

Covid-19

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

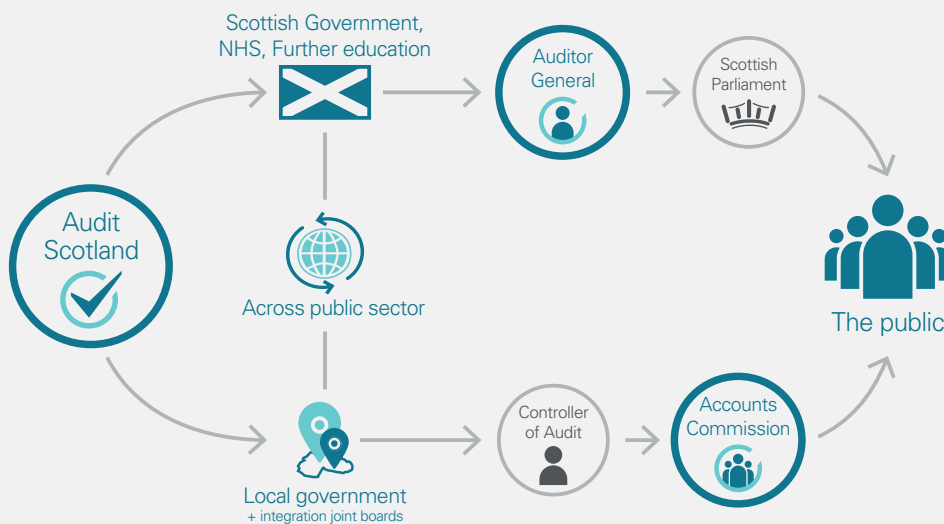


Prepared by Audit Scotland
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Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- **Audit Scotland** is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.
- The **Auditor General** is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
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About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Introduction

- 1.** Since our last publication, [Covid-19: Implications for public finances in Scotland](#), the devastating impact of the pandemic has continued to affect people across Scotland. Alongside further tragic loss of life, lockdown measures have increased financial uncertainty for many, with mental health alongside physical health concerns becoming more prevalent.
- 2.** Pressures on the public sector are felt throughout, including the difficulties policing lockdown restrictions, managing the consequences of school closures for children's education and addressing the backlogs in Scotland's courts. Dealing with the direct consequences of the public health crisis in hospitals has led to delays to non-Covid-19 related treatments, such as cancer referrals.
- 3.** A programme of vaccination is now ongoing throughout Scotland, giving hope that this will allow future relaxation of measures and allow economic and social recovery to take place. For now, spending to support people, the economy and public services through the pandemic continues. These interventions will continue into future years as Scotland recovers, and additional funding to this end is reflected in the 2020/21 and 2021/22 budget.
- 4.** Over 170 Covid-19 related spending announcements have been made to tackle the effect of the pandemic and the uncertainty it brings. These announcements are in addition to UK Government spending commitments that apply to Scotland, such as ongoing furlough support. The Scottish Government has received £9.7 billion of additional funding to the Scottish budget in 2020/21 through the Barnett formula.
- 5.** The complexity and scale of announcements makes following the public pound difficult. Barnett consequentials in 2020/21 are guaranteed, meaning that funding has been confirmed as available to the Scottish Government before any potential UK Government spending decision that would normally generate them. This gives the Scottish Government some certainty over funding, but also provides challenges in following how Scottish Government and UK Government spending decisions relate.
- 6.** Several different public bodies are distributing the funds across Scotland, including NHS boards, local authorities and enterprise agencies. Some Scottish Government announcements, such as elements of business support, are demand-led, with underspends being used to fund future announcements.
- 7.** This briefing is part of a series of work Audit Scotland is undertaking relating to Covid-19 spending and its impact in Scotland. It provides a snapshot of the current position in advance of the Spring Budget Revision to be published by the Scottish Government shortly. We will continue to provide updates on the Scottish Government's response to Covid-19. Our 2020/21 financial audits of Scotland's public organisations will consider Covid-19 funding and spending in more detail.
- 8.** It has three sections:
 - Part 1 sets out the Covid-19 related funding and spending commitments made by the Scottish Government, as well as summarising the UK Government policies that apply in Scotland.
 - Part 2 sets out the continuing financial and performance risks that the Scottish Government is facing as a result of Covid-19 and its economic consequences.
 - Part 3 considers what this means for Audit Scotland's work in providing assurance and aiding scrutiny of the Scottish Government's response during the current crisis.

Part 1

Tracking the continuing fiscal response

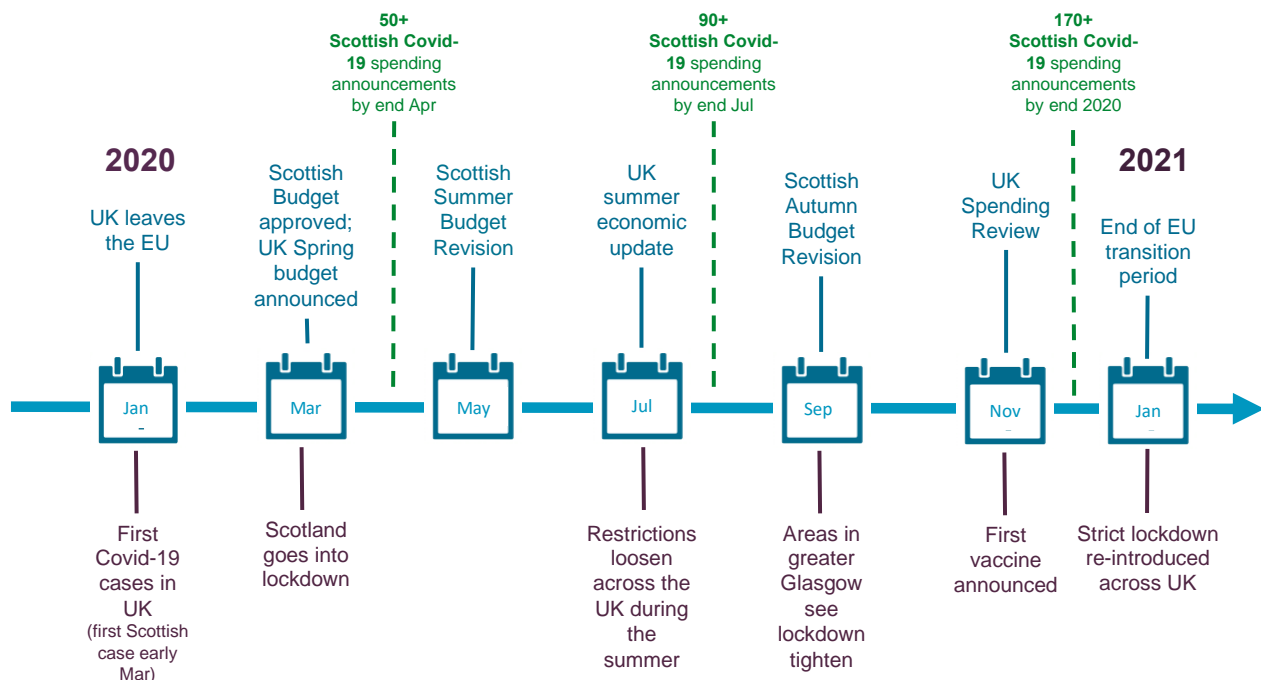
The pandemic is placing huge demands on the Scottish public finances

9. In our August briefing paper, [Covid-19: Implications for public finances in Scotland](#), we noted: “The Covid-19 pandemic has been the biggest fiscal and policy challenge facing the Scottish Government over the past two decades of devolution.” The scale of this challenge has continued since then. Uncertainty over the path of the public health crisis and volatility in the economy has required further Scottish and UK Government interventions, and has placed further pressure on citizens and the public services they need.

