

**Witness Name: Gregor Irwin**

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**Dated: 27 May 2025**

**UK COVID-19 INQUIRY  
MODULE 9**

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**WITNESS STATEMENT OF THE DIRECTOR GENERAL ECONOMY**

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**This statement is one of a suite provided for Module 9 of the UK Covid-19 Inquiry and these should be considered collectively. In relation to the issues raised by the Rule 9 notice dated 17 December 2024 served on the Scottish Government, in connection with Module 9, the Director-General Economy will say as follows: -**

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## Introduction

1. The Permanent Secretary is the senior civil servant in Scotland. There are eight portfolio Directors-General (DG) who report to the Permanent Secretary. A Director-General manages a number of Directorates and agencies which are responsible for proposing legislation and putting Scottish Government policy into practice. The Director-General Economy is Gregor Irwin. The direct reporting line for a Director is to their portfolio DG but they also report directly to the Permanent Secretary and to Ministers. The direct reporting line for Deputy Directors is to Directors but they may also report directly to Ministers. Just as Ministers are accountable to Parliament, civil servants are accountable to Ministers.
2. This statement addresses questions concerning work within the responsibilities of the Directorate-General for Economy, the Scottish Government portfolio responsible for economic policy. This statement primarily covers work which DG Economy is responsible for. The Inquiry has been provided separately with details of the Scottish Government organisation structure. Further information is being provided in separate statements from DG Corporate [INQ000574745], DG Communities [M9SGDGC01], DG Net Zero [M9R9RTS01], and DG Scottish Exchequer [INQ000597088] for matters which they held portfolio responsibility for, collectively the statements will address all questions contained within the Inquiry's Rule 9 request.
3. The role of DG Economy has been held by the following individuals since 01 January 2020:  
Liz Ditchburn – from January 2020 to November 2021  
Elinor Mitchell (interim) – November 2021 to April 2022  
Louise Macdonald – April 2022 to March 2023  
Gregor Irwin – March 2023 to present
4. As set out in the Module 1 DG Economy statement [INQ000184896], the directorate structure which DG Economy oversees and had responsibility for evolved and changed several times over the course of the relevant time period. Immediately prior to the start of the pandemic in 2020, this included Kevin Quinlan as the Director for International Trade and Investment, Mary McAllan as the Director of Economic Development,

Dominic Munro as the Director for Fair Work, Employability and Skills, Gary Gillespie as the Chief Economist, and David Wilson who had responsibility for the Scottish National Investment Bank. The directors have responsibility for leading their own directorates.

5. The role of Chief Economist has been held by Dr Gary Gillespie from 2011. The Chief Economist is responsible for providing economic advice to Scottish Government Ministers on issues in relation to the economy and analysis of key economic trends. More information on key personnel and structures in DG Economy is set out in the provided organograms [G15/001 - INQ000590784] and [G15/002 - INQ000590794].
6. The Ministers responsible for each area during the specified period are outlined below:

Cabinet Secretaries

Deputy First Minister and Cabinet Secretary for Education and Skills; Deputy First Minister and Cabinet Secretary for Covid Recovery  
John Swinney (May 2016 to March 2023)

Cabinet Secretary for Finance; Cabinet Secretary for Finance and Economy  
Kate Forbes (February 2020 to March 2023)

Cabinet Secretary for Communities and Local Government  
Aileen Campbell (June 2018 to May 2021)

Cabinet Secretary for Culture, Tourism and External Affairs; Cabinet Secretary for Economy, Fair Work and Culture  
Fiona Hyslop (May 2016 to May 2021)

Cabinet Secretary for the Rural Economy; Cabinet Secretary for Rural Economy and Tourism  
Fergus Ewing (June 2018 to May 2021)

Cabinet Secretary for Transport, Infrastructure and Connectivity; Cabinet Secretary for Net Zero, Energy and Transport  
Michael Matheson (June 2018 to March 2023)

### Relevant Ministers

Minister for Equalities and Older People

Christina McKelvie (June 2018 to March 2023)

Minister for Public Finance and Migration; Minister for Social Security and Local Government

Ben Macpherson (February 2020 to March 2023)

Minister for Community Wealth and Public Finance

Tom Arthur (May 2021 to May 2024)

Minister for Business, Fair Work and Skills

Jamie Hepburn (June 2018 to May 2021)

Minister for Just Transition Employment and Fair Work

Richard Lochhead (May 2021 to 29 March 2023)

Minister for Trade, Investment and Innovation; Minister for Trade, Innovation and Public Finance; Minister for Business, Trade, Tourism and Enterprise

Ivan McKee (June 2018 to March 2023)

Minister for Public Finance and Digital Economy

Kate Forbes (27 June 2018 to 17 February 2020)

### Overview of the Scottish Economy

7. The Chief Economist's State of the Economy report from February 2020 sets out economic performance in early 2020 [GI5/003 - INQ000102896].
8. It shows that the performance of the Scottish (and UK) economy at that time had been dominated by Brexit, particularly during 2019, with uncertainty impacting business investment and materially impacting the shape and pattern of growth. The UK formally exited the EU in January 2020 and entered the transition period. The report shows that economic growth in Scotland had slowed in 2019 with growth of 0.4% in the first three

quarters of the year compared to 1.4% growth over the same period in 2018. The pattern of growth was also relatively volatile with economic activity, particularly with regards to stockpiling in the manufacturing sector, influenced by the Brexit deadlines in March and October.

9. In the first quarter of 2020 there was disruption in supply-chains from China and the Far East given Covid-19 restrictions impacting production, particularly manufacturing. There was also increased uncertainty from EU exit, with supply availability causing difficulty for key component supplies and sectors in Scotland.
10. The labour market in Scotland continued to perform strongly by historical standards through 2019, however employment levels fell back a little and there were signs that earnings growth was softening. Forecasts for the Scottish economy suggested growth of around 1 per cent in 2020.

#### **Funding Sources and HM Treasury Fiscal Framework**

11. Scotland receives funding via the Barnett Formula, which is the mechanism used to determine what resources are allocated to the devolved administrations as a result of changes in the UK Government spending in devolved areas. More information on the Barnett consequential funding provided to the Scottish Government is contained in the Module 9 DG Scottish Exchequer corporate statement [INQ000597088].
12. Uncertainties around the provision of funding early in the pandemic impacted on the ability of the Scottish Government to award economic support. Had consequential allocations to the Scottish Government for the purposes of supporting businesses impacted by Covid-19 restrictions been known earlier and had this allocation been predicated on the restrictions in place in Scotland, then it may have been possible to increase the level of funding given to businesses through the key funds such as the Strategic Framework Business Fund (SFBF). Funding levels were also impacted by uncertainty regarding the extent of restrictions that would be imposed on businesses under the Scottish Government's Strategic Framework [G15/004 - INQ000339830] and the period of time that these would be in place, as decisions relating to these depended on the prevalence of the virus at the time. It may also have been possible to introduce

support packages at an earlier stage in the pandemic for businesses in specific sectors that were not subject to specific restrictions, but were unable to operate, such as the wedding sector, who did not receive dedicated financial support until March 2021. Other sectors or groups that had received funding to support them through earlier phases of the pandemic also had to wait until additional consequential allocations were allocated by the UK Government to support them through subsequent periods of restrictions including taxi and private hire vehicle drivers, nightclubs and soft play centres.

13. The Barnett consequential allocations made available to the Scottish Government for the purposes of providing financial support to businesses did not take account of the differing rate of infection in Scotland which necessitated different restrictions to those adopted in England. These consequential allocations also did not take into account the distinct features of the Scottish economy and the nature of the businesses that comprise it. For example, in 2020 Scotland had a higher percentage of its business base in the accommodation and food services sector than the UK at 5.5% compared to 3.7%. The consequential allocations made available were predicated on the restrictions introduced in England by the UK Government and on the business base in England. This made it difficult for the Scottish Government to provide the appropriate level of funding to Scottish businesses impacted by Covid-19 and based on the scope and scale of the restrictions in place in Scotland.
14. As highlighted above, the accommodation and food services sector was subject to ongoing restrictions and the Scottish Government lacked funding certainty regarding their support. The public finance framework through which Scottish Ministers must operate, which has limited borrowing and tax raising powers, puts Scottish Ministers in a position that is different to the UK Government's position, and necessitates greater focus on balancing the Scottish Budget.
15. There was, at times, uncertainty around the funding provided to the devolved administrations in order to formulate economic policy. The Module 9 DG Scottish Exchequer corporate statement [INQ000597088] explains the 'uncertainty' around the announcement of the 'Barnett Guarantee' in July 2020, highlighting that the guarantee "floor" was revised a further four times before final settlement. In addition, there were situations when it was not clear whether new measures announced for sector support in

England were included in the guaranteed Barnett calculation or not. For example, the restrictions associated with the Omicron wave from December 2021 generated an announcement from the UK government about additional business support, some of which was UK wide and some of which was for business in England only [G15/004a - INQ000614181]. While the text of this announcement stated that “the devolved administrations will receive around £150 million of funding through the Barnett formula, comprising around £80 million for the Scottish Government...” it was not clear whether this was part of, or in addition to, the £860m announced the previous week. Such uncertainty impacted on the extent to which the Scottish Government could be sure that the financial support offered to businesses in Scotland, in response to the restrictions in place in Scotland, needed to be funded from the already-confirmed Scottish budget or whether additional money would be available. Scottish Ministers made a commitment that any consequentials related to support for businesses in England would be passed on in full to businesses in Scotland. In practice, the support available to businesses in Scotland exceeded the related consequentials by £0.5 billion. This reflected the distinct features of the Scottish economy, the spread of infection and the need for different restrictions in Scotland.

16. The iterative nature of the consequentials allocated to the Scottish Government and the uncertainty regarding the amount of actual funding available with which to support businesses presented ongoing challenges in establishing a coherent strategy for allocating financial support to Scottish businesses impacted by the Covid-19 pandemic. The Scottish Government was unable to be proactive and had to take a piecemeal approach to the provision of funding schemes throughout the duration of the pandemic, as schemes could only be introduced once the funding was confirmed. As a result, the Scottish Government had to draw tight parameters around the availability of funding targeting those businesses deemed to be most in need of support at that time. This is reflected in the sector specific nature of Scottish Government’s approach. Further schemes, reaching additional sectors, were implemented as and when money became available. This led to the creation of a wide range of funds which caused significant challenges for delivery partners processing applications and making payments.
17. The Barnett Guarantee, announced in July 2020, did provide some additional advance certainty on the level of funding that was likely to be available over the course of 2020-

21. However, changes to the level of funding guaranteed did not keep pace with actual commitments made in England and there was significant late volatility in levels of funding received by devolved administrations. The UK Government's Furlough scheme was in operation from 20 March 2020 to 30 September 2021 and while it was a major measure to support the UK economy, it was not possible for it to operate within any geographical sensitivity and its closure came early compared with the requirements for it to continue in Scotland. This was a material factor in the approach to mitigating the impacts of the pandemic.

## **Economic Policy**

### **Legislative Competence**

18. The UK Government introduced several financial support schemes on a UK-wide basis.

These included:

- The Coronavirus Job Retention Scheme (CJRS) commonly referred to as the furlough scheme, meant that employees who were unable to work their usual hours continued to receive at least 80% of their usual earnings, up to £2,500 per month, funded wholly or partly by HM Revenue and Customs (HMRC). This scheme was administered by HMRC on a UK-wide basis through existing arrangements for income tax. In Scotland, a total of 911,900 employments were on furlough during the course of the scheme. The scheme was announced on 20 March 2020 and closed on 30 September 2021. Final figures show 80,800 employments were on furlough when the scheme closed, which was 3% of the total eligible [GI5/005 - INQ000182946]. The term "Employments" is used, as an individual who holds more than one job might have been furloughed from each of them.
- The Covid-19 Business Interruption Loan Scheme (CBILS) provided access to commercial loans backed by an 80% guarantee from the UK Government, as well as payment of interest and fees for the first 12 months. Data to January 2021 shows that 86,062 loans worth £2.5 billion have been offered across Scotland under Bounce Back Loan Scheme (BBLs). 4,144 loans worth £983

million have been offered across Scotland under the Covid-19 Business Interruption Loan Scheme (CBILS). The scheme was launched on 23 March 2020 and was open until 31 March 2021.

- The Self-Employment Income Support Scheme (SEISS) provided similar support as Coronavirus Job Retention Scheme (CJRS) but for self-employed people, with grants up to £2,500 per month. 175,000 self-employed individuals in Scotland have made 628,000 claims totalling £1.7 billion [G15/006 - INQ000590805]. This was announced on 26 March 2020 and ran for a similar period of time to the furlough scheme.

19. Scottish Ministers had no policy control over these UK-wide schemes, but they provided a substantial foundation of support for businesses in Scotland. The administration of the furlough scheme on a UK-wide basis through existing arrangements for income tax meant that there was no scope for variation of the scheme on a geographical or sectoral basis.

20. Since the start of the pandemic, businesses in Scotland have directly benefitted from £4.7 billion in support from the Scottish Government. Scottish Government support augmented UK Government financial support schemes. It was not intended to fully compensate businesses for the losses they faced. It was a contribution towards the cost's businesses might incur to comply with restrictions, and to ensure that, when restrictions were lifted, it would be viable for businesses to return to operation.

21. The non-domestic rates system formed the initial basis of business support as the non-domestic property valuation roll contains all the rated non-domestic properties in Scotland and their rateable values, as well as their use (though this does not always reflect the actual use of the property). Councils are responsible for the collection and administration of non-domestic rates and were therefore already also in contact with businesses via non-domestic rates billing, and crucially also had the capacity to make payments directly to businesses' bank accounts. Basing support on the non-domestic rates system therefore provided the only way to deliver business support at scale and speed at the onset of Covid-19. Initial support was delivered by local authorities in the form of non-domestic rates relief ('Covid-19 reliefs') and the Small Business Grant

Fund, and the Retail, Hospitality and Leisure Grant Fund ('Phase 1' funds). These were designed by the officials in the Local Government Directorate and are covered in further detail within the Module 9 DG Communities corporate statement [M9SGDGC01].

22. Additional funds, referred to as 'Phase 2' funds, were subsequently introduced by the Scottish Government. This funding was targeted towards the specific sectors and businesses most impacted by Covid-19 restrictions applicable at that time. These funds are outlined in more detail later in this statement and include:
- Newly Self-Employed Hardship Fund
  - Furlough support grant
  - Pivotal Enterprise Resilience Fund
  - Local Authority Administered Funds
23. Under the leadership of respective Directors-General Economy, all directorates within DG Economy worked collectively in contributing to the Scottish Government's efforts to respond to the challenges of the Covid-19 pandemic. A detailed overview, with commentary, of the governance and structures within DG Economy is set out earlier in this statement.
24. A list of economic interventions was published on the Scottish Government website and is provided [GI5/007 - INQ000590816]. A summary of Covid-19 business support funding is provided [GI5/008 - INQ000182928], [GI5/009 - INQ000268006], [GI5/010 - INQ000590817] and [GI5/011 - INQ000590818]. The start and end dates for the economic interventions listed at paragraph 22 is provided [GI5/033 - INQ000590787].

### Intergovernmental Relations

25. There was limited engagement with the UK Government in relation to schemes that were within the devolved competence of the Scottish Government. There was some engagement with HM Treasury (HMT) on UK-wide decisions about UK support like the furlough scheme – this was typically so that UK officials could provide information about imminent changes to the support available on a UK-wide basis. Where the UK government provided support on an England-only basis, the Scottish Government

would draw on publicly available information about those support schemes (e.g. in relation to eligibility and the amount of funding available). Scottish Ministers usually sought to ensure that support in Scotland was at least equivalent to the support that a similar business would be able to access in England. There were occasional specific discussions with UK officials about such schemes but there was no formal or regular mechanism for these discussions. The announcement of new support schemes on either a UK-wide basis or in one nation only was covered at high level in the regular four nations Ministerial calls. The available delivery mechanisms in Scotland (through Scottish local authorities, working with Convention of Scottish Local Authorities (COSLA), the enterprise networks, and other public bodies with a focus on specific sectors of the economy, (such as Creative Scotland or VisitScotland), are also different to England so there was limited relevance in comparing approaches to administration. The lack of regular, formal engagement in relation to Scotland specific funding did not therefore present a challenge.

26. Information, data and economic analysis was shared between the Scottish Government and UK Government at official and Ministerial level. During the period January to March 2020 there was engagement with UK Government through Ministerial channels relating to the economy at both the official and Ministerial level. This formal engagement began in mid-March. Chief Economist Gary Gillespie attended the Economic and Business Response Implementation Group – both the Ministerial Group EBRIG(M) and the Officials Group EBRIG(O). Gary Gillespie presented at EBRIG(O). The early engagement was less structured and took place as and when required. This was then formalised with the EBRIG meetings being set up. As time went on, these meetings considered the reset and restarting of the economy given the likely impact of the pandemic. These meetings included the four nations - UK Government, Welsh Assembly Government, Northern Ireland Executive and Scottish Government – with Cabinet Office providing the secretariat.
27. The Chief Economist also attended the weekly UK-wide Ministerial Quadrilateral Economy Ministers' meetings which considered the economic framework and future economy. The Quadrilateral focused on the economic support which was structured and phased through 4 Rs - Response, Reset, Re-start and Recovery. From the outset working relationships were strong and collaborative between officials and Ministers

across devolved administrations and with the UK Government. This included the open sharing of analysis and working together to develop more timely statistics.

