The Scottish Government operates a fixed Budget which meant the only additional resource came from repurposing minor amounts of funding and from the UK Government. The UK Government indicated that there would be Barnett Consequentials, but such consequentials are based on what the UK Government actually spent rather than what they promised to spend, meaning that our figures were only estimates until the end of the year. Furthermore, as the pandemic progressed, we often had to make decisions without any security over funding. This felt very risky as the costs ran into hundreds of millions of pounds.

29. Ultimately, I do not believe that lack of clarity or standardized mechanisms had a material impact on decisions about managing the health harms of the pandemic, because Cabinet chose to make the right decisions, but it added risk to the decision-making progress and likely affected other harms like economic harms as it delayed or reduced funding available to mitigate economic impact. We would have taken different decisions on the scale, eligibility, and timing of business support grants at various points had we known what was to be announced by the UK Government. This was especially true in October 2020 and December 2021.

30. Economic harm was exacerbated whenever a business could not operate and trade normally. Businesses were severely impacted even when financial support was provided. Financial support slightly minimised those harms, protecting a business from the ultimate catastrophic closure, and protecting workers, by enabling salaries to be paid, but no business escaped the impact of lockdown or reduced trade, even with additional financial support. In some cases, because we had not had to distribute funding in this manner previously, and did not have data on every business, in every sector, across all geographies, the funding took longer than Ministers would have liked to distribute to eligible recipients. In nearly every case, we had to build funding systems from scratch and draw on the expertise of multiple different public (and contracted) bodies so that no one organisation was overwhelmed with the full responsibility of distributing funds across all schemes. Obviously, the faster the funding was distributed, the quicker financial harm was minimised. But for many sectors, that funding was either not enough, or did not come early enough, particularly when there were ongoing restrictions after lockdown.
31. The two primary ways that we could have been more efficient in our economic response was if, firstly, the UK Government had allowed for some fiscal flexibility so that certain interventions could be triggered by different conditions and, secondly, if we had access to HMRC-style data and systems for connecting with every business easily. On the former, it was plain that the conditions in certain parts of the UK were different — for example it was used as a political point that the rate of infections was worse, or better, in Scotland at different times. So, the fact that conditions differed across the UK should have been accepted, as should the need for Scotland-specific mechanisms to trigger additional support — like extending furlough. I agree with the Director General Scottish Exchequer that the inability to influence decisions on the extension of the eligibility for the furlough scheme was a significant constraint. It was only as the situation worsened in England, that the UK

Government extended furlough in early November. It was clear that it was the situation in England that had triggered an extension of furlough, rather than the calls by the Scottish Government as the situation worsened in Scotland. This meant we were making decisions about lockdown in Scotland, not knowing what economic support would be in place or what the UK Government might do. On the latter point, our two main tax authorities are local government and Revenue Scotland. Local authorities collect non domestic rates, which is a property tax, and so had helpful data on all businesses that occupied a premises. However, this data is very unwieldy and only provides information on size of premises rather than size or profitability of business. For example, it excludes all non-property based businesses including those who operate from a vehicle or sub-lease space. Revenue Scotland only manage a few taxes, none of which were relevant for the business of distributing grant funding (for example, the taxes include land and buildings transaction tax and land fill duty). As such, we had no institution that held data on all businesses, with the ability to categorise them by sector, location, profitability, and other factors [KF3/19a – INQ000590790].

32. As the pandemic continued, we increasingly recognised the need for a business index or registry which held all relevant information about a business, including size, sector, and location. However, this would only be required if we needed to distribute funding on the same scale as the pandemic and would be extremely challenging to keep up to date unless there was an incentive for businesses to supply this information regularly. I think that is unlikely to ever be the case. As such, I think the solution is to come to an arrangement with HMRC to be able to access their data on all businesses in Scotland for certain purposes, such as an emergency like Covid-19.

33. In the end, the Cabinet and First Minister made decisions that were right for managing the health impact of the pandemic, irrespective of the financial implications. I agree with the Director General Scottish Exchequer that despite operational challenges, UK Government funding decisions had no impact on specific decisions and negligible cost consequences of implementing or altering isolation guidance in Scotland. However, the decision making process was harder because we did not know the full extent of funding that might be available. As a responsible Finance Secretary, I needed to Budget on the basis of certainty; I could not promise to fund business support schemes without access to such funding. The lack of certainty did not compromise the health approach, but it may have exacerbated some of the other harms, like economic harms, because the funding available for business support and other means of alleviating financial harm was not as joined up.

34. The Financial impact of restrictions to counter the pandemic was, by necessity, a secondary consideration in the face of the health harms. If we had made decisions about the pandemic purely based on the financial impact, there would have been no NPIs because every NPI was costly and the Scottish Government did not always have the up-front budget cover for it. By necessity, the financial response was a demand led process where Cabinet made the right decisions, and I was tasked with the responsibility of ensuring that there was budget cover.

35. The consideration of economic impact is slightly more complex. It was obvious that if we did not manage the health harms quickly and efficiently there would be a much longer economic impact. Businesses often said to me that they would rather see effective and quick health interventions to limit the spread of the virus and therefore the duration of lockdown and other restrictions, rather than less acute measures, that were by definition less effective, that prolonged matters. Often when a business was completely

shut, they were eligible for more support than if they were operating at half their normal capacity.

36. Quite clearly, the Scottish Government was willing to carry substantial financial risk in order to make the right decisions and manage the pandemic effectively. For example, even with minimal funding with which to offer business grants, the Scottish Government announced additional funding to accompany lockdown over Christmas 2020/2021. Funding was announced by the UK Government after the Scottish Government had already announced business grants which were much smaller (due to affordability) than those announced by the UK Government. As such we were able to 'top up' those grants. However, it would have been more straightforward and less damaging for businesses if there had been consistency from the start. Business owners, leaders and workers had to manage considerable uncertainty and stress. I would have preferred to minimise additional uncertainty by making one announcement on funding, rather than having to return to previous announcements and revise them in line with UK Government updates. I agree with the Director General Scottish Exchequer that UK Government funding had an impact on the Scottish Government's ability to implement different measures such as vaccine roll out but less so on measures that could be achieved through guidance, messaging, and legislation. I also agree that restrictions could have been kept in place longer if furlough support had been available for longer. In the end, the UK Government did extend furlough lessening the impact of this.
37. The Scottish government had a commitment to weigh up all the harms associated with the pandemic and seek to lessen all of them. That meant that, when there was no or less financial support for businesses we had to deliberate much more about the advantages and disadvantages of further interventions to manage the pandemic, for example instigating another lockdown. I believe that the Scottish Government made the appropriate

decisions in a timely manner in relation to the pandemic, however it was far more fraught that it needed to be. Also, it meant we proceeded at considerable risk — for example procuring PPE before we knew it would be funded.