10. During the autumn, a second wave of Covid-19 hit the UK, with a more transmissible variant spreading across the country in November and December ([Exhibit 1](#)). By the end of January, over 109,000 people across the UK, including over 6,300 people in Scotland, had tragically lost their lives as a result of the virus.¹

Exhibit 1

Fiscal events and Covid-19 timeline: 2020 and 2021



Source: Audit Scotland

¹ 109,390 deaths (UK) and 6,331 (Scotland) within 28 days of positive test by date of death, 31 January taken from <https://coronavirus.data.gov.uk/details/deaths> on 10 February

Funding for Covid-19 has built up during the year as the UK Government has taken its own spending decisions

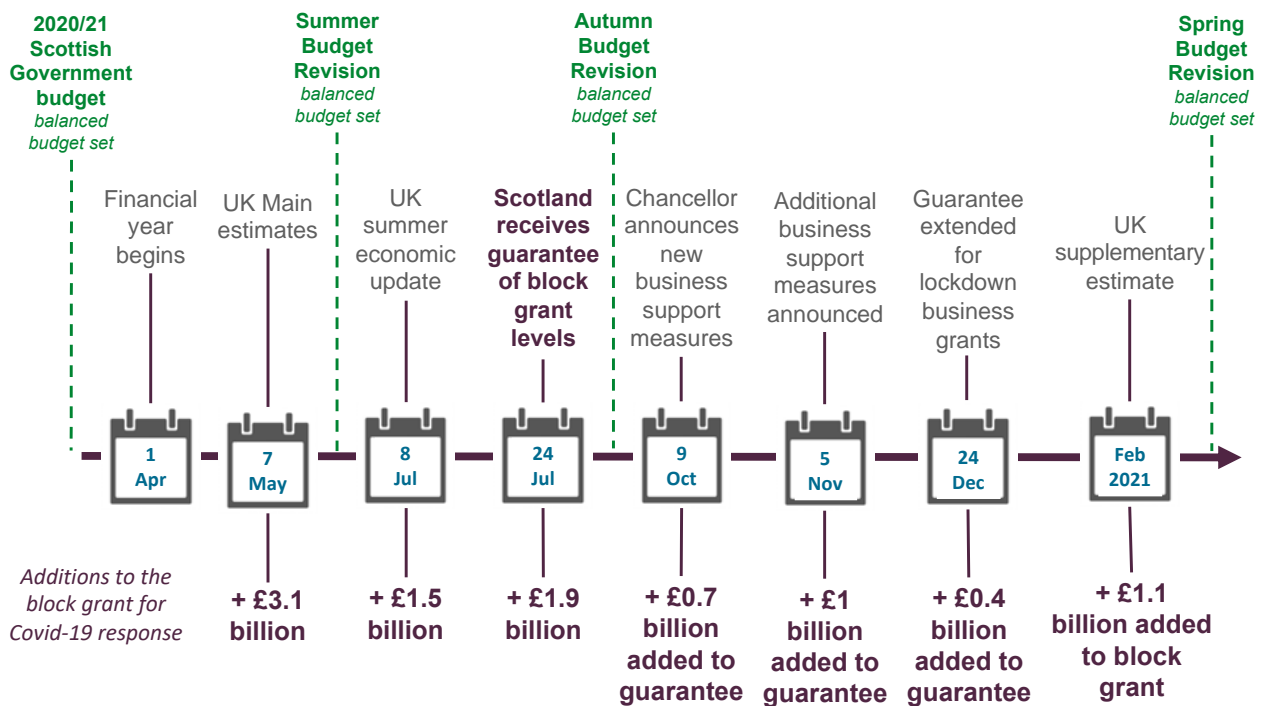
11. Most of the funding of Covid-19 spending in the Scottish budget has come through the operation of the Barnett formula. In July 2020 the UK Government began to provide some guarantees of total Barnett funding in advance of specific spending commitments being made. To date Covid-19 related Barnett consequentials have increased the funding the Scottish Government received from the UK Government by 42 per cent² (Exhibit 2). The Scottish Government is now guaranteed to receive an additional £9.7 billion in resource Barnett consequentials.

12. This accumulation of Barnett consequentials and overlapping UK and Scottish Government spending announcements has increased the complexity and volatility affecting the Scottish public finances during the year. The increases in block grant were spread unevenly throughout the year. Nearly seventy percent of the guaranteed funding was confirmed prior to the Autumn Budget Revision, mostly as a result of increased UK Government spending on business support and health and social care in the rest of the UK.

Exhibit 2

Timeline for additions to the Scottish block grant in response to Covid-19

The Scottish Government resource budget for 2020/21 has increased by £9.7 billion as a result of additional Barnett consequentials



Source: Audit Scotland

Barnett guarantees reduce funding uncertainty, but raise financial management challenges for the Scottish Government

13. The Scottish Government decides how it spends Barnett consequentials. There are no specific requirements for any block grant funding to be spent on initiatives similar to the UK spending decisions from which it derives. Nonetheless, the

² £9.7bn as share of the original net block grant – £36.2bn total budget limit from HM Treasury minus the BGA of £12.99bn

Scottish Government has committed to spend all Covid-19 consequentials on its pandemic response.

14. The Barnett guarantees mean that the UK Government has committed to levels of funding to the Scottish budget during the year, in advance of potential UK spending announcements that generate specific consequentials. This provides some earlier certainty to the Scottish Government over aggregate funding levels against which to make its own Covid-19 spending announcements, but also provides challenges and complexities in other respects.

15. There is the potential for confusion over whether subsequent specific UK Government announcements will result in further Barnett funding, or whether they are included within the previously guaranteed amounts. For example, in early January, the Scottish Government initially understood that the UK Chancellor's further funding package for business would generate new consequentials for Scotland.³ It was later confirmed the consequentials had already been included in the Scottish Government's funding guarantee, which had been increased by £400 million in December.⁴

16. In a letter⁵ in January 2021, the Cabinet Secretary confirmed the additional consequentials of £400 million received, and set out how these, and £330 million of unallocated Covid funding, would be spent. Of this, £180 million was held as a contingency to support any remaining demand-led spending in 2020/21 and into 2021/22.

17. If the Scottish Government commits guaranteed Barnett consequentials to its own spending initiatives, those funds will not be available to match any UK spending announcements made later. For example, the Scottish Government could commit guaranteed funding to business support measures, and the UK Government could subsequently announce further health spending. The Scottish Government would then need to consider how to manage its overall budget accordingly, given its policy to pass any health-related consequentials on to the National Health Service.

18. At the time of the Autumn Budget Revision in September, £537 million of Barnett consequentials were formally unallocated, but would be used for the Covid response. The Cabinet Secretary set out that while more funding was expected to flow to Scotland, without certainty, the remaining consequentials had to be kept for costs that the Scottish Government knew were coming later in the year.⁶ The Cabinet Secretary provided more detail on how these additional consequentials were spent in December 2020.⁷

19. Looking to 2021/22, there remains significant uncertainty over the extent of in-year Barnett consequentials to support the ongoing cost of the pandemic. The November 2020 spending review for 2021/22 sets out £1.3 billion in Covid-19 resource. While this is a substantial amount, it is less than a fifth of the amount of the amount currently committed for 2020/21. The Scottish Government has decided to carry forward the most recent announcement of Barnett consequentials of £1.1 billion for 2020/21 to be spent in 2021/22.