28. Prior to the pandemic there were already effective working relationships at an official level. As the pandemic began these ensured the frequent exchange of information between analytical subject specialists in the Scottish Government, UK Government (including the Office for National Statistics (ONS)) and other devolved administrations, were utilised well both formally and informally. Formal groups such as the four nations' Devolved Economic Statistics Co-ordination Group (DESC) which were already in existence, met more frequently and new groups such as the Business Impact Covid-19 Survey (BICS) group were formed and met often including initial weekly meetings. The Scottish Government helped with the formulation of the question bank and the quality assurance of Scottish Business Impact Covid-19 Survey data and developed and published weighted Scottish Business Impact Covid-19 Survey data from wave 10 of the survey [GI5/012 - INQ000590819].
  
29. The pace of response meant sharing of information and analysis between governments was stronger at the outset and the forums allowed discussion of issues relevant to different administrations. This discussion was mostly about economic conditions and scale of potential response and was done at Ministerial and official level. This was broadly sufficient but detailed policy formulation for UK wide interventions such as furlough scheme or 'Eat Out to Help Out' were not typically informed by, or part, of these discussions. For example, there was uncertainty regarding both the application and continuation of the furlough scheme, which were decisions made by HM Treasury. In relation to the sharing of data, the ONS BICS survey provided important data on the impact of Covid-19 on business base across the UK with Scotland specific data for example on estimates of those furloughed by sector.
  
30. In general, there was good engagement with HM Treasury and other UK Government departments on the early thinking and potential economic response. This was a transparent and an open space in which officials shared intelligence. There was also early engagement with Ministers to share thinking, framing and likely nature of response. Detail and formulation of key policies such as furlough however was done by UK Government and engagement typically followed a public announcement.

31. The approach taken by HM Treasury during the pandemic included the creation of new groups, like the EBRIG, which had an explicit remit about sharing information. This group had previously not existed and was valuable in providing a forum for structured and regular engagement on the response to Covid. HM Treasury discussions with Scottish Government on finance and funding streams to support Covid-19 were ongoing with Scottish Government finance officials.
32. The Scottish Government was transparent in both sharing and publishing the analysis which informed Scottish Government Ministers, such as through the 'State of the Economy' and 'Monthly Economic Brief' reports. There was also evidence given to Scottish Parliament Committees and presented also at the First Minister's daily Covid-19 briefings via the Chief Economist in April 2020. Cabinet Secretary Economy also appeared regularly at these briefings to discuss economic support [G15/013 - INQ000590820]. Examples of the 'State of the Economy' publication are set out at paragraph 41. There were regular calls with UK Government, other devolved administrations and local government during the pandemic. The Scottish Government worked with local government for example to ensure delivery of business support grants and also to capture data/statistics relating to spend.
33. The approach to sharing of data, analysis and information was important in understanding the extent and scale of the UK response and the impacts in Scotland and areas of focus for the Scottish Government. Economic policy formulation was not hampered as the Scottish Government had its own data and analysis to draw on. The main issue of policy concern was continuity of funding for UK-wide schemes such as the furlough scheme and with regard to funding for regional lockdowns as the virus continued. Greater certainty on both fronts would have helped planning for example in relation to the Furlough Support Grant which is discussed in more detail later in this statement.

#### Structure and processes

34. The Structure of DG Economy is explained in detail at the start of this statement. The DG Economy organograms [G15/001 - INQ000590784] and [G15/002 - INQ000590794]

provides details on the structure before, during and after the pandemic. New structures evolved throughout the pandemic, including:

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

35. The Scottish Government successfully provided £4.7bn in lifeline support to businesses across Scotland which required rapid work to deliver substantial new public services (in the form of new grant schemes) with several different delivery partners. Various lessons learned reviews [GI5/063 - INQ000590814] were conducted which identified what went well, in addition to highlighting some of the challenges. For example:

- Having strong collaborative relationships enabled effective management and execution of grant schemes which allowed teams across Scottish Government, local authorities and other agencies to deliver a substantial amount of financial support quickly. While such agility was crucial in helping businesses navigate the immediate crisis, the reviews also identified a lack of a clear organisational structure for business support within Scottish Government and led to recommendations for the review of governance frameworks and structures within the decision-making process.
- While the decision to use existing systems and processes allowed us to provide support quickly and securely, and helped us to mitigate fraud risk, reliance on third-party payment systems and local authority distribution also created complexity and risk in managing the grant process. It prevented more targeted funding and had seen some businesses unable to access support.

36. Advice and analysis on economic policy in response to the pandemic was provided to Ministers through a group, chaired by the First Minister and with several Cabinet

Ministers which became a regular weekly cycle of meetings, focussing specifically on the economy and the economic impact of Covid-19. As part of these meetings, the Director General Economy and Chief Economist updated on policy and analysis including weekly economic update [GI5/014 - INQ000282440]. The meetings were attended by economy-related Ministers and senior Scottish Government officials including Scottish Government Exchequer and from other areas of government related to the economy and business support. These weekly Ministerial meetings started on 20 March 2020 and continued consecutively through to 28 August 2020 with 21 meetings over this period. This was the main forum at that time for considering economic impacts and the Cabinet Secretary for Economy was the lead minister in terms of the economic response. The Finance Secretary led on funding issues and discussions with the UK Government regarding operation of the fiscal framework.

37. This group was specifically set up for the pandemic work and recommendations or policy proposals would be carried over into Cabinet discussion for agreement as required. Prior to that economy wide issues would be dealt with through established Cabinet Secretary, budget and Cabinet processes. However, it was relatively common for Scottish Government to instigate key groups to deal with issues such as EU exit through the SGoRR process which sought to mitigate a particular risk.

#### Data, Modelling, Advice and Analysis

38. A significant Covid-19 related risk was the impact on businesses and the related impact on the economy. In March 2020, there was a greater recognition of the risk of transmission of Covid-19 through the population and the Office of the Chief Economic Adviser's (OCEA) analysis evolved to reflect the potential economic impacts of the restrictions that could be required. From an economic perspective, there was a greater focus on costs for business and how the Scottish Government supported businesses that would be unable to trade due to Covid-19. Consideration was given to what the impacts would be for business and how the Scottish Government could protect capacity in the economy during this period. The point regarding productive capacity related to the risk of well performing businesses becoming insolvent due to not being able to trade due to the pandemic. There was a growing recognition that this had the potential to be a significant economic event, and the Scottish Government modelled different

scenarios for the economy. The analysis during this period reflected this and the slides presented to the Scottish Government Resilience meeting of 26 March 2020 capture this analysis and framing [GI5/014 - INQ000282440].

39. The Scottish Government's assessment of the nature, severity and duration of the pandemic, and the nature and extent of economic shock evolved over the period. The initial thinking was that the first lockdown would be for three months, as seen in the initial length of the furlough scheme – so the Scottish Government modelled on that basis. These estimates, produced by the Chief Economist, were that GDP would reduce by 33% and, in the absence of support schemes, unemployment could rise to 14% over this lockdown period.
  
40. As early as April 2020, the Scottish Government modelled three different scenarios for the medium term using the Scottish Government's Global Econometric Model (SGGEM):
  - Scenario A reflected a temporary demand side shock in 2020 Q2 as a simple approximation of the current containment policy measures. This could be thought of as a V shaped recovery: a short, sharp decline in economic activity followed swiftly by a rebound in growth.
  - Scenario B included an additional temporary demand shock in 2020 Q4 to approximate further future policy measures that may be required over and above those in Scenario A. This could be thought of as a W shaped recovery, or as a V shaped with a double dip reflecting the need for further restrictions given a resurgence of the virus.
  - Scenario C also included a more persistent supply-side shock to reflect some medium-term damage to the productive capacity of the economy.
  
41. These scenarios were published in the April 2020 State of the Economy publication. Further analysis of the impact was included in State of the Economy and Monthly Economic Briefs [GI5/015 - INQ000182974], [GI5/016 - INQ000182973], [GI5/017 - INQ000590821], [GI5/018 - INQ000590822], [GI5/019 - INQ000273938] and [GI5/020 - INQ000282444].

42. It was also important to understand that the economic impacts of continuing restrictions for business were not linear - the impacts will grow more than proportionally to the length of time the measures are in place. This is because the economic impact will start to become more structural. Scottish Government was worried about the resilience of businesses over time with continued lockdowns.
43. Expert advice on the economy and impact of potential government policy was provided by the Chief Economist at the weekly economy meetings to relevant Ministers who attended (further detail on this group is set out at paragraph 85. The slides from the meeting on 26 March 2020 are provided as an example [GI5/014 - INQ000282440]. There were other occasions out-with the weekly economy meetings when the Chief Economist and economy officials advised Ministers. However, the main structure and process was the weekly economy meeting. The Chief Social Researcher Audrey MacDougall's Division provided central monitoring of high level data during the pandemic, and the Directorate for the Chief Economist provided material on the economic response in line with being part of the Government Economic Service (GES) in Scotland.
44. The Directorate for the Chief Economist also monitored what stakeholders such as the Fraser of Allander Institute and other economic think tanks and business organisations like Confederation of British Industry (CBI) were publishing. Ministers engaged extensively with external organisations such as the Industry Leadership Groups and tourism bodies. They also held weekly engagement with business organisations.
45. There were a number of sources used to monitor and analyse the effects of shock to the economy. The main focus was on output and employment as these reflected the extent to which the economy was open and functioning. This also impacted income (wages) and the labour market (hours worked and employment). Key sources of information tracked included:
- Monthly GDP
  - Business Impact of Coronavirus (Covid-19) Survey (BICS)
  - Annual Population Survey (APS) and Labour Force Survey (LFS)

- Consumer sentiment.

46. Sources from April 2020 State of the Economy included:

- International equity indices
- Global purchasing managers index
- Brent crude oil price
- IMF world economic outlook
- UK purchasing managers index
- UK purchasing managers index - employment
- UK manufacturing supply chains
- UK and Scotland new universal credit claims
- RBS Purchasing managers index – business activity
- RBS Purchasing managers index – employment
- Staff placements in Scotland
- OECD annual national accounts
- Opinions and Lifestyle Survey (OPN)
- High demand products web scraping exercise
- Spending on credit cards – weekly spending indices – 1 week lag.

47. An economic impact index was also created in order to get more real time data relating to the economy. The Economic impact index included:

(1) Demand Indicators - measuring the changing demand across different sizeable sectors of the economy due to changing behaviours and restrictions:

- Electricity demand - Non-residential real estate sales - Consumer transactions

(2) Supply Indicators - measuring the disruption to supply chains and workforce participation:

- New Universal Credit claims - Heavy Goods Vehicle (HGV) traffic counts

(3) Forward looking Indicators - measuring levels of uncertainty and future expectations:

- FTSE250 - Brent Crude Oil Price - UK Economic Policy Uncertainty Index.

48. One of the key challenges of the pandemic was getting timely data with which to monitor the impact. The 20 April 2020 “State of the Economy” publication outlined OCEA’s considerable progress with this. It noted the two new surveys developed by the UK’s ONS: the Opinions and Lifestyle Survey and then titled Business Impact of Coronavirus (Covid-19) Survey. Both surveys covered Scotland and fed into ONS’ weekly Faster Indicators publication. Statisticians in OCEA liaised with the ONS on these new developments and published their own weighted Scottish BICS data from wave 10 of the survey. OCEA developed an experimental series of monthly GDP for Scotland’s onshore economy consistent with the Quarterly National Accounts. In addition, OCEA also developed a weekly economic impact index. Other measures set out in the April “State of the Economy” include OCEA’s exploration of Google Mobility data to analyse the behaviour of people compared with the average mobility prior to lockdown. As the pandemic progressed analysis developed to consider inequalities and the distributional impact of Covid-19. The October 2020 “Monthly Economic Brief” [GI5/019 - INQ000273938] sets out how Covid-19 was affecting the labour market for different groups such as low earners, young people, women and minority ethnic people. Greater disaggregation would have been beneficial for inter-sectional analysis.
49. Normal processes of clearance were used for the consideration, discussion of data and provision of advice, via the Chief Economist. Existing quality and assurance processes were following for statistics and there was regular discussion with senior statisticians in relation to new data, quality and feasibility. Overall, existing processes were followed but expediated given the nature of the crisis.
50. Overall data availability was good and enhanced greatly by the new data that was developed. However, the key gap was not having complete data on individual businesses including individuals who were newly self-employed. This information was held by HMRC but not made available to the Scottish Government at individual business level. The Scottish Government did not request the data from HMRC at the onset of the Covid-19 pandemic and this was a Senior Civil Servant decision. Staff in the Scottish Government had the skills to match and analyse the data, though this would have taken considerable time. The relevant analytical staff were fully occupied with other Covid work given the time pressures for analysis and support programmes. OCEA were also aware that data sharing can be a complex and time-consuming

process – so this was also a judgement about how long it would have taken to secure the data and be confident in its use and application. There was therefore a need to use existing registers such as the non-domestic property valuation roll, and the Inter Departmental Business Register and administrative data held by local authorities for advice on potential schemes.

51. For businesses that did not have premises on which the business paid non-domestic rates the Scottish Government developed a range of specific, targeted funds aimed at those sectors who could not access the main grant schemes with additional controls in place. The Scottish Government utilised other Official Statistics sources such as the Inter Departmental Business Register and the Annual Population Survey to estimate the sector sizes for businesses for which non-domestic rates data was not suitable. In addition, a grant was introduced for taxi and private hire operators which required checks to be undertaken on licence administrative data held by local authorities. This allowed support to be offered more widely whilst still minimising the risk of fraud. Most business support schemes were application based, with set eligibility criteria. Guidance was provided to applicants on how they could demonstrate that they met those criteria, and to delivery partners on how to verify the information received in applications. This guidance evolved further over time as business support policy developed, enhancing effective control and targeting of support.
  
52. Having access to a more detailed business register with financial data including from other government departments would have helped the Scottish Government in the development of support schemes. Similarly, being able to link that data with other administrative data such as tax data would have provided further information for development of support schemes. As described, there was a gap in information held by the Scottish Government particularly on the newly self-employed. If self-assessment information from HMRC was available this would have helped us identify this group more readily for example small mobile business who would not be on the non-domestic property valuation roll. As the Scottish Government did not already hold this data, it was not requested as it would have taken considerable resource within the Scottish Government to understand the data including caveats on its use and to then match it to the other data held. The initial business support schemes were therefore based or structured on the non-domestic rates system, which lists all rated non-domestic

properties in the private, public and charitable sectors. This was used as an indicator of business size. The Inter-Departmental Business Register, which does hold individual business information for PAYE or VAT-registered companies was also used. Given the Scottish Government did not have access to the HMRC data the Annual Population survey was used in addition to gauge the level of self-employed businesses in some sectors. Other UK Government Departments, through interactions with business, in areas such as corporation tax and national insurance contributions would have more detail relating to the business base. The new Inter-Departmental Business Register is likely to be called the Statistical Business Register. This 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 [GI5/020 - INQ000282444].

53. All of the analysis carried out by the Scottish Government is underpinned by statistics and data and the economic models are built on a series of equations which typically reflect underlying causal relations between variables which are informed by economic theory but also mathematics.
54. Economic modelling was carried out using the in-house Global Macroeconomic Model (SGGEM), such as modelling the impact on unemployment in the absence of support schemes and modelling the potential paths to recovery with different shapes. The analysis highlighted a scenario where (i) social distancing measures are lifted and the economy re-opens and starts to recover from the initial lockdown; and (ii) restrictions (NPIs) are then reintroduced, with output and economic activity falling again. This scenario was described as a 'W' shaped recovery, as explained above.
55. The Scottish Annual Business Statistics and Business Impact of Coronavirus (Covid-19) Survey (now called Business Insights and Conditions Survey) were used to model impacts of the pandemic across all sectors of the economy. The Scottish Government had existing in-house economic models which were used and adapted for Covid-19 however Scottish Government also created a sectoral model to estimate levels of support during periods of lockdown. To better understand the sectoral impacts and the profitability and viability of sectors of the economy, OCEA developed a framework for assessing how the pandemic and lockdown could affect business viability across

different sectors of the economy. This sectoral model allowed OCEA to simulate the impact of lockdown directly on viability (turnover, cashflow, profitability and employment) and illustrate the impact of Government support such as rates relief, job retention scheme and related grants. Information on this was published in the July 2020 “Monthly Economic Brief” [GI5/020 - INQ000282444].

56. Epi-macro modelling was not used by the Scottish Government. The economic scenario modelling OCEA undertook simulated the impact of restrictions on the economy but was not an integrated epi-macro model. Epidemiological modelling was carried out by health officials in the Scottish Government and the economic impact was provided by economy officials. These were separate processes and not a single model.
57. The Scottish Government did not have an epi-macro model in place at the outset of the pandemic as there had been no prior need for it. The development of robust economic models is a complex and lengthy process. As such OCEA focussed on using the models they had to consider the impact of the pandemic. For example, models like the Scottish Government’s Global Econometric Model (SGGEM), were invaluable in modelling the impact of the pandemic on the economy and potential recovery scenarios.
58. The epidemiology modelling of the pandemic in terms of case numbers and hospital admissions was undertaken by Scottish Government officials in the central Covid-19 analytical hub. As described, OCEA’s economic modelling simulated the impact of the pandemic (including behavioural effects) on the economy but was not an integrated health-economy model. (Their earlier scenario analysis did however simulate the impact of a variant with the W-shaped recovery which was subsequently modelled in terms of economic analysis).
59. The economic impact index overlaid economic impact with case numbers but was not a formal epi-macro model.
60. The analytical teams pivoted fully within OCEA to work almost exclusively on Covid-19. This included providing advice about economic modelling as well as the full range of analytical work required for the pandemic. This put in place new process (daily morning

and evening calls), tracking of actions and requirements to support Scottish Government Ministers. This activity was captured in logs and updated business plans. It was overlaid by normal quality and assurance processes. An organogram of the Directorate at December 2020 is provided [GI5/021 - INQ000590785].

