

Briefing

Scotland's economy

Supporting businesses through the Covid-19 pandemic

ACCOUNTS COMMISSION 

AUDITOR GENERAL 

Prepared by Audit Scotland
March 2022

Key messages

Scotland's economic output and performance during the Covid-19 pandemic mirrored changing public health restrictions, with some sectors and industries more affected than others. This led to unequal impacts on different regions, parts of the workforce and sectors of the economy.

1. The Scottish Government established a range of business support funding schemes in response to Covid-19, aimed to help businesses survive, protect jobs and encourage compliance with public health restrictions.

Between March 2020 and October 2021, it made available around £4.4 billion of grants and non-domestic rate reliefs. The majority of this funding was administered, and paid to businesses, by councils. Following the emergence of the Omicron variant of Covid-19 and in response to renewed restrictions on businesses, the Scottish Government announced a further £375 million of support funding in December 2021.

2. There was not enough focus on the need for good quality data, below an aggregate level, on the use of the funds when they were initially paid to businesses.

The quality and completeness of the data held by the Scottish Government varies, preventing detailed analysis of how funding has been distributed, or the pace at which applicants received funding. It will be important for the Scottish Government to fully understand how funding was used to support specific economic sectors, geographies and groups, for future policy development and delivery.

3. To pay out funds and support businesses quickly, the Scottish Government placed reliance on the controls and systems that councils and others already had in place.

It has subsequently worked to assess fraud risks across the various support funds. The Scottish Government is retrospectively assessing how business support funding addressed equalities and supported specific demographic groups. Work to detect fraudulent claims is ongoing.

Impact of Covid-19 on Scotland's economy

1. Scotland's economic output during the pandemic mirrored the introduction and relaxation of public health restrictions with a sharp downturn followed by an equally sharp bounce-back ([Exhibit 1, page 4](#)).

2. Scotland's economy is estimated to have grown by 7.1 per cent over the year (September 2020 to September 2021, Q3-Q3). Over the same period UK Gross Domestic Product (GDP) grew by 6.6 per cent.

3. Scotland's employment levels at the end of November 2021 were in line with those prior to the onset of Covid-19:

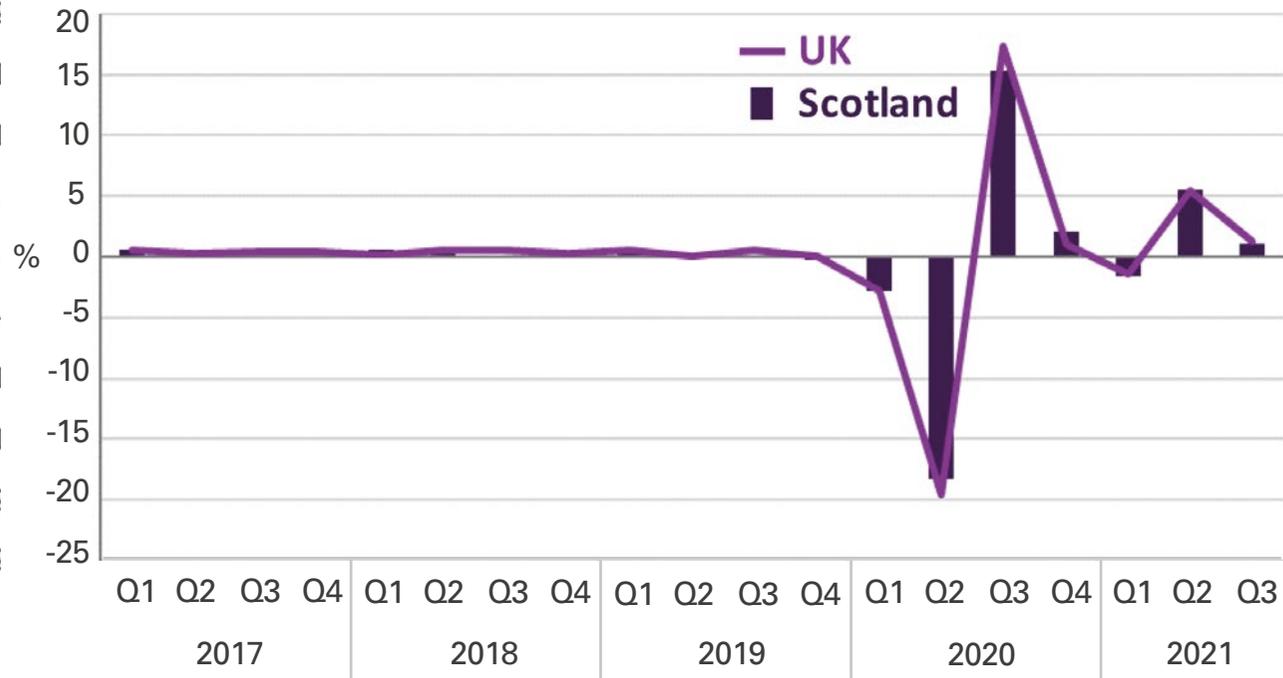
- the employment rate in Scotland was 75.1 per cent, a fall of 0.3 percentage points from pre-pandemic levels (UK 75.5 per cent)
- the unemployment rate was 3.6 per cent, an increase of 0.1 percentage points from pre-pandemic levels (UK 4.1 per cent)
- 22.1 per cent of the Scottish population was economically inactive, an increase of 0.4 percentage points from the pre-pandemic levels (UK 21.3 per cent).