20. The Barnett consequentials for 2021/22 may increase when the UK budget is announced in early March. The Barnett consequentials for 2021/22 are not guaranteed. In light of this, the Finance and Constitution Committee has

³ 'No "new money" for firms in lockdown', BBC, 6 January 2021

⁴ [Extra £800 million to support Scotland, Wales and Northern Ireland through Covid-19 this year](#), HM Treasury, 24 December 2020

⁵ [www.parliament.scot/S5_Finance/General_Documents/Letter_from_Cabinet_Secretary_for_Finance\(2\).pdf](#)

⁶ [Official Report](#), Finance and Constitution Committee, 7 October 2020

⁷ [www.parliament.scot/S5_Finance/General%20Documents/Letter_from_Cabinet_Secretary_for_Finance\(1\).pdf](#)

recommended that HM Treasury provides a similar guarantee for 2021/22 if the fiscal position continues to rapidly evolve.⁸

There is less protection of capital funding

21. The guarantee provided by the UK Government relates only to resource spending, that is, money that is to be spent on day-to-day costs such as salaries. For capital spending (to cover the costs of investments in new buildings and infrastructure) there has been no similar guarantee. The total capital spending in the Scottish budget has remained broadly flat, with £10 million in capital consequentials added to the Scottish Budget at the ABR.⁹ The Scottish Government has deferred this capital consequential to the 2021/22 Scottish budget. The UK Government spending review set the capital grant for Scotland of £5.2 billion for 2021/22 – less than the £5.5 billion received in 2020/21.¹⁰

22. It is possible that there will be negative Barnett consequentials for 2020/21, resulting in deductions, from the Scottish Government's capital budget. This would happen where UK Government's own capital spending is reduced during the year. The final level of capital for 2020/21 will only become clear when the UK Government Supplementary Estimate – which includes the final level of Scottish funding for the financial year – is published in February 2021.

Since we last reported, the Scottish Government's Covid-19 spending programmes have remained broadly in line with the UK

23. The Scottish Government has spent Barnett consequentials broadly in line with the UK, though it has targeted some aspects to specific needs in Scotland, or to be in line with Scottish Government policies. For example:

- One policy specific to Scotland was the announcement of a £500 payment to all health and social care staff in Scotland in the 2020/21 financial year, which is forecast to cost £180 million.¹¹ The Scottish Government has the powers to set income tax rates and bands, but not tax exemptions. As such, the First Minister called on the UK Government to make these bonuses tax free.¹² The Chief Secretary to the Treasury rejected this request, highlighting that the Scottish Government could increase the value of payments if it wished NHS and care workers to receive £500 net of tax.¹³ The Scottish Fiscal Commission reported in their January 2021 Economic and Fiscal Forecasts that this will increase forecasted income tax revenues by £48 million in 2020-21.¹⁴
- The Scottish criteria for the Self-isolation support grant, are different than the UK equivalent,¹⁵ including parents on low incomes whose children are asked to self-isolate, and people who are earning real living wage or less.¹⁶
- The UK Government announced in October 2020 that it was investing £10 million to set up specialist centres for long Covid-19 sufferers. In Scotland, primary and secondary care teams and community-based rehabilitation services provide long Covid treatments, and no specialist centres have been set up to date – though this has not been ruled out in the future.¹⁷

⁸ [Pre-budget Scrutiny Report 2021/22](#), Finance and Constitution Committee, 7 December 2020

⁹ [A Brief Guide To The 2020-21 Autumn Budget Revision](#), SPICe, October 2020

¹⁰ [Comprehensive Spending Review](#), UK Government, 25 November 2020

¹¹ [£500 bonus for health and social care staff, Scottish Government, 30 November 2020](#)

¹² [SNP Conference: £500 'thank you' payment for healthcare staff, BBC News, 20 November 2020](#)

¹³ [Hansard, 1 December 2020](#)

¹⁴ [Scotland's Economic and Fiscal Forecasts, Scottish Fiscal Commission, January 2021](#)

¹⁵ [Claiming financial support under the Test and Trace Support Payment scheme](#), Department of Health and Social Care, 25 January 2021

¹⁶ [Self-Isolation Support Grants](#), mygov.scot, 5 February 2021

¹⁷ Nicola Sturgeon: Long Covid an issue of 'significant concern', Press and Journal, 8 February 2021

The Scottish Government has funded six per cent of Covid-19 spending through reprioritisation of its budget

24. Across the Summer and Autumn Budget Revisions, the Scottish Government identified £395 million of spending included in its 2020/21 budget approved in March 2020 that could be redeployed for Covid-19 related spending. This is a relatively small share of the overall Covid-19 spend at that point, approximately six per cent. These reprioritisations come from a wide range of portfolios and programmes, and fall into three main themes:

- Repurposing funding: £124 million of passenger subsidies for bus, rail and ferry operators repurposed to cover operators' revenue losses due to reduced passenger numbers.
- Transferring funding: £137 million of underspends are released across the Summer and Autumn Budget Revisions. For example, due to anticipated reduced demand for energy efficiency projects, £105 million of Financial Transactions funding for domestic energy efficiency loans was transferred to fund emergency loans for housebuilders (£100 million) and private sector landlords (£5 million).
- Delayed spending: Following a re-planning exercise (resulting in a delay to the introduction of planned changes to some disability assistance benefits), £26 million for the Social Security Programme (mainly for staffing costs) was redeployed to provide additional funding for the Unpaid Carers Allowance supplement and the Scottish Welfare Fund.

25. The final level of planned reprioritisation for 2020/21 will be set out in the Spring Budget Revision, due to be published 25 February.

The announcement of a Scotland-specific economic shock unlocks more fiscal management tools for the Scottish Government

26. The Scottish Government can use the Scotland Reserve or borrow to help manage the budget. The Reserve and Borrowing use for 2020/21 and the planned use for 2021/22 is set out below. The Scottish Government intends to spend all its Reserve balance in 2021/22 with the latest position expected in the Spring Budget Revision. The Scottish Government intends to apply the latest announced 2020/21 Barnett consequentials of £1.1 billion to its 2021/22 budget. This will not affect the Scotland Reserve, as the funds will be deferred until 2021/22. The Scottish Government agreed with HM Treasury that it was not required to carry this funding forward through the Scotland Reserve, rather this will be held within UK reserves and re-allocated to the Scottish Government in 2021/22.

Exhibit 3

The Scottish Government plans to spend all of its Reserve balance in 2021/22

	Resource	Capital	Financial Transactions	Total
The Scotland Reserve				
Reserves closing balance 2019/20	217	80	136	433
Total drawdown 2020/21	-149	-70	-4	-223
Additions to the Reserve 2020/21	162	0	70	232
Planned closing balance 2020/21	231	10	202	443
Planned use of the Reserve in 2021/22	-231	0	-200	-441
Planned closing balance 2021/22	0	10	2	12
Borrowing powers (for use only to cover forecast error for devolved taxes and social security)				
Planned borrowing in 2020/21	207	300		507
Borrowing – set out 2021/22 budget	319	450		769

Source: Scottish Fiscal Commission; Audit Scotland. Additions to the Reserve for 2020/21 are still uncertain and will be finalised as underspends emerge towards the end of the year. In this table we show the minimum addition required in 2020/21 to permit the drawdown in 2021/22. Some figures may not add due to rounding.

27. In the Scottish Budget 2021/22, the Scottish Government announced that the Scotland specific shock powers have been triggered based on OBR and SFC economic forecasts. These powers were set out in the Fiscal Framework in 2016 and are now available because, on a four quarters on four quarters basis:

- annual GDP growth in Scotland is forecast to be below 1.0 per cent; and
- growth in Scotland is forecast to be 1.0 percentage point or more below the UK.

28. The difference in the forecasts of UK and Scottish growth means the resource borrowing limit increases from £300 million to £600 million and the drawdown limits from the Scotland Reserve are removed for the next three years. The capital borrowing limits are unchanged.

29. This difference in GDP growth forecasts is likely because of differences in timing. The latest SFC forecasts have been produced after the national lockdown announced in January, reducing short-term economic growth. The Office of Budget Responsibility (OBR) set their forecasts in November 2020, before the emergence of the new Covid-19 variant and the lockdown that followed.

30. In its medium-term financial strategy, the Scottish Government revised its approach to its use of the Scotland Reserve, and it no longer intends to build up substantial balances in the Reserve. While this new policy and the Scotland-specific shock powers do provide extra flexibility for the Scottish Government, Reserve balances can only be used once, and any borrowing must be repaid. The impact of decisions made now on the flexibility available in the future must be considered.

