

01 July 2022

Mr Richard Leonard  
Convener  
Public Audit Committee  
Scottish Parliament  
EDINBURGH  
EH99 1SP

Dear Convenor

## **Scotland's financial response to Covid-19; and Scotland's economy: Supporting businesses through the Covid-19 pandemic**

### **Social Security: Progress on implementing the devolved benefits**

At its meeting of 23 June 2022, colleagues and I briefed the Committee on *Scotland's financial response to Covid-19; and Scotland's economy: Supporting businesses through the Covid-19 pandemic*; followed by my report *Social Security: Progress on implementing the devolved benefits*.

The Committee raised a number of questions related to these reports which we offered to provide more information on.

### **Scotland's financial response to Covid-19; and Scotland's economy: Supporting businesses through the Covid-19 pandemic**

#### National Fraud Initiative (NFI)

The NFI is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The NFI uses data sharing and matching to help confirm that services and payments are provided to the correct people.

Members were interested about the inclusion of Covid-19 related funding within the NFI.

The latest NFI exercise included pilot data matching on the early council-administered grant payments under the Small Business Grant and the Retail, Hospitality, and Leisure Grant schemes (£1.02 billion). The wider NFI exercise covered more general elements of Covid-19 related spending by public bodies, for example checking for any duplicate creditor payments.

The results of the NFI exercise in Scotland are due to be published by Audit Scotland in August 2022 and will be subject to consideration by the Committee in due course.

#### Fraud Risk Review and identified fraud and error rates

Members requested further details about the fraud and error rates across different business support funds, including any relevant findings of the retrospective Fraud Risk Review (FRR) the Scottish Government conducted on a sample of business support funds.

As part of the FRR and building on previous assurance mapping work to ascertain what fraud controls were in place across delivery partners, the Scottish Government carried out more detailed Fraud Risk Assessments for 11 schemes. The Scottish Government, as well as meeting with the administering organisations, asked for a self-assessment of the fraud prevention measures in place to be completed. There was also a request for administering bodies to self-report on detected and prevented fraud. For council-administered schemes, they asked a sample of three councils to fill in self assessments and supply relevant data.

The FRR and associated work concluded that there was reasonable assurance against fraud risk for business support. Across schemes, controls against the risk of fraud by duplication of payment were assessed as largely effective but it was noted that there were fewer, or less robust, controls against fraud by falsification in order to meet eligibility/conditionality.

The level of detected fraud reported within schemes delivered by other bodies was comparatively low compared to the levels detected across the council-administered schemes. Councils notably delivered a far greater level of support payments than others, both in number and value, but this also corresponds to the inherent fraud risk rating levels assigned to the schemes (which took into account wider intelligence on fraud activity). Detected fraud levels will also reflect the existing client/customer relationships between organisations and recipients across schemes.

Detection rates will, however, also reflect maturity of arrangements for monitoring and recording of fraud or suspected fraud. These arrangements were found to be more developed in councils than elsewhere. The Scottish Government also found the recording and reporting of fraudulent incidents was affected by the understanding of what is meant by 'fraud' and the organisational appetite to consider applications potentially fraudulent varying across sectors and schemes.

Clear information on levels of fraud losses was not readily or consistently available from the work conducted by the Scottish Government but it did consider available information on detected fraud levels across council administered schemes.

Within the Accountability Report of [The Scottish Government Consolidated Accounts for Year ended 31 March 2021](#), the Scottish Government published information on the work it undertook to assess fraud and error. This included information on rejected applications and detected fraud across three large council administered schemes that may be of interest to members (*Appendix 1*).

### Business numbers

Members were interested in the number of businesses in Scotland and how Covid-19 may have affected this. In paragraph 4 of the briefing, we provided the national position as at March 2021 (344,500 private sector businesses, an annual decrease of 5.4 per cent). The source of these summary figures was the Scottish Government publication [Businesses in Scotland 2021](#), published on 17 November 2021. Analysis of the complete period impacted by Covid-19 (and associated restrictions) will not be possible until at the next publication in this annual series is released.

The decrease of 5.4 per cent in the number of businesses overall was largely driven by a 10.3 per cent decrease in those categorised as unregistered. These businesses are sole proprietorships and partnerships that are not large enough to be meet turnover thresholds (£85,000 as at March 2021) or employ others. The Scottish Government publication also includes further information about sectors of economic activity and employment that may be of interest to members.

More generally, there was a request to highlight sources of economic statistics, analysis and commentary to that may be useful for Committee members. The Scottish Government regularly

publishes monthly and quarterly GDP estimates, supplemented by a range of economic statistics, and monthly briefings and trend reports on the labour market, including employment levels. Committee members may wish to note that the Scottish Parliament Information Centre (SPICe) regularly publishes infographics and research briefings to coincide with the release of economic statistics. Independent commentators such as Fraser of Allander also maintain a regular timetable of analysis and commentary pieces about the economy and labour market.

### Funding for rail services

Members were interested in the support for rail services funding. In 2020/21, the Scottish Government allocated £440.9 million additional support for rail services (£220 million in the summer budget revision, £130.5 million in the Autumn and £117.4 million in the spring). In the [Summer budget revisions 2020/21](#) the Scottish Government set out that £20 million of the support allocated to rail franchise would be funded from a reprioritisation of spending allocated in the 2020/21 budget to rail operators for their normal franchise payments. This was due to reduced rail service provision to reflect lower demand.

The remaining £420 million was funded through Covid-19 Barnett consequentials and reserves. 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 Scottish Government has committed to spend all Covid-19 consequentials on its pandemic response.