4. As of March 2021, there were around 344,500 private sector businesses operating in Scotland (over 99 per cent small and medium-sized enterprises). This represents an annual decrease of 5.4 per cent (from the beginning of the pandemic).

5. The onset of Covid-19 coincided with the UK's withdrawal from the European Union, meaning it will be difficult to separate the effects of both events on Scotland's economy. As more economic data relating to 2020 and beyond becomes available, specifically in relation to export values and labour market demand, this will reflect both the impact of EU withdrawal and the introduction of Covid-19 related restrictions. Previous work Audit Scotland has done in relation to preparation for the UK withdrawal from the European Union is available [on the E-hub](#).

Exhibit 1

Change in GDP relative to previous quarter (2017–21)



Source: Scottish Government, December 2021

Unequal impact

The impact of the pandemic has not been equal across Scotland's economy

6. Some sectors and specific industries have been more affected by Covid-19-related restrictions and impacts than others, with specific funds subsequently introduced by the Scottish Government to provide elements of tailored support ([Exhibit 2, page 6](#)).

7. Regions where tourism and hospitality contribute a greater proportion of economic activity were more vulnerable to the effects of lockdown measures. This has disproportionately impacted rural and island economies, particularly those in the Highlands and Islands and South of Scotland.

8. Rural economies are also more reliant on smaller businesses, and seasonal and self-employment are more prevalent than in urban economies. As well as specific sectors being more important to these economies, smaller businesses are generally more vulnerable to external economic shocks and less able to withstand prolonged interruptions to their cash flow.

9. The restrictions to business activities have disproportionately impacted younger people. Labour market data shows that a greater proportion of younger people are employed in sectors such as hospitality, leisure and retail, all of which were subject to significant restrictions in their activities.

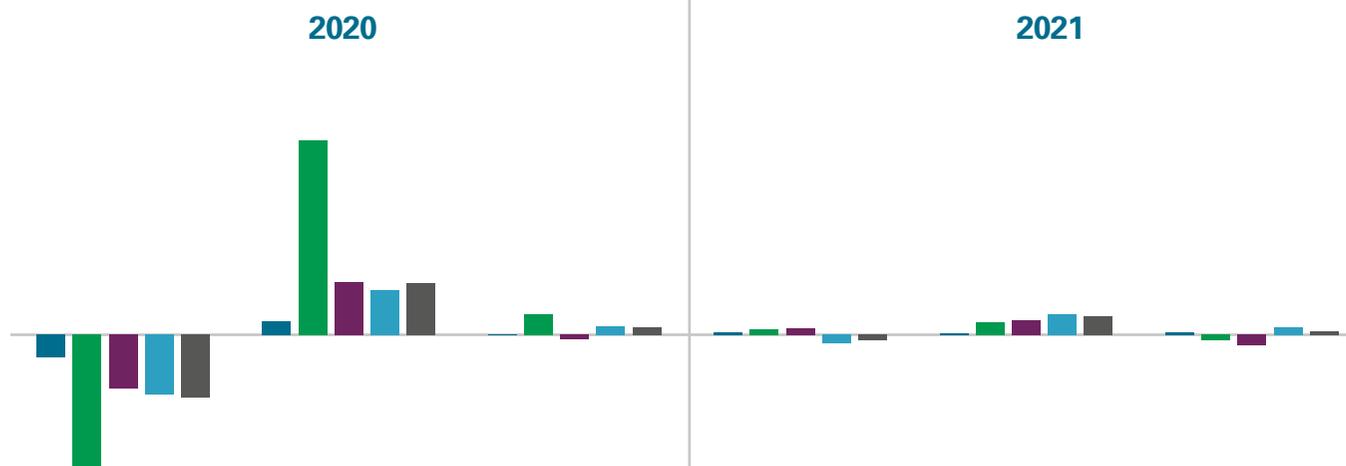
10. A larger proportion of female-owned businesses, particularly SMEs, also operate in sectors that were subject to trade restrictions.