The devolved taxes are forecast to generate additional revenues for the Scottish budget in 2021/22 – but the economy and receipts are still unpredictable

31. The information available for 2020/21 suggests that the Scottish and UK economic performance has been broadly similar.¹⁸ As result of this and the way the Fiscal Framework affects the Scottish budget, there has been no significant pressure on the Scottish budget so far this year from reduced tax revenues or increased demand-led spending for social security.

32. In the 2021/22 budget, Scottish devolved taxes increase the Scottish budget by £532 million.¹⁹ Scottish income tax accounts for £475 million of this. When tax outturns are available after the year end, the Scottish Government adjusts the next financial year's budget for the difference between what was forecast and budgeted for and what was actually collected. This can be a positive or negative reconciliation to the budget.

33. After two years of negative reconciliations from previous years that have applied to the 2020/21 and 2021/22 budgets, positive reconciliations are currently forecast to apply to the 2022/23 and 2023/24 budgets, adding funding in these years.

34. These figures are based on forecasts from the Scottish Fiscal Commission (SFC) and the Office for Budget Responsibility (OBR) and were produced at different points in the pandemic. The OBR forecasts were published in November 2020, prior to the approval of vaccines and the second national lockdown, whereas the SFC forecasts were published after these events occurred, in January 2021. Such factors affect how forecasters see tax revenues for Scotland and the rest of the UK.

35. Both sets of forecasts are likely to move significantly as more information is made available. The OBR will publish updated forecasts alongside the UK budget. This will in turn change the potential effect devolved taxes have on the budget, through Block Grant Adjustments (BGAs). For this reason, the SFC has proposed that the Scottish Government carefully consider updating its budget with revised BGAs after the UK budget is published on 3 March.²⁰

The Scottish Government has continued to spend significant amounts on tackling Covid-19 and its economic and social impact

36. The Scottish budget remains subject to significant uncertainty, complexity, and volatility. Changes to the budget are approved by the Scottish Parliament through budget revisions. These are normally in the autumn and spring, but in 2020/21 an additional Summer Budget Revision was introduced to gain approval for the significant increase in funding and spending announcements in the early part of the pandemic.

37. The Scottish Government's 2020/21 approved budget has increased by £5.2 billion since the beginning of the year, primarily as a result of the additional spending required to cover the costs of the Covid-19 pandemic. This has developed as follows:

- Budget at beginning of financial year: £49.25 billion
- Net additions at the Summer Budget Revision: £2.79 billion
- Net additions at the Autumn Budget Revision: £2.46 billion
- Budget as at Autumn Budget Revision: **£54.5 billion**

¹⁸ [Scotland's Economic and Fiscal Forecasts](#), Scottish Fiscal Commission, January 2021; [Economic and Fiscal Outlook](#), Office for Budget Responsibility, November 2020

¹⁹ This process, of reducing the block grant to account for lost revenues to HM Treasury because of taxes devolved to Scotland, is called Block Grant Adjustments. We explain how this process works in our 2018 paper, Operation of the Fiscal Framework 2017/18.

²⁰ [Scotland's Economic and Fiscal Forecasts](#), Scottish Fiscal Commission, January 2021

38. These figures will be updated again at the Spring Budget Revision in late February.

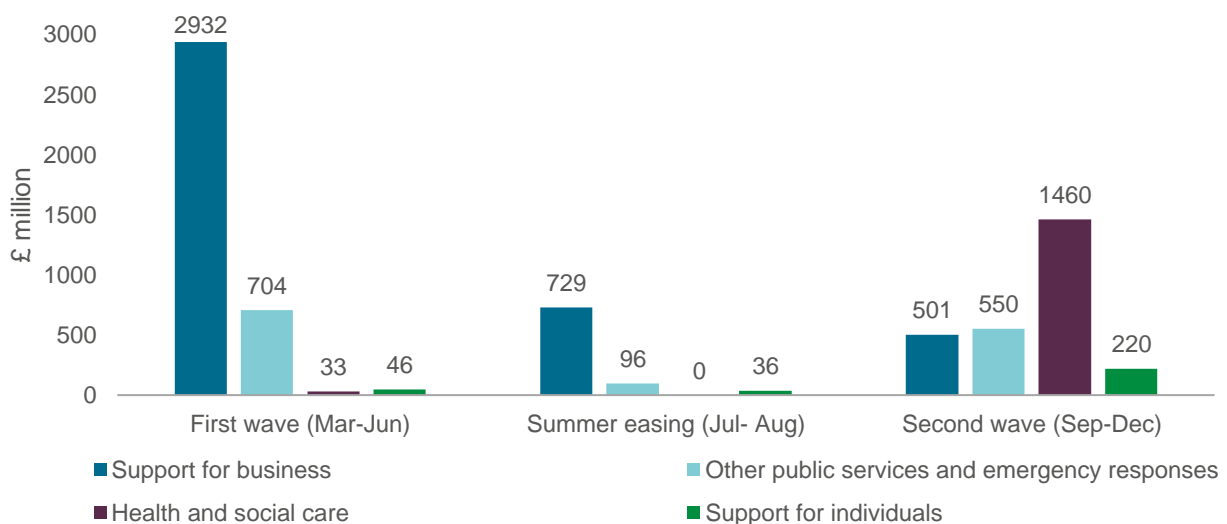
39. In November, the Cabinet Secretary committed that “every penny” of additional funding for Covid-19 “will be allocated on Covid spend”.²¹ Over this time, it has become harder to identify what is, and what isn’t, Covid spending, as spending links more widely with economic development issues, and other government goals. This will likely get harder as the pandemic goes on, and the economic shock of the pandemic and longer-term impact on outcomes continues. This is an issue we will return to in later outputs.

Our analysis shows there have been over 170 Scottish Government Covid-19 spending announcements, with more than 80 further announcements since our August briefing

40. Scottish Government and UK Government announcements of new public spending have varied in scale in response to the virus, from a peak in March, at the beginning of the first lockdown, reducing during the summer, and increasing again in the second wave and the national lockdown in early 2021 ([Exhibit 4](#)).

41. The type of announcements has also changed over the period, as the public response to the pandemic develops. In our August briefing, the big area of commitments made up until the end of July was business and economic support. From then until the end of December, the focus of spending was on the public sector, particularly within health and social care, local government and transport.

Exhibit 4 Different phases of the pandemic have seen different responses and spending announcements, in 2020



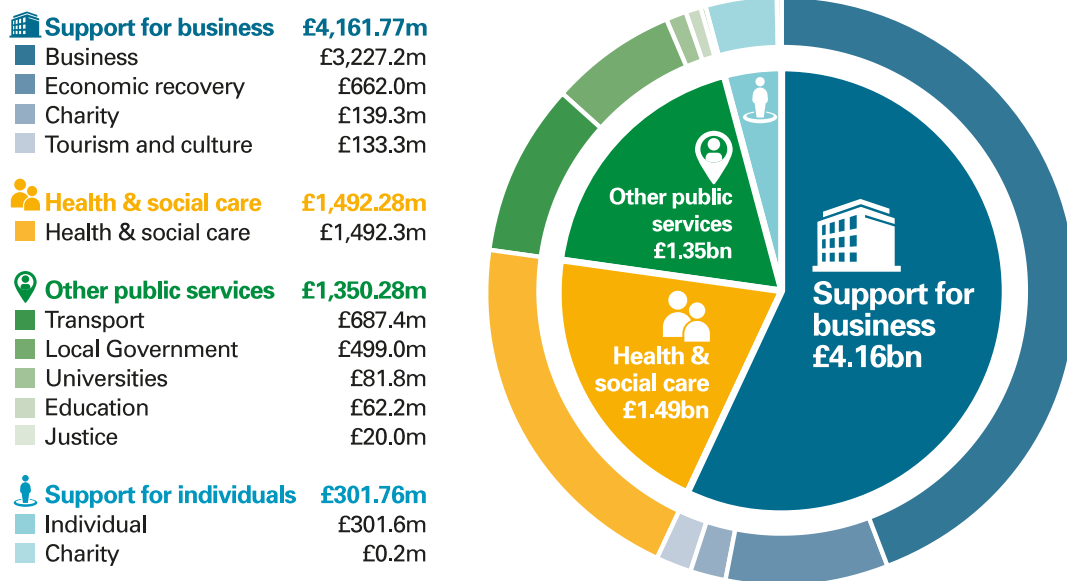
Source: Audit Scotland analysis, based on Scottish Government announcements up to the end of December 2020. Note: this exhibit does not include some of the business support announcements made in October 2020 and January 2021, which were demand led and therefore depend on the level of infections and level of restrictions, and had no level of spending attached when these were announced.

