

# **Expert Report for the UK Covid-19 Public Inquiry**

## **Module 9 – Economic Response Devolved and Local Government funding – actions taken and lessons learned**

**Author: Mr David Phillips**

### **Author statement**

I confirm that this is my own work and that the facts stated in the report are within my own knowledge. I understand my duty to provide independent evidence and have complied with that duty. I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

David Phillips

September 2025

# Contents

<b>Glossary</b> .....	<b>3</b>
<b>Preamble</b> .....	<b>5</b>
<b>Executive Summary</b> .....	<b>7</b>
<b>1. Introduction</b> .....	<b>16</b>
<b>2. Devolved government finances during Covid-19</b> .....	<b>17</b>
The standard funding regimes for the devolved governments.....	17
Scotland.....	24
Wales.....	27
Northern Ireland.....	28
Summary.....	29
Funding arrangements during the Covid-19 pandemic.....	29
Performance of arrangements during the pandemic.....	33
Lessons from the pandemic – changes made and potential future changes.....	39
Permanent changes to devolved fiscal frameworks.....	41
Actual changes to permanent rules made since the Covid-19 Pandemic.....	46
Potential temporary changes to rules during future crises.....	47
<b>3. Local government finances during Covid-19</b> .....	<b>53</b>
The standard funding regimes for local authorities.....	53
England.....	55
Scotland.....	58
Wales.....	60
Northern Ireland.....	61
Funding arrangements during the Covid-19 pandemic.....	61
England.....	63
Scotland.....	71
Wales.....	74
Northern Ireland.....	76
Performance of arrangements during the pandemic.....	77
Lessons from the pandemic – changes made and potential future changes.....	84
<b>Conclusions and recommendations</b> .....	<b>90</b>
<b>List of figures</b> .....	<b>94</b>
<b>List of tables</b> .....	<b>95</b>
<b>References</b> .....	<b>96</b>
<b>Inquiry documents</b> .....	<b>105</b>

## Glossary

Barnett formula	Formula used to calculate the change in block grant funding for the devolved governments when planned spending in England changes.
Block grant	The main general-purpose funding provided by the UK government to the devolved governments.
Block grant adjustment	Additions to the main block grant to help pay for newly devolved social security responsibilities and subtractions from the main block grant to account for newly devolved revenues now retained directly by the devolved governments.
Capital funding/spending	Funding and spending related to investment activities - such as paying for new buildings, infrastructure and equipment.
Circuit-breaker lockdown	A term used in Autumn 2020 for short lockdowns aimed at temporarily slowing or reversing the spread of Covid-19.
Council tax	An annual tax on the occupiers of residential properties in England, Scotland and Wales.
Directed grant	Grants that are not formally ring-fenced for specific purposes but where central government expects them to be spent on specific purposes.
Domestic rates	An annual tax on the occupiers of residential properties in Northern Ireland.
General-purpose grant	Grants that devolved and local governments are free to spend as they see fit.
Local rates	The proportion of domestic and non-domestic rates in Northern Ireland set by local authorities.
Non-domestic rates	An annual tax on the occupiers of non-residential properties in England, Northern Ireland, Scotland and Wales. Also called 'business rates'.
Prudential borrowing regime	Borrowing regime for local authorities in the UK. This allows borrowing for investment purposes (but generally not resource spending) provided that investment plans are affordable and proportional; external borrowing and long-term financial liabilities are within prudent and sustainable levels; that risks associated with investments and commercial activities are assessed and proportional to financial capacity; and that decisions are taken in accordance with good professional practice.

Regional rates	The proportion of domestic and non-domestic rates in Northern Ireland set by the Northern Ireland Executive.
Resource funding/spending	Funding and spending related to non-investment activities - such as day-to-day spending on managing and operating public services, and benefits and grants for households and businesses.
Ring-fenced grant	Grants that are must be spent on specific activities or for particular purposes.
Section 114 notice	A mechanism whereby chief financial officers of local authorities in England and Wales can halt all new non-essential expenditure for a period of time (initially 21 days), until they are satisfied a plan is in place to help address major financial concerns.

## Preamble

1. This report has been prepared by David Phillips, an Associate Director at the Institute for Fiscal Studies. He leads the Institute's work on devolved and local government finance, and has 13 years of research and engagement on devolved and local government finance issues, including finance systems, and funding and spending trends and choices. The IFS has no corporate views on these issues (or indeed any other issue): the overall conclusions drawn are those of David alone, and he is solely responsible for any error or omissions.
2. David has undertaken significant amounts of research on the topics at the heart of this report, and has acted as an expert advisor to relevant official reviews:
  - 2.1. He was Principal Investigator (PI) for a project funded by the Economic and Social Research Council (ESRC) to examine the financial effects of the Covid-19 pandemic on English councils ([COVID-19 and councils' finances: understanding risks and impacts and improving policy](#)). To aid this work, additional funding as well as data on councils' reported financial impacts was provided by the Local Government Association. All conclusions drawn were those of David and his co-authors alone.
  - 2.2. He was co-Investigator (co-I) for a project funded by the ESRC on the Covid-19 pandemic and the devolved governments' financial arrangements ([COVID and the UK nations' fiscal frameworks: impacts, performance and lessons](#)).
  - 2.3. He was commissioned by the British Academy to produce a [short report](#) on lessons for sub-national government finance systems from the pandemic.
  - 2.4. He was Fiscal Framework Advisor to the Scottish Parliament's then [Finance and Constitution Committee](#) between Autumn 2020 and Spring 2021.
  - 2.5. He was co-author of the [Independent Report](#) on block grant adjustments jointly commissioned by HM Treasury and the Scottish Government as part of the review of Scotland's Fiscal Framework in 2022 and 2023.
  - 2.6. He was an expert advisor to the [Northern Ireland Fiscal Commission](#), chaired by Paul Johnson, which advised on the devolution of revenue powers and associated fiscal reforms for the Northern Ireland Assembly.
  - 2.7. He is currently a member of the Ministry of Housing, Communities and Local Government's (MHCLG's) Local Government Funding Reform Strategic Group ([see slide 4](#)).
  - 2.8. He has previously been a member of the [Welsh Government Tax Advisory Group](#), [Welsh Government Local Government Finance Reform Working Group](#), and the [Scottish Parliament's External Expert's Network](#).
3. This report draws heavily on the research conducted under the projects listed under 2.1 and 2.2. These projects were largely based on qualitative and quantitative analysis of the funding arrangements for English local government and the devolved governments during the Covid-19 pandemic, and potential alternative short-term and long-term arrangements.

4. The report:
  - 4.1. Provides an outline of how local authorities receive funding from central or national governments, and how, if at all, these systems of funding changed during the pandemic. This includes a summary of any variations as between local authorities in England, Wales, Scotland and Northern Ireland.
  - 4.2. Provides an outline of how devolved administrations receive their funding from the UK government, and how, if at all, those systems changed during the pandemic. This includes identifying any difference in arrangements between the devolved nations and any observations on the consequence of any differing arrangements.
  - 4.3. Provides a brief outline of the fiscal frameworks that existed prior to the pandemic as between HM Treasury and the devolved administrations. It assesses to what extent those frameworks include or provide for any adaptations in a time of economic crisis of the type experienced in the pandemic.
  - 4.4. Provides an analysis and opinion as to whether, and to what extent, the systems of funding (i.e. the funding mechanisms, fiscal frameworks and processes set out in answer to the earlier questions) adequately enabled the devolved administrations and local authorities to respond to the pandemic?
  - 4.5. Provides an outline of how any additional emergency funding was distributed to devolved and local governments during the pandemic? This includes analysis and opinion as to whether and to what extent any additional emergency funding enabled the devolved administrations and local authorities to respond to the pandemic?
  - 4.6. Provides an analysis and opinion as to whether or to what extent the systems of funding to the devolved administrations and local authorities was too rigid and subject to overarching control by the UK government. This includes an assessment of whether this may have affected the economic response to the pandemic by devolved governments and local authorities?
  - 4.7. Provides a view as to the competing benefits and drawbacks of a system of funding which would enable greater autonomy to the devolved nations and local authorities in economic decision making in any future economic crisis of the type experienced in the course of the pandemic? It discusses what modifications to established systems might enable the devolved nations and local authorities to better respond to a future economic emergency?
  - 4.8. Provides an analysis and opinion of any other key lessons that might be learned.
5. Rather than address these questions in turn, the report first considers the funding arrangements for the devolved governments and then considers the funding arrangements for local authorities.

## Executive Summary

6. This report describes the funding arrangements for the devolved Northern Irish, Scottish and Welsh governments, and local authorities across the country, both in 'normal' times and during the Covid-19 pandemic. It covers funding and spending both for resource-purposes (i.e. for the day-to-day operation of public services, grants to households and businesses) and capital-purposes (i.e. investment in buildings, infrastructure and equipment). It assesses the performance of these arrangements, in terms of whether they enabled the devolved and local governments to effectively respond to the Covid-19 pandemic. It also draws lessons for funding arrangements going forwards, both in normal times (to improve resilience to more modest shocks) and in potential future pandemics and national emergencies.
7. The main body of the report addresses these questions separately for the devolved governments and local authorities. This summary addresses these questions for both tiers of government together, to draw out common findings. References supporting the findings are provided in the main body of the report.
8. The key findings in relation to the design of 'normal' funding arrangements are that:
  - 8.1. The 'normal' funding arrangements for the devolved governments have developed through ad-hoc processes rather than a principles-based design process.
    - 8.1.1. The arrangements provide for significant redistribution and risk sharing across the UK, especially in relation to the revenue side of the budget. The UK government borrows on behalf of the whole of the UK, to fill gaps between revenue and spending, with borrowing by the devolved governments significantly restricted in scale and scope.
    - 8.1.2. UK government 'block grant' funding, determined by the Barnett formula, remains the main determinant of devolved governments' budgets, although tax devolution to Scotland and to a lesser extent Wales in the late 2010s provides them with some ability to vary their total budgets.
    - 8.1.3. As of the time of the pandemic, the Barnett formula took no account of spending needs for Scotland and Northern Ireland. Instead, it provided these countries with an annual increment to funding based on a population-based share of the change in spending planned for England in the year in question. However, evidence suggests the Scottish Government and NI Executive received a higher share of funding than needed prior to the pandemic (2019–20), in Northern Ireland's case due to funding via political deals. The Barnett formula had been amended slightly for Wales to account partially for the need for public spending variation compared to England, but evidence suggests Wales was less generously funded than the Scottish Government and NI Executive prior to the pandemic.
    - 8.1.4. Funding arrangements are set out in the UK Treasury's Statement of Funding Policy, with borrowing and reserves powers and adjustments to funding to account for tax and social security devolution (so called 'block

grant adjustments, or BGAs) set out in 'Fiscal Framework Agreements' between the UK and devolved governments. The UK government retains the right to vary these arrangements, including in times of national emergency. At the time of the Covid-19 pandemic, the Scottish Fiscal Framework Agreement also allowed for a modest increase of borrowing and reserves limits automatically if a 'Scotland-specific economic shock' (see paragraph 41 for more detail on this), as defined by the Agreement, took place (these higher limits have since been made permanent).