11. The Scottish Government has now carried out Equalities Impact Assessments (EQIAs) on the business support funds introduced to support businesses and the economy during the Covid-19 pandemic ([paragraphs 22–24](#)).

Exhibit 2

Impact of Covid-19 on GDP growth by sector

Percentage change (real)



	2020			2021		
	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture, forestry and fishing	-6.7	4.1	0.2	0.8	0.4	0.8
Construction	-39.7	57.7	6.2	1.7	3.8	-1.5
Production	-16.0	15.5	-1.4	1.9	4.2	-3.1
Services	-17.6	13.2	2.5	-2.6	6.1	2.1
Whole economy	-18.5	15.3	2.1	-1.6	5.6	1.0

Note: The changes shown represent each sector's contribution to the overall change in total economic output in Exhibit 1.

Source: Scottish Government, December 2021

Business support funding

12. Between March 2020 and October 2021, the Scottish Government provided a total of £4.4 billion to businesses under a variety of different funds and partnership arrangements ([Exhibit 3](#)).

13. Private sector businesses were able to apply for support administered by Scotland's councils from March 2020, with initial schemes available until July 2020. Further support schemes then opened:

- **Small business grant and retail, hospitality and leisure grant schemes**, administered by councils, were in place until July 2020. During this time, Scotland's councils paid out **£1.02 billion** in over 91,000 awards.
- **Circuit breaker funding** was available from October to November 2020 under four different funds – closure, hardship, furlough and contingency funding. **Of the £27.4 million provided**, just over 40 per cent (£11.4 million) went to support businesses that were closed. Contingency, used to make one-off payments to nightclubs and soft play centres, comprised the second largest share of funding at 25 per cent (£6.9 million).

Exhibit 3 Scottish Government business support funding

Administering body	Type of fund	Dates	Amount paid £ million
Councils	Small business grants Retail, hospitality and leisure scheme	March to July 2020	1,020.7
Councils	Circuit breaker funding – 4 funds: Closure, Hardship, Furlough, Contingency	October to November 2020	27.4
Councils	19 different funds for different purposes and types of business	November 2020 to October 2021	1,291.1
National bodies (ie, non-council)	Sector funding, covering areas like tourism, the arts and legal aid	March 2020 to October 2021	562.5
Councils	Non-domestic rates (NDR/ business rates) reliefs	Financial years 2020/21 to 2021/22	1,536.0
Total			4,437.8

Note: A full list of the individual funds detailed above is provided as part of the [Data Appendix](#).
Source: Scottish Government Coronavirus (Covid-19) summary of Scottish business support funding, February 2022

- Between November 2020 and October 2021 councils paid out **£1.29 billion**, under a further 19 different council administered support schemes following the introduction of the Strategic Framework Business Fund (SFBF) in November 2020. Between them, the SFBF and restart grant and transitional payments schemes made up nearly two thirds of this funding (£790 million). Hospitality retail and leisure top-up funding made up 18 per cent (£234 million).
- The SFBF has been used as a basis for administering and designing subsequent support schemes as it was only open to businesses paying non-domestic rates on at least one premises. This meant recipients were considered potentially eligible for subsequent schemes where this was a prerequisite.