42. Each of the categories above incorporate a wide range of spending announcements and areas of support. This is summarised in the exhibit below. ([Exhibit 5, page 13](#)). Further detail about spending announcements is set out in Appendix 1.

²¹ [Official Report, meeting of the Finance and Constitution Committee, 18 November 2020](#)

Exhibit 5

Breakdown of Scottish Government spending announcements by category



Source: Audit Scotland analysis, based on Scottish Government announcements up to the end of December 2020. Our analysis suggests that approximately a further £870 million of Covid-19 spending announcements have been made between the end of December and the middle of February 2021. £491 million was further funding for NHS Boards and integration authorities, £188 million was support for businesses, and £167 million for other public services. The latest position will be in the Spring Budget Revision.

The value of spending programmes announced may be different from the amounts added to the 2020/21 Scottish budget

43. The expected spending in-year incorporated in the approved Scottish budget, to be updated in the Spring Budget Revision, may be different to the total cost of the individual announcements in [Exhibit 5](#) because:

- spending against some announcements depends on demand; any underspend can be used for other purposes. For example, lower than expected take-up for some business grants has meant that funding can be reallocated to other support funds.
- some demand-led announcements do not include assessments of what the announcement will cost. For example, in October, the Strategic Business Fund was announced, but no cost was given at the time. The Scottish Government has confirmed that between November and the end of January, this scheme cost £104 million, which is not reflected in our analysis of announcements.²²
- some announcements will be spent over more than one year. For example, the energy transition fund is due to be spent over the next five years, with just over half of the £62 million fund committed for 2020/21.
- Some smaller spending may not be announced, but will be picked up in spending revisions.

44. The Scottish Government is required to manage spending against a balanced budget. The Spring Budget Revision will be the final balanced budget approved by the Scottish Parliament in 2020/21. It should reflect the Government's most recent assessment of the amounts it expects to spend during the year in each spending programme. We will know more about the overall performance against the 2020/21

²² [£244 million paid to businesses in January, Scottish Government](#), 10 February 2021

Scottish budget in June 2021, when the Cabinet Secretary will provide an update to Parliament on the provisional outturn.

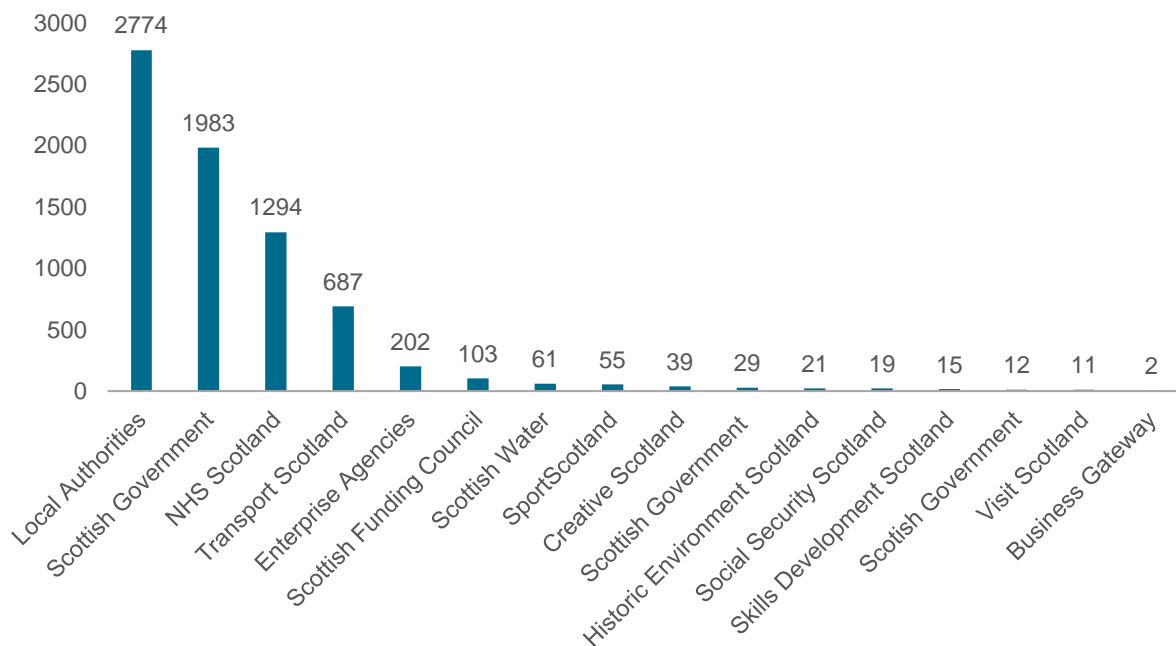
Many public bodies are involved in Covid-19 spending. At this stage overall information on actual spending is limited

45. Our analysis of announcements identifies that many different public bodies across Scotland are acting as the lead organisations for Covid-19 spending. The majority of this spending has been through Scotland's 32 local authorities and 22 NHS Boards, with a number of other public bodies involved, such as enterprise agencies and the Scottish Funding Council. While this is necessary, the number of public bodies involved in Covid-19 spending inevitably complicates the financial management processes during a pandemic.

46. Public bodies are using Covid-19 funding differently. Some is being applied to meet extra costs caused by the pandemic (such as NHS capacity and equipment costs). Some bodies are also disbursing financial support on behalf of the Scottish Government (for example, as Local Government has done with business grants) ([Exhibit 6](#)).

Exhibit 6

Lead organisations for Covid-19 spending in 2020, from announcements



Source Audit Scotland analysis, based on Scottish Government announcements up to the end of December 2020

47. The Scottish Government has shared some information with us on actual spend to date for areas of spend where this information is available. Some examples of actual spend to date include:

- Of the £1.492 billion of Health and Social Care announcements included in our tracker until the end of December, a total of £1.304 billion has been allocated.
- The Scottish Government has been publishing information on spend against business support commitments. Our analysis suggests that by October 2020, £2.252 billion had been spent across twenty funds, with an original expected

cost £2.55 billion.²³ The Scottish Government has spent a further £276 million through the Strategic Support Business Fund between November 2020 and January 2021.²⁴

- £444 million of £468 million of commitments for Transport Scotland included in the Summer and Autumn Budget Revisions has been spent.

The full extent of public spending on Covid-19 will not be known until after the financial year end, and this will be covered through Audit Scotland's continuing programme of work on Covid-19 spending.

The UK Government has continued to support employment and to provide business loans in reserved areas

48. As outlined in our August briefing, in addition to the Scottish Government's Covid-19 response, there are also a range of UK Government funded schemes that apply to Scotland.

49. The Job Retention Scheme (JRS) had been scheduled to close on 31 October. Due to the increase in Covid-19 cases and subsequent restrictions, the Chancellor announced on [31 October 2020](#) that the JRS was to be extended. This will now run until at least [April 2021](#). The Self-Employment Income Support Scheme (SEISS), providing grants to those in self-employment, was also extended as part of the Government's Winter Economic Plan for an additional 6 months, from November 2020 to April 2021.

50. As at the 31 December 2020, there were a total of 282,800²⁵ Scottish residents being supported by the JRS in Scotland. In addition, 411,000 claims were made for SEISS totalling £1,133 million.