38. The bottom line is that the level of funding allocated to Scotland was based on the Barnett Formula, not on need. As such, funding was only allocated when the UK Government made a funding decision that generated consequential funding. That was the only way funding was allocated. This meant that it was extremely difficult to plan ahead financially. The funding required hugely outstripped the funding provided, and additional funding could only be allocated once it was announced by the UK Government. This meant we could not plan ahead, and it also meant that we carried high levels of risk. The issue with the operation of the Barnett Formula during the pandemic was not the difference in need, or demand, for funding, or even the choices that were made by the UK Government about funding in England. It was primarily a question about timing. Using the Barnett Formula meant that we had to wait for the UK Government to spend before it generated further funding for Scotland. If the pandemic worsened in England then the UK Government would commit to funding, which generated consequentials. However, if we needed to fund an initiative prior to the UK Government choosing to spend – for example, if the pandemic worsened in Scotland prior to it worsening in England, necessitating additional spend in Scotland, then we could not secure further funding until the point at which England needed funding.

39. All funding came from Barnett generated consequentials. It was not determined on need or costs in Scotland but instead was purely based on the population share that was generated by the UK Government's spending. The Barnett formula works relatively well in ordinary times, but in the pandemic, it proved to be really challenging because the pandemic affected different

nations of the UK in different ways. As such, the need and subsequent costs of meeting that need therefore fluctuated significantly. Funding was based largely on conditions in England. I do not think the answer is found in better structures for communicating need, it is found in better mechanisms for accessing emergency additional funding when an emergency arises.

40. In the fiscal framework, the UK Government is the only government that can generate additional emergency funding. The Scottish Government can not. We were in receipt of funding only when the UK Government spent more. The UK Government only spent more when they implemented restrictions based on health. When there was an extension of lockdown or another NPI intervention, the UK Government often announced budgetary cover for that, which generated the consequentials, but we did not receive consequentials when the Scottish Government, independently of the UK Government, made health decisions. If UK Government made a decision, I knew that funding would be coming and that there would be budget cover.
41. The Scottish Government found out about funding decisions when the public found out about those decisions. I had no clarity on the budget cover until the UK Government made a public announcement about additional funding. Also, prior to the Barnett Guarantee, there was a risk of negative consequentials – the UK Government announcing additional spend in one area, but funding that out of savings elsewhere.
42. Anything that was unique to Scotland did not receive additional Barnett consequentials — for example inter-island ferries and flights. We also had additional challenges, due to rurality, for delivering all that was needed across the country. I therefore agree with Transport Scotland's Corporate Statement for Module 2a [INQ000215497] where it states at paragraph 70 that there was no funding allocated by the UK Government to specifically deal with inter-island ferries and inter-island flights. Anything unique to

Scotland did not receive consequential funding because there was no similar issue in England to give rise to the funding in the first place.

43. In June 2020, in “Covid-19: UK Fiscal Path – A New Approach”, the Scottish Government set out ten principles it proposed the UK Government should follow to support the UK economy and public finances as the UK began to recover from the impacts of coronavirus. The paper is included in [KF3/20 - INQ000369698] and the updated paper published in November 2020 is here [KF3/21 - INQ000647995]. We believed that we had a duty to not only identify failings on the part of the UK Government but also to offer ideas and solutions in a constructive fashion. That is why we set out ten suggestions regarding public finances, dealing with debt, supporting the labour market, and improving the welfare safety net. Of course, as macro economic and financial powers are all reserved, it made sense that this included reserved matters like taxation. We also felt a duty on behalf of the Scottish people to identify things that would benefit the Scottish people.
44. I made regular public announcements in the Scottish Parliament and in the media calling for additional funding, including dealing with the Omicron variant in December 2021. These are publicly available. I agree with the Director General Scottish Exchequer that there was not sufficient funding to deal with the Omicron variant. We played no role in devising, implementing, and operating the furlough scheme, Self-Employment Income Support Scheme, Bounce Back loans and the Coronavirus Business Interruption loan scheme. We sought to influence the extension of these schemes. We had a duty to minimize all harms, including economic harm, which the furlough scheme did. As the pandemic was at a slightly different stage in Scotland than in England, it was frustrating when decisions about furlough were only taken with England in mind. As Cabinet Secretary for Finance and Economy, I requested the extension of the furlough scheme in written and verbal communications, which is a matter of public record. We also requested

options by which it could be extended for Scotland only. The impact was to increase the level of uncertainty as we weighed up how to manage the pandemic.

45. In terms of the relationship with the UK Government, there needs to be a mechanism which allows for Devolved Governments to access extraordinary, additional funding to tackle emergencies which is not contingent only on UK Government action. This would have allowed the Scottish Government to make funded commitments in response to Scotland-only events and ensured that Cabinet could consider all options. We should also have been able to suspend some of the Scottish Government rules on Budgeting, for example being required to balance a budget on an annual basis. Instead, being able to move funding across financial years would have relieved some of the internal risk and pressure and allowed us to focus more on purely tackling the pandemic.

46. I do not consider that there were sufficient flexibilities in the fiscal framework to enable the Scottish Government to formulate the most effective economic response to the pandemic. We made a number of suggestions to the UK Government regarding measures that could be taken to increase fiscal flexibility in order to have greater control over spending decisions at the right time. For example, the ability to offset capital underspend against resource expenditure, flexibility over resource borrowing, greater flexibility in relation to the reserve for capital, and the ability to unwind any negative consequential and tax and social security reconciliations over a longer time period. [KF3/12 - INQ000182956], [KF3/13 - INQ000182957], [KF3/14 - INQ000182958], [KF3/22 - INQ000353382], [KF3/23 - INQ000647996] and [KF3/24 - INQ000647997].