14. Around **£562.5 million of sector specific funding** was also made available in two successive periods covering March to September 2020 and then October 2020 to October 2021. These smaller funds were administered on behalf of the Scottish Government by a range of agencies, including Scottish Enterprise, Creative Scotland and Visit Scotland. Some of these schemes were specifically designed to support businesses who did not have premises and were not liable for non-domestic rates, and so were not eligible for the main relief funds.

A full list of the individual funds summarised above is provided as part of the [Data Appendix](#).

15. The announcement of various support funds reflects both the timing of additional Covid-19 related funding being confirmed and becoming available to the Scottish Government, and the targeting of support to specific sectors that were most impacted by restrictions. The Scottish Government's overall financial management of additional Covid-19 related funding is the focus of the upcoming joint Auditor General and Accounts Commission audit 'Scotland's financial response to Covid-19' ([paragraph 52](#)).

As well as specific support schemes, businesses across Scotland were offered additional non-domestic rates reliefs

16. In addition to specific business support schemes, the Scottish Government announced a range of interventions to support businesses. This included relief on the amount of rates that businesses had to pay on their premises. The Scottish Government increased General Revenue Grant funding to councils (via the local government funding settlements) to offset the loss of non-domestic rate income.

17. Alongside existing support schemes, properties in the retail, hospitality, leisure and aviation sectors (RHLA) were eligible for 100 per cent relief in 2020/21. These, together with 1.6 per cent relief for all non-domestic properties, were automatically awarded. Eligible properties could also apply for 100 per cent RHLA relief in 2021/22. This effectively means that a large number of business did not have to pay any non-domestic rates on their premises over the last two years.

18. In December 2021, the Scottish Government announced the further continuation of Covid-19 specific rates relief for 2022/23, with a 50 per cent relief for retail, hospitality and leisure (RHL) properties for the first three months of the year (until June 2022 and capped at £27,500 per ratepayer).

19. In total, the Scottish Government estimates that the cost of introducing the Covid-19 specific non-domestic rates reliefs offered totalled £824 million in 2020/21, and £712 million in 2021/22. This does not mean businesses paid this much less in rates, as some would have been eligible for previously existing reliefs. The distribution of the cost of providing the Covid-19 reliefs will reflect the business base within individual councils.

Most of the funding can be identified by council area, but further work is required to provide a complete geographical analysis

20. Due to missing data for some records within the non-council administered funds, total funding awarded to businesses by council area cannot be fully reconciled to the national funding awarded under specific schemes.

21. As at February 2022, £453.0 million of the £562.5 million awarded under the nationally administered schemes includes information on the location of the business and can be used to provide a preliminary analysis of funding by council area ([Exhibit 4, page 10](#)).

The Scottish Government has now considered how business support funding addressed inequalities

22. As the pandemic progressed, the Scottish Government adopted a three-phase approach to respond to Covid-19. The 'Respond, Recover, Renew' approach adopted roughly aligns to short-, medium- and long-term actions, particularly in an economic context. The Scottish Government subsequently identified four harms against which it is reporting data and outcomes: direct health impacts; indirect health impacts; societal impacts; and economic impacts.

23. The Scottish Government completed an EQIA on its Strategic Framework to assess the policy impact on diverse groups and individuals, and this overarching EQIA provided the context in which the business support grants were developed. In late 2021, the Scottish Government completed a series of retrospective EQIAs on business support funds. Although primarily intended to help businesses, and administered at pace, the funding provided through the general schemes was found to support specific demographic groups, for example younger workers, due to their over-representation within certain areas of the labour market ([paragraph 9](#)).

24. Similarly, specific schemes supported industries where business owners and the workforce are from particular groups. For example, the Mobile and Home-Based Close Contact Services Fund provided targeted support for mobile health and beauty services which are mainly owned by, and employ, women ([paragraph 10](#)).