51. The UK Government has also provided loans over this period, which are available to Scottish businesses. These include:

- **The Coronavirus Business Interruption Loan Scheme (CBILS)** – loans to businesses impacted by the pandemic receive a Government guarantee for 80 per cent of the value. As at 10 January 2021, 4,144 loans totalling £982 million had been offered to Scottish businesses.²⁶
- **The Bounce Back Loan Scheme for small businesses (BBLs)** – loans to small businesses under this scheme are 100 per cent guaranteed by the Government. As at 10 January 2021, 86,062 loans totalling £2,496 million had been offered to Scottish businesses.²⁷
- **The Future Fund** – a loan scheme aimed at high-growth companies who are facing financing difficulties due to the pandemic. As at 24 January 2021, 19 loans totalling £7 million had been offered to Scottish businesses.²⁸

52. A number of new schemes were launched in the UK Summer Statement to support jobs. The UK Summer Statement also introduced the Eat Out to Help Out scheme for August 2020 and the temporary VAT cut for hospitality and tourism for the period from 15 July to 12 January 2021. The VAT cut was extended further in the Winter Economic Plan to 31 March 2021.²⁹

²³ This includes the funds presented by the Scottish Government in [their analysis published 15 January](#), with the exception of the Museums and Galleries Scotland Digital Resilience Fund, Museums and Galleries Scotland Urgent Response COVID-19 Fund, where the original commitment level was unclear.

²⁴ [£244 million paid to businesses in January, Scottish Government](#), 10 February 2021

²⁵ Provisional figures. Taken from Self-Employment Income Support Scheme statistics from [www.gov.uk](#)

²⁶ [Coronavirus loan schemes continue to support businesses](#), British Business Bank, January 2021

²⁷ Ibid

²⁸ [Future Fund publishes diversity data](#), British Business Bank, January 2021

²⁹ For the full list of UK-wide economic support funds that apply in Scotland, please see Appendix 1, Coronavirus and Scotland, House of Commons Scottish Affairs Committee, October 2020

Part 2

Financial and performance risks

The risks to Scottish public finances and public services remain significant

53. In August, we highlighted that in responding to the crisis caused by the pandemic, the Scottish Government had to make decisions quickly as the situation developed. We emphasised that these decisions impacted on the whole country and would continue to affect government in Scotland for years to come. Since that date, the crisis has proven to be more enduring and complex than many had previously foreseen.

54. Covid-19 will have significant consequences for public spending programmes and services well into the future. With increasing pressures on public revenues and spending, and the Scottish budget subject to ever more volatility, uncertainty and complexity, it will be challenging to match spending to the available funding in the coming years. This will need to be done in a way that minimises the disruption to individuals, public bodies and services, ensures value for money is maintained and avoids unintended consequences.

55. In this section we update our analysis of the risks to Scotland's public finances and public services that have arisen, in light of developments in the pandemic. The response to the pandemic is continuing, and it is likely that many of the risks highlighted in this briefing will extend into the medium and long term.

Measures to support people through the pandemic must be effective and provide value for money

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

56. The Scottish Government is responding to a public health crisis that continues to have a devastating impact on many people's lives in Scotland. From a public health viewpoint, public spending continues to help the NHS to treat people affected, supplying frontline staff with the equipment they need, and supporting the rollout of the national vaccination programme. But decisions have needed to be made quickly, with much less time for the analysis and consultation that would normally occur.

57. Throughout 2020/21, Covid-19 tax and spending measures have also aimed to support the wider needs of people, public health and the economy. Alongside the direct health effects caused by the pandemic, the Scottish Government expects a broader impact on the wellbeing of people in Scotland, that is likely to be felt for several years. This includes the impact on young people caused by disruption to education, the impact on households and relationships from economic disruption, and the broad mental health impact on individuals during lockdown.

58. In December 2020, the Scottish Government published its initial overview of how Covid-19 has affected progress towards Scotland's National Performance Framework. The negative impact of Covid-19 is expected across a variety of aspects of people's wellbeing and aspirations; in some cases, progress against national performance outcomes will be deeply set back.

59. Directing public funds to tackle these setbacks will be complex and will need a whole-system approach. The Scottish Government explains how the many effects on people in Scotland are connected. For example, people's changing economic circumstances may affect their physical and mental health, and educational disruption may affect disadvantaged students' future attainment. Considering the range of outcomes together will remain important to Scotland's recovery from the pandemic.

Some groups are being disproportionately affected

60. The direct and indirect effects of the pandemic impact on the people of Scotland in different ways. Research shows there are a number of factors in determining an individual's level of risk to Covid-19, including age, deprivation, ethnicity, location, disability, and pre-existing health conditions. For example, in Scotland, deaths among the South Asian ethnic group were almost twice as likely to involve Covid-19 as deaths in the White ethnic group, after accounting for key factors such as age, sex, deprivation, and urban rural classification.³⁰

61. Young people are more likely to have suffered unemployment during the pandemic and women are around a third more likely to work in shut down sectors or restricted parts of the economy. In addition, people with pre-existing mental health conditions, young adults, women, and individuals in lower socio-economic groups appear to be reporting higher levels of psychological distress.³¹

62. Collecting the data and evidence needed to understand how different groups have been affected will help the Scottish Government to direct funds towards those who need support, and in turn to help improve people's wellbeing and outcomes.

Difficult decisions lie ahead to keep Scottish public finances on a sustainable footing

63. The pressures on Scotland's public finances as a direct consequence of the public health crisis are likely to continue into future years. We have previously reported that the pandemic poses significant risks to the sustainability of public finances.³² Increasingly, these risks include the financial consequences of delays or disruption to other services, such as addressing the courts backlog in Scotland.

64. These demands on public finances, unexpected in scale even a year ago, must be managed in addition to existing pre-Covid-19 sustainability concerns. These include pre-existing financial sustainability pressures in areas such as the NHS and local government.^{33,34}

65. These competing challenges exist within a period of ongoing uncertainty, both in terms of the economy and its impact on revenues, and the demand for services and government support. The Scottish Government's financial and contingency planning will need to be clear on its priorities, and which services are essential to maintain to minimise disruption to people's lives.

The significant economic impact of Covid-19 continues and will have long-term consequences for public finances

66. For many people and businesses in Scotland, the economic consequences of Covid-19 have been huge. While Scottish Government and UK Government responses have included significant economic support, this can only mitigate the overall impact. The ongoing economic impact is a continuing and significant concern for many, and the extent of it remains uncertain.

67. Economic uncertainty will also affect public finances directly, both in terms of ongoing spending required to support individuals and businesses, and its impact on devolved tax and social security powers, in particular Scottish Income Tax and devolved social security benefits.

68. Through devolved taxes and social security powers, Scottish budgets are directly affected by Scotland's relative economic performance compared to the rest of the UK. As we have outlined in our [2019/20 audit of Social Security Scotland](#),

³⁰ [Analysis of deaths involving coronavirus \(COVID-19\) in Scotland, by ethnic group](#), National Records of Scotland, July 2020

³¹ [Scotland's Wellbeing: The impact of Covid-19](#), Scottish Government & COSLA, December 2020

³² The 2019/20 audit of the Scottish Government Accounts, Audit Scotland, December 2020

³³ NHS in Scotland 2019, Audit Scotland, October 2019

³⁴ Local government in Scotland: financial overview, Audit Scotland, January 2021

changes in eligibility and benefit uptake rates due to the pandemic are complex and will affect expenditure differently across the benefit streams. The overall decline of Scottish GDP during the pandemic has been significant and so far, is broadly in line with the UK as a whole. The Scottish and UK economies are both expected to have contracted by around 11 per cent in 2020, according to the SFC and OBR.³⁵ In contrast, Scotland's GDP fell around four per cent over six quarters during the global financial crisis.³⁶

69. There is still a great deal of uncertainty in predictions about how and over what period the economy might recover. The most recent forecasts from the SFC alongside the Scottish budget suggest that Scotland's GDP could recover to pre-pandemic levels in 2024.³⁷

70. For devolved tax and social security powers, the impact of the economy on taxes and social security are not yet known. Under the Fiscal Framework, the Scottish budget increases or decreases based on how devolved tax and social security powers have fared compared to the performance in the rest of the UK. Scotland is still in its first substantive financial year of the pandemic, and so outturn tax and social security figures for this period are not yet known.