8.2. The arrangements for funding the local authorities differ somewhat between the nations of the UK but include government grants, property-based taxes, sales, fees and charges (SFCs), investment income and contributions from other public sector bodies. Local authorities can hold reserves, and in many cases these are quite substantial. They can borrow for capital purposes up to self-determined 'prudential' limits (see glossary for further information), but borrowing for resource spending purposes is generally forbidden.

8.2.1. Local authorities in Scotland and Wales rely mostly on grant funding. This includes general purpose grants, 'directed' or 'ring-fenced' grants, and redistributed non-domestic rates revenues (see glossary for further information). Complex systems of assessing spending needs and how much local authorities can raise via council tax systems are used to allocate this funding, with local authority representatives part of the groups determining these assessments.

8.2.2. Local authorities in England rely to a greater extent on local taxation, including a substantial locally retained proportion of non-domestic rates. General grant funding is limited, although the late 2010s saw a growing amount of grant funding ring-fenced for social care. Reforms from the mid-2000s onwards left England without a proper system to assess needs and revenue-raising capacity and allocate funding accordingly.

8.2.3. With cuts to government funding during the 2010s, local authorities in England and Wales became more reliant on local tax and SFC income to fund their services. Especially in England, some local authorities increased their investment activities in order to generate income leading to increased debt and risk too.

8.2.4. Local authority reserves levels increased during the 2010s despite funding cuts, although the level of reserves varied significantly across local authorities.

9. A number of changes were made to funding arrangements during the Covid-19 pandemic:

9.1. Both devolved governments and local authorities were provided with substantial additional funding.

9.1.1. The devolved governments ultimately received a population-based share of funding in 2020–21, via the Barnett formula. But because they were allowed

to carry more of this over into the following year than departments serving England, they effectively received a higher-than-population share in 2021-22, which meant they could offer more generous support for business (in particular) in that year.

- 9.1.2. Local authorities received funding that significantly exceeded the financial impacts that they faced, with reserves increasing substantially in aggregate during 2020-21 and 2021-22 in each of the nations of the UK.
- 9.2. Changes were made to normal funding arrangements to provide more financial certainty, to ease administrative burdens, and to avoid financial failure.
  - 9.2.1. The UK government introduced funding guarantees for the devolved governments in summer 2020, which applied until the final spending plans for 2020-21 were published in March 2021. These guaranteed the devolved governments an amount of funding set some way above the Barnett Formula-determined level at any given time, giving them more scope to respond to changing conditions without having to wait for further spending to be confirmed for England. There was more uncertainty in the first months of the pandemic before these guarantees were introduced, and they were increased several times during the course of the year so did not remove all uncertainty. They also did not apply in 2021-22.
  - 9.2.2. The UK and devolved governments gave local authorities more time to comply with standard financial reporting and audit requirements. The UK government also paused significant funding reforms that would have absorbed significant central and local government capacity.
  - 9.2.3. Measures including front-loading grant payments (Wales), debt servicing holidays (Scotland) and providing additional flexibility over use of capital funding and borrowing via 'exceptional financial support' requests (England) were used to avoid cash-flow problems and support local authorities facing particular difficulties.
- 9.3. The UK and Welsh governments collected financial monitoring information from local authorities on the overall financial effects of the Covid-19 pandemic, which were then used to help allocate funding. The Scottish Government did not collect such data, although it did liaise with councils on financial impacts and the Convention of Scottish Local Authorities (COSLA) did undertake several ad hoc collections.
- 9.4. The way additional funding was allocated to local authorities differed between the different nations of the UK.
  - 9.4.1. In England and Scotland, most funding was allocated on the basis of formulas assessing the need for funding based on local characteristics. In England, additional general grant funding was eventually allocated on the basis of the relationship between stated Covid-19 financial impacts and local areas' populations and deprivation. In Scotland, existing arrangements for

the Scottish Government and local authorities to jointly determine allocation principles were used (formulas used to determine this are not published, and are only held by Scottish Government and councils).

- 9.4.2. In Wales, the main way funding was allocated was on the basis of stated financial impacts in monitoring returns. Claims were assessed by panels of civil servants, with some local authority representatives.
- 9.4.3. In England and Scotland, funding to offset losses in SFCs income was based on stated losses rather than formulas. Unlike in Wales, though, losses were only partially compensated for, with the aim of maintaining incentives for income generation where possible.
- 9.5. No changes were made to the borrowing or reserves powers of the devolved governments in response to the Covid-19 pandemic, although 2021-22 was identified as a year with a 'Scotland-specific economic shock', automatically providing higher borrowing and reserves drawdown limits than would otherwise have been the case.
- 9.6. There was enhanced communication between tiers of government on financial-related issues, especially in the early part of the pandemic. This has been reported by UK government, devolved government and local government officials. With divergences in opinions on how to 'reopen' in Summer 2020 and respond to the second and subsequent waves of Covid-19 from September 2020 onwards, communication between the UK and other tiers of government was less effective after the initial months of the pandemic.
10. As explained in the main body of the report, my judgement is that overall with these changes the funding arrangements for the devolved and local governments allowed them to respond effectively to the Covid-19 pandemic. However, there were a number of issues and 'crunch points' from which lessons can also be drawn.
  - 10.1. The funding guarantees and end-year flexibility provided to the devolved governments in 2020-21 gave both more certainty and flexibility to them for their own financial planning and pandemic response. They also enabled the devolved governments to spend more in 2021-22, which allowed them to provide more generous business support that year. They did not, however, remove all uncertainty, and did not take effect until several months into the pandemic, and so did not cover perhaps the most uncertain time period.
  - 10.2. The reliance on the population-based Barnett formula to provide additional funding to the devolved governments was appropriate in the context of a pandemic that had broadly symmetric impacts across the nations of the UK.
  - 10.3. Large sums of funding were provided to local authorities in all four nations, in England and Wales in part because of the overstatement of the net financial impact of the Covid-19 pandemic on their expenditures in financial returns. Together with measures to provide liquidity and exceptional financial support arrangements, this

prevented financial failure and meant most local authorities across the UK had substantially larger reserves in March 2022 than at the outset of the pandemic.

- 10.4. The use of UK government grants (funded by UK government borrowing), while maintaining restrictions on devolved and local borrowing, had both benefits and costs, but my judgement is that the benefits were greater in the context of the Covid-19 pandemic. The UK government can borrow more quickly and cheaply, and can share the costs of response across the entire UK population, in the face of differential impacts and abilities to pay across regions and local areas. It has the authority to vary funding arrangements to respond to needs not aligning with existing ways of allocating funding (for example, with the development of Covid-19 spending needs formulas for English local authorities) or to provide greater certainty and flexibility (as with the funding guarantees provided to the devolved governments).
- 10.5. However, reliance on UK government borrowing and grant funding reduced the ability of the devolved and local governments to take a much more expansive or aggressive response to the Covid-19 pandemic. Particular issues arose during Autumn 2020 with the second Covid-19 wave, and again during the Omicron wave of Winter 2021-22, when the UK and devolved governments differed on their views about how and when to respond with more stringent public health measures and enhanced business support. In Autumn 2020, plans to end the Furlough scheme at the end of October, which was only cancelled when a decision to put England into lockdown in November was made, may have affected the timing and duration of Wales' 'circuit breaker' lockdown (see glossary for more information). In the Omicron wave, a major crisis was averted only when it became clear that mortality rates remained low (following vaccination) and the UK government announced and funded a grant scheme for Q1 2022.
- 10.6. The funding arrangements for the devolved governments may provide an incentive for more stringent public health restrictions than under more fiscally autonomous systems. The UK government bore the impact of any public health restrictions on non-devolved revenues - such as VAT, National Insurance and Corporation Tax - and the impact on devolved revenues for any measures that affect the whole of the UK (because of the way the BGAs are updated to reflect what happens to revenues in England and NI). This may have contributed to more stringent restrictions at times in the pandemic, and disagreements between the UK and devolved governments over the approach to addressing the pandemic.
- 10.7. The allocation of funding in multiple tranches, often in quick succession, and sometimes with limited notice (especially for business grants) created uncertainty and placed a significant burden on local authorities. The use of 'directed' and ring-fenced grant funding with major restrictions on their use and sometimes significant administrative requirements on local authorities.
- 10.8. The greater targeting of business support grants after the initial grants had been paid out likely increased their value-for-money but it did increase complexity for local authorities, especially where practical considerations – such as the ability of local authorities to identify intended beneficiaries using available data – appeared not to

have been fully considered in their design (such as with England's 'winter support grant' for drinks-focused pubs).