61. Within OCEA, existing economic modelling expertise and capacity was utilised for the consideration and discussion of modelling. Initial work, as described above, focussed on the impact on the economy. Discussion of how this was done reflected the normal processes drawing on senior statisticians and economists alongside the modelling team. This was cleared by the Chief Economist and Deputy Directors.
62. OCEA led on scenario analysis of the impact on the economy and economic harm assessment of Non-Pharmaceutical Interventions working closely with analysts across the Scottish Government. For example, health colleagues led on the analysis supporting case numbers modelling as well as wider impacts such as on vulnerable groups or on young people in terms of schooling. Part of this also included assessing the impacts of various restrictions on the economy as part of the four harms group.
63. OCEA's early scenario analysis on the economy was published as was subsequent evaluations of business support [GI5/016 - INQ000182973], [GI5/019 - INQ000273938] and [GI5/022 - INQ000182977].
64. This was in addition to work carried out on central COVID-19 modelling, which was led by Chief Social Researcher Audrey MacDougall and then Chief Statistician Roger Halliday – as set out the Module 2A statements [INQ000346964] and [INQ000274011], respectively.
65. The main challenges in the economic modelling were identifying the transmission mechanism for the shock as this was not like a normal or typical economic shock. Other factors were more generic to modelling.
66. In terms of key assumptions, uncertainty regarding future waves and variants was an issue. Also, the duration of policy funding to mitigate economic impacts and the behavioural response as business models adapted to deliver services via new business

models were issues.

67. Expert advice was provided to Kate Forbes through economy, health and policy officials, rather than through any separate sources of expert advice. Ministers did commission, for example, advice on economic recovery from an external group led by Benny Higgins – the Advisory Group on Economic Recovery as covered in more detail later in this statement. Also referenced in this statement is the role of the Economic Partnership and Strategic Planning Group – although this did not provide specific policy advice – nor did it input directly to decision making. Finally, Ministers, including Ms Forbes, met regularly with business sectors and therefore got first-hand accounts of impacts and often suggestions or advice on how to respond. This was no different from existing business engagement.
68. There have been no formal reviews of access to data, advice or analysis used in the economic response to the pandemic, but the outcomes compared to the estimates in terms of expected contraction of the economy or numbers furloughed have been tracked. This was on-going and part of quality assurance in understanding the difference between forecast and outturn. Difference typically reflected behavioural changes or policy initiatives but in general the analysis of the macro impacts – output and furlough were relatively close to actual outturn.
69. The monthly GDP continues to be produced but the Economic Impact index is no longer produced. There are data linkage developments and on-going work relating to business databases and registers.

#### Economic Policy Objectives

70. The key economic policy aim during the pandemic was to protect the productive capacity of the economy from an unexpected short, sharp shock. It was to protect businesses, communities and people whilst businesses were unable to trade fully due to lock downs or had to operate differently. The analysis provided by Gary Gillespie, Chief Economist, set out the different macroeconomic channels of a global Covid-19 pandemic – whether they be domestic impact (like workforce absence) or global ones (like a reduction in international trade). The framework is captured in the early slides

[GI5/014 - INQ000282440]. The challenges were primarily financial in terms of providing continued support to meet those objectives.

71. In the course of the pandemic Gary Gillespie Chief Economist supported two Cabinet Secretaries at four different committee meetings of the Scottish Parliament. He attended the Economy, Energy and Fair Work Committee on 24 March 2020 and 2 June 2020 supporting Ms Hyslop the Cabinet Secretary for Economy, Fair Work and Culture. Both sessions discussed the economic implications and response to the pandemic [GI5/023 - INQ000282446], [GI5/024 - INQ000282447] and [GI5/007 - INQ000590816].
72. As has already been set out earlier in the statement, in designing policy in response to the economic shock, the UK Government led this work and made announcements accordingly. The UK Government initially assumed the furlough scheme would only be needed for three months until June 2020.
73. Scotland's Strategic Framework in October 2020 [GI5/004 - INQ000245551] had a set of rules at any time to minimise the risk of infection and provide financial support. Economic policy was focused on survival support so that post the Non-Pharmaceutical Interventions (NPIs) being required the economy could operate normally.
74. Had a longer-term assessment of the pandemic been made, the Scottish Government could have considered providing training for future employment, for example offering those people on long term furlough who were unlikely to continue in that job, the opportunity to undertake training in areas where there are skills shortages such as social care or cyber security etc.
75. The economic objectives of all business support schemes were similar across the four nations – to provide some mitigation for the impact of Covid-19 restrictions on businesses, and to ensure that sectors of the economy would be able to recover when restrictions were eventually lifted. The UK Government introduced several financial support schemes on a UK-wide basis, which provided a foundation of support for businesses. These were essential foundations for businesses to comply with restrictions across the UK. The decision about how to respond to public health

guidance was dependant on the availability of UK funding, especially furlough support. For example, on 29 November 2021, Covid-19 Omicron variant was identified in Scotland. The furlough scheme had ended on 30 September, and despite representations requesting that the furlough scheme be extended, the UK Government did not agree to reinstate it [GI5/024a - INQ000223142], [GI5/024b INQ000223143], [GI5/024c - INQ000249118], [GI5/024d - INQ000614182] and [GI5/024e - **INQ000355166**]. Without the ability to borrow, like the UK Government had, Scottish Ministers did not have the funds for its own furlough scheme; nor did they have access to the administrative capacity in HMRC necessary to run a furlough-type scheme. This meant that Scottish Ministers could only introduce limited restrictions across the hospitality sector. Funding was provided by the Scottish Government for businesses affected by the restrictions. Business closure was limited to the nightclub sector, with targeted grants aiming to provide those businesses with sufficient funding to retain their staff.

76. Changes to UK-wide support (e.g. the furlough scheme) were made several times with short or no notice to the Scottish Government. One example of this was in October 2020. The Coronavirus Job Retention Scheme (furlough) was at this point closed to new employees and required a more significant financial contribution from employers for furloughed employees than it had previously. The UK Government had announced plans to bring the furlough to an end on 31 October and, from 1 November, to replace it with a new UK-wide scheme called the Job Support Scheme. This would have provided less generous support to employers and employees, and - when it was announced - was expected to support a gradual transition out of Covid-19 restrictions to normal economic operation. By October 2020, infection rates had risen in some areas of the UK, including parts of Scotland, and new restrictions had been put in place in some local authority areas. Scottish Ministers had argued that the reintroduction of restrictions meant that closing the furlough scheme and moving to the Job Support Scheme was not appropriate at that time, but UK Ministers had refused to reconsider. During October 2020, Scottish Ministers put in place additional bespoke financial support arrangements for businesses in some local authority areas where restrictions had been reintroduced, including a “furlough support grant” intended to help employers who faced restrictions to make the financial contribution required for their employees to benefit from the furlough scheme. On the evening of 31 October 2020, the UK

Government made an emergency announcement that restrictions would be reintroduced in England from 1 November 2020, and that the full version of the furlough scheme would be reinstated and extended to additional employees. If there had been more warning about this, or the UK Government had responded to earlier requests from Scottish Ministers, then Scottish Government could have avoided the need to introduce additional furlough support grant in Scotland.

77. Economic harm was one of the 'four harms' which, as described in statements previously provided, were an ongoing consideration in Ministerial decision making. The concept of the 'four harms' was that the pandemic, and measures in response to it, could cause harm in four areas, as follows:

- direct Covid-19 health harms: primarily, the mortality and morbidity associated with contracting the disease
- broader health harms: primarily, the impact on the effective operation of the NHS and social care services associated with large numbers of patients with Covid-19, and its knock-on effects on the treatment of illness
- social harms: the harms to wider society, in terms (for example) of education attainment as a result of school closures
- economic harms: for example, through the closure of businesses.

78. The Framework for Decision Making, published on 23 April 2020, outlined the principles that would guide decision making. This was followed by the Strategic Framework, published on 23 October 2020 which set out how the Scottish Government intended to respond to the crisis. It was within this context that decisions about whether to introduce or change Covid-19 restrictions were made. Scottish Ministers' approach to the four harms process is set out in depth from paragraph 72 onwards in the Module 2A DG Strategy and External Affairs statement [INQ000215495].

79. Several factors influenced the Scottish Government's policy and delivery decision-making. For example:

- the **public health restrictions** put in place to control the spread of Covid-19
- the **budget** available to Scottish Ministers

- the **economic evidence** about the likely impact of restrictions on businesses and sectors
- the **UK-wide support** funded by the UK Government – principally the Coronavirus Job Retention Scheme, the Self-Employed Income Support Scheme, the Covid-19 Business Interruption Loan Scheme, and Statutory Sick Pay
- capability and feasible **delivery** – the majority of this funding has been channelled through local authorities, and delivery at speed (in some cases days from conception to implementation) has required us to rely on existing (LA) capability, in terms of numbers of administrative staff, their skills and knowledge, technology, and data
- delivery partners' financial control arrangements for **audit, risk, financial management, management information data and fraud management**
- the **delivery and policy constraints** resulting from this delivery model – local authorities do not typically hold or have access to data about businesses' profits or employees' salaries. All the data that would allow us to address actual financial turnover losses is held by HMRC. The Scottish Government did not request this data because accessing and processing such detailed information would have been complex, resource intensive and hindered the design and decision-making processes. This meant it was not feasible in the short period of time available before payments had to be made. As a result, most of Scottish Government's support schemes were not tailored to individual businesses' circumstances and instead were a **standardised contribution** towards assumed operating losses as the result of restrictions. This means some recipients of funding have received substantially less in business support than they would have earned had they been open, and some others may have benefitted above their normal trading level. Some funds run by the Enterprise Agencies have been able to interrogate some businesses' accounts and provide more bespoke support based on cashflow projections
- **data** collation and use – the emergency delivery model has also meant using data that local authorities do hold – in relation to **rateable value** of business property – as a proxy for size of business, number of employees, and likely impact

- reliance on existing technology and processes in local authorities means the funds have been delivered in different ways using different systems, and this impacted on flexibility and **consistency** of delivery in equal measure, placing significant importance on communications and partnership working
- **significant stakeholder pressure** from particular sectors of the economy, industry bodies, or types of business or worker have often led to specific support being set up and backed-by ministerial announcements
- the benchmarking of Scottish support and that offered by other UK nations – largely because of **raised stakeholder expectations** resulting from action in other parts of the UK or because businesses operate across the UK
- the impact of business failure (either individual organisations or on a sectoral basis) on **wider Scottish Government policy objectives** – e.g. training providers, cultural organisations, transport providers – has led to bespoke sectoral grant arrangements
- **taxation** and entitlement to Universal Credit or other state benefits
- the impact on **equalities groups**
- the inclusion of **conditionality** in relation to Fair Work and other wider Scottish Government policy objectives in the grants offered.

80. The Scottish Government had to balance these factors at each stage to provide support that is responsive to the immediate challenges and restrictions faced by businesses, can be delivered quickly, is affordable, and builds on lessons from the support offered previously, bounded by propriety, regularity and accountability and the available information each time. This has not been business as usual funding support or policy development underpinned by the usual green book evaluation of costs and benefits but crisis support, targeted at reducing widespread insolvency, to inject liquidity into the economy and preserve some market confidence.

81. Detailed consideration was given to continued support as businesses re-opened following lockdown. For example: In April 2021, Scottish Government introduced Restart Grants - a one-off payment to support businesses with the costs of re-stocking and re-opening or other restart impacts. The level of award that businesses were eligible for was contingent on both the Rateable Value of their premises and the sector

in which they operated with businesses in the retail sector eligible for a payment of up to £6,000, and all others eligible for grants of up to £18,000).

82. These were intended to recognise the costs incurred by businesses in re-opening for trading and were designed to support businesses to prepare for ongoing measures being put in place. Without the ongoing financial support provided through these funds, it was likely that a significant number of otherwise viable businesses would be unable to meet the costs associated with maintaining their businesses and would therefore be required to close, leading to a reduction in Scotland's business base and increasing unemployment. Advice to ministers included a submission on establishing the SFBF Transition Payment and Business Restart Grant [GI5/025 - INQ000239858].
83. On 21 February 2022, the Scottish Government announced an £80 million Local Authority Covid-19 Economy Recovery Fund (LACER Fund) which provided additional financial support targeting communities, businesses and low-income households recovering from the pandemic and impacted by cost-of-living crisis. It was distributed to local authorities through a standard allocation model that recognises population and geography (and is used for most other allocations of funding to local authorities). It provided flexibility for local authorities to decide how best to support economic recovery in their own areas. There was some light-touch reporting to Scottish Government on how the LACER Fund had been deployed, and opportunities for local authorities to share practice. In many cases this was an enhancement or addition to existing local authority programmes rather than a stand-alone scheme funded solely through LACER.
84. The Cabinet Secretary for Covid Recovery was not involved in the design or delivery of this scheme; it was the responsibility of the Cabinet Secretary for Finance and Economy, Kate Forbes.

#### Advisory Group on Economic Recovery

85. The Cabinet Secretary for Economy, Fair Work and Culture, Fiona Hyslop MSP, announced to the Scottish Parliament on 21 April 2020 that the Scottish Government intended to establish an independent Advisory Group on Economic Recovery.

86. This was because the Scottish Government recognised the Covid-19 pandemic was both a health emergency and an economic emergency, with short term economic impact likely to have long lasting effects. This was an advisory group and papers for the group have been provided to the Inquiry for Module 2A [GI5/026 - INQ000362629].
87. The Cabinet Secretary said the Scottish Government was committed to ensuring the economy could recover quickly, and to a future economy which supported wellbeing and was resilient to economic, environmental and health contingencies.
88. This Group was asked to provide urgent advice on the private sector and business aspects of the economic response to the Covid-19 crisis.
89. The remit of the Advisory Group was:
- to advise on the economic recovery from the Covid-19 pandemic, including measures to support different sectoral and regional challenges the economy would face in recovery; and
  - how business practice would change as a result of Covid-19, including opportunities to operate differently and how Government policy could help the transition towards a greener, net zero and wellbeing economy.
90. The proposals from this Advisory Group complemented expert advice from other sources across Government. The Group's membership provided a range of expertise and insights across several key disciplines related to the economy and recovery. Group members were:
- Chair - Benny Higgins, former Chief Executive of Tesco Bank, following senior roles in Royal Bank of Scotland (RBS) and Halifax / Bank of Scotland (HBOS) At that time also Special Advisor to the First Minister on the Scottish National Investment Bank and Member of the Infrastructure Commission for Scotland
  - Professor Sir Anton Muscatelli, Principal and Vice-Chancellor of the University of Glasgow
  - Dame Sue Bruce, a non-executive director with Scottish and Southern Energy, the Electoral Commissioner with responsibility for Scotland and a former Chief Executive of The City of Edinburgh Council

- Grahame Smith, former General Secretary of the Scottish Trade Union Congress with experience on a number of boards/ bodies in the field of economic development and skills
- Professor Anna Vignoles, Professor of Education at the Faculty of Education, University of Cambridge
- Professor Dieter Helm, Professor of Economic Policy at the University of Oxford and Fellow in Economics at New College, Oxford
- Professor John Kay, visiting Professor of Economics at the London School of Economics
- Dame Julia Unwin, former Chief Executive of the Joseph Rowntree Foundation.

91. The Group also took into consideration Scottish Government's ambition and work across the key areas to feed into the strategic economic thinking and policy relating to green economy, net zero and the wellbeing economy.

92. Mechanisms were established to ensure the Group gained valuable insights and considered Government policy priorities, including the transition to net-zero emissions. Through these mechanisms, the Group received over 375 individual submissions from organisations and individuals across Scotland setting out their views on Scotland's economic recovery which shaped the Advisory Group's recommendations. The Chair of Scottish Enterprise, Lord Smith, was a key part of this process gathering the views on the business aspects of the economic response.

93. The Advisory Group's report Towards a Robust Wellbeing Economy for Scotland was published on 22 June 2020. The Scottish Government's response to the report entitled Economic Recovery Implementation Plan was published on 5 August 2020 [GI5/027 - INQ000131080] and [GI5/028 - INQ000131081].

### **Variation in support across the United Kingdom**

94. The UK Government's response to Covid-19 pandemic did not always mirror the particular needs of all parts of the UK. For instance, it did not always take account of the different rates of infection in different areas across the UK, the easing of restrictions

at different times across different sectors of the economy, or the distinct features of the Scottish Economy. For example, as previously stated in 2020 Scotland had a higher percentage of its business base in the accommodation and food services sector than the UK at 5.5% compared to 3.7%.