71. The 2021/22 Scottish budget includes £319m of resource borrowing to cover a negative forecast error in relation to the 2018/19 pre-pandemic period. Scottish Income Tax forecasts for 2019/20 and 2020/21 however, currently show positive reconciliations (increases to budgets) of £74m and £127m, which will apply to the 2022/23 and 2023/24 budgets respectively. These forecasts will change over time as more data is known and reflect both economic and tax policy factors.³⁸

72. For people in Scotland, unemployment is forecast to rise, peaking at 7.6 per cent in 2021 Q2 once the furlough schemes end.³⁹ Continued emphasis on economic measures over the medium term will be needed to address the economic impact of Covid-19 on individuals, as well as to manage any potential impact on devolved taxes.

The size of future budgets will depend upon the UK Government's spending and its fiscal policy decisions

73. Barnett consequentials flow to the Scottish budget if additional UK spending is funded through increased taxes or borrowing. This remains the largest component in determining the size of the Scottish budget. So far, the UK Government has funded most of the extra Covid-19 spending by borrowing.

74. To date, the overall effect of the UK Government's policy decisions has been to increase the Scottish budget. The delay to the UK budget means that there is uncertainty around the levels and timings of Covid-19 funding the Scottish Government will receive. Currently, the expected Barnett consequentials for 2021/22 are £2.5 billion, of which £1.3 billion is Covid-19 related funding.⁴⁰

75. The UK budget in March could include further additional funding, and beyond this, similar to in 2020/21, in-year spending decisions could add further Barnett consequentials for the Scottish budget. This is currently unknown, and it is unclear whether any such consequentials would be guaranteed in the way that they were in 2020/21.

³⁵ [Scotland's Economic and Fiscal Forecasts](#), Scottish Fiscal Commission, January 2021; [Economic and Fiscal Outlook](#), Office for Budget Responsibility, November 2020

³⁶ State of the Economy, Scottish Government, September 2020

³⁷ [Scotland's Economic and Fiscal Forecasts](#), Scottish Fiscal Commission, January 2021

³⁸ Ibid

³⁹ Ibid

⁴⁰ [Spending Review 2020](#), UK Government, December 2020

76. The UK Government's Spending Review 2020 includes £21.3 billion of reserves, as an allowance for further Covid-19 costs.⁴¹ The Cabinet Secretary has written to the UK Government Chancellor of the Exchequer requesting release of £1.7 billion of the reserve to support the Scottish budget.⁴² The Chief Secretary to the Treasury has written to reject this, on the basis that the UK Government will decide how to spend the reserve in 2021/22. This UK Government spending may lead to Barnett consequential for Scotland if it is spent in devolved areas. If the reserve is used for UK-wide initiatives, such as vaccine procurement, no consequential would flow from this, although Scotland would benefit from UK-wide measures.⁴³

77. It is likely that continued in-year budget changes will be required, perhaps in response to changes in Barnett consequential funding. In-year budget management will continue to be critical to manage and balance the Scottish budget. Alongside this, having a clear picture of how Scottish Government and UK Government initiatives are working together to help people in Scotland is needed to properly understand the effectiveness of Covid-19 spending over time.

Good medium-term planning is essential

78. Planning for the medium term in periods of significant uncertainty and volatility is difficult, but necessary. It is important for the Scottish Government to consider what the impact on public services and spending commitments will be and how it can choose to address them. The Auditor General has previously identified the need for improvements to medium term financial planning to aid Parliament's understanding of the financial risks and opportunities arising from the pandemic.

79. The Scottish Government has some borrowing and reserve powers, but ultimately, especially in less favourable funding scenarios, the Scottish Government will have difficult decisions to make. Decisions to increase or maintain spending in priority areas of the budget will necessitate either decreasing spend in another budget area, raising the difference via tax revenues, or a combination of both.

80. These decisions and trade-offs between areas of spending must be considered alongside how they will affect the desired outcomes for people in Scotland as set out in the National Performance Framework. This includes showing clear links between fiscal risks, potential budgetary decisions that could follow and the impact of this could have on people's wellbeing.

81. The Scottish Government published its latest medium-term financial strategy alongside the 2021/22 Scottish budget.⁴⁴ This sets out its assessment of Scotland's economic and fiscal outlook, as well as a broad spending outlook considering the effect of changing funding levels for government spending. The strategy includes broad funding and spending scenarios and sets out the Scottish Government's overall priorities. There is no information about planned spending options and how these could affect outcomes.

Looking after public money properly is as important as ever

Protecting people and public money from error and fraud is critical

82. The Covid-19 pandemic has brought significant challenges across the Scottish public sector as bodies seek to deliver services for individuals, communities and businesses in an extremely difficult time.

83. Since the start of the pandemic, the risk of fraud and error has increased as organisations become stretched, and controls and governance are changing. The National Audit Office highlighted that for the UK-wide Bounce Back Loan Scheme, the decision to provide funds quickly leaves public money exposed to the risk of fraud, and that there is a "very high" level of fraud risk.⁴⁵

⁴¹ [UK Government Spending Review 2020](#), HM Treasury, December 2020

⁴² [Call for release of £21bn UK COVID-19 reserves](#), Scot.gov news, 13 January 2021

⁴³ [CST response to Scottish Government](#), gov.uk, 15 January 2021

⁴⁴ Scotland's Fiscal Outlook: The Scottish Government's Medium Term Financial Strategy, Scottish Government, January 2021

⁴⁵ [Investigation into the Bounce Back Loan Scheme](#), NAO, 7 October 2020

84. Our briefing [Covid-19: Emerging fraud risks](#) published in July 2020, sets out more detailed information on a range of fraud risks emerging from the Covid-19 crisis, and what public bodies might do to help reduce these risks.

85. Additional risks will continue to emerge as criminals identify new ways to target public money and services. Public bodies and auditors should stay alert to new scams and approaches by fraudsters, and regularly review their controls and governance arrangements to ensure they remain fit for purpose.

Managing in-year changes to funding and spending is critical in the coming years

86. In the Auditor General's report on [The 2019/20 audit of the Scottish Government Consolidated Accounts](#), the Auditor General reported that the Scottish Government's resource budget was overspent by £899 million (two per cent). This is because in March 2020, the Scottish Government announced two large Business Support Schemes to respond quickly to the impact of Covid-19 on businesses. Although funding for these schemes was not included within the Scottish budget until 2020/21, the Scottish Government's actions before the year end created a constructive obligation under accounting standards in 2019/20.

87. As the Auditor General reported, the overspend against the Consolidated Accounts budget does not represent unlawful expenditure. This does however highlight the pressure that unexpected events may place on public finances. As a result of the large and significant changes in funding, uncertainty about future demand, and the path of the pandemic, budget management in-year is more difficult than before. This means that financial management must be agile and responsive to both known and unforeseen events.

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

88. As we noted in our August paper, the Scottish Government had requested additional flexibilities from the UK Government to help manage the pandemic. These flexibilities related to using capital underspends for resource spending, and relaxing the rules relating to resource borrowing and the Scotland Reserve.⁴⁶ The Chief Secretary to the Treasury has highlighted his reluctance to move away from the agreed arrangements set out in the Fiscal Framework, and no change has been agreed.⁴⁷

89. Using flexibilities to meet immediate spending pressures may help to balance the budget, but it does not tackle the underlying challenges to financial sustainability, and may also bring fiscal risks to manage over the medium term. For example, the Scottish Government normally uses some of its Scotland Reserve balance to support the annual budget; if more of the reserve is used in-year this might not be possible.