- 10.9. Both the UK and devolved governments highlighted improved inter-governmental communications in the early stages of the Covid-19 pandemic, but this was not sustained later, as views on appropriate public health and economic responses diverged.
- 10.10. While the UK government has collated relevant information of Covid-19 local authority funding, aiding a review of practice and performance, such information is not collated for either devolved governments, or for Scottish and Welsh local authorities. This makes understanding what was done and assessing its performance harder than necessary.
11. Based on my assessment of the performance of funding arrangements during the Covid-19 pandemic, the overarching recommendation I would make for potential future national emergencies would be to maintain a flexible rather than rules-based approach for determining which arrangements to utilise. Bearing this in mind, the general lessons I draw from the pandemic are:
  - 11.1. Updated contingency plans for potential future pandemics and national emergencies, which the UK and devolved governments have committed to producing in response to Module 1 of the Inquiry, should include options for funding arrangements for devolved and local governments. They should set out the principles for how decisions on the funding arrangements to use in particular circumstances will be made, and guidance for particular funding arrangements that enables their rapid implementation. This is not currently the case and should be rectified.
  - 11.2. The UK government is usually best placed to raise funding for a national emergency, given the large and liquid gilt market, and the Bank of England's liquidity and quantitative easing operations. Direct borrowing by the devolved or local governments would likely take longer and be more costly, especially if large amounts were being borrowed for the first time.
  - 11.3. The UK government should be ready to bypass the Barnett formula and target funding at particular nations or regions of the UK in the case of a large asymmetric emergency, with decisions on this taken on a case-by-case basis, and reasoning to be clearly explained. This approach would provide greater insurance against asymmetric shocks than allowing devolved and local governments to borrow to fund measures themselves (as in that case, those facing bigger shocks would need to borrow and pay back more).
  - 11.4. The use of temporary funding guarantees, set at a level somewhat above the level implied by the Barnett formula at any given point, mean the devolved governments do not need to wait for announcements of new spending for England before planning and announcing their own measures. The provision of modest discretionary borrowing powers, either during a period of crisis, or more generally (see below) could also provide them with such flexibility. Which is most appropriate

will depend on the specific nature of an emergency: funding guarantees are more appropriate for fast-moving but largely symmetric emergencies; borrowing could play a bigger role in circumstances where impacts or desired responses vary more between nations.

- 11.5. An effort should be made to maintain enhanced financial information sharing and coordination for the duration of a future national emergency, not just its early stages as in the Covid-19 pandemic. This would require the different tiers of government to treat as confidential information shared by other tiers, and may sometimes be more feasible at official rather than political level.
- 11.6. Interactions between the responsibilities assigned to different tiers of government need to be accounted for. In a pandemic situation the most important such interaction is likely to be between public health restrictions (which were devolved during the Covid-19 pandemic) and economic support and overall funding levels (which was the responsibility of the UK government). Given the potential for an asymmetric shock, and different views between the UK and devolved governments on the appropriate public health restrictions to have in place at a given time, efforts should be made to allow economic support (such as the furlough scheme) to be operated on a geographical basis. This could be funded by the UK government if caseloads (or other measures of situation severity) exceed a certain threshold, or via devolved governments (through enhanced borrowing powers) if risk appetites differ.
- 11.7. The UK and devolved governments should collect information from local authorities on the financial impacts of future emergencies or pandemics to help inform the financial support provided to them. They should explicitly ask about areas of reduced expenditure as well as higher expenditure, and could be subject to enhanced vetting. It may also be possible to take information directly from local authorities' financial accounts and internal financial monitoring processes. As highlighted in Module 1 of this Inquiry (UK Covid-19 Inquiry, Module 1: The resilience and preparedness of the United Kingdom, 2024), investment in systems for the timely collection, analysis, and the secure sharing and use of this (and other relevant) data should be made pre-emptively and such systems tested.
- 11.8. In order to avoid incentivising higher-than-necessary financial costs, a combination of formula-based funding for additional expenditures and impact-based funding for income losses (with less than 100% compensation) should be the default option for providing additional funding. Ring-fencing of funding for particular services should be kept to a minimum, although ring-fences with broad criteria can provide more flexibility to local areas than specifying that local authorities provide particular schemes and services (for example, to fund discretionary business or household support, without specifying exactly what form that takes).
- 11.9. Upfront payment of grants and exceptional financial support (including using capital funding for resource purposes) should also again be utilised to support cashflow and avoid financial failure of the most vulnerable local authorities. Debt servicing holidays, could be utilised if an emergency causes particular issues for local

authorities' debt servicing costs and/or cash-flow and financial vulnerability are high across the local government sector.

- 11.10. Information on funding allocations (including allocation methodologies) and purposes, and other financial responses to a potential future pandemic or national emergency should be collated and published, to support understanding, scrutiny and future learning.
12. The ability of devolved governments and local authorities to respond to a national emergency depends not only on financial support and arrangements provided specifically for that emergency, but also pre-existing funding arrangements and financial circumstances. To improve the underlying resilience of funding arrangements for devolved and local governments, several permanent changes to 'normal' arrangements should be made.
  - 12.1. The devolved governments should automatically be allowed to carry forward late increases or defer late decreases of funding in a given year into future years (even above normal reserves limits). This would be a preferable way of providing more in-year certainty about funding than 'funding guarantees' on a long-term basis.
  - 12.2. The devolved governments' borrowing limits for forecast errors and reserves limits should be indexed to the amount of revenue and spending at risk rather than inflation (as in Scotland) or frozen (as in Wales).
  - 12.3. The devolved governments should be allowed to borrow a modest amount (e.g. 1%-2% of their resource budgets) for discretionary resource purposes, to enable them to respond to shocks to public service spending needs, and to respond to temporary declines in tax revenue or increases in social security spending that are forecast in advance.
  - 12.4. Substantial additional borrowing powers (either for resource or capital purposes) for the devolved governments could be considered unfair to England – there is no 'England only' borrowing, in general – and so would need to be considered as part of a more fundamental change to the UK's fiscal architecture.
  - 12.5. This is also true of changes to the formulas used to calculate the block grant and block grant adjustments for the devolved governments of the UK. There are legitimately different views about the extent of redistribution and risk sharing across the UK. Thus, while the current system (most notably the Barnett formula) is hard to justify on a principled basis, the direction of any reform is an inherently political - as opposed to technocratic - decision.
  - 12.6. The UK government should conclude its review of the English local government finance system, update assessments of how local authorities' spending needs and revenue raising capacities compare to each other, and re-introduce a funding system that accounts for these assessments when allocating funding between authorities. This will help ensure funding is allocated according to rational criteria, which is not currently the case, risking adverse impacts on the resilience of local authorities that are currently relatively under-funded under existing funding allocations.

- 12.7. Both the UK government and devolved governments should go beyond current approaches to consider not only how needs and revenue-raising capacity compares between authorities, but also the overall funding requirement for the local government sector as a whole: is the overall funding available consistent with the services local authorities are expected to provide? If the answer to this question is “no”, as seems likely given evidence of significant financial pressure, a plan is required to address this and improve the resilience of the local government sector as a whole. Such a plan could include some combination of increases in funding (or the provision of additional revenue-raising options to local authorities themselves), changes to the services that they are expected to deliver, and support to improve the efficiency and productivity of service delivery. The absence of such a plan risks the resilience of the local government sector as a whole.
- 12.8. Further improvements to the monitoring of the financial resilience and risk of local authorities should be made, including through tracking indicators of likely financial risks in potential future pandemics and national emergencies.

# 1. Introduction

13. This report provides an overview and assessment of devolved and local government funding arrangements during the Covid-19 pandemic, with the aim of drawing lessons for the design of future arrangements. It provides a factual description of the pre-existing funding arrangements and the approaches taken during the Covid-19 pandemic. The assessment and lessons learned are evidence-based but necessarily involve subjective judgements. These judgements are my own.
14. The report covers both resource and capital funding and spending, for which different rules apply, and where the pandemic saw different changes in funding levels and rules. Resource funding and spending (sometimes also called 'revenue spending' or 'current spending') relates to funding for and spending on the day-to-day management and operation of public services, and provision of benefits and grants to households and businesses. Capital funding and spending (sometimes also called 'investment spending') relates to funding for and spending on investments in buildings, infrastructure, equipment and certain kinds of research and development activities. In general, funding provided for resource purposes can be used instead for capital purposes, but not vice versa. Most of the additional funding and spending incurred during the Covid-19 pandemic was for resource purposes, but some changes were made to capital funding arrangements too.
15. The rest of this report proceeds as follows. Section 2 considers funding arrangements for the devolved governments, while Section 3 considers funding arrangements for local governments in each of the nations of the UK (local government funding is a devolved matter). Both sections begin with a description of 'normal' (pre-Covid) funding arrangements, then discuss any changes made during the Covid-19 pandemic. This is followed by an assessment of the performance of those arrangements, and the lessons that can be drawn from this assessment. Section 4 concludes with a brief summary of the most important findings of this report and a list of the main recommendations for reforming devolved and local government funding arrangements.

## 2. Devolved government finances during Covid-19

### The standard funding regimes for the devolved governments

#### Summary

UK government funding, determined by the Barnett formula, remains the main determinant of devolved governments' budgets.

As of the time of the pandemic, the Barnett formula took no account of spending needs for Scotland and Northern Ireland. Instead, it provided these countries with an annual increment to funding based on a population-based share of the change in spending planned for England in the year in question. However, evidence suggests the Scottish Government and NI Executive received a higher share of funding than needed prior to the pandemic (2019–20), in Northern Ireland's case due to funding via political deals. The Barnett formula had been amended slightly for Wales to account partially for the need for public spending varying compared to England, but evidence suggests Wales was less generously funded than the Scottish Government and NI Executive prior to the pandemic.

In addition to UK government funding, the devolved governments receive funding from devolved taxes – with these revenues and associated powers being greatest in Scotland, and most limited in Northern Ireland.

These arrangements provide for significant redistribution and risk sharing across the UK, especially in relation to the revenue side of the budget. The UK government borrows on behalf of the whole of the UK, to fill gaps between revenue and spending, with borrowing by the devolved governments significantly restricted in scale and scope.

The arrangements are set out in the UK Treasury's Statement of Funding Policy and in 'Fiscal Framework Agreements' between the UK and devolved governments. The UK government retains the right to vary these arrangements, including in times of national emergency. At the time of the Covid-19 pandemic, the Scottish Fiscal Framework Agreement also allowed for a modest increase of borrowing and reserves limits automatically if a 'Scotland-specific economic shock', as defined by the Agreement, took place (these higher limits have since been made permanent).