The Scottish Government and councils have been working closely to minimise fraud risk

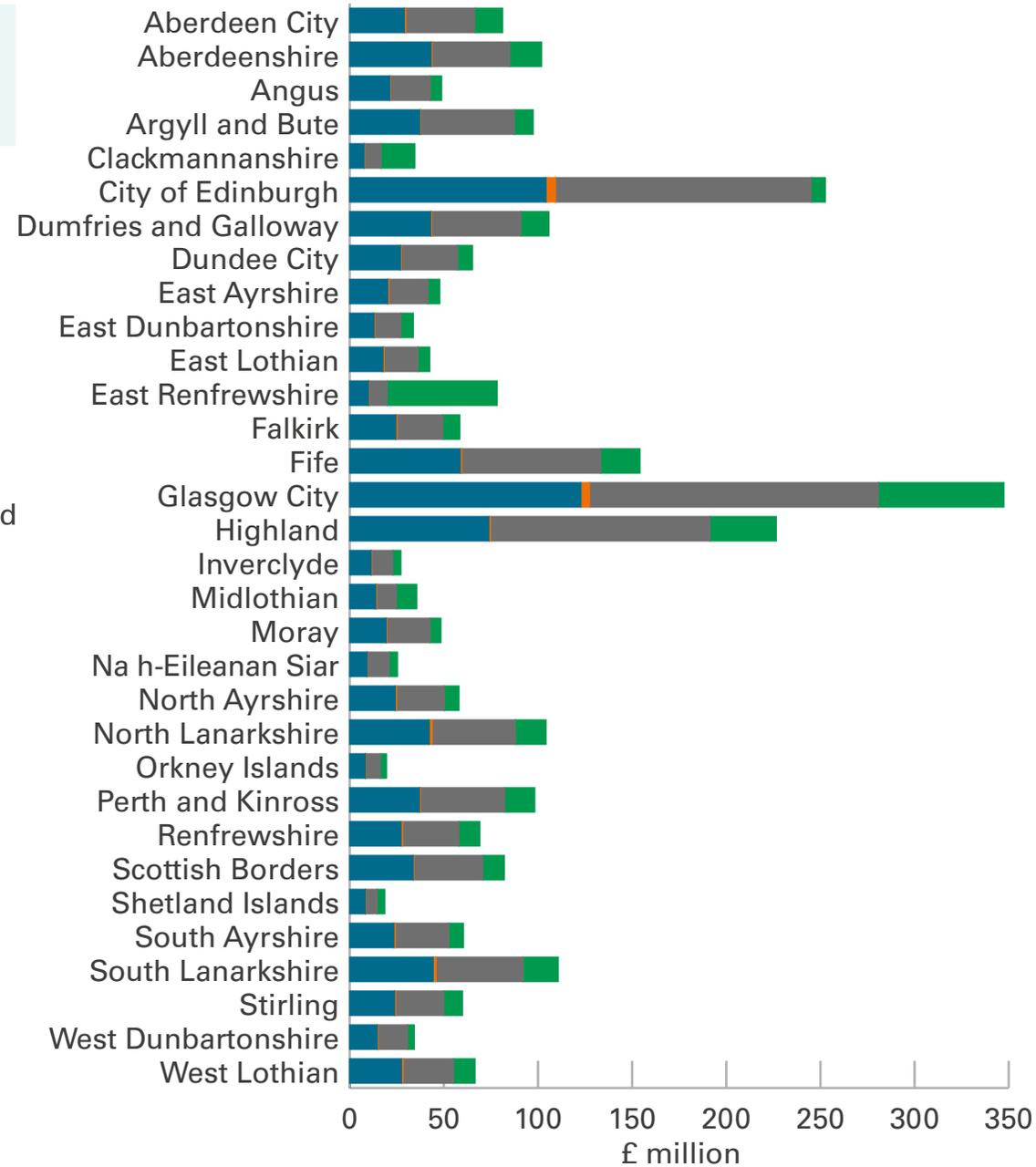
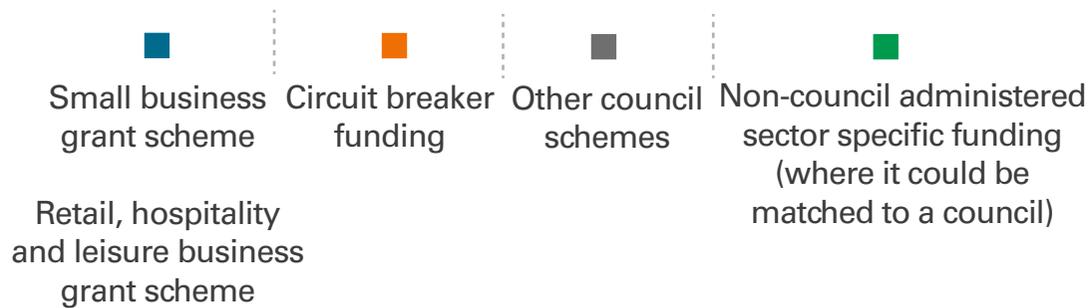
25. As reported in the [Auditor General's Section 22 report on the Scottish Government's Consolidated Accounts for 2020/21](#), the Scottish Government accepted a higher than normal fraud risk due to the speed at which business support schemes were set up, and the need to make payments quickly.