47. The Barnett Guarantee ensured that the Scottish Government would receive a minimum level of funds as a result of UK Government decisions and was

helpful in that it offered protection against negative consequential, but it was only in place from July 2020 until 31 March 2021. I think everyone accepted that the existing fiscal framework is not sufficient in times of emergency. The other devolved governments accepted that and there was even some commentary from Michael Gove, towards the end of the pandemic, about the need for an emergency mechanism to draw down funding. Since then, there have been no further discussions on this. In the event of a future economic crisis, the Scottish Government needs to have the ability to access funding on an emergency basis, that does not have to go through the Barnett formula.

Support for Jobs administered by the UK Government

48. I had no input into the design of the Coronavirus Job Retention Scheme, also known as “furlough” or the Self-Employment Income Support Scheme (“SEISS”) and had no influence over any iterations of these schemes or their delivery. I was not consulted on either scheme. Although we had issues with timings, which I will come on to, the Scottish Government was largely supportive of the structure of these schemes. I think they were effective economic interventions in Scotland.

49. Furlough made a huge difference. It supplemented people’s personal income and minimised job losses. The big challenge from memory was that a worker had to be completely off work to be eligible. As a result, those whose work was severely curtailed, but had to work very infrequently, or on an ad hoc basis, did not qualify, even if their incomes were significantly reduced. Having said that, I think it would have been very difficult to deliver a scheme that was perfectly nuanced and tailored to every individual situation. Furlough went some way to protecting workers, but it did not necessarily protect business owners, many of whom were classified as directors, nor did it help sole traders or those who were not in regular paid employment.

50. The big problem with furlough was the constant moving of the goal posts by the UK Government saying that it would end at a particular point, when everyone could see that the impact of the pandemic would outlast the end point of the scheme. The Scottish Government made requests in late 2021 for furlough to be extended in Scotland owing to concerns about the need to bring in measures to contain the spread of the Omicron variant but the UK Government did not extend furlough as requested. Our position was that furlough should be extended to support those jobs in sectors like hospitality, where they were still facing restrictions. Ongoing restrictions meant that there was reduced income for businesses and businesses with reduced income need to make cuts to staffing. Having sustained employment for so many people for so long, the view of the Scottish Government was that furlough needed to continue for as long as businesses were grappling with restricted trading.

51. We therefore had to design an alternative, and much more limited, package of support. A lot of time was spent talking about the economic harms and how best to target those sectors most likely to be affected by the restrictions. We went on to introduce limited restrictions across the hospitality sector and provided funding to those businesses. Then, at the eleventh hour, the UK Government decided they needed to take action due to an uptick in the infection rate in England and furlough was extended as a result. We had essentially launched all our plans without knowing about the UK Government's change of plan. It certainly would have reduced the fear of economic harm if we had known that furlough was going to be extended. I do have a lot of sympathy for the way the UK Government acted. My issue with the whole thing was that there was no openness to an alternative funding mechanism that did not have us wholly dependent on the UK Government in our response to mitigate economic harm. I think such a mechanism would have reduced the risk for both the UK Government and for ourselves.

52. In terms of steps taken to fill gaps in the furlough scheme, SEISS was important in supporting those who were self-employed (and who did not qualify for furlough) and getting help to them. However, there were additional gaps in SEISS. In my letter to the Chief Secretary of the Treasury on 9 April 2020 [KF3/25 - INQ000182954], I highlight some of the gaps and urged the Chief Secretary to revisit the criteria for the scheme. While the SEISS was welcomed, in its initial iteration, it would not have provided financial support to self-employed people until June 2020. As I understand it, payments were ultimately made by the middle of May, but there was still a delay period. The scheme did not provide support to sole directors of limited companies. While I acknowledged that some company owners/directors would be able to claim under the furlough scheme (if they were furloughed as employees on their PAYE element), many sole directors receive 50% or less of the income as salary and would therefore still face significant losses. I also made the point that there were likely to be at least 20,000 people who had become newly self-employed who would be ineligible for SEISS and stressed that a one size fits all approach to the very diverse self-employed population, would inevitably place some of those individuals at risk of poverty, at least in the short term.

Scottish Government support for jobs

53. I was involved in the design of the Scotland Furlough Support Grant which were grants of £1,650 made available in five health board areas for businesses that had to close down due to increased restrictions between 9 - 31 October 2020. The purpose of the grant was to help businesses meet the cost of furloughing staff by supporting the 20% employer's contribution that they were required to pay under the UK Government furlough scheme at the time during a period when they had no corresponding business income. The Scottish Government had previously called on the UK Government to continue the fully funded furlough scheme for another 8 months [KF3/26 -

INQ000614186], but this had been rejected. The scheme opened on 21 October 2020 and closed on 13 December 2020 [KF3/27 - INQ000590787]. This was a one-off grant. The fund was co-designed by the Scottish Government, Convention of Scottish Local Authorities, and the Local authorities in the health board areas subject to the restrictions during the period. We consulted on the design of the scheme with HMRC, COSLA, local authorities, Scottish Trades Union Congress and the Unions Unite and Prospect. The scheme only existed because of the decision of the UK Government to end furlough on 31 October 2020. At the eleventh hour, the UK Government decided to extend the furlough scheme because of an unexpected reintroduction of restrictions in England from 1 November 2020. The UK Government removed the mandatory 20% employer contribution to the cost of furloughing staff and there was no longer a gap to be filled after that date. The primary reason for the scheme existing became redundant. If we had known that furlough was going to be extended, we may not have gone to the lengths of designing the scheme.

54. The scheme was implemented and administered by the local authorities who were also responsible for the monitoring and evaluation of the scheme. I would have received reports about the delivery of the scheme, but I was not involved in the active monitoring of it.