16. The spending responsibilities of the devolved governments differ between Scotland, Wales and Northern Ireland as set out in Table 1 below. Overall, spending devolution is greatest for Northern Ireland and least for Wales.

**Table 1: Spending responsibilities of the devolved governments**

<b>Policy area</b>	<b>Scotland</b>	<b>Wales</b>	<b>Northern Ireland</b>
Health & social care	Yes	Yes	Yes
Education & training	Yes	Yes	Yes
Local government	Yes	Yes	Yes
Housing	Yes	Yes	Yes
Transport	Yes	Partial	Yes
Economic development and support	Partial	Partial	Partial
Culture and sport	Yes	Yes	Yes
Agriculture, forestry and fisheries	Yes	Yes	Yes
Justice and policing	Yes	No	Yes
Social security benefits	Partial	No	Yes
Energy & Climate Change	Partial	Partial	Partial
Science & innovation	Partial	Partial	Partial
Defence	No	No	No
Foreign Affairs	No	No	No
Immigration	No	No	No
Trade Policy	No	No	No
Constitution	No	No	No
Broadcasting	No	No	No

Source: HM Government (2019).

17. Legally, powers are not specifically devolved to Scotland, Wales and Northern Ireland. Instead, the devolved governments are able to legislate for any issue that is not specifically reserved to the competency of the UK government - in practice, these non-reserved issues are 'devolved'. Full information on the powers reserved to the UK government in the case of each of Scotland, Wales and Northern Ireland is set out in Torrance (2024). The UK government can choose, if it wishes, to legislate in non-reserved (i.e. devolved) areas too.
18. The funding arrangements for the devolved governments also differ somewhat between Scotland, Wales and Northern Ireland, as set out in HM Treasury's Statement of Funding Policy (HM Treasury, 2021, 2024). Figure 1, taken from that report summarises these funding sources.

**Figure 1: Elements of devolved government funding**

**Table 1.A: Elements of Scottish Government funding**

	<b>Page reference</b>
UK Government block grant funding	9, 14, 16, 18
UK Government funding for Annually Managed Expenditure	20
Other sources	25
Non-domestic (business) rates	25
Land and buildings transaction tax and Scottish landfill tax	30
Scottish Income Tax	30
Capital and non-capital borrowing	31
Scotland Reserve	32

**Table 1.B: Elements of Welsh Government funding**

	<b>Page reference</b>
UK Government block grant funding	9, 14, 16, 18
UK Government funding for Annually Managed Expenditure	20
Other sources	25
Non-domestic (business) rates	25
Land transaction tax and landfill disposals tax	34
Welsh Rates of Income Tax	35
Capital and non-capital borrowing	35
Wales Reserve	36

**Table 1.C: Elements of Northern Ireland Executive funding**

	<b>Page reference</b>
UK Government block grant funding	9, 14, 16, 18
UK Government funding for Annually Managed Expenditure	20
Other sources	25
Non-domestic (business) rates	25
Air Passenger Duty	38
Capital and non-capital borrowing	39
Budget Exchange	39

Source: HM Treasury (2021)

Note: Page references are pages within HM Treasury (2021) where further information can be found. Brief explanations of these elements of funding are provided below.

19. **The single biggest source of funding for each is block grant funding from the UK government.** Separate block grants are provided for resource (day-to-day) and capital (investment) spending, with the devolved governments able to use resource funding for capital spending but not vice versa without special permission. Block grant funding is not subject to any ring-fences and can be spent on any services or activities under the competence of the devolved government in question.

20. **The main block grants are updated each year using the Barnett formula:** the block grant in year (t) is equal to the block grant in year (t-1) plus the change in grant calculated using the Barnett formula (termed 'Barnett consequentials'). A graphical representation of the formula can be found following paragraph 27. The original aim of the formula was to provide the same pounds per person change in funding for the devolved government as the planned change in spending per person in England on 'comparable services' -those services that are devolved to the devolved government in question. In Northern Ireland, an adjustment was made to account for the fact that the NI Executive can claim back VAT on its spending in a way the Scottish and Welsh Governments cannot. In particular, Barnett formula-based changes in funding were reduced by 2.5% (to 97.5% of the same amount per person as in England), on the assumption that such reclaimable VAT would average 2.5% of the NI Executive's spending.
21. How the formula is implemented differs between standard fiscal events (such as UK Budgets) and the twice-yearly 'parliamentary estimates' process (official in-year updates to spending plans) on the one hand, and full spending reviews on the other.
- 21.1. At fiscal events and parliamentary estimates, the Barnett formula is applied to each programme: changes in spending on programmes that in Scotland, Wales and/or Northern Ireland are devolved generate a full 'Barnett consequential'; changes in spending on programmes that are UK-wide generate no 'Barnett consequential'.
- 21.2. At full spending reviews, overall budgets for Whitehall departments are set but it is not yet known how spending will be allocated between the different responsibilities of departments, including UK-wide responsibilities and those that in Scotland, Wales and/or Northern Ireland are devolved. Because of this, 'comparability factors' are calculated for each department which reflect the share of spending by that department which is devolved to each of Scotland, Wales and Northern Ireland. For example, in the Autumn 2024 Budget's 1-year spending review for 2025–26, the Department of Health and Social Care (DHSC) had a comparability factor 99.5% for each nation meaning that 99.5% of its spending was on responsibilities that in Scotland, Wales and Northern Ireland are devolved. This means under the original Barnett formula each devolved government would receive 99.5% of its population-based share of changes in planned DHSC spending. In contrast, the Department for Work and Pensions (DWP) had comparability factors of 13.5%, 0.1% and 98.0%, for Scotland, Wales and Northern Ireland respectively, reflecting the fact that the extent to which benefits administration is devolved varies significantly between these nations. This means whilst under the original Barnett formula the Welsh Government would receive only 0.1% of its population-based share of changes in planned DWP spending, the Northern Ireland Executive would receive 98%.
22. There can be disagreements between the UK and devolved governments about which spending should be classed as 'comparable' to devolved responsibilities and hence subject to the Barnett formula (either directly at fiscal events and parliamentary updates, or in the calculation of comparability factors at spending reviews). Examples of disagreements include certain costs associated with the 2012 London Olympics (Cabinet Office, 2011), Kew Gardens (Plaid Cymru, 2009) and HS2 (Codd et al., 2021).

23. It is widely recognised that the application of the standard Barnett formula leads to essentially arbitrary levels of funding for the devolved governments (House of Lords, 2009; Mellett, 2009; Paun et al., 2021; Bell et al., 2021a). The calculation of block grant as the prior year's block grant plus a population-based share of changes in planned comparable spend by the UK government means there is no link between the relative spending needs of the different devolved governments and the relative levels of funding provided under the Barnett formula.
24. Instead, the *relative* funding levels will depend on historic *relative* funding levels and will change over time based on the *absolute* rate of change in planned comparable spending in England and the *relative* changes in population in the devolved nations compared to England (Boileau and Phillips, 2023). In particular:
- 24.1. Historic relative funding levels are 'baked in' as the Barnett formula only applies to changes in comparable spending and funding, not existing baseline levels. As of 2019-20, the year prior to the COVID-19 pandemic, it was estimated that block grant funding per person was 129%, 123% and 129% of comparable spending in England, in Scotland, Wales and Northern Ireland respectively. This determined the baseline funding levels for subsequent years, including during the Covid-19 pandemic.
- 24.2. When planned comparable spending in England is increasing by more, the absolute funding levels for the devolved governments also increase by more, but their relative funding levels tend to fall compared to England. This is because the population-based increase in funding provided by the Barnett formula is a smaller percentage increase in the devolved nations than in England given their higher baseline funding levels. Over time these smaller percentage increases lead to a degree of convergence in funding levels per person in the devolved nations to levels in England - a process known as the 'Barnett squeeze'. For example, if spending was initially £100 per person in England, and £129 per person in Scotland, a £100 per person increase in England and in turn a £100 per person increase for Scotland via the Barnett formula would mean spending would increase to £200 and £229 per person respectively. That represents the same cash difference (£29 per person), but a halving of the percentage difference (from 29% to 14.5%). The faster the increases in comparable spending in England, the more rapid is this relative convergence.
- 24.3. When spending is being reduced in England though, the same pounds per person reduction in funding for Scotland is a smaller percentage cut, meaning a divergence in relative funding. For example, if spending in England were cut by £50 per person to £50 per person, funding for Scotland would also be reduced by £50 per person to £79 per person by the Barnett formula. Spending per person would remain £29 higher in Scotland as initially, but this would now represent a 58% (not 29%) premium compared to England. Cuts to spending during the early 2010s therefore led to some divergence in funding, and as a result, funding levels relative to England were higher in 2019–10 than 10 years earlier (Phillips, 2021a).
- 24.4. Another factor that has tended to lead to divergence is differences in the relative population growth rates in the devolved nations compared to England. While the population shares used in the Barnett formula itself are updated to account for

changes in populations, the fact that the formula applies only to the change in funding (and not prior-year baseline funding levels) means that changes in population are only very partially accounted for. When population is growing less quickly in the devolved nations than in England, as has typically been the case in recent years, funding has to be spread over fewer additional people in the devolved nations than in England. The bigger the shortfall in population growth compared to England, the bigger this effect, offsetting any Barnett squeeze when comparable spending in England is growing (or adding to any divergence when comparable spending in England is falling). With population growth historically lagging English levels most in Scotland and least in Northern Ireland, this has meant less convergence towards English funding levels in Scotland than in Northern Ireland over time.

25. In large part to prevent (or at least slow) the Barnett squeeze which would otherwise take place, the design of the Barnett formula has been amended for both Wales and Northern Ireland to provide their devolved governments with a larger-than-population based share of changes in planned comparable spending in England.

25.1. Changes for Wales took place before the Covid-19 pandemic and so applied to the Covid-19 specific funding discussed in the next sub-section. Since 2018–19, changes to the Welsh Government’s block grant have been calculated as 105% of the change in planned spending per person on comparable services in England. If the level of block grant were to fall from its starting level of 123% to the equivalent of 115% (or less) of planned spending per person on comparable services in England, this ‘needs-based factor’ applying to changes in funding would increase to 115%. This 115% ‘funding floor’ is based on an estimate of spending needs per person in Wales as a share of spending needs per person in England as of the late 2000s (estimated in Holtham, 2010).