In Exhibit 2 we show the actual spend on support for rail operators as £421 million, £20 million less than allocated in the budget revisions through 2020/21. Our understanding is this was used to support wider Covid-19 spending.

## **Social Security: Progress on implementing the devolved benefits**

### Knowledge transfer

Members were interested in the arrangements currently in place to ensure knowledge transfer from contractor staff to permanent employees. To increase the in-house understanding of the Social Programme Management (SPM) system an SPM Learning Pathway is currently being piloted to upskill Programme Business Analysts. This is an incremental modular approach enabling staff to complete different training levels, including the opportunity to spend time job shadowing members of the IBM team. Formal evaluation is currently being planned but attendees have provided positive responses of their experience.

In addition developing permanent in-house test capability, for both the Social Security Directorate and Social Security Scotland, is established within the Test Services contract. This is commencing imminently.

Finally there is evidence of knowledge transfer in the transition of staff, including former contractors, from the Social Security Programme into Social Security Scotland as the low income benefits moved across.

### Headcount

Members asked for clarification on the Social Security Scotland workforce numbers. The most up to date workforce statistics can be found [here](#) and I can confirm that the March 2022 figure of 2,376 relates to full time equivalent directly employed staff. There are a further 166 contingent workers engaged with Social Security Scotland.

I hope the Committee will find this additional information useful. Do let me know if we can assist further on the Committee's deliberations.

Yours sincerely

**Stephen Boyle**  
**Auditor General for Scotland**

## **Appendix 1**

***Extract from Accountability Report within the Scottish Government Consolidated Accounts for the Year ended March 2021***

**Assessment of Fraud and Error**

Information from these assurance processes can inform an assessment of the estimated level of fraud and error within the schemes. Using the most significant schemes; Figure 4 provides headline spend figures for the three most significant schemes; considering prevented fraud, actual detected fraud, initial proxy comparators and then subsequent estimates.

**FIGURE 4: HEADLINE SPEND FIGURES FOR THE THREE MOST SIGNIFICANT SCHEMES**

| <b>Name of scheme</b>                                       | <b>Take-up</b>  | <b>Spend £m</b> |
|---|-----------------|-----------------|
| Small Business Grant (SBG) Scheme                           | 82,267 grants   | 800             |
| Retail, Hospitality and Leisure (RHL) Business Grant Scheme | 9,162 grants    | 220             |
| Strategic Framework Business Fund (SFBF)                    | 47,658 premises | 345             |
| <b>SFBF RHL top-up</b>                                      |                 | <b>234</b>      |
| <b>Total</b>  |                 | <b>1,599</b>    |

### Information on rejected applications

The effectiveness of the verification process for applications provides a good level of assurance on fraud prevention. The rates were approximately: 25% for RHL grants, 14% for SBG, and 30% for SFBF. These demonstrate an effective control regime within each scheme which is corroborated by the high number of prevented fraud attempts recorded by Local Authorities.

### Information on detected fraud

The rates of detected fraud were low. The number of detected or suspected frauds as at June 2021 was 2,186. Of these, 2,086 were prevented and only 100 had been paid, to a value of £605K. This means that only 4.6% of detected fraud resulted in a fraud loss, therefore 95% did not result in loss and were prevented. This indicates proactive and effective pre-payment fraud prevention measures in operation. This data included all Local Authorities, so no extrapolation is required in relation to detected fraud.

For the SBG Scheme and the RHL Business Grant Scheme as at 31st March 2021, 93 grants that were awarded had been successfully recovered due to detection of either fraud or error by Local Authorities. Recovery action had been taken against 115 further awards, although these had not resulted in any recovery at the time of collection. Further information about the outstanding recoveries will be collected from Local Authorities by the end of the 2021-22 financial year.

In relation to undetected fraud, the assurance work confirms that the types of fraud detected aligns with the key risks identified at the outset of the schemes.

Issues in the quality and completeness of fraud information provided by Local Authorities means that there are some limitations in certainty of the overall value of fraud prevented, levels of fraud and consistency of fraud controls in place. The Scottish Government have good information about the fraud controls for business support grants in three Local Authorities, giving a consistent picture between each authority, but recognise that there may be a wider variation in controls across the remaining 29 authorities, and therefore less assurance. We can demonstrate, however, that all 32 local authorities were engaged in fraud prevention activities within business support grants, as fraud detection data was shared between Local Authorities and with the Scottish Government. Inconsistency in that data means total values of fraud prevented is unknown. The data shows approximately £3.1 million of fraud prevented, but this is likely to be between 0.5% and 0.8% (£6.9 million and £10.8 million) based on average grant amounts.

The estimated levels of undetected fraud within business support grants is based on the intelligence available of schemes being targeted, the quality and completeness of fraud controls and the evidence of fraud detected. We recognise that there will have been fraud that went

undetected as schemes were inherently higher risk and evidence suggests active organised crime activity in this space. We are confident however, that the controls identified in the sample of three Local Authorities were likely to be replicated across most authorities and were effective in providing assurance against key fraud risks. Information on the fraud detected was shared between all Local Authorities, who also routinely collaborate on best practice as facilitated by the Scottish Local Authorities Investigators Group. This indicates a consistent counter fraud approach. All of which provides confidence that grants were well protected, corroborated by the high number of rejected applications. Whilst the estimated levels of fraud is limited by a number of assumptions, as outlined, the small number of fraudulent grant payments also suggests there were not large numbers of fraudulent applications undetected.

Based on the above we are therefore confident that a reasonable estimate of fraud can be no more than 1-2% equating to £16.0 million - £32.0 million.