55. The Furlough Support Grant achieved its aim of supplementing businesses income at a time when we were unable to eliminate the economic harm caused by restrictions. It is very difficult to evaluate these schemes along the traditional lines of value for money. I do not believe that there was any value for money assessment conducted in relation to the Furlough Support Grant. I think it is unlikely that a cost benefit analysis was done. The scheme was designed at pace to support businesses that were about to be hit hard by an increase in restrictions. At this point, every penny of funding was essential for businesses that were relying on reserves or at risk of running through

reserves. The scheme adequately safeguarded public funds and reduced the risk of fraud. The DG Economy statement for this module [INQ000590815] provides further details on this scheme.

56. I was involved in setting the strategic direction for the design of the Newly Self-Employed Hardship Fund, which was introduced to supplement a gap in the SEISS that the UK Government operated. The fund was set up to provide support to self-employed people who had lost revenue but did not qualify for SEISS support because they had registered as self-employed within the previous year and were explicitly excluded by the conditions of the UK SEISS scheme. We therefore designed a scheme for the newly self-employed. There were two rounds of support. The first round, which opened on 10 April 2020 and closed in July 2020 offered a one off £2,000 payment. The second round of the scheme opened on 16 February 2021 with a deadline for applications on 23 March 2021. It provided a one-off payment of £4,000 for those who had become self-employed between October 2018 and April 2020 but received a nil award under SEISS because they were unable to satisfy the UK Government requirement that they derived 50% of their income from being self-employed.

57. I was not involved in the delivery of the scheme. Monitoring was done, but the priority was rapid distribution. The DG Economy statement for this module [INQ000590815] provides details of how the scheme was delivered and monitored. I am unaware of any modelling or scenario analysis conducted around the design of the scheme. What we did do was limit the parameters of the scheme to those who were not captured by SEISS. As with all of these schemes, we did not have enough data. I make some observations on this issue later in this statement. Company Directors paid through dividends were excluded from this scheme because of the cost implications.

58. This scheme was an example of the Scottish Government trying to fill a gap in the UK Government support. There were multiple demands on every penny of funding, and we had to make a decision as to where to put our money. Of all people most at risk, individual traders who were newly self-employed and who were not be captured by other schemes were particularly vulnerable, so I think it was right to help them. The scheme worked quite well, and it achieved its aims. I hope we never have to be in the position to run this scheme again in the future. If the SEISS had included the newly self-employed then we would not have had to run this scheme. In future, I would either expect HMRC to capture these people, or alternatively, to give us the data to design and run the whole scheme to cover all self-employed people.
59. Whilst I am sympathetic to the suggestion that the Scottish Government should develop the capability to hold and analyse complete data about businesses, there is no incentive or requirement for businesses to register and report all of their arrangements with any Scottish public body. There are already extensive reporting requirements to HMRC and it is unlikely that a Scottish business would be willing to report all of that data to another tax authority or non-tax authority without the need to.
60. As outlined in paragraph 50 and 52 of the Module 9 DG Economy statement [INQ000590815], the Scottish Government did not formally request this data from HMRC. This decision was made on the basis that the process of agreeing a data-sharing agreement and then transferring the data would have likely taken quite some time, especially with HMRC heavily involved in developing the UK Government's furlough and SEISS schemes (which we strongly supported) and Scottish Government officials simultaneously designing schemes that needed to start paying out almost immediately.
61. Local Authorities held the relevant data to develop the original business schemes which relied on non domestic rates and so made use of that.

UK Government Support for Businesses

62. I was not involved in the design or delivery of loans to businesses administered by the UK Government, including the Bounce Back Loan Scheme, the Coronavirus Business Interruption Loan Scheme, and the Covid Corporate Financing Facility. The Scottish Government was not consulted on these measures at all.
63. Again, I think we were largely welcoming of these schemes. We thought that they were meeting a need and that they were delivered at pace, particularly the bounce back loan scheme that supported small medium sized businesses that Coronavirus Business Interruption Loan Scheme (CBILS) excluded in its conditions. Obviously, there were big risks with giving small business more debt, but by and large, the Scottish Government thought these schemes were executed well. The Covid Corporate Financing Facility (CCFF) ended on 30 December 2020 and the other loan schemes were closed to applicants on 31 March 2021. The pandemic lasted for at least another year after that, so I think the loan schemes could have been extended further. Ending those schemes by early 2020 was for some businesses the final straw because they had been resilient up to that point only to discover that they did need help, but the loan support was no longer there.

Scottish Government support for business

64. I was involved in the design, but not the delivery of the key schemes to support business in Scotland. There were a large number of different schemes over the course of the pandemic. We initially kept the schemes limited due to the funding available, but as it became obvious that there were businesses that were falling through the cracks we pledged to try and provide support to those businesses also. This meant that at time it felt like a

cluttered landscape, but all of the schemes were co-designed with industry partners who played a key role in communicating to their members when a scheme became available. Early on, we had to choose whether to take a broad brush approach with a few different schemes to reach the most people but leave other groups behind or to take a more interventionist approach and design multiple, smaller schemes to try and fill all the gaps. In the first phase of the pandemic, our approach was more closely aligned to the first option – albeit with specific schemes for the newly self-employed. Towards the latter half of the pandemic, we launched a large number of sectoral schemes which were very targeted and therefore had very specific eligibility criteria that would only have suited businesses within that sector (like ‘Marine Tourism’ or ‘Hairdressers’ or ‘Outbound Travel Operators’).

65. When it came to designing the schemes there were three potential starting points. The first was to look at the budget available, which obviously had a huge influence on the size and eligibility of the schemes. Sometimes, consequential funding was available, and the schemes reflected that because they were more generous, and other times when we designed schemes without any guaranteed consequential funding. The second consideration was to look at what the UK government was doing because that set business expectations. For example, when the UK Government offered non-domestic rates relief to particular sectors, we did the same. The third was in direct response to businesses or particular sectors telling us that they had not received funding and needed support, like taxi drivers or soft play centres. This became the main consideration as time went on. We worked with business to understand the nature of their business and design schemes accordingly. Of course, a scheme for taxi drivers, based on their licencing arrangements, clearly could not be replicated for a hairdresser. And when we were considering support for hairdressers, we had to consider how to capture individual hairdressers that were not non-domestic rate payers i.e. when they were just renting a chair in a local salon. We were constantly

looking for fixes and work arounds to find ways of getting support to people. All the while the criticism for not reaching everybody and moving too slowly was very pronounced.

