

Mr Anas Sarwar
Acting Convener
Public Audit and Post-legislative Scrutiny Committee
Scottish Parliament
EDINBURGH
EH99 1SP
By e-mail only

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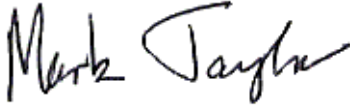
Dear Mr Sarwar

Covid-19 Implications for Public Finances in Scotland

The Public Audit and Post-legislative Scrutiny Committee considered the Auditor General for Scotland's briefing *Covid-19 Implications for Public Finances in Scotland* at its meeting on 27 August 2020. We offered to provide additional information and clarification of certain points for the Committee. I have set this out in the attached appendix.

I hope the Committee will find this information useful. The Auditor General has replied separately to your letter of 16 September 2020 on *Covid-19: Funding support for business*.

Yours sincerely



Mark Taylor
Audit Director

Appendix 1 – Additional information following the briefing paper *Covid-19 Implications for Public Finances in Scotland*

UK Government job support schemes

The Committee asked what percentage the 891,500 Scottish jobs supported by the UK Government Job Retention Scheme (furlough) and Self-Employed Income Support Scheme (paragraph 36 of the briefing) was as a proportion of the total workforce in Scotland. In its most recent [update](#) in September 2020, The Scottish Fiscal Commission estimated that between the start of lockdown and the end of July, around 788,044 employees have been furloughed at some point and 157,423 self-employed individuals have applied for the Self-Employed Income Support Scheme, which in total represents around 36 per cent of total employment in Scotland.

Take up of Business Support Grants

The Committee asked the reason for the lower than anticipated take up of business support grants, referring to paragraph 17 of the briefing that states around £54 million can be reallocated to other support funds. The ongoing situation is subject to change. Based on the latest information that the Scottish Government has shared with us we are able to analyse the underspend between the grants and funds available as set out below:

- **Business Support Funds.** Of the £1.2 billion total available, a £185 million underspend is anticipated. Applications for these grants were closed on 10 July 2020 but some final applications are still being processed.
- **Newly Self-Employed Hardship fund.** Of the £34 million total available, there is a £22 million underspend anticipated. Applications for this grant closed on 10 July 2020.
- **Fisheries Grants.** There was an original budget of £22.5 million across all four fisheries and seafood packages. The Scottish Government expect this to be reduced to £12.1 million at the end of the year and this will be confirmed in the Spring Budget Revision with any underspends to be redeployed on business measures (see below). The four separate schemes to support the fishing industry closed between 20 June and 21 July 2020.

Around £71.7 million of this anticipated underspend was redeployed at the Autumn Budget Revision. Ministers have committed to spending the balance of any underspends on business related measures and these will be included in the Spring Budget Revision.

The Scottish Government would be best placed to provide detailed reasons for the lower than expected take up in these areas.

UK borrowing

The committee asked how the level of UK Government borrowing compared to the level borrowing following the 2008 economic crash. Office of National Statistics data shows that at the 2009 peak of the global financial crisis, the UK Government's [net borrowing](#) reached £21 billion (this is equivalent to roughly £26 billion in today's prices). In comparison, net borrowing this year reached £49 billion.

The Office of Budget Responsibility (OBR) have commented on this in their July [Fiscal sustainability report](#). Based on their central scenario, by the end of 2020/21 the UK Government would need to issue debt worth more than 23 per cent of GDP in 2020/21. In comparison, in 2008/09, the Government issued debt worth 11.5 per cent of GDP. As was mentioned during the session, UK net debt hit £2 trillion for the [first time in July](#), and this has doubled in just over a decade. Net debt reached 100.5 per cent of GDP in July - in comparison, net debt increased from 34 per cent of GDP in 2007/08 to 49 per cent in 2008/09.¹

¹ 2007/08 and 2008/09 net debt figures from the [OBR's public finances databank](#)

Unemployment and business closures

The committee asked for information on unemployment and business closures. In its [monthly economic brief for August 2020](#), the Scottish Government reported that between April and June 2020 unemployment increased by 11,000. The unemployment rate increased by 0.4 percentage points to 4.5 per cent (compared to 3.9 per cent for the UK as a whole). Following the 2008 economic crisis, unemployment was around eight per cent between 2010 and 2013. This indicates that the impact of Coronavirus on the labour market is yet to materialise in the data.

Latest data from the [Office for National Statistics](#) shows that around 2 per cent of businesses in Scotland have temporarily closed or paused trading (compared 2.7 per cent for the UK as a whole).

Take up of emergency loans for house builders and private sector landlords

The committee asked for information on take up of the £100 million of emergency loan for house builders, and £5 million emergency loans for private sector landlords. Again, we wish to highlight that the position is subject to ongoing change. Based on the latest information that the Scottish Government has shared with us:

- Of the £100 million Small and Medium-sized Enterprises Liquidity House Builders scheme, as at the end of August £13.0 million had been spent and a further £5.4 million had been approved.
- Of the £5 million Private Rental Sector Landlords Emergency Loan Scheme, approximately £1.1 million had been spent (this data covers the period up to the end of June)

The Small and Medium-sized Enterprises Liquidity House Builders scheme closed 29 June 2020. The Private Rental Sector Landlords Emergency Loan Scheme is still open at time of writing. The Scottish Government would be best placed to provide detailed reasons for the lower than expected take up.

Level of resource budget committed to finance investment

The committee asked how much headroom there is left on the Scottish Government's self-imposed rule that no more five per cent of its resource budgets can be committed to finance investment.

The Scottish Government's 2020/21 [budget](#) states that In 2020/21, planned and committed projects and borrowing costs are estimated to be 3.11 per cent of the resource budget. The corresponding figures are expected to be to 3.05 per cent in 2021/22 and 2.99 per cent in 2022/23. We have had no indication that further capital borrowing has been planned since the 2020/21 budget.

Social security spending

The committee asked for further information on social security spending in Scotland in relation to Covid-19.

Before the pandemic, in February 2020, Scottish social security assistance spending was forecast to be £3.4 billion. The [Scottish Fiscal Commission](#) expect social security spending to increase as a result of the pandemic. However, the net effect on the Scottish Budget depends on how these changes in Scotland compare with changes in the rest of the UK. The SFC will produce updated forecasts to accompany the 2021/22 Scottish Budget in December 2020.

The data published so far do not show a big increase in spending, but the SFC do expect the rise in Universal Credit claims to start to feed through to Social Security Scotland, with a further rise expected as the UK Government's furlough scheme and support for the self-employed are phased out.

The Scottish Government has announced £69 million of extra funding in 2020-21 for the Scottish Welfare Fund, Carer's Allowance Supplement and Discretionary Housing Payments (DHPs). The pandemic has also delayed the Scottish Child Payment launch, which the SFC estimate will reduce spending in 2020-21 by at least £10 million from the amount previously forecast.