95. Scottish Ministers made numerous representations to the UK Government outlining their concern about the lack of fiscal flexibility, the UK Government's last-minute approach to announcing funding and the availability of funding in Scotland throughout the course of the pandemic. For example, as previously stated:

- In April 2020 not all businesses of importance to the Scottish Economy were eligible for UK-wide support. To address this the Scottish Government launched the Pivotal Enterprise Resilience Fund which is considered in more detail later in this statement
- In October 2020, the infection rate was higher in Scotland than it was in England. Temporary restrictions were introduced across the hospitality sector in Scotland on 7 October 2020. At that time, the furlough scheme was being phased out with employers required to make a 20% contribution to the cost of furloughing staff; and eligibility rules meant that any staff employed after 19 March were not eligible and would not be paid if their place of employment was closed as a result of temporary restrictions in Scotland. The Job Support Scheme (JSS) was intended to replace the furlough scheme on 1 November 2020 with employees receiving two-thirds of their wages for time not worked. Scottish Government introduced the Covid-19 Restrictions Fund on 9 October to reduce the financial burden facing the hospitality sector. However, the UK Government announced a second national lockdown in response to rising cases in England on 5 November 2020. JSS was scrapped and furlough scheme was extended until end of March 2021
- On 29 November 2021, the Covid-19 Omicron variant was identified in Scotland. The furlough scheme had ended on 30 September, and despite representations for the furlough scheme to be extended, the UK Government did not agree to

reinstate it [GI5/024a - INQ000223142], [GI5/024b INQ000223143], [GI5/024c - INQ000249118], [GI5/024d - INQ000614182] and [GI5/024e - INQ000355166]. Without the ability to borrow, like the UK Government had, Scottish Ministers did not have the funds for its own furlough scheme; nor did they have access to the administrative capacity in HMRC necessary to run a furlough-type scheme. This meant that Scottish Ministers could only introduce limited restrictions across the hospitality sector. Funding was provided by the Scottish Government for businesses affected by the restrictions. Business closure was limited to the nightclub sector, with targeted grants aiming to provide those businesses with sufficient funding to retain their staff.

96. The UK Government introduced several financial support schemes on a UK-wide basis, which provided a foundation of support for businesses to comply with restrictions across the UK. However, the policy decisions on which restrictions were put in place in different geographical areas were taken by different governments and sometimes varied. Financial support schemes were driven by the restrictions in place at different stages of the pandemic, however, there were periods where infection rates were higher in Scotland resulting in the need for greater restrictions in Scotland compared to the rest of the UK. This occasionally led to the Scottish Government adopting a different approach from the UK Government. For instance, as outlined above:

- Infection rates spiked in Scotland in October 2020. At this time the UK Government's Furlough Scheme was gradually being withdrawn and businesses in Scotland were at a disadvantage so Scottish Ministers introduced the Furlough Support Grant
- The Omicron variant was identified in Scotland in November 2021, the Furlough Scheme had already ended, and UK Government refused to reinstate it. Scottish Ministers introduced limited restrictions across the hospitality sector and provided a package of bespoke funding for businesses affected by the restrictions.

In addition:

- Individuals unable to provide a full three years' tax returns were not eligible to access the UK Government's Self-employed Income Support Scheme. So Scottish Ministers introduced hardship relief in form of the Newly Self-Employed Hardship Fund.

97. The UK Government also offered some business support funding in England only, which resulted in Barnett consequential for Scotland. Scottish Ministers made a public commitment that businesses in Scotland would receive support that was at least equivalent to any consequential received as a result of business support spending in England. The Scottish Government put in place a range of additional financial support schemes that addressed the demand for support in Scotland's businesses and better reflected the distinct features of the Scottish Economy, for example: support for privately owned ski centres and schools. Scottish Government support augmented UK Government financial support schemes and were targeted to the specific sectors and businesses most impacted by Covid-19 restrictions applicable.

98. The Scottish Government wrote to the UK Government on numerous occasions to raise issues in relation to gaps in the scope of UK Funding schemes. For instance:

- In May 2020 Cabinet Secretary for Economy Fair Work and Culture Fiona Hyslop wrote to the Chancellor of Exchequer Rishi Sunak on several issues relating to the Furlough Scheme. The letter highlighted the different rates of infection in Scotland and the availability of future funding [GI5/029 - INQ000182968] and [GI5/030 - INQ000182969].
- In September 2020 the First Minister Nicola Sturgeon wrote to the Prime Minister Boris Johnston urging four nations discussion about future restrictions and extension of the furlough scheme [GI5/031 - INQ000217057].
- In December 2021 Cabinet Secretary for Finance Kate Forbes wrote to the Chancellor of Exchequer Rishi Sunak expressing concern about the inadequacy of the consequential funding given the scale of the challenge Scotland faced from Omicron [GI5/032 - INQ000182947].

99. There were various mechanisms for raising issues in relation to the provision of support and these are set out in detail in Paragraphs 68 – 74 of the DG Scottish Exchequer's witness statement [INQ000216653] in relation to Module 2A. These include:

- Ministerial Correspondence between Scottish and UK Government Ministers;
- Engagement with HMT at Ministerial level;
- Scottish Government portfolio officials engaging with respective officials in HMT spending teams; or
- UK Government departments with spending authority over UK wide Covid-19 Funds such as the Furlough scheme.

100. Engagement between Scottish Government Ministers, officials and other devolved administrations took place throughout the pandemic on a number of platforms including:

- Ministerial Four Nations Quadrilateral Meetings
- Trilateral Ministerial Meetings between Ministers for the Devolved Administrations
- Covid-19 HMT Daily calls – four nations officials calls.

101. Scottish Ministers had no input or influence on UK-wide support. Earlier engagement and consultation with devolved administrations would have been more effective in assessing the demand for support and the impact of UK wide schemes. This would have been the most useful change to the structures or processes already in place.

## **Key Economic Interventions**

### **Newly Self-Employed Hardship Fund**

102. The Newly Self-Employed Hardship Fund was set up to provide hardship relief to newly self-employed individuals who lost revenue but were unable to access Self-Employment Income Support Scheme because they had registered with HMRC as self-employed within the previous year and so were not eligible for the UK Government scheme.

103. During the first round of funding, the scheme provided a one-off £2,000 payment. The first round opened for applications on 10 April 2020 and closed in July 2020. It delivered £11.3 million to 5,602 individuals [GI5/033 - INQ000590787].
104. The second round of funding of the Newly Self-Employed Hardship Fund opened for applications on 16 February 2021 with the deadline for submitting applications to the fund closing on 23 March 2021 [GI5/033 - INQ000590787]. It was originally supposed to be open for a month but the deadline for applications was extended by a month to provide extra time to submit applications. Round two of the scheme provided a one-off £4,000 payment for those who became self-employed between October 2018 and April 2020 and were either ineligible for Self-Employment Income Support Scheme or received an award which doesn't reflect their income from self-employment. The fund delivered £34.6 million to over 8,500 individuals. Round two of the Newly Self-Employed Hardship Fund was delivered alongside and in conjunction with the Mobile and Home-Based Close Contact Services Support Fund. Like the Newly Self-Employed Hardship Fund, the Mobile and Home-Based Close Contact Services Support Fund paid out awards of £4,000 but was targeted towards those operating in the beauty industry such as hairdressers, nail technicians and massage therapists who did not own premises in receipt of financial support through the non-domestic rates schemes.
105. Internal analysis was undertaken during development of the scheme to estimate the number of people who may meet the different eligibility criteria and therefore what the cost would be to implement. This included consideration of the first round and take up when developing the second round of the scheme.
106. Round one of the funds was designed by the Scottish Government in partnership with local authorities through the Scottish Local Authorities Economic Development network. It was implemented by individual local authorities, each one resourcing the applications process and making local decisions on funding. Round two was designed by the Scottish Government in partnership with Convention of Scottish Local Authorities. It was implemented and administered by local authorities during the first round. In the second round, it was implemented as a national scheme with the administration contracted out to UMi. Local authorities and UMi were responsible for

monitoring and evaluation of each round of the scheme. The main risk identified in both rounds was the possibility of fraudulent applications.

107. 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.
108. The fund was targeted at and intended to provide financial support to newly self-employed individuals and was entirely designed to 'fill the gap' left by the UK Government scheme. It linked to the overall objective of protecting businesses. There were no intentional gaps in coverage of the Scottish scheme, or concerns shared with the Scottish Government about the exclusion of specific groups. Round two of the Newly Self-Employed Hardship Fund extended eligibility criteria to fill an additional gap for those who became self-employed in the six months prior to April 2019 but received a nil award from Self-Employment Income Support Scheme because they were unable to satisfy the UK Government's requirement that they derive 50% of their income from being self-employed.
109. At the time of the launch of round one, there was limited data because individuals have to be self-employed for more than one year before they appear in the data on self-employment, making it difficult to estimate likely uptake. The fund was targeting those individuals not eligible for the UKG's SEISS. Round one of the fund delivered £11.3 million to 5,602 individuals, which was 71% of the 8,006 individuals who applied.
110. Prior to the launch of round two of the Newly Self-Employed Hardship Fund and the Mobile and Home-Based Close Contact Services Support Fund it was projected that around 25,000 individuals would be entitled to financial support based on eligibility criteria developed for these two funds.
111. The estimates for round two [i.e. the projection of 25,000 individuals] of the Newly Self-Employed Hardship Fund were based on data collected from round one of this

Fund, adjusted to take account of the expanded eligibility criteria which granted access to the fund to those for whom 50% of their income was derived from self-employment.

112. Estimates for the Mobile and Home-based Close Contact Support Fund were based on projections developed in discussion with sectoral representative bodies although it was necessary to tolerate a significant degree of uncertainty in these figures due to an absence of any specific data which set out the number of individuals working in this sector and who might therefore meet the eligibility criteria.
113. 9,668 people applied for funding through round two of the Newly Self-Employed Hardship Fund of whom 8,669 (89%) were deemed eligible and received a payment through this fund. The total amount paid out through the round two of the Newly Self-Employed Hardship Fund was £34.6 million. In addition, 10,033 individuals applied for financial support through the Mobile and Home-Based Close Contact Services Support Fund of which 8,945 (89%) met the eligibility criteria and received a payment. The total value of grants paid out through the Mobile and Home-Based Close Contact Services Support Fund was £35.8 million. Collectively, across round two of the Newly Self-Employed Hardship Fund and Mobile and Home-Based Close Contact Services Support Fund, a total of £70.4 million was paid out to 17,614 individuals.

### Scheme Design

114. Consultation on design took place with local authorities in developing round one, and local authorities and Scottish Enterprise (SE) in relation to the administration and delivery via UMi for round two.
115. During round one the Scottish Government had at least twice-weekly meetings with local authorities through the Scottish Local Authorities Economic Development network. During round two the Scottish Government had daily contract management calls with UMi, with reduced frequency at final stages.
116. The strategic direction of the scheme was set by Ministers, with the design intent and outcomes developed by officials in conjunction with delivery partners. There was regular (often daily) review of delivery progress against strategic intent and funding

allocation, course corrections, and handling of fraud risk, and appeals process. Round one was a new model of delivering support, utilising existing local authority staff and expertise, whilst round two was built on experience from round one.

117. Relevant expertise and delivery mechanisms were available in order to set up a new model of delivering support. The challenge for this fund resulted from the need to design and implement a new fund at pace in response to a developing situation.
118. For round one, early discussions with delivery partners alighted quite quickly on the most suitable delivery model for the Newly Self-Employed Hardship Fund from the limited options available. For round two discussions with local authorities - who were the default option for delivery - identified that resource challenges meant it could not be delivered at the required pace/delivery timeframes. This resulted in delivery company UMi being contracted through a Non-Competitive Action process due to urgency with the involvement of Scottish Enterprise (who had previously contracted UMi through a Crown Commercial Services Framework for Grant Management).
119. Assessment and award decision processes were informed by what was possible given existing resourcing in local authorities, redeployed from other work. For round two, the design was built on what had been delivered for round one by local authorities.
120. The speed at which it was necessary to deliver financial support to businesses during the initial crisis stage of the pandemic prevented the Scottish Government from establishing a formal framework for assessing the Value for Money of individual funding schemes beyond the broad considerations set out in the Scottish Public Finance Manual (SPFM). The priority was to design and implement a system to deliver emergency support to businesses to protect livelihoods and jobs, at pace.
121. Value for Money was, however, a prominent consideration across all the business support funding schemes developed and delivered by the Scottish Government throughout the pandemic. In determining whether supporting the newly self-employed would constitute Value for Money, Scottish Government considered whether this group was impacted by restrictions and whether they were likely to experience financial loss as a result of those impacts to which the answer to both questions was yes. This was

underlined by the UK Government's decision to introduced dedicated financial support for the self-employed along similar lines to the furlough scheme and entitled the Self-Employed Support Scheme (SESS). The Newly Self-Employed Hardship Fund was designed to direct financial support towards those who were impacted by Covid-19 restrictions but who were not eligible for the Self-Employment Income Support Scheme.

122. Another factor that the Scottish Government considered in order to assess value for money was overall affordability of the schemes under development. The Scottish Government had a finite amount of money with which to provide financial support to many different sectors and businesses that were impacted by Covid-19 and had to take a decision on where that funding would have the greatest impact in terms of alleviating financial hardship and enabling businesses to continue trading once restrictions were lifted. Value for money of rounds one and two of the Newly Self-Employed Hardship Fund therefore took into account the other funding schemes that were available and the relative effects of supporting (or not supporting) the newly self-employed compared to other businesses and sectors.

123. Value for money was also considered in the design of the scheme to ensure that the support made available was targeted towards those newly self-employed who had been impacted financially as a result of the Covid-19 pandemic and the restrictions introduced to control its spread. The criteria for the Newly Self-Employed Hardship Fund was therefore tightly drawn to ensure that it was targeted towards those individuals who had suffered financial loss.

124. A general lack of data regarding the number of those who are newly self-employed, the flexible nature of self-employment and the fact that individuals can hold employment while being self-employed simultaneously meant there was limited robust data available to inform development of the schemes. Data that was available included estimates based on previous years' new self-employed registrations. For round two of the Newly Self-Employed Hardship Fund, estimates were also based on the uptake of round one of the Newly Self-Employed Hardship Fund taking into account the broader eligibility criteria that applied to round two.

125. The Scottish Government's capacity to conduct detailed modelling and scenario planning to inform development of round two of the Newly Self-Employed Hardship Fund was restricted given the limited data available and the urgent need to get financial support to those experience financial hardship as a result of Covid-19 restrictions. Modelling was, however, conducted to inform the eligibility criteria based on those who would not be eligible for support through the UK Government's Self-Employment Income Support Scheme. Work was conducted to model the number of those who were likely to be eligible for the scheme to inform the amount of funding that it was necessary to allocate to the fund. Consideration was also given to the anticipated number of applicants to the fund and based on this, a decision was made to engage UMi in administering applications and making payments to those who met the eligibility criteria. Some scenario planning was also conducted in relation to user engagement with the application process to ensure that it was accessible without compromising on safeguards against fraud.
126. For both rounds of the Newly Self-Employed Hardship Fund, Ministers were asked to consider and approve the eligibility criteria and were made aware of likely cost projections based on that eligibility criteria. In round one, funds were allocated from within the overall £185 million additional Covid-19 business support funds alongside the Pivotal Enterprise Resilience Fund, with decisions made in-flight to flex allocations between funds according to evolving demand [GI5/034 - INQ000378215].
127. Round one was intended as a time-limited one-off, with timelines aligned to the Pivotal Enterprise Resilience Fund. For round two, applications were open for a month (16 February – 16 March 2021), payments were made to individuals once eligibility had been established. Payments were intended to support newly self-employed individuals until Covid-19 restrictions had come to an end and they were able to resume trading.
128. Newly Self-Employed Hardship Fund round one was one of a number of funds delivered simultaneously with complementary objectives, tailored to specific sectors and business needs. No specific alternatives were considered in relation to round two of the Newly Self-Employed Hardship Fund. The Scottish Government adopted a sector specific approach to the delivery of business support funding in the interests of ensuring that financial support was targeted towards those businesses who were directly or

indirectly impacted by Covid-19. As such, a variety of schemes were considered and developed to direct funding towards those groups or sectors who were identified as in need of financial support. Round two was not therefore an option chosen as part of a suite of alternatives but rather one of a network of funding streams delivered throughout the period between October 2020 and August 2021. Through round two of the Newly Self-Employed Hardship Fund, the Scottish Government had acknowledged the challenges faced by those who were not entitled to the Self-Employment Income Support Scheme and it was therefore necessary to make additional funding available to this group to support the newly self-employed through the additional restrictions once a further round of the Self-Employment Income Support Scheme had been announced by the UK Government and which, once again, excluded the newly self-employed from eligibility.

129. The self-employed is a diffuse group of individuals with no specific body or organisation tasked with representing their interests as such, making them aware that the funds were open to applications did present its challenges. For both rounds of the Newly Self-Employed Hardship Fund, the Scottish Government adopted a multi-channel approach to make eligible individuals aware that the funds were open. The primary means of awareness raising was through the web and seeking to get the message out through organisation or industry websites that are used frequently by the self-employed such as through local authority websites and the websites of bodies where a significant proportion of their membership are self-employed (i.e. musicians). The Scottish Government promoted the fund through social media as well as on the FindBusinessSupport website. This had initially been established to support businesses in Scotland to prepare for EU exit but was repurposed to make individuals and businesses aware of Covid-19 financial support packages to determine whether they are eligible. The fund was announced in the First Minister's daily briefing to reach a wider audience and pushed through our regular engagement with chambers of commerce and other organisations representing the business community. Round two also included engagement and communication with representative organisations to resolve issues following initial technical issues with the application process.