Good budget management requires a thorough understanding of existing budgets and commitments

90. As the Scottish budget is increasingly uncertain and volatile, it is more challenging to match spending to the available funding. A key aspect of the Scottish Government's ability to do this will be the nature of its spending programmes and how easily it is able to control these in the short term. This requires understanding the costs of policy decisions over the longer term. It must also have a good understanding of which spending relates to its priority areas, and its priority outcomes, as set out in the National Performance Framework.

91. Any changes to spending will need to be done in a way that minimises the disruption to individual public bodies and services and ensures value for money is maintained. The greater the variation in budgets that need to be accommodated,

⁴⁶ For more information on the detail of these flexibilities, please see [Pre-budget Scrutiny Report 2021/22](#), Finance and Constitution Committee, 7 December 2020

⁴⁷ [Letter to Convener of the Finance and Constitution Committee](#), Chief Secretary to the Treasury, 2 September 2020

the more difficult it will be to achieve this. Much of the public spending incorporated in the Scottish budget is for areas such as staff costs that are very difficult to change quickly. The Scottish Government needs to understand where it is most able to quickly alter spending, and understand what options are available to it in responding to budget fluctuations.

92. A more complete understanding of how much money has been committed across all devolved public services is important for managing risks. The Scottish Government has committed to producing a consolidated account to cover the whole public sector in Scotland, including total assets, investments and liabilities such as local government borrowing and public-sector pension liabilities. The Auditor General has recently highlighted that there is a need, more than ever, for a public consolidated account.⁴⁸

Decision-making is happening in a fast-moving environment, and transparency is essential

Transparency must be maintained as the budget and the response to Covid-19 becomes more complex

93. As more spending and funding announcements are made, and as Scottish Government move into post-vaccine recovery phase, tracking the budget will become more complex. As we highlighted in Paragraph 39 above, it will likely become increasingly hard to identify what is, and what isn't, Covid spending, as spending links more widely with economic development issues, and other government goals. This means that transparency over spending pressures, progress, risks to delivery must be maintained.

94. Scottish Government responses need to work alongside UK Government and local government measures. The frequency of spending decisions by the UK and Scottish governments and individual public bodies, such as NHS boards and local authorities, has made tracking how interventions are working together more complex. In such a fast-moving environment, it is more difficult to demonstrate how each measure has been chosen and how overall spending is being managed.

Governance of public funds and accountability must be robust

95. In March 2020, in response to the significant emerging risks posed by the Covid-19 pandemic, the Scottish Government reassessed and revised its corporate governance arrangements. In the recent Section 22 report, the Auditor General judged that the changes to arrangements were timely and appropriate.⁴⁹

96. This is positive, and must continue throughout 2020/21 and 2021/22 as the Scottish Government continues to respond to the pandemic. Good governance must also extend throughout all public bodies, including non-departmental public bodies and others who are lead agencies in spending funds. Being clear about which bodies are responsible for spending decisions will help deliver accountability.

97. Good scrutiny is an essential part of governance arrangements – at the level of the Scottish Parliament, but also from audit and risk committees within public bodies. Audit committees help public bodies focus on important aspects of the business and maintain effective oversight of spending, performance and governance arrangements.

98. Audit and risk committees must assure themselves that they are engaged and well-informed about the changes that are occurring and affecting their organisation due to Covid-19. For example, they should be informed of changes to internal reporting arrangements, and policy and legislative changes and the impact they are likely to have on the organisation. They should also be apprised of any fraud and error risks arising from the response to Covid-19. Audit Scotland published a [Guide for audit and risk committees](#) on responding to Covid-19, which provides more information on this issue.

⁴⁸ [The 2019/20 audit of the Scottish Government Consolidated Accounts](#), Auditor General, December 2020

⁴⁹ Ibid

Part 3

The public audit response

Audit and the pandemic in 2020

99. During 2020, public bodies came under exceptional pressure as they managed the impact of the Covid-19 pandemic. It will also be some time before we fully understand the longer-term impact on public services and finances. Further challenges are likely to emerge as we move from the acute phase of pandemic to the recovery phase. Our audit approach is adapting to reflect that.

How our planned audit approach will support the Scottish public sector

100. Audit Scotland is committed to helping the Parliament, the public sector and the people of Scotland understand how public money has been used during this crisis and ensure lessons are learned for the future. While we will keep a dynamic approach as the pandemic progresses and the impacts become clearer over time, key focuses of our work will include issues such as:

- Economic recovery and growth: how public money is being used to support the economy and its response to, and recovery from, Covid-19
- Policy priorities: progress on key policy commitments and public services' ability to deliver on long-term strategic priorities and outcomes
- Inequalities: the impact of Covid-19 on different groups in society, with a focus on the risk of exacerbation of existing inequalities
- Innovation and transformation: how public bodies are learning lessons and innovating and transforming public services
- Governance and accountability: how public bodies are ensuring the proper and effective use of public money across the public sector and within individual bodies. This includes assessing fraud and error, scrutiny, and collaborative leadership.

101. Covid-19 will be a key aspect of all **financial audit work** for the foreseeable future. A key focus of our financial audit is the governance and outcomes of the additional Covid-19 funding, as far as these are becoming apparent, or 'following the pandemic pound'.

102. For our **performance audit work**, we will address the pandemic through specific Covid-19 audits and in audits on other areas of public service provision and planning.

103. We will be publishing a refreshed work programme during the spring. For more information on our work to date during the pandemic, and our areas of focus, please see our update paper, [Covid-19: What it means for public audit in Scotland](#).

Appendix

Scottish Government spending announcements as at end 2020

Category	Summary of spend	£m
Business and economic support		
To 31 July 2020 ¹	<ul style="list-style-type: none"> £1.202 billion for the £10,000 Small Business Support Grant and the £25,000 Retail Hospitality and Leisure Support Grants £875 million to cover the cost of business rates relief £794 million for 13 other grant and loan schemes for a range of businesses £230 million 'Return to work' package to support construction, low carbon projects, digitisation and business support £200 million to stimulate the housing market £100 million for employment support and training £61 million for the tourism and cultural sectors £110 million for the third sector 	3,572
August to December 2020	<ul style="list-style-type: none"> £357 million for support for businesses and sectors' resilience during the pandemic, although the total cost of supporting businesses through the second lockdown is unclear £72 million support for tourism and culture organisations, such as £21 million for Historic Environment Scotland in reopening its historic properties £132 million for initiatives to support economic recovery £30 million for the third sector 	590
Total business support		4,162
Public services		
To 31 July 2020 ¹	<ul style="list-style-type: none"> Health and social care: £32.7 million of spending announcements were made relating to health Local authorities: £338 million of announcements were made relating to Local Government. Other support for public services includes £390 million of funding for transport operators, university research and employment support 	761
August to December 2020	<ul style="list-style-type: none"> £1.459 billion for health and social care, including £1.1 billion for health and social care, £180 million for the bonus for health and social care staff, and £112 million for social care winter preparedness. £216 million for Local Government including funding to replace lost income and support for individuals facing financial hardship £377 million for transport, including support for bus and rail operators as well as the Glasgow subway and Edinburgh trams £30 million for educational establishments, universities and legal aid solicitors 	2,082


Category	Summary of spend	£m
Total public services		2,842
Other support for individuals		
To 31 July 2020	In addition to the support for vulnerable individuals provided through local government and third sector grants, specific Scottish Government support packages for individuals include the Unpaid Carers Allowance supplement, hardship payments for students and discretionary housing payments for tenants.	46
August to December 2020	<ul style="list-style-type: none"> • £100m for the Winter Plan for social protection, including support for low-income families • £118m to various funds helping individuals experiencing hardship • £38m additional funding to support digital connectivity 	256
Total individuals		302
TOTAL		7,306

Note: 1. Figures do not match those we published in August 2020 because some announcements were superseded by later announcements. We have since reclassified the £200 million to stimulate the housing market and £100 million for employment support and training.

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


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