26. For council administered funds, the Scottish Government required that appropriate fraud arrangements were in place, relying on councils to ensure eligibility. This recognised that councils' existing control environments and fraud arrangements are generally robust.

27. For example, a number of funds were open only to businesses that were registered on councils' Non-domestic Rates systems. Additionally, support was initially open only to those businesses that were already registered in 2019/20 (as at 31 March 2020, ie before businesses could apply for support funds). This meant that eligibility was determined using a well-established, robust, existing data set and limited to businesses that were already known and identifiable.

28. In mid-2021, the Scottish Government undertook an assurance mapping exercise to assess the controls in place at delivery partners, including councils. Based on data compiled in an assurance template for the non-council administered schemes, the Scottish Government concluded that there were appropriate controls in place.

Exhibit 4. Business support funding by council area



Note: A full list of the individual funds is provided as part of the [Data Appendix](#).

Source: Scottish Government Coronavirus (Covid-19) summary of Scottish business support funding, February 2022

29. A self-assessment checklist was agreed with and issued to councils, covering a number of funds, including the Coronavirus Business Support Fund, Restart Grants, Strategic Framework Business Fund and Discretionary Fund. Again, the Scottish Government concluded that appropriate controls were in place.

30. In late 2021, the Scottish Government prepared a retrospective Fraud Risk Review on 11 major business support funds, administered by both councils and other bodies. This concluded:

- There was reasonable assurance against fraud risk for business support. Controls were adequate but some improvements could be made.
- An overall assessment that two schemes were high risk, seven medium risk and two low risk (based upon an assessment of the controls in place, timing and nature of payments, and the total value of the funds).

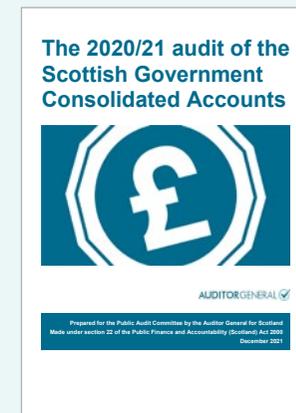
31. The schemes assessed as high risk were council administered schemes, specifically Business Support Fund Grants (including the Small Business Support Grant and the Retail, Hospitality and Leisure Grant) and the Strategic Framework Business Fund (including Retail, Hospitality and Leisure Top-up Grant). This partly reflected the pace at which these schemes were set up and their value (around £2.0 billion of the £2.3 billion of council administered support funding, excluding NDR reliefs).

32. The Scottish Government paid out £1.6 billion of these funds in 2020/21. The audit of the Scottish Government Consolidated Accounts for the year concluded that the Scottish Government's estimate of fraud and error was reasonable but recommended continued monitoring and reporting:

Fraud and Error:

The Scottish Government estimates fraud and error in these schemes to be no more than one to two per cent of payments, approximately £16 million to £32 million. This is based on information available about the schemes being targeted, the quality and completeness of fraud controls and the evidence of fraud detected. While this estimate is not unreasonable, the Scottish Government needs to regularly assess and improve its estimates of fraud and error in Covid-19 grant schemes and assure themselves that controls to detect and prevent fraud and error are working in practice.

Source: [Auditor General's Section 22 report on the Scottish Government's Consolidated Accounts for 2020/21](#)



33. Business support funding payments will be included in the next National Fraud Initiative data matching exercise.

There were also UK-wide schemes to support Scottish businesses and jobs

34. As well as Scottish Government business support funding, a range of UK-wide schemes were open to Scottish businesses:

- Self-Employment Income Support Scheme (SEISS)
- Recovery Loan Scheme
- VAT deferral
- Statutory Sick Pay (SSP) support
- Coronavirus Job Retention Scheme (furlough): up to September 2021, when the scheme closed, over 900,000 Scottish jobs had (cumulatively) been supported. This is equivalent to 26 out of every 100 of the working age population.
 - Furlough support varied across Scotland, from 21 out of 100 of the working age population in Inverclyde to 31 in the Highlands.
 - Proportionately, more men than women were placed on furlough, with 2.4 claims per 100 working age men compared to 2.2 for working age women when the scheme closed.
 - The highest proportion of jobs accessing furlough support were in accommodation and food services (nearly 1 in 5 of the total claims when the scheme closed).