130. Another challenge was that round one received a lower number of eligible applicants than anticipated. Learning was taken forward into round two, which looked to identify

opportunities to build on the experience of the first fund and considered how to broaden the eligibility criteria to support as many self-employed people experiencing financial hardship as possible within the scope of the available funding.

131. The Scottish Government balanced the need to deliver support quickly with the need to deliver support in a targeted way by arriving quickly at the relevant criteria above and working with local authorities to swiftly develop and implement an application and payment process. For round two this involved working with UMi to ensure effective administration of the scheme at pace and clear understanding of eligibility.

132. The Scottish Government is not aware of any issues where a lack of data or lack of quality data excluded individuals from the scheme.

133. Consideration was given to the socially and economically vulnerable groups when designing the scheme through Equality Impact Assessments (EQIA). This is explained in detail in the separate Module 9 DG Communities statement. The Scottish Government had completed an EQIA on the Scotland's Strategic Framework [GI5/035 - INQ000183078] which was used as an overarching EQIA for all business support grants given the pace at which emergency support was provided to businesses. Fund specific EQIAs were later published in March 2022 [GI5/036 - INQ000590788].

134. Company directors were purposefully excluded from the Newly Self-Employed Hardship Fund. They are paid through dividends and were not otherwise eligible for the UK Government's Self-Employment Income Support Scheme and it was therefore felt that it would not be appropriate to include them in the Newly Self-Employed Hardship Fund.

135. The decision to exclude Company Directors from eligibility was made by Scottish Ministers when agreeing the eligibility criteria which determined access to the Newly Self-Employed Hardship Fund. "We are not intending to make single director ltd companies eligible for the support via the MSME grant scheme. This is because we estimate there are 60k of them in Scotland which would cost over £500m were 85% of them to apply and receive £10k." [GI5/036a - INQ000260896]. The term MSME refers to

an earlier, pre-announcement, naming convention for Pivotal Enterprise Resilience Fund and related funds.

### Timing

136. Information on the timing of the Newly Self-Employed Hardship Fund can be found at paragraphs 103 and 104.

### Communication

137. Information on the communication of the scheme is detailed at paragraph 129.

### Accessibility

138. For round two, a fully assisted application process was put in place, whereby an UMi assessor could take the details and submit an application on behalf of an applicant if they were unable to complete an application themselves. A phone helpline was also set up by SE to aid applicants with the application process. This helped address some accessibility issues and provided applicants a chance to speak to someone directly about any issues or problems they were having with applying for funding. See also EQIA [GI5/036 - INQ000590788].

139. Consultation took place with local authorities, Scottish Local Authorities Economic Development Group and Scottish Enterprise during the development. Beta-testing of the application process also took place to with newly self-employed individuals to check its functionality and to capture coding errors or more general issues with the application form and process.

140. One issue faced was that an initial surge in applications meant that the volume of applications outstripped capacity to process these applications which resulted in delays to these being processed and decisions being made more slowly than applicants had been led to expect. Payments were generally prompt once announced, and the initial surge was over. Engagement with local authorities helped to resolve the issues. For round two, initial technical difficulties related to the ability of applicants to complete the

online application form as well as the website crashing as a result of too many people visiting the site at once were resolved quickly with UMi and procedures providing additional communication and support for stakeholders and applicants were set up.

### Unintended Gaps

141. Information on unintended gaps is set out in paragraph 108.

### Monitoring of support

142. Round one of the scheme was monitored by local authorities. During round two, the scheme was monitored through access to a dashboard created by UMi which provided real-time information on the number of applications received, processed, approved, rejected and paid. Access was granted to relevant Scottish Government officials and this helped inform discussion on the daily update calls with UMi. There were no specific challenges associated with monitoring the data in real time, the data provided by UMi was in fact extremely useful in tracking trends related to the completion and payment of applications.

143. The success of round two of the fund was primarily defined by the volume of applications to the fund, the number of those that were successful and the speed at which those were paid out by UMi. Regular calls were held with UMi to review the number of applications to the fund, the number of awards, the number of rejections, the effectiveness of anti-fraud controls and the total value of payments made. These calls were informed by real time data which allowed us to look at how individuals were engaging with the application process.

144. Local authorities had stopped receiving new applications for support so there was no need to extend the scheme at the end of the first round of funding.

### Adjustments and cessation of support

145. The approach taken evolved throughout the pandemic in order to broaden out the eligibility criteria for those who were able to apply. For example, round two looked to

identify opportunities to build on the experience of the first fund and considered how to broaden the eligibility criteria to support as many self-employed people experiencing financial hardship as possible within the scope of the available funding. The design of round two of the scheme was based closely on the first round of the Newly Self-Employed Hardship Fund as it was intended to support the same cohort of individuals.

146. The key difference with round two of the fund was that eligibility was expanded to encompass those who had become self-employed since the start of the pandemic, while also extending eligibility to those whose income comprised 50% from self-employment and 50% from regular employment.
147. The Minister's decision to expand eligibility to include those who became self-employed after the start of the pandemic and were therefore not eligible for the UK Government's Self-Employment Income Support Scheme was made in recognition that the introduction of lockdown restrictions may have had an impact on their ability to work, and as a result may have been experiencing financial challenges. Feedback from round one of the Newly Self-Employed Hardship Fund highlighted that those for whom up to 50% of their income was derived from self-employment had been excluded from the fund and informed the Minister's decision to extend eligibility to include them in Round two of the fund. The urgency with which it was necessary to get financial support to individuals facing destitution as a result of Covid-19 restrictions and to ensure compliance with these restrictions precluded us from conducting a formal value for money analysis in advance of launching Round two of the Newly Self-Employed Hardship Fund. The decision was made by Scottish Ministers when agreeing the eligibility criteria which determined access to the Newly Self-Employed Hardship Fund [GI5/036b - INQ000592452] and [GI5/036c - INQ000614184].
148. The design of round two of the Newly Self-Employed Hardship Fund was also influenced by the use of a private provider and the capacity of their IT systems to implement and manage the application process which provided greater flexibility both in terms of the information that they were able to host and, in the collection, and use of data generated through applications. The use of a private provider also necessitated the establishment of a call centre to triage and respond to issues being experienced by applicants while inputting their details to the system. Addressing concerns about fraud

was also a key influence in how the scheme was developed to ensure that the application process requested sufficient information from applicants to verify their identity and that they were self-employed.

149. Round one launched with an indicative allocation within the total business support offer alongside other funds such as the Pivotal Enterprise Resilience Fund and remained open through the overall duration of the fund. Round two was opened for an initial period of a month. Due to uncertainty over the potential number of applications to the fund it was determined to be prudent to open the fund for a period of time that would give eligible individuals sufficient opportunity to apply while ensuring that any unspent funds could be repurposed to finance support for other business sectors in light of the scale of demand and pressures on the available funding. Given high demand for the scheme and some operational challenges in administering the fund the funding window was extended for a further week to give eligible individuals a further opportunity to apply for the fund.

150. For both rounds of funding, support was provided as a one-off payment, therefore there was no specific consideration given to cessation of support.

### **Furlough Support Grant**

151. Furlough Support Grants of £1,650 were 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 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 [GI5/036d - INQ000614185], but this had been rejected. The scheme opened on 21 October 2020 and closed on 13 December 2020 [GI5/033 - INQ000590787].

152. This was a one-off grant. The UK Government removed the mandatory 20% employer contribution to the cost of furloughing staff from 1 November 2020. Therefore, there was no longer a gap to be filled after that date.

153. 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. It was implemented and administered by the local authorities who were also responsible for the monitoring and evaluation of the scheme.
154. The key economic policy aim was to protect productive capacity from an unexpected short, sharp shock which a period of local restrictions would be. Businesses having to meet furlough cost during a period when there was no business income created a significant risk of immediate financial shock and the potential for job instability both short and long term.
155. The economic value of the scheme was that businesses received financial support with each eligible business receiving a contribution of £1,650 towards cost of the furlough scheme. The value of the grants totalled £3.57 million. The main risks were from fraudulent applications and the need to verify a business' closure requirement and employee furlough profile.
156. The scheme was intended to help employers meet the cost of furloughing staff in businesses required by law to close premises and consequently have no business income as part of the temporary local restrictions during the period 9-31 October 2020.
157. The Furlough Support Grant was intended to fill the gap in the UK furlough scheme by helping employers affected by the local restrictions during the period 9-31 October 2020 to meet these costs. The UK Government CJRS (furlough scheme) at the time required all employers across the UK to contribute 20% salary plus pension and National Insurance contributions to the furlough payments made to their employees even where there were local restrictions which required them to be closed. This was part of the UK-wide policy to phase out the furlough scheme and transition to the new Job Support Scheme from 1 November 2020. This involved closing the furlough scheme to new employees and requiring an employer contribution to the costs of existing employees where previously none was required. On 31 October 2020, the UK Government announced that restrictions would be introduced in England from 1 November 2020 and the original terms of the fully funded furlough scheme would consequently be reinstated across the whole UK as of that date. However, the UK

Government did not agree to reinstate the furlough scheme from the earlier date of the local restrictions in Scotland.

158. The total cost of the scheme was £3.57 million. It was funded from within the Covid-19 Restrictions Fund covering the restrictions in place during 9-31 October 2020. The initial award per business was £1,200 for the period 9–25 October 2020. This increased to £1,650 to cover the extended period until 31 October 2020. Before the scheme opened, the period of eligibility was extended from 9-25 October to 9-31 October to reflect the change in the period of restrictions. The value of the grant was increased accordingly.

159. Initially the Scottish Government requested that HMRC provide data on the projected cost to affected employers of their contribution towards the furlough scheme based on the actual data available to them. Discussions between the Scottish Government and HMRC officials established that this information was not available. Ministers were advised [GI5/038 - INQ000590790] that HMRC held information based on PAYE schemes, and it was this data they used to underpin the Job Retention Scheme. However, while this data included personal details of each employee, there was no verifiable way to correlate claims made to the Job Retention Scheme, and the business premises where individual employees work.

160. Internal Scottish Government analysis of available datasets was then carried out to produce estimates based on:

- the number of business premises in the central belt that were required to close temporarily
- the total number of employees across those businesses who were furlough eligible
- the average number of employees per business
- the average costs of the furlough contributions per employee.

161. It was estimated that 5,305 business premises were affected by the local restrictions covering an estimated 74,000 employees. This was based on the limited data available

to Scottish Government as the specific details of employee numbers and costs were not provided by HMRC.

162. A total number of 2,171 businesses received awards. Applications were linked to the Closure Grant scheme with eligibility identified and awards made without the need for a stand-alone application. 83 businesses were refused for not being able to confirm that they had employees who were part of the UK furlough scheme. 92 businesses were referred on for other supports.

163. Local authorities were responsible for the implementation and delivery within the wider Closure Grant scheme. Further consideration is given to Local Authority Administered Funds later in this statement.

#### Scheme Design

164. During the design and delivery periods, the Scottish Government had twice weekly meetings with local authority delivery partners with additional calls as required.

165. The process of the design from inception to implementation began with the strategic direction set by Ministers. The design intent and outcomes were then developed by Scottish Government officials in conjunction with delivery partners. This included the assessment of connections to other grant processes, and the operational design and implementation methodologies by local authorities. Daily review of the design, build and delivery enabled the necessary adjustments due to the extension of the period of restrictions and responses to the changing UK Government position and activities.

166. Consultation on the design of the scheme took place with HMRC, Convention of Scottish Local Authorities, local authorities, Scottish Trades Union Congress, and the unions Unite and Prospect.

167. The Furlough Support Grant was combined with the Closure Grant application process as all eligible businesses were a sub-group of those required to close. It was therefore not necessary to require businesses to submit their information twice in order to receive both elements.

168. The relevant expertise and delivery mechanisms were available within the existing business support grants infrastructure. The challenge for this fund resulted from the need to design and implement a new fund at pace in response to the developing UK Government position on the UK-wide furlough scheme without access to live accurate data on that scheme.
169. In determining mechanisms for delivery, as eligibility was restricted to a sub-group of business who were eligible for the Closure Grant, it was decided that it would be most efficient if the application and decision-making processes for both grants were combined. Only those with a Closure Grant award then progressed to a Furlough Support Grant decision. This avoided businesses having to duplicate their information in separate claim forms and local authorities having to separately resource the administration of two interconnected schemes. It also ensured that the decision on one of the primary eligibility criteria for the Furlough Support Grant, i.e. that the business was subject to a closure requirement, was taken before any further assessment on the application was carried out.
170. Making best use of the existing operational delivery methodologies the available data and the short turnaround times, were important considerations in the design. As detailed information on the actual costs of the furlough contribution made by employers was not available from HMRC, designing a scheme based on the actual costs would have required this information to be provided by the employers within the application process. In turn this would need to have been individually verified to ensure accuracy and mitigate against fraudulent activity. This would have significantly complicated the delivery processes, increased the cost of administration and extended the time before payment could be made to businesses. And so, a contribution, based on the average costs was agreed to be a more viable overall option. As the eligible group was a sub-group of the businesses who were eligible for the Closure Grant, operationally it was more effective to combine the two applications to minimise the effort required by both businesses and decision makers. This also made the decision-making process more efficient and accurate.
171. Value for money was a significant consideration across the business support schemes. It was important to consider the impact of the restrictions on businesses and

their employees. A point considered specifically in this area was whether the requirement from the UK Government furlough scheme for employers to carry wage costs at a time when no income could be derived from the business would impact on their ability to comply with the restrictions and maintain business stability throughout the period. It was important to focus the limited funds where it would have significant impact. An efficient, low-cost design would therefore contribute to this by maximising the funds available for payment. Insofar as the eligibility criteria for the fund, they were set to ensure that grants delivered the wider economic benefit (jobs, supply chains, etc) of keeping businesses afloat.

172. Availability of data was a significant contributory factor to the design of the scheme. The lack of availability of individual employee data from HMRC meant that the design was unable to provide an actual cost grant to employers. This meant that a fixed grant based on the available business intelligence was a reasonable alternative design. Although consequently some business benefited by receiving more than their actual costs, while others received less. The grant was available only to those business that had premises that were required to close. Therefore, access to the data on the Closure Grant was pivotal to the design. Data on the Closure Grant was linked to the non-domestic rates system which had a long-established verification process enabling it to be relied upon. Data on the Closure Grant decision then provided confirmation that the employer was a business that had been required to close. Confirmation from the business that it had at least one employee on furlough was required to facilitate the standard contribution award regardless of the size of the employer. The quality of this data enabled an efficient and robust design to be implemented.

173. Modelling and forecasting was done by Scottish Government officials on the potential number of premises required to close, the number of businesses affected by the gap in the UK Government furlough scheme, the potential total number of employees affected and the average costs to employers of having to make the contribution to the furlough payments without business income during the closure period.

174. Ministers were asked to approve the focus and delivery model for the scheme and were updated near daily on design, delivery, and application and outturn data.

175. The initial period of business closure was 9-25 October 2020 and the FSG was initially intended to cover this period. Prior to the scheme launch, the closure period was extended. The scheme was designed to fill the gap in the UK Government furlough scheme administered by HMRC at the time. Employers who were subject to the closure requirement were required by UK Government to contribute to the furlough costs without corresponding business income during this period. Subsequently, the UK Government revised the furlough scheme and reinstated the full HMRC payment, removing the employer contribution from 1 November 2020. This resulted in the Furlough Support Grants no longer being required from that point. Consequently, the scheme was for a fixed period of 16 days.

176. The following alternative schemes were considered and discounted:

- The Scottish Government requested that HMRC remove the required employer contribution to the furlough payment during the period of local restrictions in Scotland. This was rejected and the reinstatement of the original non-contributory furlough scheme was not effective until 1 November 2020 when UK Government implemented restrictions in England. This consequently left a 16 day gap in Scotland when employers were required by the UK Government to contribute to the furlough payment without business income. [GI5/029 - INQ000182968, [GI5/036e - INQ000614186], [GI5/036f - INQ000614187], [GI5/036g - INQ000614188], [GI5/036h - INQ000614189], [GI5/031 - INQ000217057], [GI5/036i - INQ000614190] and [GI5/036j - INQ000353382].
- A scheme based on the actual number of employers and/or the employer's actual furlough costs per employee was considered. The data on employee numbers and actual employee costs held by HMRC on the PAYE schemes, which underpinned the furlough scheme, was not sufficient at that time to validate claims. HMRC also confirmed that there was no existing legal or technical gateway for relevant information to be shared with either Scottish Government or local authorities as scheme administrators. There was therefore no way of verifying claims based on actual cost and it would be an unacceptable fraud risk. Given this grant was for a short period only, it was decided that actual costs grant without this data would place a disproportionate administrative burden on both employers and local authorities.

- Differentiated grant payment levels based on the rateable value of the business premises was rejected because there was no reliable way of linking the rateable value of the premises to the number of people employed there. It would therefore not be a good reflection of the need.

177. Local authorities in the areas affected held the details of the businesses that were required to close in the non-domestic rates system. These businesses were invited to apply for the Closure Grant. Those who identified within that process that they had furlough eligible employee(s) were then considered for Furlough Support Grants.