25.2. Changes for Northern Ireland took place *after* the Covid-19 pandemic and so did not apply to the Covid-19 specific funding discussed in the next sub-section. Since 2024–25, changes to the Northern Ireland Executive’s block grant have been calculated as 124% of the change in planned spending per person on comparable services in England. This 124% ‘floor’ is based on updated estimates of spending needs per person in Northern Ireland as a share of spending per person in England as estimated in NI Fiscal Commission (2023) as an update to estimates in Holtham (2010).

25.3. No changes have been made to the Barnett Formula for Scotland. This may reflect the fact that relative funding levels (estimated at 129% of English levels as of 2019–20) are much higher than available estimates of Scotland’s relative spending needs (Holtham, 2010) estimated them to be approximately 5% higher than England’s, although it is noted that there is less confidence about this estimate than estimates for Wales).

26. **To summarise, at the time of the Covid-19 pandemic:**

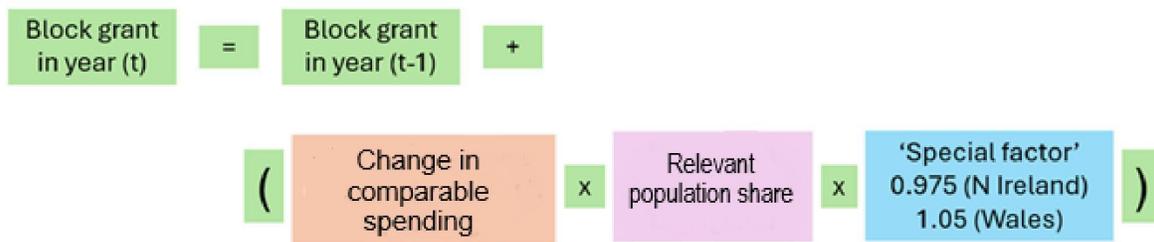
26.1. **The main Barnett-determined block grants for the devolved governments provided a higher level of funding per person than in England (129%, 123%**

and 129% higher for Scotland, Wales and Northern Ireland respectively), in each case higher than the most recent estimates of relative spending needs (105%, 115%, 124%).

26.2. Changes in planned comparable spending by the UK government led to the same pounds per person changes in funding for the Scottish Government, but 97.5% of this for Northern Ireland and 105% of this for Wales (via ‘special factors’). This means in each case the percentage change in funding would be smaller for the devolved nations than for England (a given pounds per person change is a smaller percentage change given the higher initial funding levels).

27. Figure 2 below provides a graphical summary of the calculation of the Barnett-determined component of the block grant.

Figure 2. Determination of funding via the Barnett formula (as of 2020–21)



28. In addition to the Barnett-determined component of the block grant, **the devolved governments are provided with various ‘non-Barnett additions’ to the block grant by the UK government**, with the amounts determined by specific methodologies. Some, but not all, of this funding is ring-fenced for specific purposes such as match-funding for City Deals and (until it was recently rolled into the main block grant) post-Brexit agricultural support funding.

29. In the case of Scotland and Wales, this ‘other’ funding usually reflects other funding being provided to England too. However, Northern Ireland has often received significant additional funding as part of political ‘deals’ that is not being provided to other parts of the UK. This includes additional funding provided as part of the Confidence and Supply arrangement with the May administration between 2017 and 2019 (that was still being disbursed during the pandemic period), and funding agreed as part of the New Decade, New Approach agreement to restore the Executive in early 2020. **Taking account of this funding, the NI Fiscal Council (2024) estimates that funding per person was 137% of comparable spending in England in 2019–20, just prior to the Covid-19 pandemic.**

30. **Funding provided via the Barnett formula or non-Barnett additions to the block grant is usually first set in a Spending Review and then revised during fiscal events and parliamentary estimates.** This means the UK government funding available to the devolved governments can change during the course of a financial year up until ‘supplementary estimates’ are published around 1 - 2 months before the end of the financial year. The UK government has sometimes allowed the devolved governments to defer or carry forward any

late changes in funding outside their usual budget management tools (borrowing, reserves and Budget Exchange discussed below).

31. In addition to the Barnett-determined block grant and non-Barnett additions to the block grant, **the UK government funds some areas of devolved government spending via its 'Annually Managed Expenditure' (AME) process** rather than fixed 'Departmental Expenditure Limits' (DEL). AME is used for demand-led and/or large spending items where the devolved governments could not reasonably be expected to manage volatility within their limited budget management powers (see below). Where a devolved administration offers broadly similar terms for an AME programme, the UK Government will fund the cost of this programme. For example, the UK Government currently funds the devolved administrations' student loans (alongside the Department for Education's student loans in England) and the NHS pensions schemes run by the Scottish Government and Northern Ireland Executive (alongside the scheme run by the Department of Health and Social Care in England and Wales). Where a devolved administration wishes to offer more generous terms for an AME programme, then the excess over that implied by adopting broadly similar terms for that programme (and therefore broadly comparable costs) must be met by the devolved administration.
32. In contrast to Scotland and Wales, the social security benefit system is notionally fully devolved to the Northern Ireland Executive. In practice, most of the system mirrors that operated by the UK government in Great Britain. Because of its large size and volatile nature it is funded directly by the UK government on an AME basis. This insulates the NI Executive from the risk of rises and falls in benefit claims and costs. The exception is for a number of 'welfare mitigations' the Executive has introduced to provide more generous support than provided by the UK government - these are funded from the Northern Ireland Executive's block grant funding, which is therefore exposed to rises or falls in the costs of these specific mitigations.
33. In addition to UK government funding via the Barnett formula, non-Barnett additions and AME, the devolved governments have a range of different funding sources. These differ by nation and are explained separately below.

### **Scotland**

34. **Since 2015–16, the Scottish Government has had powers over and received revenues from several devolved taxes.** Taxes on property transactions (land and buildings transactions tax or LBTT) and landfill disposals (Scottish landfill tax) are fully devolved. Since 2016–17, income tax is partially devolved. The tax base (the rules for defining what is and is not taxed) is set by the UK government, but the Scottish Government has powers to set the rates and bands for income other than savings and dividends income (so called non-savings non-dividends or NSND income) and retain the resultant revenues. Since devolution the Scottish Government has used these powers to slightly lower taxes on the less wealthy (those with lower incomes and those buying lower value properties) and substantially increase them on the more wealthy (those with higher incomes and those buying higher value properties), in turn raising more revenue than if it followed policy set by the UK government (Adam and Phillips, 2021, 2025). This has been partially offset by weaker tax base growth for income tax.

35. To reflect the revenues that the Scottish Government receives from devolved taxes, **block grant adjustments (BGAs) are subtracted from the block grant funding** it would otherwise receive from the UK government. At the point of devolution these were set at the amount of tax revenues being devolved, in line with the 'no-detriment' principle advocated by the Smith Commission (2014). This Commission was set up following the 'No' vote in the Scottish independence referendum and stated that the Scottish Government should be no better or worse off simply as a result of devolution. In subsequent years, the BGAs have been indexed accounting for two factors: the percentage change in revenues per capita for equivalent taxes in England and Northern Ireland (or prior to tax devolution to Wales, in England, Northern Ireland and Wales); and the percentage change in the Scottish population. This 'indexed per capita' approach means that the Scottish Government's budget is higher as a result of devolution if, over time, its revenues per capita grow by more in percentage terms than those in England and Northern Ireland. On the other hand, the Scottish Government's budget is lower as a result of devolution if, over time, its revenues per capita grow by less in percentage terms than those in England and Northern Ireland. As described in Bell et al (2023), this approach helps satisfy the 'no-detriment' principle in a dynamic sense if one thinks that the same percentage rate of growth in revenues per capita as England and Northern Ireland is a fair benchmark.
36. This approach also has implications for how the Scottish Government's budget is affected by different types of revenue shocks and policy changes.
- 36.1. It provides significant insurance against shocks to revenues affecting the whole of the UK, satisfying the 'UK-wide economic shocks' principle of the Smith Commission. For example, if revenues across the UK fall temporarily as a result of a recession (or a global pandemic), while the Scottish Government's devolved revenues would fall, so too would the BGAs subtracted from its block grant, offsetting the revenue fall and insulating the Scottish Government's budget from the change in its own devolved revenues. Similarly, a policy change affecting the whole of the UK (such as a change in the tax-free income tax personal allowance or another change in the income tax base) that affects the Scottish Government's revenue would also typically have offsetting effects on the BGA, helping ensure the Scottish Government does not lose out from such a change.
- 36.2. However, it does not provide insurance against shocks disproportionately or only affecting Scottish revenues. And, importantly, if Scottish Government policy affects tax revenues either directly (e.g. through a tax policy change) or indirectly (e.g. through effects on economic growth), the Scottish Government sees its budget rise or fall as a result, satisfying the Smith Commission's 'economic responsibility' principle.
37. Some short-term insurance for shocks to Scotland's devolved income tax revenues is provided by the fact that the revenues and BGAs that must be accounted for in the Scottish Budget are forecasts. For example, for 2020-21, the first full year of the Covid-19 pandemic, the revenues and BGAs accounted for in the Scottish Budget were forecasts made in early 2020 and published on 6<sup>th</sup> February. If Scotland was particularly hard hit by the pandemic and its devolved income tax revenues fell further short of these forecasts than the BGA did, the Scottish Government's budget would not be affected in that year. Instead, it would have

to make a reconciliation payment to the UK government once full outturns data on the amount of revenue actually collected was available in Summer 2022, and such payments could be incorporated into the following year's budget - in 2023-24. For the fully devolved taxes (LBTT and Scottish landfill tax), the revenues received by the Scottish Government are those actually collected by Revenue Scotland, and the BGAs are partially updated in-year, with full reconciliation two years later (in 2022-23 for the BGAs for the 2020-21 tax year) once outturn is available. As discussed below (paragraph 40), borrowing powers can be utilised to smooth the impact of forecast adjustments and reconciliation payments.