An analysis of the number of furlough claims by council area is provided as part of the [Data Appendix](#).

A further £375 million of business support funding was announced in December 2021

35. In December 2021, due to new public health measures introduced in response to the emergence of the Omicron variant of Covid-19, the Scottish Government announced further support funding would be made available to Scottish businesses.

36. Initially, the Scottish Government announced £100 million of funding, with £175 million of additional funding subsequently being made available from HM Treasury. The Scottish Government later supplemented this by identifying a further £100 million from within its existing budget, to bring the total funding available to £375 million.

37. Councils are administering most of this funding to support hospitality, leisure and associated sectors. Specific funding announcements were also made for the events, tourism and culture sectors.

38. Details of how we intend to cover this funding within our ongoing programme of audit work is included in the [Our work](#) section.

Learning lessons for future economic recovery

The Scottish Government has learned lessons as it developed different business support funding schemes

39. The Scottish Government has taken various steps to improve the management of business support funding since the initial funds were launched in March 2020. These include:

- Setting up a new Covid Business Resilience and Support Directorate (COBRAS) to oversee elements of its overall response to support businesses to respond to Covid-19 and to work in partnership with the wider public and private sectors to build future resilience.
- Establishing the Strategic Framework Business Fund in November 2020 as a means of designing and managing a range of different support funds going forwards (by establishing eligibility).
- Requiring administering authorities to regularly submit management information returns.
- In early 2021, establishing two business support funding oversight groups: the Business Support Governance Group, made up of senior Scottish Government staff, and the Business Support Steering Group, which includes representation from external organisations (including COSLA).

- In mid-2021, undertaking assurance mapping exercises to assess the controls in place across councils and other bodies that administered business support funds.
- In late-2021, completing retrospective Equality Impact Assessments ([paragraphs 22–24](#)) and Fraud Risk Assessments ([paragraphs 25–32](#)) of the individual funds.

There was not enough focus on the need for good quality detailed data on the use of the funds

40. Despite these new governance arrangements, complete analysis of how funding has been used to support businesses remains difficult:

- For the early schemes administered by councils, only council-level aggregate information was initially supplied to the Scottish Government, partly to limit administrative demands during the initial emergency response phase. The Scottish Government is still collating information on the individual grants awarded that make up these figures, including application and payment dates.
- For sector specific funding, administered by national organisations, around 20 per cent of payments cannot currently be matched to council areas to allow analysis of funding on a purely geographical basis.

- For non-sector specific funds, the nature of the businesses supported through some of the more general support funding schemes cannot currently be analysed by economic sector/ activity.
- Similarly, information to enable wider analysis of how funding supported specific groups, such as female owned businesses, is not available from Scottish Government centrally held data.
- Due to businesses being potentially eligible for support under more than one funding stream it is not currently possible to determine the exact number of businesses that received support (as opposed to applicants under individual schemes). This is due to the absence of a unique identifier for each organisation across individual fund data sets.

41. The duration of schemes, timing of summary information being published, and gaps in centrally held data mean that the reported aggregates cannot currently, in all cases, be broken down into constituent individual claims.

The Scottish Government is working to improve the data to inform future policy making

42. The Scottish Government is currently undertaking a large data cleansing exercise to ensure that the datasets for individual funds, including those administered by councils, are complete and contain the information required. This includes any fields that are currently incomplete on individual records.

43. It is expected that, upon completion of this exercise, funding will be better able to be analysed and reconciled, allowing more complete analysis of how funds have been distributed across economic sectors and geographies. It is important that there is clear data to inform longer-term planning and enable evidence-based policy making, including wider equalities considerations.

The Scottish Government is currently refreshing its longer-term economic plans

44. Scotland's economic planning framework is complex, with a range of public sector bodies involved in delivering the overall objectives set out in the National Performance Framework (NPF).