178. Since eligible businesses were a sub-group of those targeted as part of the wider supports for the localised restrictions, this enabled clear targeting. The design was an invitation to apply rather than an open public application process. This meant that communications could be targeted, and checks run on businesses that hadn't responded as expected.

179. The Scottish Government considered that priority should be given to those businesses who were required by law to close (hospitality and other similar businesses). These businesses were at risk and their employees were vulnerable. Labour market analysis at the time showed that:

- Staff most at risk of unemployment were those either in sectors with a high proportion of staff still on furlough (e.g. accommodation and food services) or those that had remained on furlough through-out with the business operating at significantly reduced levels
- For those sectors most impacted, their resilience and ability to withstand further shocks was reduced and the longer sectors faced on-going restrictions and impacts on trade, business survival was the key issue. For example, survey data suggested approximately 36% of businesses in Accommodation and Food Services faced a severe to moderate risk of insolvency.

180. A key challenge in ensuring that the support was targeted to those who required it was not having access to data on individual employees who were furloughed. This meant that the flat rate award based on average projected costs benefited some

employers but was less than full costs for some others. On average the smaller businesses benefited, and as they were at a higher risk from the closure requirement, this difference was deemed to be acceptable on balance.

181. The Scottish Government balanced the need to deliver support quickly with the need to do so in a targeted way by combining the invitation and application process with that of the Closure Grant. Identifying this as a reliable source of data to enable direct targeting of the grant and combining the application process with another co-dependent grant reduced the administrative burden. It enabled it to be delivered quickly and effectively.

182. A lack of data from HMRC on individual employees who were furloughed meant that businesses with a higher than average number of employees received a proportionately lower contribution to their furlough costs.

183. A lack of data did not exclude any individuals from the scheme. This fund was designed to fill the gap in the amount paid through the UK Government furlough scheme. Any business that was not eligible for the furlough scheme in itself was therefore not eligible for a Furlough Support Grant.

184. There were no intentional gaps in coverage of the scheme. It was targeted at a specific time period and designed to fill a gap created by the difference in restrictions between Scotland and the rest of the UK [GI5/037 - INQ000590789], [GI5/038 - INQ000590790] and [GI5/039 - INQ000590791].

185. Consideration was given to socially and economically vulnerable groups. This fund was designed to support employees within the businesses subject to the closure requirement during the period by helping to prevent against business closures and job losses. These businesses were primarily within the hospitality sector which employs a disproportionately high number of people from among groups with protected characteristics particularly young people, women and minority ethnic groups. These groups are also more likely to be socio-economically disadvantaged and less likely to have income reserves for unexpected events. Fund specific impact assessments were published in March 2022 [GI5/036 - INQ000590788].

186. One success was in enabling the local authorities to invite applications through the use of existing data and combining the application process with that of another grant, award of which was a pre-condition for Furlough Support Grant eligibility, streamlined the delivery processes. This made it easier for employers to engage with and reduced the potential administrative burden on the local authorities.

187. The Furlough Support Grant met its purpose. However, one key deficiency was in the lack of data available. Had HMRC data on employer furlough costs been available, then the Furlough Support Grant could have been better aligned with actual costs instead of providing a contribution based on the sector's average costs.

#### Timing

188. Information on the timing of the Furlough Support Grant can be found at paragraph 151.

#### Communication

189. The scheme took specific steps to target eligible businesses. Those within the local authority area were identified through the non-domestic rates data held and invited to apply for the Closure Grant. As part of this, they were asked if they had any staff on furlough. If they did, their information was passed on for a Furlough Support Grant decision to be made.

#### Accessibility

190. Being within the hospitality sector, the businesses affected employed a disproportionately high number of people from among groups with protected characteristics particularly young people, women, and minority ethnic groups and socially and economically vulnerable groups. It was important therefore to make sure that the available support could reach them as intended. However, these individuals were not required to engage with the process directly. Instead, the scheme supported employers to ensure that businesses were able to maintain the level of furlough support that these employees were entitled to. To help achieve this, the delivery model was

'invitation to apply' based on data held that confirmed that the primary criteria was met. This included follow up and additional supports to ensure that as many eligible businesses as possible were engaged. This proactive invitational approach was more likely to capture applicants than putting the onus on employers to react to public communications and seek out assistance.

191. HMRC, Convention of Scottish Local Authorities, Scottish Trades Union Congress, Unite and Prospect were all involved in discussions to support the co-design.

192. This scheme was a small part of significant volume of work for local authorities that needed to be carried out within a short period of time due to closure requirements. Designing it as part of a combined support scheme rather than as a distinct standalone scheme, meant that design efficiencies could be built in which would enable quick payment at low risk. The Scottish Government is not aware of any issues with access to the support or speed of payment distribution.

#### Unintended gaps

193. As this scheme was designed specifically to fill a gap in the UK Government furlough scheme, concerns were raised about support for businesses which were required to close but were not part of that, e.g. those who were self-employed. The furlough scheme at that point in time also did not admit new employees into eligibility. So, businesses, all of whose staff were not furlough eligible, would not have received a grant. However, there were other schemes which may have been able to provide some support for those businesses, and information about these was made widely available through overall communication in place on business support.

194. One unavoidable gap was that the grant would not have covered all the costs for employers with a high number of furlough eligible employees because the grant value was a standard amount based on the average number of employees across the sector.

195. This gap was as a result of HMRC not being able to provide data to verify the actual number of furloughed employees per employer.

196. The decision was taken to calculate the grant value based on the average number of employees to provide a contribution to all affected employers, but in particular support small businesses that were more likely to be at risk from the unpredictability of the closure requirement. The Scottish Government put pressure on the UK Government to reinstate the original furlough scheme which did not require any employer contribution. The UK Government reinstated the original furlough scheme from 1 November 2020. Submissions to ministers are provided [GI5/038 - INQ000590790] and [GI5/039 - INQ000590791].

#### Monitoring of support

197. The local authority delivery partners provided a weekly monitoring report detailing the number of applications, awards, rejections, referrals or deferrals, and the value of the grants awarded. A completion report was also provided. Live data on the businesses affected who were eligible for the grant was not available from HMRC. Therefore, the number of potentially eligible businesses who were invited to apply also included those that were not participating in the furlough scheme at the time. This meant that there could not be a projected award rate to monitor against. The lack of access to HMRC data about individual employees meant that there was no method to monitor whether employees were in practice receiving the payment. The response to this was to include a similar provision to the main furlough scheme; that businesses confirm in writing to their employees that they were applying for this grant for the contribution to the furlough payment. There were no other limitations or challenges as this followed the existing monitoring framework for Covid-19 business grants.

198. Success was defined by how easily the available funds were made available to those businesses who needed support. To understand this, monitoring returns provided data that enabled the impact of the scheme and the effectiveness of the delivery model to be assessed. In order to maximise access to the grant, local authority delivery partners were tasked with using the existing data they held within the Closure Grant to identify potentially eligible businesses and then invite them to include this within their application. The monitoring data showed through the profile of the decisions made, the outcomes for businesses and the short period of time to make payments, that this method was simple, secure and straightforward.

199. There was no amendment or extension of the scheme once it was up and running as it was a fixed period to fill the gap in the UK Government scheme which required an employer's contribution to the furlough amount during September and October 2020. Employers subject to closures after 1 November 2020 would be able to access the full value of the UK Government furlough as the original scheme was reinstated without an employer contribution, so there was no further need for the scheme beyond that date. As set out previously, before the 'go live', the period of eligibility was extended from 9-25 October to 9-31 October to reflect the change in the period of restrictions and the value of the grant was increased accordingly.

#### Adjustments and cessation of support

200. Information on adjustments and cessation of support is detailed above in paragraph 199.

#### **Pivotal Enterprise Resilience Fund**

201. The Pivotal Enterprise Resilience Fund was established to provide support to small and medium sized enterprises which were vital to the economy on a national or regional basis to ensure productive capacity was retained through post Covid-19 crisis.

202. Through the scheme, bespoke grants and wrap around business support was provided to businesses that were key to local economies and Scotland more widely, because they were driving economic prosperity through wages, employment, exports and supply chains, or were suppliers to Covid-19 vital services and other essential businesses. It was a time limited fund which ran from April to July 2020 [GI5/033 - INQ000590787].

203. Whilst not being sector specific, it was designed to support a particular type of pivotal small and medium-sized business. Successful applicants were able to provide evidence of, or demonstrate impact in, one or more of the following areas:

- Supporting Scotland's productive capacity – through wage levels, employment, exports, Research & Development and innovation

- Local economic importance which would include areas such as, employee numbers relative to place, delivery of essential services, wider economic and community value, plus the socio-economic importance of the business in remote and rural areas
- Leverage on wider business community by demonstrating the impacts of your business on supply chain at a local, regional and national level
- Being a supplier or potential supplier to NHS or other Covid-19 vital services
- Being a supplier to other essential businesses
- Demonstrating a need to rapidly scale up or diversify due to Covid-19.

204. The fund was designed by the Scottish Government, Scottish Enterprise, Highlands and Islands Enterprise, and South of Scotland Enterprise, with detailed work on the development of the fund led by Scottish Enterprise. The fund was implemented and administered by Scottish Enterprise and UMi. The Scottish Government and the enterprise agencies were responsible for monitoring and evaluation of the scheme.

205. The economic value of the scheme was the provision of £122 million to help essential businesses. A key eligibility criterion was that businesses would have been otherwise viable had it not been for the impact of the pandemic and associated restrictions. A key risk therefore was that non-viable businesses accessed funding. For this reason, financial due diligence was designed into the assessment process and undertaken by enterprise agency specialists. Scottish Enterprise contracted with UMi to do this, using their expertise in financial due diligence. All Pivotal Enterprise Resilience Fund applications were appraised against three fundamental elements of the Fund: -

- **Vitalness** - assessment of how pivotal the business is to the post Covid 19 recovery of its local authority area;
- **Vulnerability** - assessment of the financial impacts on the business of Covid 19 (clear cash flow gap); and
- **Viability** - assessment of the likelihood of the business trading out of its Covid 19 position as a result of a Pivotal Enterprise Resilience Fund award, as part of other financial restricting activities.

206. The other main area of risk was in operational deliverability of the scheme, given this was the first of its kind and delivered at extreme pace [GI5/040 - INQ000590780] and [GI5/041 - INQ000590781].
207. The scheme was intended to help otherwise viable businesses remain afloat and fill gaps in pre-existing UK Government Covid-19 business support available to companies in Scotland. The need for these measures was evidenced by the difficulty that certain companies had accessing support, particularly small and medium sized enterprises.
208. A total of £122 million was paid out under the fund. This was part of the wider £185 million additional Covid-19 business support that also included the Creative Tourism and Hospitality Hardship Fund, the Newly Self-employed Hardship Fund and the Bed & Breakfast Hardship fund. Scottish Enterprise would be able to advise on any additional operating costs.
209. Steps were taken to understand the likely cost through using estimates based on advice from the enterprise agencies on the level of support that typical target businesses might require, and which would represent value for money, and the likely quantum of potential applicants.
210. A lack of available data meant that it was difficult to anticipate how much uptake the scheme would have. Funding was split across the three enterprise agencies in proportion to the small and medium sized enterprises business base in each area. Of the 5,069 applications received, 1,763 applications were successful [GI5/041 - INQ000590781].

### Scheme Design

211. Scottish Government consulted with Scottish Enterprise, Highlands and Island Enterprise and South of Scotland Enterprise. Daily delivery team meetings and senior leader calls took place throughout the lifespan of the fund.
212. Strategic direction for the overall business support was set by Ministers with the design intent and outcomes developed by officials in conjunction with delivery partners.

Operational delivery design and implementation was taken forward by enterprise agencies. There was regular (often daily) review of the delivery progress against strategic intent and funding allocation, course corrections, and handling of fraud risk, and appeals process. The enterprise agencies were fully consulted and involved in the design of the fund.

213. Although the fund was a new innovation, it relied extensively on established account management, assessment and payment methods. Relevant expertise and delivery mechanisms were available. The challenge for this fund resulted from the need to design and implement a new fund at pace in response to a developing situation.

214. Early discussions with delivery partners alighted quite quickly on the most suitable delivery model for the Pivotal Enterprise Resilience Fund from the limited options available.

215. Assessment and award decision processes were informed by the art of the possible given existing resourcing in enterprise agencies, redeployed from other work.

216. Value for money was considered in setting the eligibility criteria for the fund to ensure that grants delivered the wider economic benefit (jobs, supply chains, etc) of keeping businesses afloat. As noted below, pace and limitations in the data were complications in fully assessing Value for Money. However, designing the fund to reach specifically businesses with the characteristics set out in paragraph 203 above ensured that funds provided would deliver wider value beyond the recipient organisation. Value for money was assessed according to the principles that the fund was designed around (see paragraph 203). In addition, a post-implementation review found that the fund had accomplished the desired objectives. The Pivotal Enterprise Resilience Fund provided over £121m to more than 1,700 SMEs that demonstrated that they were vulnerable but presented a strong business case for a viable future. This support was not available in other parts of the UK and was tailored to meet the needs of Scottish businesses.

217. Data that would help identify eligible businesses precisely up-front was not available. Economic analysis [GI5/014 - INQ000282440] was done of the impact of business closures. This was the context in which the funds were set up. However, the availability

of data and the quality of the data increased with the uptake of the fund and informed fine tuning design elements such as the threshold for fundable applications and the level of grants [GI5/042 - INQ000590792] and [GI5/043 - INQ000590793]. The funding was initially allocated between the areas covered by the enterprise agencies based on the estimated SME footprint within each area, and decisions were made on award amounts once the quantum of eligible applications was available.

218. Ministers were updated on an almost daily basis on design, delivery, and application and outturn data.
219. The Pivotal Enterprise Resilience Fund was designed as a time-limited one-off and was only designed to run from April to July 2020 in line with restrictions in place at that time.
220. The Pivotal Enterprise Resilience Fund was one of a number of funds delivered simultaneously with complementary objectives. The fund aimed to support SME businesses which were vulnerable but could present a strong business case for a viable future and could demonstrate that they were vital to the local, regional or national economy through their links to local supply chains, key workers, key sectors or wider social and community aspects.
221. Identification and prioritisation of those who required support was taken forward in consultation with enterprise agencies and local authorities. The support was targeted at those small and medium sized enterprises that were key to the Scottish economy, in order to help otherwise viable businesses remain afloat and fill gaps in pre-existing UK Government Covid-19 business support available to companies in Scotland.
222. The main challenge that existed was the need to prioritise a subset of the business community for support that would achieve value for money within the limited overall funding available. Determining whether an applicant met the criterion of being a pivotal business was the main element here, hence drawing on the sectoral and local expertise of enterprise agency colleagues.

223. The need to deliver support quickly was balanced with the need to deliver support in a targeted way by arriving quickly at the eligibility criteria and using the assessment process and the expertise of enterprise agency casework specialists to fine tune decisions on individual cases.

224. The Scottish Government is not aware of any issues with a lack of data or lack of quality data excluding any individuals from the scheme. One challenge was that there wasn't a clear picture of likely demand, and the fund relied on businesses being aware of it and coming forward with applications. Considerable effort was made to promote the fund through enterprise agencies, business organisations and trade association networks. The fund was featured on the FindBusinessSupport website which was part of televised communications promotion. Business organisation and trade association networks were advertising and signposting businesses to the website at every opportunity.

225. The Pivotal Enterprise Resilience Fund was set up to address gaps in the support provided to businesses by the UK government, as part of a wider package of support, to help vulnerable but viable SMEs that were vital to Scotland's local or national economy. Businesses already in support of other UK-wide public sector Covid-19 support were intentionally excluded from accessing support under this fund.

226. Consideration was given to socially and economically vulnerable groups in designing the scheme. Given the unprecedented challenges presented by Covid-19 it was necessary to develop financial support schemes at pace to ensure that funds were distributed rapidly in the interests of preventing business closures and preserving jobs. The Pivotal Enterprise Resilience Fund was no exception to this. Within this context, there was limited opportunity to gather evidence on the possible impacts of the business support fund. However, from the start of the pandemic, the Scottish Government considered the lockdown provisions against the needs of the general equality duty as set out in section 149 of the Equality Act 2010 to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity between people who share a protected characteristic and those who do not and foster good relations between people who share a protected characteristic and those who do not.

The Scottish Government also considered whether the measures constituted direct and/or indirect discrimination.

227. Equality Impact Assessments (EQIAs) are considered in more detail in the Module 9 DG Communities statement [M9SGDGC01]. This fund was developed in recognition of the importance of SMEs to the economy of Scotland as a whole and to local economies and communities in particular. Fund specific impact assessments were published later in March 2022 [GI5/036 - INQ000590788].

228. The partnership with the enterprise agencies worked well. Most challenges were associated with the time-pressure requiring the support to be delivered while the scheme was still being designed. There was no time for an end-to-end plan or for testing. A more linear approach would have been preferable. Despite these challenges, it is not felt that there were any particular deficiencies in the design of the scheme.

#### Timing

229. Information on the timing of the Pivotal Enterprise Resilience Fund can be found at paragraph 202.

#### Communication

230. Information on the communication of the scheme is detailed below at paragraph 231.

#### Accessibility

231. Design of the scheme was led by the Enterprise Agencies. The fund was promoted and publicised through a range of business channels, such as the main business organisations, trade bodies and the networks of Enterprise Agencies and Business Gateway.