38. In addition to income tax, LBTT and Scottish landfill tax, the Scottish Government sets and redistributes **non-domestic rates** - taxes paid by the occupiers of non-residential properties (such as offices, shops, and factories) to councils. There are no explicit BGAs for NDRs. However, the Barnett formula is applied to non-domestic rates revenues transferred to the UK government by English councils, with every pound per person of spending funded by increased non-domestic rates revenues in England reducing the funding provided to the Scottish Government by one pound per person.
39. In line with the Smith Commission's recommendations, several, mostly disability-related, benefits have been devolved to the Scottish Government who were responsible for the cost of most of these by 2019-20, just prior to the Covid-19 pandemic. In contrast to the situation in Northern Ireland, where the Northern Ireland Executive's social security spending is funded directly by the UK government as part of AME, the Scottish Government's **devolved social security benefits are funded by BGAs added to the Scottish Government's block grant funding**. As with the tax BGAs, these were initially calculated on the basis of the spending to be devolved and have since been indexed in line with the percentage growth in spending per person on comparable benefits in England and Wales and population growth in Scotland. This provides insurance against shocks that hit benefit spending across the UK, but does not insure against shocks disproportionately or only affecting Scotland. Note that the fact that universal credit and other income-related benefits (as well as the state pension) remain the responsibility of the UK government in Scotland mean that the Scottish Government is not exposed to the most cyclical components of benefit spending (i.e. those which rise when the economy is doing poorly, and vice versa).
40. Since devolution, the Scottish Government has reformed the benefits devolved to it by the UK government to increase generosity (for example, with carers' allowance), expand coverage (for example, with cold weather payments) or make claiming and remaining on benefits easier (for example, for disability benefits). It has also introduced new payments such as the means-tested Scottish Child Payment, launched in February 2021 and subsequently significantly expanded. As a result, total devolved benefit spending exceeds the BGAs provided by the UK government, with the Scottish Government making up the difference from its other funding. This was a relatively small amount during the Covid-19 pandemic but has grown significantly in subsequent years.
41. The Scottish Government has **borrowing powers to help address volatility in its budget associated with tax and social security spending, and help fund investment**.
  - 41.1. Its resource borrowing powers are highly constrained. At the time of the Covid-19 pandemic, it could borrow up to £300 million per year to cover the cost of forecast errors and reconciliation payments. For example, if revenues from LBTT were lower

or the associated BGA higher than expected when the Budget for a given year was set it could borrow to spread the financial impact, up to a maximum of £300 million. This £300 million limit was increased to £600 million if a 'Scotland-specific economic shock' was declared - which required Scottish GDP growth to be below 1% and at least 1 percentage point lower than GDP growth in the UK as a whole. It could be declared on the basis of outturns or forecasts and the higher borrowing limits remained in place for 3 years following the end of the shock. Outstanding debt for this borrowing was capped at £1.75 billion.

- 41.2. Its capital borrowing powers were capped at £450 million per year, subject to a cap on outstanding debt of £3 billion.
- 41.3. Resource borrowing must be undertaken via the UK's National Loan Fund. Capital borrowing can be either via this fund or via other sources (such as commercial loans or Scottish bond issuances), and to date has always been via the former.
- 42. The Scottish Government can pay money into and draw money from the Scotland Reserve. There are separate reserves for resource and capital funding, with the combined cap on reserves during the pandemic period being £700 million. Resource drawdowns during this period were capped at £250 million per year and capital drawdowns capped at £125 million per year, except during and following a Scotland-specific economic shock when drawdown limits were abolished.
- 43. Following a review of Scotland's Fiscal Framework, which commenced in 2022 and concluded in 2023 (HM Treasury and Scottish Government, 2023), changes have been made to both borrowing and reserves limits. In particular, provisions related to 'Scotland-specific economic shocks' have been removed and the higher limits formerly in place during and following such shocks now apply all the time. Secondly, all thresholds are now increased each year in line with forecast inflation as measured by the GDP deflator. As explained below, these changes are broadly in line with recommendations made in Bell et al (2021a), which examined lessons for the devolved fiscal frameworks from the Covid-19 pandemic, although they do not go as far as recommended.

## ***Wales***

- 44. **As in Scotland, the Welsh Government has some devolved tax powers and revenues, although these are smaller in scale and scope.** Taxes on property transactions (land transactions tax or LTT) and landfill disposals (landfill disposals tax) are fully devolved. Income tax is partially devolved to the Welsh Government on a more restricted basis than to Scotland. UK government rates on NSND income are reduced by 10 percentage points compared to the rates applying in England and NI and the Welsh Government is free to set its own rates on top of the (reduced) UK rates applying to the basic, higher and additional rate tax bands.
- 45. As in Scotland, BGAs are subtracted from the block grant provided by the UK government to account for the revenues the Welsh Government receives from these devolved taxes. The initial BGAs were set in the same way as in Scotland. Indexation differs somewhat: the Welsh indexation method (the comparable model) takes no account of differences in population growth between Wales and England and Northern Ireland. For income tax though,

rather than a single BGA, there are separate BGAs for revenues from the basic, higher and additional tax rates, to reflect the fact that the reliance on revenues from these different tax bands differs in Wales compared to England and Northern Ireland. These differences mean the precise risks and incentives borne by the Welsh Government differ somewhat from the Scottish Government. However, broadly speaking, these approaches also insure the Welsh Government against shocks to revenues hitting the whole of the UK but not shocks disproportionately or only affecting Wales.

46. **Non-domestic rates** are devolved to the Welsh Government on the same basis as they are to the Scottish Government.
47. **The Welsh Government has both resource and capital borrowing powers:**
  - 47.1. Resource borrowing powers are highly constrained. It can borrow up to £200 million per year to address forecast errors and reconciliation payments, with a total cap of £500 million on outstanding debt for this purpose.
  - 47.2. Capital borrowing is capped at £150 million per year, subject to a total cap of £1 billion on outstanding debt for this purpose.
  - 47.3. Resource borrowing must be undertaken via the UK National Loans Fund. Capital borrowing can be either via this fund or via other services (such as commercial loans or Welsh bond issuances), and to date has always been via the National Loans Fund.
48. A **Welsh Reserve** of up to £350 million in total can be held, with drawdowns from separate resource and capital reserves within this capped at £125 million and £50 million per year.

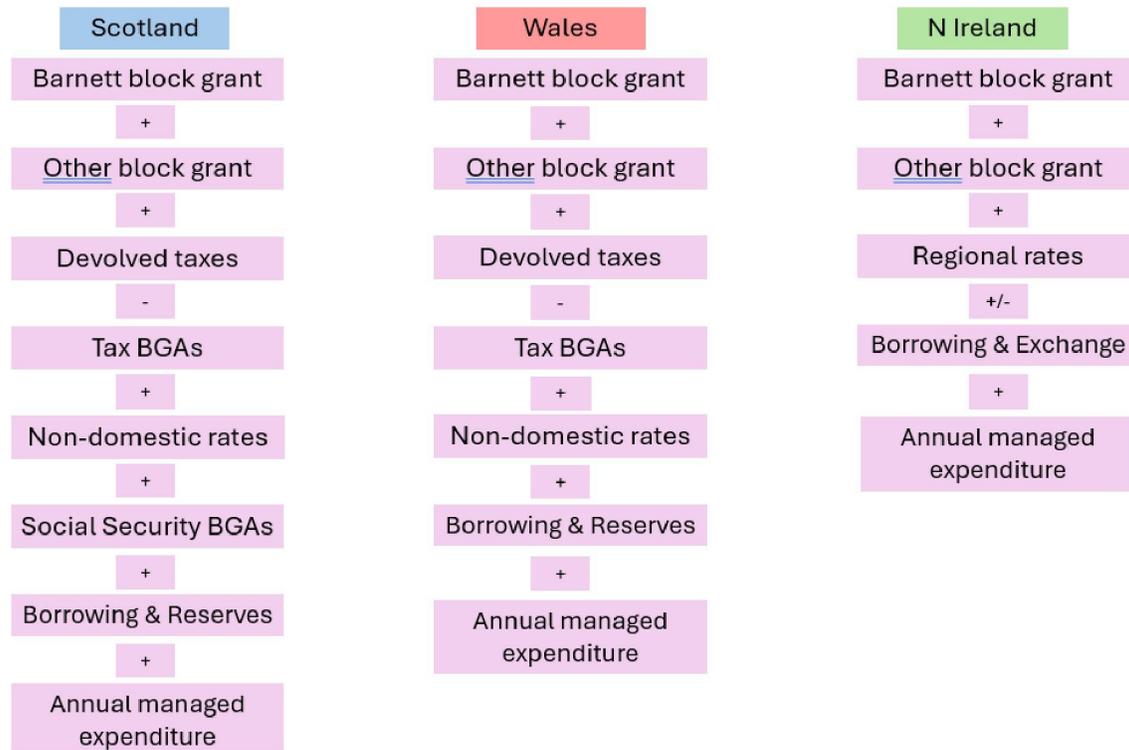
### ***Northern Ireland***

49. **Tax devolution is most limited for Northern Ireland.** Long-distance air passenger duty has been devolved to the NI Executive but rates have been set at zero since devolution to encourage flights and revenues are therefore also zero.
50. **The Northern Ireland Executive sets and retains ‘regional’ non-domestic and domestic rates** (the latter the equivalent of council tax in Great Britain). Northern Irish local authorities (discussed in chapter 3 of this report) set and retain ‘local’ non-domestic and domestic rates.
51. **The Northern Ireland Executive has capital borrowing powers.** It can borrow up to a cumulative total of £3 billion from the National Loans Fund for investment. The annual limit is generally set at £200 million per year, but has been increased (for defined purposes and specific time periods) on a number of occasions.
52. There is no Northern Ireland Reserve. **Instead, the Northern Ireland Executive has access to the Budget Exchange mechanism available to UK government departments.** This allows it to carry forward underspends from one year to the next up to pre-defined limits, with rules in place to prevent funding being carried forward in full across multiple years. As a result it is more restrictive than the Scotland Reserve, and more restrictive in most ways than the Welsh Reserve (the drawdown limit is more generous for Budget Exchange).