45. The NPF measures progress towards economic targets and outcomes but it does not measure the contribution of specific policies, initiatives or bodies to delivering these outcomes. The Auditor General outlined the challenges of planning for outcomes in a 2019 [briefing paper](#).

46. Since the publication of the National Economic Strategy in 2015, and the Auditor General's 2016 report [Supporting Scotland's economic growth: The role of the Scottish Government and its economic development agencies](#), planning has become more complex. This added complexity includes an increase in the number of bodies now involved, including South of Scotland Enterprise and the Scottish National Investment Bank.

47. As well as specific intervention to support businesses in response to Covid-19 ([Business support funding](#)), the Scottish Government has also made a series of recent policy announcements that will impact the nature of Scotland's economic recovery. These include:

- the 2018 Enterprise and Skills Review, the progress of which was assessed in the Auditor General's recent report [Planning for skills](#)
- interim economic plans, including an Economic Recovery Implementation Plan in 2020
- a refreshed Infrastructure Investment Plan (2020/21-2025/26) and update to its Climate Change Action Plan (2018-2032).

48. A number of funding and policy commitments have already been made, by both the Scottish and UK governments, to support longer-term economic recovery. Alongside Scottish Government policy announcements, these include:

- specific initiatives such as green freeports
- direct UK Government investment in Scotland under the Shared Prosperity Fund (and its precursor the Community Renewal Fund), Community Ownership Fund and Levelling Up funding. The first round of Scottish projects supported under these specific funds was announced alongside the UK Government budget and spending review between October and December 2021.

49. The Scottish Government has recently published a new national economic strategy, the 10-year National Strategy for Economic Transformation, with a focus on the longer-term post Covid-19 recovery.

Our work

Following the Pandemic Pound

50. In line with [Following the Pandemic Pound: our strategy](#), we intend to continue our work in this area to provide overall conclusions on how Covid-19 related funding has been used by the Scottish Government to support public services, communities, and businesses.

51. Prior to, and throughout the Covid-19 pandemic, we have:

- Continued our regular counter-fraud work and highlighted and monitored the range of fraud risks emerging since the start of the Covid-19 pandemic. This includes those related to business support funding. In July 2021, we published [Fraud and Irregularity 2020/21](#).
- Produced a series of tracker papers, outlining the [impact of Covid-19 on Scotland's public finances](#) (most recently in September 2021).
- Continued our annual audit work on the Scottish Government, including the Annual Audit Report and [Auditor General's Section 22 on the Scottish Government's Consolidated Accounts for 2020/21](#).

- Continued with planned audits related to the Scottish Government's wider economic policy programme, including the national Enterprise and Skills Review (the progress of which was assessed in the Auditor General's recent report [Planning for skills](#)).
- In the Accounts Commission's [Local Government in Scotland: Financial overview 2020/21](#), we outlined the strategic financial position of Scotland's councils, including the impact of Covid-19 and how this has affected year-end outturn, balances and reserves.

Upcoming work

52. In our upcoming programme of work, we will:

- In the joint Auditor General and Accounts Commission audit, 'Scotland's financial response to Covid-19': provide an update on the impact of Covid-19 on Scotland's public finances, including the sources of additional funding and the overall financial management, governance and oversight arrangements in place. This will include some consideration of business support funding arrangements.

- In the Accounts Commission's 'Local Government in Scotland Overview 2022': consider economic issues facing local government and how these have been impacted by the Covid-19 pandemic; current and new national policy and legislation and how this links to pandemic recovery.
- Continue our programme of statutory annual audit work on the Scottish Government's accounts for 2021/22, which will include the additional £375 million of funding announced in December 2021, and further consideration of business support funding governance and fraud arrangements.
- Continue to support the Scottish public sector's participation in the biennial National Fraud Initiative.
- Consider further analysis of business support funding information after the Scottish Government has completed its data cleansing exercise.
- We will consider the overall economic policy framework as part of our [forward work programme](#) following the recent publication of the Scottish Government's 'National Strategy for Economic Transformation'.

Briefing

Scotland's economy

Supporting businesses through the Covid-19 pandemic

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or [subscribe to our email alerts](#).



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk

www.audit-scotland.gov.uk

ISBN 978 1 913287 74 0 AGS/2022/5