232. One issue with access to the support was caused by the initial surge in applications, which resulted in delays to these being processed and decisions being made more slowly than applicants had been led to expect. The scheme was temporarily closed to

applications on 5 May 2020 to allow for the first influx of applications to be assessed and manage demand on limited funding. It then subsequently re-opened until 18 May 2020. Payments were generally prompt after that initial surge.

#### Unintended gaps

233. The Scottish Government is not aware of any concerns having been raised about the exclusion of specific groups.

234. There were no unintended gaps. Separate funds were established to provide for the specific circumstances of creative, tourism and hospitality sector businesses that would not have qualified for the Pivotal Enterprise Resilience Fund. Similarly, for Bed & Breakfasts and newly self-employed individuals.

#### Monitoring of support

235. The scheme was monitored through the provision of daily data from Scottish Enterprise on applications moving through the assessment process.

236. Success was defined through the pace of assessments and robust decision-making. This was monitored through the daily progress reports from Scottish Enterprise.

237. Advice to Ministers, which has been provided under general disclosure, included information on demand for the Pivotal Enterprise Resilience Fund, the pause, and final decisions on allocations to bring the fund in as close to target as possible.

#### Adjustments and cessation of support

238. This was a time limited fund, that covered a set time period, so did not need to evolve in line with relevant restrictions.

239. The eligibility criteria was fixed and did not change, but live decisions were made regarding the threshold for awards and size of grants.

240. The scale of demand informed the decision to pause the scheme on the 5 May 2020. This allowed the Enterprise Agencies to review initial completed applications. Each application was bespoke to each business and delivery partners needed time to analyse each application. Businesses were kept informed throughout this period. The fund reopened by mid-morning on 14 May to allow those businesses who missed the opportunity the first time around to submit their applications.
241. Cessation of the fund was determined by the availability of funding. The high number of applications started and submitted after the fund opened, indicated early on that the initial budget of £45m would be insufficient. The budget was therefore doubled to £90m and then further increased to £120m to satisfy demand. A slight overspend of £1.7m was funded through underspend from other funds in the £185m business support package.
242. Evidence supporting these adjustments is contained in the Fund Closure Report, which also includes details of advice to Ministers throughout the duration of the fund [GI5/044 - INQ000590795].

### **Local Authority Administered Funds**

243. Subsequent to the Small Business Grant Fund, Retail, Hospitality and the Leisure Grant Fund and non-domestic rates relief, as outlined in the Module 9 DG Communities statement [M9SGDGC01], a number of additional funds were established by the Scottish Government to channel financial support to businesses impacted by the Covid-19 through subsequent phases of the pandemic. For the purpose of this statement these funds will subsequently be referred to as "Phase 2 funds". Many of these funds were delivered by local authorities including the Strategic Framework Business Fund (October 2020 - May 2021), the Contingency Fund (October 2020), the Retail, Hospitality and Leisure Top Up Grant (January 2021), the Taxi and Private Hire Vehicle Fund Support Fund (January 2021) and the Restart Grant (May 2021). These funds were targeted towards those businesses and sectors most acutely impacted by Covid-19 and the restrictions introduced to reduce its spread. Funding was provided to support those businesses to meet operating costs and to sustain them while restrictions were in place, it was not intended to replace income lost as a result of restrictions. The

allocation of Barnett consequentials from the UK Government necessitated an iterative approach to the development of business support funding with funds being developed as the finances became available. Levels of funding to individual businesses were based on a broad assessment of need based on the restrictions that sectors were subject to and within the constraints of the funding made available to the Scottish Government. Funding levels were not determined by individual assessment of need.

244. The primary mechanism for communicating and consulting with local authorities on Phase 2 business support funds was through a working group convened by Convention of Scottish Local Authorities and which included representation from Scottish Government officials as well as from local authority teams responsible for administering business support funding. The purpose of this working group was to engage local authorities in the design and development of these funds in order to identify the most effective way of delivering financial support to businesses that would deliver against the intended policy while seeking to identify and address any operational challenges which could hinder delivery. The frequency of these meetings was scaled up or down depending on the number and complexity of the funds under development but met at least once a week between October 2020 and June 2021 but often meeting daily such as between October - December 2020. Representation on the working group was restricted to five local authorities (Edinburgh, Glasgow, Dumfries & Galloway, Fife and North Lanarkshire) on the basis that a forum containing all local authorities would not be sufficiently agile. The five local authorities represented on the Working Group accounted for a significant proportion of the business base and were considered sufficiently representative of the different factors and considerations affecting different local authority areas across Scotland.

245. The Scottish Government understands that the views provided at the working group were also informed by regular meetings between all 32 local authorities on the issue of business support. Scottish Government officials also attended local authority network meetings on occasion while other local authorities were also drafted into working group meetings where they had a particular perspective or interest that could be useful to discussions.

246. Through the working group the Scottish Government commissioned data from local authorities on the number of businesses in their area that were likely to be eligible for individual funds to help model the amount of funding that it would be necessary to commit to individual schemes and how the funding should be split across the 32 local authorities for each scheme. As described, the data commissioned related to the number of businesses in each local authority area that would qualify for financial support. The data provided by local authorities was generally of good quality as it derived from the Non-Domestic Rates (NDR) roll which provides the rateable value of the property and the purposes for which it was used. There were some limitations in this data, however, particularly where records on the NDR had not been updated, but generally speaking the data provided by local authorities allowed the Scottish Government to make accurate estimates of the number businesses that would qualify for financial support.

247. Local authorities were also required to provide regular returns to the Scottish Government setting out the amount of funding spent against their total allocation for each scheme to enable recoup this funding and to commit it to other business support schemes. Local authority insight on the secondary impacts of Covid-19 on businesses that were not directly subject to restrictions but unable to operate also helped to shape Scottish Government policy thinking on how business support funding should be distributed and was instrumental in the decision to introduce the Local Authority Discretionary Fund (LADF). The sharing of data between local authorities and the Scottish Government was sufficient to both plan and implement schemes as well as for the purposes of monitoring the allocation of funding to businesses to identify where overspends or underspends may occur. Additional data to support the Scottish Government in understanding and analysing the impact of financial support to businesses would have been useful but restrictions on the data available meant that this was not possible.

248. Local Government are key partners on the Scottish Government central resilience forums. These forums existed before the pandemic and were the correct route for Local Government to engage with Scottish Government during the pandemic. This way of working did not need to change and continues post pandemic.

249. Many of the Phase 2 funds including the Strategic Framework Business Fund, Hospitality & Leisure Top up, Recovery Grants and the Contingency Fund drew heavily on the design of the Retail Hospitality & Leisure Grant Fund. The funds were targeted at largely the same cohort of businesses and so it made sense to use the same mechanism, namely non-domestic rates, to identify and distribute funding to eligible businesses. This approach had the additional advantage of enabling us to use data gathered during distribution of the Retail Hospitality & Leisure Grant Fund to identify the levels of funding that would be required to support these schemes. The Strategic Framework Business Fund, which was the primary scheme through which financial support was delivered to businesses paying non-domestic rates and subject to specific restrictions on their operations, was paid to eligible businesses on a recurring basis with the level of financial support that they were entitled to contingent on the Strategic Framework tier that their local authority area was in. With the exception of island local authorities, from December 2020 until April 2021 all local authorities were in Tier 4 and so eligible businesses received the highest level of grant award. While the non-domestic rates system was the primary mechanism through which financial support was paid to businesses other mechanisms were also used. Financial support to the taxi and private hire vehicle sector was delivered using licensing information while funding to Bed & Breakfast and self-catering businesses relied on Council Tax data.

250. The urgency with which it was necessary to distribute financial support to businesses restricted the Scottish Government's capacity to conduct a detailed analysis of the economic impact that phase 2 funding was likely to have. The primary driver of the funding was to ensure that those businesses who were directly or indirectly impacted by restrictions were supported to meet operating costs during the period in which the restrictions were in place within the parameters of the funding that was made available by the UK Government. Additional funding was, however, made available to island communities following analysis of the particular impact that restrictions had on island economies, compared to those on the mainland. The Local Authority Discretionary Fund (LADF), which allocated funding to local authorities for the purposes of enabling them to develop their own business support funds, also sought to leverage local authorities' expertise and understanding of their own economies and enable them to direct funding to where it would have the greatest impact. Equality Impact Assessments

(EQIAs) were also undertaken on the funds developed to assess their impact on those with protected characteristics.

251. As indicated previously, administration of many of the phase two funds was based on the non-domestic rates system and were therefore administered by local authorities. Local authorities were also identified as the most appropriate body to deliver the Taxi and PHV Driver and Operator Support funds due to the fact that they are responsible for licensing taxi drivers and private hire vehicle drivers in their area providing a quick and uniform mechanism for determining who is eligible for financial support through these schemes.

252. During Phase 2 of business support funding, the iterative allocation of Barnett consequential by the UK Government and evolving nature of Covid-19 restrictions on businesses made it necessary to develop schemes piecemeal. It was recognised that this approach would place additional pressures on local authorities due to the wide range of funds that they would be required to deliver. In recognition of these resource pressures additional funding was allocated to local authorities to enable them to allocate the necessary resources to the administration of these schemes.

253. Scottish Government officials had regular engagement with local authorities and were able to discuss and assess their capacity to deliver individual funds. Where concerns were identified, steps were taken to address or mitigate the impact on local authorities including the staging of funding schemes and the use of data to identify eligible businesses thereby giving local authorities greater certainty over the number of applications that they would be required to process. Thus, enabling them to better allocate resources to administration of these funds. In some cases, such as the Contingency Fund, existing data enabled Scottish Government to target eligible businesses which, while not obviating the need for applications altogether, did reduce the amount of information that local authorities were required to process. In some cases, however, it was determined that local authorities did not have capacity to administer funds and so other delivery partners were engaged to deliver the scheme. For example, with the second tranches of the Newly Self-Employed Hardship Fund, which was administered by UMi, and the Wedding Sector Support Fund, which was delivered by South of Scotland Enterprise Agency.

254. The targeting of support was informed by the extent and period of restrictions placed on business and sectors as well as the rateable value of premises operated by those businesses as a proxy for anticipated operational costs. Those businesses that were subject to more stringent restrictions and for a longer period of time received additional funding in recognition of the impact of this on their ability to meet the operational costs associated with running their business. Specific sectors were also targeted for funding based on engagement with sectoral bodies, local authorities and the enterprise agencies and included sectors that were not subject to specific restrictions but who were experiencing secondary impacts as a result of those restrictions such as taxi and private hire vehicle drivers and brewers. The sector specific nature of the funding sought to recognise the variable impact of the pandemic and specific restrictions on businesses within those sectors.

255. The Scottish Government considers that it provided sufficient guidance to local authorities on the parameters of the schemes as the schemes and their guidance were updated regularly following feedback from local authorities including via the issues log maintained by Scottish Government to which all local authorities were invited to contribute. The guidance for these was published in Local Government Finance Circulars on the Scottish Government website.

256. The Scottish Government recognises that it had to balance the need to deliver support quickly with the need to deliver support in a targeted way in the absence of a timeseries of economic data on individual businesses before and during Covid-19. The speed with which it was necessary to design and deliver schemes, a lack of information about the businesses the Scottish Government was trying to support and insufficient funding with which to support those businesses meant there were inevitably deficiencies across the financial support packages developed by the Scottish Government. While these deficiencies weren't always the same, there were some that cut across the different schemes.

257. A common challenge across many of the support packages was that the grant awards made available to individual businesses were not always sufficient to cover operating costs. It was also not possible to tailor awards to individual businesses with many of the local authority delivered schemes being determined by rateable value -

those businesses with higher rateable value received more funding based on specific cut off points. While rateable value provided a robust mechanism for determining funding levels it did not provide an accurate reflection of businesses' operating costs.

258. The pace with which the Scottish Government was able to distribute funding was also a challenge across the financial support schemes developed during Phase 2. The requirement on local authorities to assess large numbers of applications in order to determine eligibility did result in delays in financial support reaching businesses. Schemes were linked so that a single application entitled businesses to subsequent rounds of funding for which they were eligible such as in the case of the Strategic Framework Business Fund which acted as the gateway to a number of different funds and as explained earlier, by using alternative delivery partners to reduce the pressure associated with processing applications for local authorities.

259. Phase 2 funds utilised non-domestic rates data held by local authorities and were curated based on applications for the Retail Hospitality and Leisure Grant Fund (one of the Phase 1 funds) to provide figures on the number of eligible businesses. However, not all the businesses eligible for the Retail Hospitality and Leisure Grant Fund applied for them which created some challenges in accurately forecasting the uptake of Phase 2 funds but in the main it was possible to project likely costs based on the uptake of earlier schemes. Businesses in the Retail Hospitality and Leisure sector were required to apply separately for the Strategic Framework Business Fund, but this entitled them to access the Hospitality & Leisure Top up and Restart Grants. Local authorities developed a template application form [GI5/044a - INQ000614191] for a number of funds delivered by local authorities to standardise the information they requested to assess eligibility for these funds. The Scottish Government did not monitor the use of application forms by local authorities. A template was developed to support local authorities in procuring the information required to make an accurate assessment of eligibility for individuals funds but ultimately it was for local authorities to operationalise these funds in accordance with the criteria set out in the grant letters through which funds were allocated.

260. The Scottish Government relied on a number of different mechanisms in order to deliver financial support to businesses during Phase 2 although the majority of funds

delivered by local authorities were administered through the non-domestic rates system. In doing so, these funds built on the experience of the schemes delivered under Phase 1 which was known as a clear and effective method delivering financial support to businesses directly impacted by Covid-19 restrictions, whether they were eligible and how much they were eligible for. In some cases, it was not always readily identifiable which particular sector a business operated within (i.e. whether it was a retail, leisure or hospitality business) which could influence which funds that they were eligible for or the level of award that they were entitled to. This was a particular challenge for multi-use spaces (e.g. a bookshop with a cafe) but the Scottish Government worked closely with local authorities to identify these businesses and to decide their eligibility for specific funds. In any case, the non-domestic rates system was undoubtedly the most effective mechanism for delivering significant volume of funding to a large number of businesses.

261. Schemes where the Scottish Government could perhaps have known more about the mechanism used to deliver financial support was those funds targeted towards the taxi and private hire vehicle sector. These funds were targeted towards both drivers and vehicle operators and were administered using licensing information as well as information about vehicles registered for private hire purposes. It was not immediately clear to the Scottish Government how the licensing and use of vehicles operated within the sector which created challenges in identifying eligibility for financial support. The Scottish Government did, however, work closely with both local authorities and the sector to address these issues and to ensure that the right people could access the level of funding to which they were entitled.
262. Communication with local authorities in relation to Phase 2 funds was largely effective and was scaled up or down in response to the needs of specific funds.
263. Scottish Government officials engaged extensively with bodies responsible for representing the views of specific sectors including on the design, development and implementation of individual schemes and to ensure that information about the funding packages available were adequately communicated to their members. Businesses generally felt that the level of financial support provided was insufficient but the reasons

for funding levels and the purpose of the funding was communicated to them through official and ministerial engagement.

264. The targeted nature of support which was intended to ensure that the right amount of funding reached the right businesses and pressures on local authorities as the main delivery partner meant that it took longer for funding to reach businesses than would have been the case through a broad scheme. As the quality of data and our understanding of the businesses impacted by restrictions improved schemes could be developed that obviated the need for businesses to submit applications which significantly reduced the amount of time it took for financial support to reach businesses.

265. The Scottish Government introduced a number of mechanisms intended to promote certainty among those businesses and individuals who were the target of financial support. The Strategic Framework Business Fund, for example, was specifically indexed to the Strategic Framework which provided certainty to retail, hospitality, and leisure businesses that they would receive funding commensurate with the level of restrictions that they were subject to and for the length of time that those restrictions were in place. Additional top ups were also provided to the hospitality and leisure sectors in January sought to recognise the importance of revenue generated over the festive period in sustaining businesses throughout the year and upon the conclusion of restrictions in January to provide businesses with the capital to restock and resupply ahead of opening. Packages of funding were also used to support those sectors that were subject to particularly acute or prolonged restrictions such as nightclubs and the soft play sector.

266. Steps were taken to streamline and simplify application forms to reduce the burden on businesses of applying for financial support. By linking support schemes, the Scottish Government also sought to reduce the number of applications that businesses were required to submit in order to access funding.

267. Adjustments made to the delivery and levels of support as the pandemic progressed were linked to the level of restrictions, which was clearly communicated to businesses at the point of application.

268. The rationale, timing and communication of the cessation of support was linked to the lifting of restrictions on businesses and the end of social distancing. In the case of retail, hospitality and leisure businesses, additional funding was provided to enable them to meet the costs of reopening following a prolonged period closure and the nature of the grant was clearly communicated as such.

269. The use of non-domestic rates and licensing data as the foundation of local authority-delivered business support funding reduced the scope for fraud on the basis that most businesses who applied for funding were known to the local authority to which they were applying. A log was maintained that identified suspected or confirmed instances of fraud associated with applications to Covid-19 Business support funding schemes. This log was used to identify claims that were potentially fraudulent to alert local authorities to approaches being used by fraudsters to access Covid-19 grants and to help improve the design of schemes to reduce the risk of fraud.