## Summary

53. Figure 3, below, summarises the components of funding for the devolved nations in Scotland, Wales and Northern Ireland.

**Figure 3. Summary of funding components for devolved governments**



## Funding arrangements during the Covid-19 pandemic

### Summary

The devolved governments were provided with very substantial additional funding in both 2020–21 and 2021–22 to address the impacts of the Covid-19 pandemic. For example, the additional funding amounted to £9.75 billion (30%), £5.85 billion (40%) and £3.3 billion (30%) for the governments of Scotland, Wales and Northern Ireland, respectively.

The main way funding was allocated was via the Barnett formula. However, several ad hoc changes were made to its operation to provide both more certainty and flexibility for the devolved governments.

First, the UK government introduced funding guarantees for the devolved governments in summer 2020, which applied until the final spending plans for 2020–21 were published in March 2021. These guaranteed the devolved governments an amount of funding set above the Barnett Formula-determined level at any given time, giving them more scope to respond to changing conditions without having to wait for further spending to be confirmed for England.

Second, the devolved governments were allowed to carry over Covid-19 funding announced late in the 2020–21 financial year into 2021–22, on top of normal reserve / carry-forward limits. Such additional flexibilities were not provided to UK government departments serving England. As a result, the devolved governments effectively received a higher-than-population share of funding in 2021–22, which was reflected in more generous support for businesses in particular in that year than in England.

No changes were made to the borrowing or reserves powers of the devolved governments in response to the Covid-19 pandemic, although 2021–22 was identified as a year with a ‘Scotland-specific economic shock’, automatically providing higher borrowing and reserves drawdown limits than would otherwise have been the case.

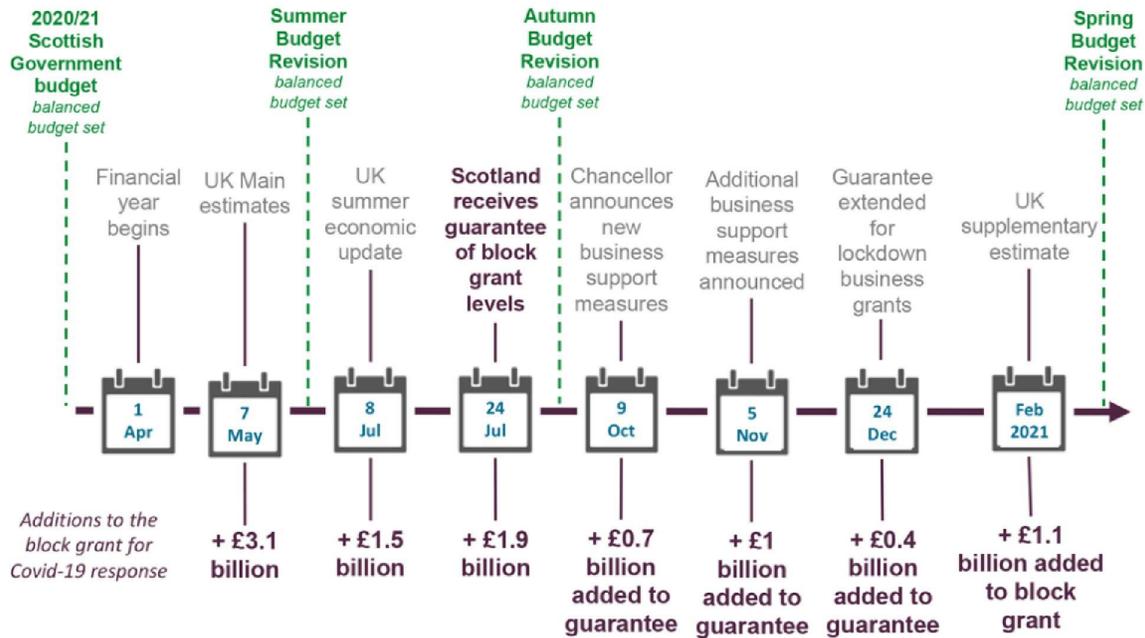
There was enhanced communication on funding (and other) issues between the UK and devolved governments during the early part of the pandemic. With divergences in opinions on how to ‘reopen’ in Summer 2020 and respond to the second and subsequent waves of Covid-19 from September 2020 onwards, communication on funding (and other) issues between the UK and devolved governments was less effective after the initial months of the pandemic.

54. Having described the standard funding arrangements for the devolved governments, this section describes the changes made to these during the Covid-19 pandemic.
55. First, it is worth setting out the pandemic-related responsibilities that were assigned to the UK government and devolved governments respectively. In general, these aligned with the responsibilities that were reserved or devolved.
  - 55.1. The UK government was directly responsible for job retention and household income support schemes, including the Coronavirus Job Retention Scheme (‘furlough’), the Self Employed Income Support Scheme (SEISS) and temporary uplifts in means-tested benefits such as universal credit. It also provided loans and guarantees such as under the Coronavirus Business Interruption Loan Scheme (CBILS).
  - 55.2. Devolved governments were responsible for designing business support provided via the non-domestic rates system, including non-domestic rates reliefs and grants based on the rateable values of properties occupied by businesses, with operation of these schemes carried out by local authorities.
  - 55.3. Devolved governments were responsible for designing and financing the response of most public services, such as health, education and local government to the Covid-19 pandemic.
  - 55.4. Devolved governments were also responsible for the design of public health measures to slow and reduce the spread of Covid-19, such as lockdowns, mask mandates, and social distancing rules.

56. **The UK government directly funded schemes it was directly responsible for in the devolved nations. It provided additional funding to the devolved governments to pay for the responsibilities delegated to them (who in turn provided funding to local authorities in their jurisdictions).**
57. **As well as providing additional funding to the devolved governments, the UK government made a number of temporary ad-hoc changes to their funding arrangements in 2020–21, but these were relatively modest.**
- 57.1. The Barnett formula was still the underlying method used to determine increases to the devolved governments' funding, although from July this was supplemented by 'Funding Guarantees' that until the supplementary estimates were set at levels above the funding implied by the Barnett formula. The aim of this was to provide more certainty about funding levels, and reduce the need for the devolved governments having to wait until spending plans had been announced in England before making their own plans.
- 57.2. When significant top-ups to planned spending in England and hence the block grants were confirmed in the supplementary estimates in February 2021, the devolved governments were allowed to carry these late additions forward into 2021–22 outside of their usual Reserves and Budget Exchange limits. This amounted to £1.1 billion for Scotland, £650 million for Wales and £300 million for Northern Ireland. Such additional flexibilities were not provided to UK government departments, which means ultimately that the amount of UK government funding provided per person to address the Covid-19 pandemic was higher in the devolved nations than in England. These additional carry-forwards amounted to around £200 per person for both Scotland and Wales and around £150 per person for Northern Ireland.
- 57.3. The borrowing and reserves powers and limits were not amended though. As a result, the Welsh Government lost £155.5 million as its underspend on its pre-February 2021 funding for 2020-21 exceeded the amount it could put into the Welsh Reserve. This amounts to around £50 per person in Wales. UK government departments underspent by a total of £25 billion, equivalent to around £450 per person in England, or almost £400 per person across the UK as a whole. This higher underspend reflects to a large extent the fact that UK government departments were not allowed to carry forward late additions to funding, as discussed above.
- 57.4. These changes also only applied in 2020-21, with normal rules applying to additional Covid-19 funding provided in 2021-22 and later years.
58. In addition to changes in funding arrangements, interviewees from the UK and devolved governments interviewed by Bell et al (2021a) highlighted improved inter-governmental communications during the Covid-19 pandemic. This included some advanced notice of changes in spending and policy yet to be publicly announced, and a greater willingness to discuss and address concerns about financial arrangements (such as with the ad-hoc changes described above).

59. In terms of timelines, Audit Scotland (2021) provides a helpful summary of the timeline of official announcements of additional funding for the Scottish Government during the first full year of the pandemic, 2020-21. This is replicated as Figure 4 below. The first tranche was formally confirmed at the UK Main Estimates in early May 2020 (although communicated prior to this), a funding guarantee first provided in late July, and the final addition announced in February 2021. All told, the Scottish Government received a top up of £9.75 billion in 2020-21, an increase of approximately 30% on the initial plans for the block grant that year.

**Figure 4: Covid-19 additions to the Scottish block grant in 2020–21**



Source: Audit Scotland

60. Funding for the Welsh Government and Northern Ireland Executive was increased at the same points as for Scotland. Overall, the increase amounted to £5.85 billion (approximately 40%) for the Welsh Government and £3.3 billion for the Northern Ireland Executive (approximately 30%). The increase was larger in percentage terms for the Welsh Government for three main reasons: first, increases in spending in England were concentrated on responsibilities devolved to all three nations, including Wales, with much smaller increases for services (such as Justice) devolved only to Scotland and Northern Ireland; second, funding per person was initially lower in Wales than Scotland and Northern Ireland so a given cash increase is a bigger percentage increase in Wales; and third, Wales got 105% of the population share of increases in planned spending in England under its revised Barnett formula.

61. Several tranches of Covid-19 funding were also announced for 2021-22, starting with the 2020 Spending Round in November 2020. Four formal top-ups were made to this in the March 2021 Budget, May 2021 Main Estimates, October 2021 Spending Review and February 2022 Supplementary Estimates, although much of the latter increase was announced informally in December 2020.

62. For Scotland, Covid-19 specific funding for 2021-22 amounted to £4.8 billion, with £1.3 billion announced at the 2020 Spending Round, a further £2.2 billion by the Main Estimates, and the remaining £1.3 billion in the 2021 Spending Review and Supplementary Estimates (Scottish Government, 2023a). For Wales the total provided was £2.8 billion, and for Northern Ireland the total provided was £1.6 billion, provided in similar tranches as in Scotland (HM Treasury, 2023).
63. There were no changes to arrangements related to devolved tax arrangements or BGAs in Scotland and Wales. The usual in-year updates to forecast revenues for property transactions taxes and landfill taxes and associated BGAs took place, with final reconciliations to outturns taking place 2 years later (in 2022-23 for the 2020-21 fiscal year). Income tax revenues and BGAs were set and were not reconciled to outturns until 3 years later (2023-24 for the 2020-21 fiscal year).