66. As Cabinet Secretary, I tasked officials with finding a way to support businesses by designing schemes to protect business from catastrophic failure. We understood throughout that there was no way to completely mitigate against economic harm. As such, our aim was to protect a business from permanent closure. Officials would engage closely with particular sectors or the sectoral trade bodies and then submit proposals to me about how the schemes could work. We consulted trade unions, local government and business representative organisations like FSB and CBI, on a rolling basis, often daily. Consultation was at a high level initially, but as the schemes became more tailored, I moved on to consult with specific industries. A full list of Scottish Government business support schemes can be found in [KF3/28 - INQ000268006]. From this list it is obvious the number of schemes required to fill gaps. Often business organisations expressed concern about the diverse range of schemes but simultaneously called for us to fill any gaps which could only be done by designing a scheme specifically for that gap.
67. One of the tensions was between business' calls on us to perfectly replicate the UK Government schemes, but to also go further than the UK Government with additional financial support for sectors or businesses that had missed out on UK Government support. Initially I decided to make minor changes so as to free up additional funds to meet the needs of businesses that had not received help from the UK Government. If we had been working with a blank page then it might have been easier to do this, but the design of the schemes was hugely influenced by decisions of the UK. Replicating the UK Government model was not always the most efficient way of distributing funds. My approach at the beginning, through the first schemes we operated,

was to slightly adapt the UK Government's approach to create a budget pot to support those businesses that had been left behind, or who had fallen between the gaps of the UK Government schemes. Unfortunately, there was a lot of demand from those businesses who had received funding but not as much as they would have had they been in England. There was, of course, less unhappiness from those who received funding in Scotland, who would not have got anything had we directly replicated the UK Government schemes. Trying to allocate financial support fairly was a really frustrating process because I was very aware of the hundreds of businesses that got nothing, and of the businesses who had received something, but wanted more. I was sympathetic to those who believed that they deserved more funding, but when I looked at, for example, the amount of funding that a registered business got through non-domestic rates versus an unregistered business, it was totally incomparable and unfair. The fact that we took a slightly different approach to the UK Government meant that we had funding available to support those who got nothing. I still maintain that was the right thing to do, and I am disappointed that because of huge press and political pressure, we sometimes went further and offered funding to those who had already received funding.

68. Non- Domestic Rates Relief (NDRR) was the first scheme to be launched and was based on the UK Government's approach to supporting businesses using the non-domestic rates system. Non-domestic rates are a tax on the occupiers of properties that are entered on the valuation roll. Councils are responsible for the administration and collection of non-domestic rates within their local authority area. When I first saw the UK Government scheme, I realised that some businesses would be excluded, but the only way to provide support to those businesses was from the same pot of funding. We therefore designed a scheme that was based on the same target group, but that offered 100% financial support to the first unit that a business owned and then 75% to all subsequent units (whereas there was 100% relief on all

properties in England). This allowed us to support other businesses and other sectors, including the Pivotal Resilience Enterprise Fund, the Newly-Self Employed and others.

69. We included other variations to the UK Government scheme, for example for self-catering businesses. You can register an empty domestic property for self-catering purposes, irrespective of whether it is actually taking in guests. In England, it was reported that about £550 million pounds was awarded to holiday homeowners claiming grant support for their second home which they did not operate as self-catering premises but was just a second domestic property. I was horrified at the thought that precious funding would be unfairly allocated to people that did not need it, when there was so much demand for funding. As such, we included a variation in Scotland where the applicant had to prove that at least a third of their income came from a self-catering property to receive the funding. Self-catering properties were unhappy with that additional check, and expressed that unhappiness vocally in the media, but in the absence of such a requirement, we would have run the risk of also spending huge sums of funds on empty properties that could have been used elsewhere. The DG Communities statement for this module [INQ000618449] provides further detail on the NDRR scheme.

70. The Pivotal Enterprise Resilience Fund (PERF) allowed the Scottish Government to channel funding to particularly important anchor businesses that were vital to the economy. Under the NDRR scheme, you could get two businesses, one employing 500 people and the other employing 10 people, both receiving £10,000 in support. That seemed unfair. The PERF was for those businesses that played a disproportionately important role in their local communities and if they had failed, this would have resulted in multiple failures across a supply chain. It was also for those businesses that did not fit neatly into any other categories. For example, Dunvegan Castle in the Isle of Skye employs a lot of people but is a unique business as a historic site that is

privately owned. It is one of the most prominent businesses in the area. If it had failed, then multiple businesses that supply it would not have survived. The PERF was a very time intensive and laborious scheme because it was tailored to individual business. Businesses had to submit their accounts to illustrate the scale of the hole in their funding and then specific grants were given. It was not a blanket grant scheme where everybody received the same, it reflected the need that they had. It also did not fully compensate business for loss of income because we could not do that for any scheme, but it was more tailored. The DG Economy statement for this module [INQ000590815] provides further details on the PERF scheme.

71. Local authorities were the biggest single distributors in the distribution of financial support schemes where they held the relevant data. Where the criteria for a scheme required a sectoral focus or a business property size, then we worked with local authorities using the non-domestic rates valuation roll to design the relevant schemes and to support them in the delivery of those schemes. Local Government in Scotland played the closest role to HMRC's role for the whole of the UK because they were in possession of the information about the businesses that were in need of funding. As local tax collectors, they had the data.

72. All of the schemes were designed as the pandemic progressed. There were Phase 1 and Phase 2 funds. Phase 1 funds (the Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund) were more broad brush and were intended to reach as many businesses as possible, as quickly as possible, in a non-tailored way. They were designed very much in a crisis as an emergency response. The DG Communities statement for this module [INQ000618449] provides further detail on Phase 1 funds. Phase 2 funds were essentially funds that were filling the gaps of the Phase 1 broad brush approach. They were more targeted towards those businesses that were acutely affected by the restrictions in place at the time. They included the

Newly Self-Employed Hardship Fund, the furlough support grant and more tailored funds delivered by local authorities including the Strategic Framework Business Fund, the Contingency Fund, the Retail, Hospitality and Leisure Top Up Grant, the Taxi and Private Hire Vehicle Support Fund and the Restart Grant. Details of these funds are set out in the DG Economy statement for this module [INQ000590815].