1. Scottish public finance manual [GI5/045 - INQ000590796]
2. Protecting Public Resources in Scotland [GI5/046 - INQ000590797]
3. Managing the risk of fraud guidance [GI5/047 - INQ000590798]

270. Regular contact between Scottish Government officials and councils including via the issues log maintained by Scottish Government, and regular meetings of the Working Group, ensured that eligibility was consistently assessed across Scotland to avoid regional variation. However, there was some minor variation over the speed at which applications were processed subject to local authorities' resource, and some variation amongst councils over which data they requested from business to ascertain eligibility.

271. The Local Authority Discretionary Fund (LADF) was specifically designed to give local authorities flexibility to support businesses in response to local need. With some parameters the fund gave local authorities wide discretion to support specific businesses impacted by Covid-19 restrictions although in many cases the smaller local authorities simply replicated or drew heavily on the schemes created by larger local authority areas.

## **Managing Public Money**

272. At the time of providing information to Audit Scotland, the data available for a small number of non-local authority funds was incomplete. Of the £4.4 billion funding covered by the report [GI5/047a - INQ000316378], this applied to £125 million of funding – around 3% of the total. Since publication of the briefing report, this figure has reduced to £31 million – less than 1% of the total. This means there is a local authority breakdown for over 99% of the sectoral support funding provided across Scotland.
273. The Scottish Government has continued to work to identify data gaps related to Covid-19 funding and spending. Award level data has been collected for 96 out of 134 Covid-19 business support schemes. For the remaining 38 schemes the total amount spent per scheme or spend per local authority has been collected [GI5/048 - INQ000590799]. The Scottish Government has also collected dates of application and payment dates for some of the schemes, but the data is incomplete. Published information on payment dates by scheme is provided [GI5/049 - INQ000590800].
274. Following previous engagement with Audit Scotland, the Scottish Government has requested and been provided with more granular data from all local authorities for the majority of schemes and other scheme providers in regard to Covid-19 business support award data, such as individual award level (including postcode and rejected claims). Work is underway to link this where possible to the Inter-Departmental Business Register from the ONS to get Standard Industrial Classification of Economic Activities to produce sectoral analysis to obtain an analysis of where the support was given [GI5/050 - INQ000182978].
275. Further work was needed to undertake this linking process in order to produce sectoral analysis because the individual award level data did not, for the most part, include sufficient detail on the business sector. Inhouse work is now being undertaken to quality assure and gauge the matching success. An assessment will then be made as to which sectoral level analysis it will be possible to publish.

## Risk of Fraud and Error

276. Scottish Government colleagues worked with the UK Government Counter Fraud Function to bring learning from the UK Government response to managing fraud risk. A global fraud risk assessment [GI5/051 - INQ000590801] covering all economic interventions was carried out. Further to this individual fraud risk assessments were undertaken with respect to higher risk schemes which were typically assessed as those schemes in which payments were being made to individuals rather than directly to businesses operating from registered premises such as the Newly Self-Employed Hardship Fund and the schemes for taxi and private hire vehicle drivers and operators [GI5/052 - INQ000590802]. These were new processes introduced after April 2021 and were to be used by colleagues in the management of fraud risk in existing schemes as well as the design of new schemes. Prior to the pandemic the Scottish Government undertook fraud risk management in accordance with the requirements of Scottish Public Finance Manual and Protecting Public Resources in Scotland policy, dating to 2015. This required colleagues involved in administering public money to put in place appropriate systems of control to manage the risk of fraud.

277. Scottish Government financial support schemes were designed with fraud mitigation in mind, even during the initial emergency response. In particular, reliance on existing data held by local authorities as part of the eligibility criteria for the majority of the funding minimised the risk of fraud – businesses could only apply for most of the financial support schemes if they had an existing record of non-domestic rates liability for the premises affected by Covid-19 restrictions. For the additional schemes put in place for businesses who did not have premises and were therefore not liable for non-domestic rates, or for whom non-domestic rate liability was not a relevant factor in assessing a Covid-19 grant award, other data was considered that might already be held by public bodies (e.g. a taxi license) or asked the business applying for support to provide additional information.

278. Other than the NDR roll and taxi licensing data, the only other data set that was used to assess eligibility for local authority delivered schemes was the Council Tax register. This was used to assess eligibility for the B&B Support funds as B&Bs do not pay Non-Domestic Rates and so could not be identified through the NDR roll.

279. The need to design and administer support at speed meant that Scottish Government had to accept a higher risk of fraud. This was an essential factor in designing financial support schemes. There was a trade-off between speed and ease of administration (for both businesses and public sector delivery partners), and the ability to target or make nuanced decisions about which businesses should be eligible and what support they should receive. For most of the schemes, this meant standard rates of payment rather than a detailed assessment of individual circumstances.
280. Anticipated fraud levels are set out (in terms of risk and not monetary value) within the Global fraud risk assessment document [GI5/051 - INQ000590801]. Data on the levels of losses due to fraud within Covid-19 Schemes was commissioned from local authorities and indicated as at May 2022, fraud losses were £3.5 million or 0.25% of which £540,000 or 15.5% was recovered [GI5/052a - INQ000614192]. As at December 2024, the recorded fraud loss was £3.5 million or 0.25% total spend of which £597,450.00 or 17.6% was recovered [GI5/052b - INQ000614193].
281. The risk of fraud was mitigated through a number of control mechanisms built into the design and delivery of the business support schemes, including the decision to ask local authorities to administer many of the grants, based on non-domestic rates and their existing administrative capabilities, such as fraud detection and prevention. This meant local authorities could use a well-established, robust existing data set and other information relevant to determining eligibility to enable a large number of businesses to be paid quickly with appropriate checks in place to mitigate fraud.
282. For businesses that did not have premises on which the business paid non-domestic rates, a range of specific, targeted funds were developed, aimed at those sectors who could not access the main grant schemes with additional controls in place. For example, a grant was introduced for taxi and private hire operators which required checks to be undertaken on licences. This allowed support to be offered more widely whilst still minimising the risk of fraud.
283. Most business support schemes were application based, with set eligibility criteria. Guidance was provided to applicants on how they could demonstrate that they met those criteria, and to delivery partners on how to verify the information received in

applications. This guidance evolved further over time as business support policy developed, enhancing effective control and targeting of support.

284. A Fraud Risk Review, completed in November 2021, concluded at the time that there was reasonable assurance for fraud risk within Covid-19 financial support schemes. With a number of improvements that recommended focussed on use of data, financial reporting related to fraud and for new scheme design including fraud risk assessments. The Fraud Risk Review and individual fraud risk assessments are provided [G15/053 - INQ000590803], [G15/054 - INQ000590804], [G15/055 - INQ000590806], [G15/056 - INQ000590807].

285. The approach taken by the Scottish Government to the risk of fraud and error was appropriate. The design of the schemes built on the controls, systems and fraud prevention capabilities that were already in place. This ensured that fraud risks were minimised from the outset by delivery partners. Introducing entirely new systems to administer business support funding would have significantly increased the risks of fraud and would have significantly delayed lifeline support being provided to businesses at a time this was required most.

286. Furthermore, key design features of the grant schemes were implemented specifically to address fraud risks – for example, linking the main local authority schemes to liability for non-domestic rates – working closely with delivery partners in order to develop and implement due diligence processes designed to mitigate fraud.

287. This work is reflected in the Scottish Government’s unqualified account’s opinion, as detailed in the Section 22 Report: “The 2020/21 audit of the Scottish Government Consolidated Accounts” [G15/057 - INQ000198816], and the Auditor General has recognised the need to make payments quickly to support businesses.

288. Stephen Boyle, Audit Scotland Auditor General told the Public Audit Committee on 20 January 2022: “Around £3m of fraud was actively prevented because of some of the anti-fraud mechanisms that were in place. We are satisfied that the Government has been clear and transparent on that aspect of the accounts and in relation to the anti-fraud mechanisms that it has in place.” [G15/058 - INQ000590809].

289. Michael Oliphant, Audit Director at Audit Scotland told the Public Audit Committee on 20 January 2022: *“Across the different schemes, between 14% and 30% of applications were rejected. That is important, because it suggests that a good control framework was in operation to stop fraud almost immediately.”*
290. In addition, the initial assessment (from data available in April 2021), that the overall level of fraud in Scottish Government schemes was likely to be 1-2% has been borne out by subsequent investigation. The Scottish Government has continued to work with local authorities and other delivery partners to monitor the detection and pursuit of any fraud.
291. Audit Scotland in its evidence to the Scottish Parliament’s Public Audit Committee on 19 January 2023 said that this was “something of a success story” compared to the fraud issues seen in some of the UK Government’s Covid-19 Schemes.
292. In Autumn 2023, updated returns from local authorities, provided additional evidence of the amount lost to fraud. Analysis showed that the current estimate of the amount of fraud and error in Covid-19 business funding during the pandemic of 1% – 2% remains robust.

### **Long Covid**

293. It was not possible to undertake an assessment of the economic impact of Long Covid due to lack of data. Although the Scottish Health Survey, ONS Covid-19 Infection Survey (CIS) and (ONS) Winter Covid-19 Infection Study (WCIS) have all now gathered information on the prevalence of Long Covid the Scottish Government is still not in a position to do any analysis of the economic impact due to data limitations.
294. Statistics about the prevalence of Long Covid are produced by the Scottish Government’s Health and Social Care Analysis division. They produce the Scottish Health Survey and have reported on Office for National Statistics’ Covid-19 surveys. However, there is no one source of data which currently monitors both economic inactivity and Long Covid in Scotland. Data limitations in both labour market and health

surveys make it difficult to assess the impact of Long Covid on inactivity. The complexity of categorising a condition such as Long Covid means that it may fall under 'Other' in employment surveys, meaning clear data are limited. To understand the economic impact of Long Covid would require new primary research.

295. The following sets out published information:

- The Scottish Government published a report Investigating the prevalence of long Covid in Scotland in September 2024, which brought together new and previously published estimates of self-reported Long Covid prevalence. [GI5/059 - INQ000590810].
- The monthly ONS Covid-19 Infection Survey (CIS) was, between April 2021 – March 2023, the best available regular source of Long Covid prevalence estimates for Scotland. It has now been discontinued. Prevalence of ongoing symptoms following coronavirus (COVID-19) infection in the UK - Office for National Statistics [GI5/060 - INQ000271375].
- The ONS and UK Health Security Agency (UKHSA): Winter Coronavirus (Covid-19) Infection Study (WCIS) is the most recent ONS survey covering self-reported Long Covid and ran from November 2023 to March 2024. Self-reported coronavirus (Covid-19) infections and associated symptoms, England and Scotland: November 2023 to March 2024 - Office for National Statistics [GI5/061 - INQ000590812].
- The annual Scottish Health Survey (SHeS) is now the most robust regular source of data on self-reported Long COVID prevalence in Scotland. The main report volume 1 is provided [GI5/062 - INQ000590813].

296. The economic impact of Long Covid was not looked at in the context of economic decision making due to lack of data.

297. In relation to financial support provided to sufferers of Long Covid by the Scottish Government there was the following:
- Adult Disability Payment provides financial support to recognise the additional costs of being disabled or living with a long-term health condition. Individuals who are impacted by Long Covid may be entitled to Adult Disability Payment depending on their individual circumstances
  - Income replacement benefits such as Employment and Support Allowance and Universal Credit, which provide financial support to people of working age who are unable to work due to illness, are fully reserved to the UK Government
  - Industrial Injuries Disablement Benefit is currently being delivered by the UK Government, prior to the delivery of Employment Injury Assistance in Scotland. The UK Government determines which conditions should be prescribed for the purposes of Industrial Injuries Disablement Benefit.

### **Lessons Learned and Reflections**

298. The development and delivery of Covid-19 financial support happened at unprecedented pace. There have been a number of lessons learned exercises undertaken in relation to Covid-19 business support. Lessons learned have captured input from colleagues across Scottish Government, officials in local authorities and other delivery partners and business organisations. The lessons learned [GI5/063 - INQ000590814] highlights what worked well; identifies the challenges and summarises the recommendations.
299. The Learning and Evaluation Oversight Group brings together evidence to inform Scotland's recovery from Covid-19 [GI5/064 - INQ000326390].
300. This evaluation assesses the outputs and indicative outcomes of the Covid-19 business support measures available in Scotland up to summer 2021 [GI5/022 - INQ000182977].
301. In learning lessons for the future, the Scottish Government has:

- Taken on board lessons learned around partnerships and co-development for better outcomes which has informed ongoing business as usual (BAU) improvement activity set out in the National Strategy for Economic Transformation (NSET) and New Deal for Business Group (NDBG). For example, the National Strategy for Economic Transformation [GI5/065 - INQ000131082] set out an action to “Work with stakeholders to consider how regulation can be used to support economic and societal aims and use this work to continuously improve the approach to regulation and guidance in the future.” This was in recognition of the learning from the pandemic experience to improve how we engage and work with business and regulators for better outcomes, The New Deal for Business Group was put in place in early 2023 following the culmination of the pandemic and the energy cost crisis impacts on the business base. Members of the group were representative and sectoral organisations the Scottish Government worked closely with during the pandemic. The New Deal for Business Group: progress report and recommendations to improve how the government works with and considers impacts on business was published in June 2023 and a New Deal for Business Group - Report on Progress & Recommendations: Implementation Plan was published in Oct 2023 [GI5/066 - INQ000614194]. The final report from the group setting out progress was published on 28 April 2025 [GI5/067 - INQ000614195].
- Prepared desk instructions [GI5/068 - INQ000614196] for when future threat was escalated to high level. These include the lessons learned work and will inform further preparedness work to formalise our response in the event of future pandemic.
- Supported a policy of flexible working and promoted the benefits of flexible working to businesses should crisis strike, businesses should be better placed to pivot. Hybrid working benefits have been recognised across many sectors and the Scottish Government has also adopted the hybrid approach.
- Supported the development of a master customer record to support real time data on businesses across Scotland. A commitment was set out in the National Strategy of Economic Transformation [GI5/065 - INQ000131080]. “Target support more effectively to businesses in every region of Scotland by introducing common data sets and systems to be used by every delivery partner. Work with

business customers to design and develop the model and the supporting technical and data architecture for future services.” This data development is led by the Business Support Partnership [GI5/069 - INQ000614197] and Scottish Enterprise and is set out further in Scottish Enterprise’s Digital Data and AI Strategy 2025-2028 [GI5/070 - INQ000614198].

- Worked to maintain the relationships created with business stakeholders, across the public sector and across government portfolios to improve processes, co-development, impact assessment and readiness. This work was delivered through the New Deal for Business group and programme.
- A number of changes have already been implemented with regards to partnership working and development of business regulations and government understanding of business impacts of policy activity. This includes:
  - Updates to the Business and Regulatory Impact Assessment [GI5/071 - INQ000614199].
  - The formation of two groups to allow policy officials to engage with Trading Standards Local Authority officials and Environmental health officers.
  - The addition of Trading Standards and Environmental Health as enforcement expertise to the membership of the Regulatory Review Group [GI5/072 - INQ000614200].
  - A far greater understanding of cumulative impact of government activity on business as set out in the programme for government 2024-25 commitment “Improve how businesses and government work together by delivering the commitments set out in the New Deal for Business. We have heard from business and regulators on the cumulative impact of regulations and recognise the need for certainty, phasing, and effective implementation of regulations.” [GI5/073 - INQ000614201].
- Lessons learned from the pandemic to support improvements in processes have been built into ongoing work plans, as set out above.
- Work is ongoing on improving data on business base as set out through the master customer record activity.

302. ONS are developing a replacement for the Inter Departmental Business Register likely to be called the Statistical Business Register. It is intended that this will have

more business reference identifiers attached which will assist data linking and also that it will have Other Government Department data sources included such as HMRC data. Scottish Government's views are being sought on this work which will be enormously beneficial.

303. The Scottish Government has taken steps to improve readiness for the economic shock of a future pandemic in relation to analytical work. This includes improving data to be more timely and more frequent with the monthly GDP and fortnightly BICS publications. The Scottish Government has more experience of modelling now and more expertise on how these type of events impact on the economy and there is a better understanding of restrictions and how they impact on the economy. The Scottish Government has also looked at data available during the pandemic and what has happened since – for example on consumer sentiment.

304. There are also good cross analytical links across the Scottish Government.

305. The Scottish Government would ask the Chair to consider the following recommendation:

- More explicit consideration of both the role and importance of business in future pandemic planning to enable a more strategic and coordinated response. This would enable development of a contingency response strategy that can be triggered as required. Such strategy would look to:
  - formalise a multi-agency team responsible for driving forward and delivering the response; with roles and remit agreed in advance with a central government SRO for economy ensuring clear governance and accountability across the system and in liaison with the UK Government
  - outline the development of a high-level framework for intervention informed by evidence establishing clear principles about the need for support that could be triggered and applied as required to mitigate whatever event has occurred
  - These principles would be informed/agreed by business with a simplified business support landscape to deliver application process with clear eligibility criteria and guidance in order to increase efficiency and reduce uncertainty

- establish defined communication channels to help businesses easily navigate available resources and ensure a user-friendly experience
- quantify the resource requirement in terms of what skills and training are needed to ensure that any future response is sufficiently staffed.

306. The Scottish Government believes that these actions would help in being better prepared for future events.

**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.

**Signed:** Personal Data

**Dated:** 21 May 2025