73. The Scottish Government gave local authorities additional funding to recruit more people to distribute funds, and they reported to us when they needed more resource. We also contracted third party organisations, such as UMi to maximise the ability to distribute support for certain schemes. UMi is a delivery company that was contracted through a non-competitive action process which followed Scottish Government procurement policy, including alignment to Scottish Government Procurement Policy Note (SPPN) 4/2020 (reasons of extreme urgency). Scottish Enterprise (who had previously contracted UMi through a Crown Commercial Services Framework for Grant Management) were involved in the contract construction. We took this approach in order to maximise our capabilities to distributing funding as quickly as possible.

74. There was a constant tension throughout the Covid pandemic about the extent to which we placed reporting requirements on local government. There was a lot of demand for reporting by politicians and others, but every one person involved in reporting was one fewer person involved with distributing the funding at a time when businesses really needed the funding. I was very sympathetic to Parliament's requests for more data to scrutinise. That is why we introduced additional Budget reports. But I was reluctant to focus any efforts away from front line teams who were distributing funding by imposing onerous reporting requirements. We did increase the level of reporting over the course of the pandemic, and in the last year we started to publish reports on the number of schemes that were live, how much funding

had been distributed and what was still pending for Parliament's purposes of scrutiny. The volume of work was so overwhelming that it would have been foolhardy to impose these reporting requirements at the beginning.

75. There was some criticism about Scottish Government guidance to local authorities on how to distribute schemes. The Scottish Government gave local authorities an element of discretion around how they distributed funds where there might be grey areas. For example, there were some businesses that perhaps had not registered for non-domestic rates when they should have but had registered the day after the cut off for the scheme. The idea was that a local authority could look at that sympathetically and provide funding if they felt it was justified. As well as criticism that the guidance was not confirmed fast enough, there were also complaints that it allowed local authorities too much, or on other occasions, too little discretion. I am aware that some businesses reported that certain local authorities were using that discretion more than others and there were reports that some businesses were receiving funding faster in some areas than others. This was particularly the case where a business had multiple units across different local authority areas.

76. The overarching policy rationale for these measures taken by the Scottish Government was to protect businesses, as far as possible, from total failure. It was not to replace income, because that could never have happened. The economic response was designed to protect the business structure because once a business fails it is much harder to re-establish and, to support jobs. The overarching strategy was to maximise support quickly at the beginning and then to distribute funding specifically to individual sectors as it became clear how much surplus funding was available and what the need was. The formulation of strategy went through different phases. At the beginning it was formulated entirely in response to lockdown. It was an emergency response. As time went on, the strategy was in response to additional NPIs. There was

an economy element to all of the Scottish Government strategy documents, with economic impact being one of the Four Harms. The strategy remained fairly steadfast throughout the course of the pandemic, but as additional funding became available, we could go further than we previously anticipated. I think the schemes achieved their aims.

77. The fiscal framework limited us knowing how much funding would be made available. If we had known earlier about the level of UK Government funding, we could have designed schemes up front, rather than having to wait for funding to be announced and then mobilising after that. At no point did we know for sure or have any guarantees that funding would become available. Having to design schemes from scratch also had an impact on the how long it took for those in need of support to receive it. Funds were never distributed as quickly as I would have liked, or business would have liked, because we were starting from scratch.

78. Beyond supporting the Transport Secretary with the funding required, I do not recall having any involvement in the schemes to support the transport sector.

Government support to alleviate hardship

79. I had no involvement in the decision to apply uplifts to Universal Credit or Working Tax Credit or to the level of uplift. Where I did actively engage with the UK Government was to encourage the continuation of these measures. For example, in November 2020 [KF3/23 - INQ000647996] and February 2021 [KF3/24 - INQ000647997] I wrote to the Chancellor of the Exchequer urging him to retain the uplifts beyond April 2021 (when they were due to end) and to make them permanent. After the UK Government extended the uplifts for a further six months but confirmed that they would be withdrawn at the end of September 2021 [KF3/29 - INQ000182962], I wrote to the

Chancellor again strongly urging him to reinstate the £20 per week uplift to Universal Credit [KF3/30 – INQ000592274]. I noted that a real cost of living crisis was emerging as a result of this cut and that it would push an extra 60,000 people in Scotland, including 20,000 children, into poverty and hundreds of thousands more into hardship. I think the uplift to Universal Credit, in particular, was very effective. There were a lot of people that found themselves dependent on Universal Credit for the first time as a result of the pandemic, but they needed longer-term support.

80. On 18 March 2020, the Local Government and Communities Secretary, Aileen Campbell, announced a £350 million package of emergency support for councils, charities, businesses, and community groups [KF3/31 - INQ000366052]. In the early days of the pandemic, Cabinet collectively decided on precise allocations balancing an overall assessment of the level of funding available and the range of competing priorities for funding. A final allocation was decided on the basis of an assessment of relative need. Various funds were set up, including the Wellbeing Fund, Supporting Communities Fund, and the Third Sector Resilience Fund. I know very little about the detail of the schemes set up to support the voluntary and community sectors, beyond responding to the funding asks of the portfolio Ministers, Aileen Campbell and then Shona Robison as Cabinet Secretary for Social Justice, Housing and Local Government. They lead on the design of the relevant schemes.

Minimising the risk of fraud and error across schemes

81. Throughout the process of designing the various schemes, we always had at the forefront of our mind the need to minimise the risk of fraud and error and the need to safeguard public funds. Apart from anything else, I was conscious of how far every penny needed to stretch so it was imperative that it was spent well. I think the steps we took were effective in mitigating these

risks. We avoided fraud primarily because our financial support schemes were created based on data held by local authorities on non-domestic rates - if a business had been paying tax for a while, it was highly likely that it was an operational business. There were also a number of limitations or requirements built into the schemes. For example, the Creative Tourism and Hospitality Enterprises Hardship Fund, the Bed & Breakfast Hardship Fund and the Strategic Framework Business Fund all required applicants to have a business bank account. This caused significant concern to small businesses and sole traders, many of whom had never needed a business bank account and prompted a lot of correspondence to me citing that it was unfair for this to be a condition. However, it also meant that we managed to keep fraud low.

82. Another example, which I have touched on earlier in this statement, was that self-catering businesses needed to provide evidence that they were in fact operating as a self – catering businesses, in order to qualify for relief. Again, we receive a lot of push back on this, but Audit Scotland’s analysis of business support schemes was that fraud was minimised and that there were very good governance structures in place [KF3/32 - INQ000182978]. We minimised the risk of error as well, where you might have people applying for the wrong scheme. I think that was the benefit of working with partners who really knew their businesses. So, for example, we worked with Visit Scotland and consulted with them to ensure that the scheme to support the marine tourism industry was clear and accessible. The DG Economy statement for this module [INQ000590815] provides further detail on the measures taken by the Scottish Government to mitigate fraud and to safeguard public funds.

Value for money assessment and cost-benefit analysis

83. It is difficult to evaluate value for money and cost benefit questions around the measures taken to reduce economic harm, because at the end of the day, we are talking about emergency funding to protect businesses at risk of

catastrophic failure It was not, as in normal times, about adding value. It was about trying to protect the value that was there. We were starting from the position where there was not enough money to replace lost income or to mitigate the economic harm fully. There was a constant tension throughout the pandemic about how to prioritise businesses. Once a business faces permanent closure, it is almost impossible to restart it so retaining essentially the structures of a business became really important. Even where businesses were struggling enormously and making huge losses, the government interventions were designed to stop business failing, rather than to compensate for lost income. I think the pandemic would have resulted in the loss of huge numbers of businesses had it not been for the economic interventions that were put in place.

Inequalities and Vulnerable Groups

84. The equality of impact of the economic support delivered as between particular groups, including those who were at greater risk or otherwise vulnerable, was a central consideration in the design of schemes administered by the Scottish Government.

85. Every single restriction caused harm, and financial interventions could only lessen, not eliminate, the economic harm. Government could only take steps to mitigate the impacts. Where we identified gaps in support, we sought to plug those gaps. I make reference at paragraph 80 to the £350 million pound fund announced by the Scottish Government to support communities, the third sector and vulnerable groups. This allocation of funding came right at the start and reflected the priority within government to provide support to those most vulnerable who were at high risk from inequalities being exacerbated as a result of the pandemic. We primarily funded interventions to support vulnerable groups through third sector charitable organisations and local government. Business interventions were targeted at businesses

themselves, but they were also targeted at business owners or workers most likely to be vulnerable. So, for example, the self-employed, or people who had become newly self-employed, who were not covered by UK government support. If we had not acted, they would have received no income and could have been plunged into poverty.

86. I do think we could have lessened the economic harm with better systems and data in place. Systems were a challenge because we did not have the infrastructure at the beginning. We responded in an emergency. It was a rushed approach. We prioritised reaching as many people as possible rather than tailoring support to each respective area. Obviously, when a business cannot trade, the first people to suffer are the workforce and so the workforce were the top of our thinking. When we put in place economic interventions, it was primarily to avoid that business having to make people redundant or having to reduce their wages.

87. Excluded UK, which was the membership organisation established to represent people that had received no economic support, would make the point that at a UK level there was essentially three main schemes and if you did not fit into any of them, then you did not get help. There was the SEISS, but we know that people fell through the cracks if they had just become recently self-employed. There was furlough, but it was not available to everyone. And then there was the lump sums the UK Government gave to local authorities to distribute and there were lots and lots of sectors that did not get any help. It was those sectors and those gaps that the Scottish Government tried to pick up on. The UK Government was extremely generous in providing support for groups and organisations that they had identified, but if you did not happen to fall within one of those tightly defined groups, then you got nothing. It was very binary.

88. The Scottish Government designed a lot of schemes to support business. Criticism was made that we had too many schemes, but it was the only way to reach those sectors who could not get help any other way. Each of those schemes had to be established from a standing start using the data either that the local authority or organisations already had, or by inviting applications. There were very tight application deadlines because we repurposed any funding that was not spent on those schemes to other schemes on order to reach as many people as possible.
89. Throughout covid there were periods when we were entering lockdown and periods when we were exiting lockdown. Then there were periods when different local authorities were at different levels of restrictions. This meant that the need for financial support changed considerably over time. In order to understand the need and be able to respond as effectively and efficiently as possible, I engaged with business representative organisations sometimes on a daily basis. Officials were capturing qualitative data on those individuals, organisations and businesses that had not received any support. It was all of this real time information that we were taking into account when we were designing the schemes. Evaluating this in hindsight and comparing it with the support available to business during normal times, it can look messy, but we were responding in the moment to maximise the funding support.
90. In a sense it was quite simple. Taxi drivers were reporting no trade, they had not received any support, therefore we established a scheme to help taxi drivers. Soft play centres had no trade, they had had no support, so design a scheme for soft play centres. Bed and breakfasts were not registered on non-domestic rates, as they pay council tax, so we designed a unique scheme for bed and breakfasts – about whom we had next to no data. None of it was perfect but it was about mobilising as much funding support as quickly as possible to as many different sectors.

Data and modelling

91. I sat on the weekly Economy Sub-Cabinet group. This group met over the initial part of the pandemic and was led by the Chief Economist, who reported on the macroeconomic impacts and modelled the potential economic harms as well as reviewing harms that were being inflicted as a result of decisions taken to reduce economic activity. Information from the office of the Chief Economist was also used to inform Cabinet. There was significant debate and dispute amongst economists about recovery. There was talk of a 'K' shaped recovery in which some businesses would bounce back whilst others did not. There was also talk of a "W" and "U" shaped recoveries, based on how long recovery would take. This showed that while we were getting good advice from economists, we were in new territory and nobody really knew what was ahead.

92. The high level economic detail was helpful, but it often masked the particularly acute pressures in different sectors. For example, when restrictions were relaxed and we started to come out of lockdown, there was a "bounce back" for some sectors but not all, especially if the nature of the business meant that there was more face-to-face contact and the public did not return as quickly as anticipated. There was lots of data, but it was not necessarily reflecting the realities on the ground. That is why, in order to get as accurate an understanding as possible of what was happening on the ground, I engaged extensively and directly with the business organisations themselves. We could have done surveys but in the context of a fast moving pandemic, that survey data would have been out of date within a week. Data analysis as we know it, in normal time, does not work during covid when the economic impacts are happening on a daily, hourly basis. When we started to leave lockdown in summer 2020 most businesses just wanted to get on to the work of trading and operating. They did not have the capacity, nor the inclination to engage in multiple government consultations.

93. I do not think we used data adequately because we did not have sufficient data about individual businesses (including the newly self-employed) in the first place. This information was held by HMRC and as I understand it, the Scottish Government did not request it for reasons that are set out in the DG Economy statement for this module [INQ000590815]. In hindsight, if we had known that we would continue to return to that data for over two years, I think we should have entered into a data-sharing arrangement with HMRC. As it was, at the beginning of the pandemic, it was understood that striking an agreement with HMRC, transferring all the data and then proceeding to analyse it would have taken time that we did not have available. The greatest pressure was time – with businesses, the media and other politicians constantly pushing Government to move even faster to distribute funding and very little tolerance of any delays in distributing funding. At times this amounted to days or weeks. Any further delay would not have been tolerated by stakeholders. In terms of capability since June 2022, the new Inter-Departmental Business Register (likely to be called the Statistical Business Register) is currently being developed by ONS with Scottish Government support and is intended to include HMRC data on corporation tax and self-assessment data which will be a significant improvement [KF3/33 - INQ000282444].

94. We needed and still need, a system with granular data about every business operating in Scotland and the means of deploying funding to those businesses quickly. Having the data and the ability to isolate particular criteria, for example, all the soft play centres in East Renfrewshire unable to trade, would have allowed us to design schemes more effectively and ensure that money was distributed quickly. Instead, because we did not have access to HMRC data, we had to rely on the data local government held on the non-domestic rates roll, which had its limitations because not all businesses are registered on this roll. Essentially what we need is a central resource or business registry, with information on every business in Scotland, with an

obligation on business that it is kept up to date. Alternatively, we need access to the data held by HMRC so that we are better placed to tailor our response in the event of future emergencies.

Resource to respond

95. Ordinarily, business funding is distributed by the Scottish Government's Enterprise agencies (Highlands and Islands Enterprise, Scottish Enterprise, and South of Scotland Enterprise) or local government. The Enterprise agencies and local government made a huge contribution to the economic response, but because of the scale of the task they were never going to be able to do it on their own. Therefore, the Scottish Government had to, for the first time, take on the role of designing and operationalising funding schemes. As a result, there was not a 'ready-made' team within the civil service who could pick up this work. The first team instructed to assist was from the Local Government Finance division. They would ordinarily be involved in funding local government, but they took a lead in supporting local government with distribution of business support. When they returned to their day jobs, after the first phase of financial support, we had to identify officials that had not previously been involved in this kind of work, to work on the design and delivery of the schemes that followed. We had to pull people in from across government, and I do not think we always had sufficient resource to create, oversee and co-ordinate £3 billion worth of financial support. No team "owned" business support, because of the diversity of businesses in need of support. I think for the future we should take time to consider the necessary staffing levels required to effectively facilitate an emergency response and how best to redeploy staff.
96. I think that the civil servant teams appointed to design and distribute financial support were far too small for the scale of the task, meaning that the burden fell disproportionately on Ministers. The health teams expanded hugely

overnight, but in the economy portfolio teams were stretched across industry advisory groups with only a few allocated business funding support. This would have been a decision taken by the DG about where resource was best deployed. However, Ministers were under enormous pressure by all the different sectors and opposition MSPs to prioritise business support. That had the fewest officials allocated. Over the course of the pandemic, as soon as one wave of Covid reduced in intensity, officials were redeployed to other work. That meant that every time there was renewed focus on business grants, there were new officials to do the work. The lack of continuity meant that only Ministers like myself could recall how we had done the business grants in the previous wave.

Lessons learned from the economic response

97. It was quite obvious that the Scottish Government did not have the infrastructure to deploy large sums of funding on a tailored basis, quickly, to businesses. If we had, then we could have categorised the data quickly and smoothly and distributed funding. The challenge is that the Scottish Government has no need of such a registry at any other time, and it would be constantly out of date as businesses are established or close or grow or retract. We did not have sufficient data about businesses in Scotland which is why we relied so heavily on local government and the non-domestic rates data, which had its limitations. HMRC are the only organisation that has a relationship with every business in Scotland, profitable or not, property-based, or not. We therefore need to ensure that we have access to data held by HMRC, or that we hold that data on our own systems.
98. There was always a tension between speed of distribution and targeting and tailoring of resources. I think in hindsight, if we had known at the beginning, that businesses would have been receiving help for up to two years, we should have taken the time to build a business registry at the outset, which

we could have been used to distribute funding quickly and target those in need more effectively. I imagine that even suggesting such an approach at the outset would have been met with public derision, as it would obviously have been at the cost of distributing funding quickly. Instead, we prioritised speed of response and that meant that we had to keep reinventing the approach every time there was an additional outbreak and different sectors emerged needing support. In a crisis, businesses needed cash. That was stressed constantly by all the representative organisations and other parliamentarians. As such we did the best we could to distribute that cash at pace. For the future, for emergencies and more generally, to help shape economic policy, it would be helpful to have a registry of all businesses in Scotland with data held on it that can be used to form the basis of the criteria for the future deployment of funding.

99. There needs to be greater fiscal flexibility in times of emergency to enable the Scottish Government to provide an efficient and effective economic response in the future. We need to have emergency processes to draw down funding when it is required so that we can be pro-active rather than reactive.

Documents

100. I have produced emails, informal communications, and diary entries which I hold relating to the management of the pandemic to the inquiry. I do not hold any further material relevant to the provisional outline of scope for Module 9, other than that which has been exhibited in this statement.

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: _____ 10 September 2025