## Performance of arrangements during the pandemic

### Summary

In summary, evidence suggests that while there were difficult periods, especially during the second wave of Autumn 2020 and the first Omicron wave of Winter 2021–22, related to challenges coordinating economic support and public health measures, funding arrangements for the devolved governments during the pandemic allowed them to respond to the key short-term economic and public spending challenges posed by the Covid-19 pandemic. Devolved governments were able to fund their Covid-19 responses in relation to public services, and business and household support – indeed with more generous support in the second fiscal year of the pandemic. Interviews of Scottish parliamentarians and officials conducted by several researchers also found recognition that arrangements worked reasonably well during the pandemic, highlighting both the cushioning role of the BGAs and the greater flexibility the UK allowed for.

Three key factors were important in this success. First, the large increase in spending planned for England – and hence large increases in funding for the devolved governments via the Barnett formula. Second, ad-hoc changes to normal funding arrangements such as the funding guarantees and additional end-year flexibility in place in 2020–21. And third, ‘luck’ in that the Covid-19 pandemic affected the different nations of the UK in fairly similar ways.

The UK government was likely able to borrow more cheaply and quickly than the devolved governments would have been able to thank to its large and liquid gilt market, and the Bank of England’s liquidity and quantitative easing operations. Borrowing by the UK government also offered more scope to insure regions and nations of the UK hit harder or with weaker financial positions, than relying on sub-UK borrowing.

However, the arrangements were not entirely problem free and did entail trade-offs.

First, a reliance on UK government borrowing and grant funding did reduce the ability of the devolved and local governments to pursue a much more expansive or aggressive response to the Covid-19 pandemic. Particular issues arose during Autumn 2020 with the second Covid-19 wave, and again during the Omicron wave of Winter 2021–22, when the UK and devolved

governments differed on their views about how and when to respond with more stringent public health measures and enhanced business support. In Autumn 2020, plans to end the Furlough scheme at the end of October, which were only cancelled when a decision to put England into lockdown in November was made, did affect the timing and duration of Wales' circuit breaker. In the Omicron wave, a major crisis was averted only when it became clear that mortality rates remained low (following vaccination) and the UK government announced and funded a grant scheme for Q1 2022.

Second, the funding arrangements for the devolved governments may have provided an incentive for more stringent public health restrictions than under more fiscally autonomous systems. The UK government bore the impact of any public health restrictions on non-devolved revenues – such as VAT, National Insurance and Corporation Tax – and the impact on devolved revenues for any measures that affect the whole of the UK (because of the way the BGAs are updated to reflect what happens to revenues in England and NI). This may have contributed to more stringent restrictions at times in the pandemic, and disagreements between the UK and devolved governments over the approach to addressing the pandemic.

64. **Bell et al (2021a, 2021b) conclude that in addition to the BGAs cushioning the Scottish Government from falls in tax revenues affecting the whole of the UK, three further factors were important in this 'success'.** First, the large increase in spending planned for England - and hence large increases in funding for the devolved governments via the Barnett formula. Second, ad-hoc changes to normal funding arrangements such as the funding guarantees and additional end-year flexibility in place in 2020-21. And third, 'luck' in that the Covid-19 pandemic affected the different nations of the UK in fairly similar ways.
65. **Let us first consider the large amounts of funding provided.** The amount of funding provided by the UK government to the devolved governments during 2020-21 and 2021-22 was highlighted in the previous section. Because the Barnett formula determined these overall increases, the increase was the same per person as was budgeted for in England. And because baseline funding per person for the devolved governments was higher than in England, this represented a smaller *percentage* increase in funding than in England - the aforementioned Barnett squeeze was significant given the scale of increases in funding involved. For example, if the Scottish Government's funding had been increased by the same percentage - as opposed to the same cash amount - per person as planned comparable spending in England, the Scottish Government would have received approximately £4 billion more in 2020-21 and 2021-22 than it did, the Welsh Government around £1.9 billion more and the Northern Ireland Executive approximately £1.2 billion more.
66. However, it is not clear that the same percentage increase in funding as in England would have been more appropriate than the same cash per person increase actually provided for two reasons. First, evidence from Holtham (2010) suggests that existing relative funding levels for devolved governments, and especially the Scottish Government, exceeded their relative spending needs - and so a percentage-based increase would exceed their share of increased spending needs. Second, and related to this, it is not clear that the areas where additional spending was needed during the pandemic are areas where we would expect the additional funding that was required to be closer to the same percentage - as opposed to the

same cash - amount as in England. For example, for non-domestic rates reliefs and associated grants, the number and value of properties means we would expect costs closer to the same cash amount per person as in England, not the same percentage of existing funding. The same percentage increase could have therefore led to significant 'over-funding' of the devolved nations.

67. Moreover, UK government departments significantly underspent their final budgets (by £25 billion in total in 2020-21), suggesting that financial constraints did not constrain the response by departments serving England. The devolved governments' funding was based on budgeted (rather than actual) spending in England, and ad hoc changes allowed them to carry forward the final tranche of funding into 2021-22 for use in that year. Thus while their funding was increased by the same cash amount per person as budgeted for in England, it increased by more per person than what was actually spent in England.
68. As a result of this carried-forward funding, the devolved governments were able to provide more generous financial support to businesses and households in 2021-22 than in England. For example, in England non-domestic rates relief for the retail, hospitality and leisure sector was reduced to 66% from July 2021 to March 2022, and capped at £105,000 per business for essential retailers able to remain open during lockdowns (such as supermarkets) and £2 million for business for other retail, hospitality and leisure businesses. However, in Scotland, relief was maintained at 100% for retail, hospitality and leisure properties in Scotland for the full 2021-22 fiscal year. And for Wales, relief was 100% for all retail properties with a rateable value of up to £500,000, and all hospitality and leisure properties.
69. Second, as well as providing more end-year flexibility, **the ad-hoc introduction of funding guarantees provided more certainty for the devolved governments in 2020-21**. Because funding guarantees were set at a level above what would otherwise be implied by the Barnett formula, this helped the devolved governments to plan their spending without waiting for announcements on planned spending in England. Improved communication between the UK and devolved governments also helped in this regard. **However, there remained a degree of financial uncertainty**: the funding guarantees were not in place during the first few months of the pandemic (arguably the most uncertain time); the guarantee levels were increased during the course of the year; and they did not apply in 2021-22.
70. Third, the fact that the Covid-19 pandemic was a relatively **symmetric shock across the nations of the UK meant population-based funding via the Barnett formula was more appropriate** than it would have been if the pandemic significantly disproportionately hit some nations more than others. Reviewing the evidence on health impacts, as summarised by excess mortality and deaths attributed on death certificates to Covid-19, Bell et al (2021b) find similar trends across the UK nations, with Scotland and Northern Ireland seeing, if anything, lower excess mortality and reported deaths than England up until March 2023. Reviewing the evidence on economic outcomes, the same authors highlight similar trends in employment and earnings in England, Scotland and Wales (Northern Ireland fared better in both), broadly similar shares of furloughed employees, similar residential property transaction trends, and for Scotland, similar trends in GDP (high-frequency GDP estimates are not available for Wales and Northern Ireland).
71. **These three factors (significant funding, ad-hoc changes and a reasonably symmetric shock) helped mean that concerns expressed at the outset of the pandemic were not**

**borne out.** For example in Phillips (2020a) I expressed concern about the potential for an asymmetric shock, and delays in the devolved governments finding out how much funding they would receive, delaying the design and implementation of their own business support and public spending schemes. To address this, I advocated granting the devolved governments enhanced borrowing powers, and considering bypassing the Barnett formula. In my and my co-authors' view, as set out in Bell et al (2021a, 2021b), the funding decisions made by the UK government were an appropriate alternative short-term response, at least in the context of the broadly symmetric nature of the Covid-19 pandemic's impacts.

72. Having said this, it is **worth noting that the standard funding regimes and ad hoc changes made by the UK government constrained the devolved governments' responses more than other arrangements and changes would have** - such as a full relaxation of constraints on borrowing powers. Moreover, the return to normal funding arrangements in 2021-22 was criticised by the devolved governments who in January 2022 requested special permission to again carry forward additional funding on top of normal Reserve / Budget Exchange limits, likely because they felt not all funding was needed in 2021-22 (Welsh Government, 2022a).

73. Moreover, **there were some difficult periods when the information provided and/or coordination between the UK and devolved governments over funding, public health and economic support measures were problematic.**

73.1. In the July 2020 'Plan for Jobs', for example, the UK government did not make clear how much of the funding it announced as part of this plan was genuinely additional funding as opposed to re-allocated from non-Covid-19 budgets that were no longer expected to be utilised (Phillips, 2020b). This led to friction between the Scottish and UK governments, in particular, and confusion among stakeholders, including myself, about how funding for the devolved governments had been determined.

73.2. Second, as discussed elsewhere in evidence to the UK Covid-19 Inquiry, there were significant tensions during the second wave of Covid-19 infections in Autumn 2020 when the devolved governments favoured earlier, more significant public health restrictions but the UK government was still planning to wind down the UK-wide furlough scheme and SEISS. This may have led the Welsh Government to impose a shorter 'circuit breaker' lockdown than it otherwise would have (Scotland did not implement a 'circuit breaker' and continued to use tiers of restrictions during November 2020).

74. In addition, **funding arrangements meant that the devolved governments were also insulated from a significant proportion of the revenue effects of Covid-19 public health restrictions, potentially encouraging a more stringent approach and contributing to tensions with the UK government** (Phillips, 2021b). The UK government bore the impact on non-devolved revenues - such as VAT, National Insurance and Corporation Tax - and the impact on devolved revenues for any measures that affect the whole of the UK (because of the way the BGAs are updated to reflect what happens to revenues in England and NI). This could have incentivised the devolved governments to choose more stringent restrictions and lobby for more stringent restrictions at the UK-wide level than if they bore the full revenue costs themselves. This may have been a factor in the more stringent measures taken during the first lockdown, and the slower relaxation of that lockdown in Scotland and Wales.

Examples of such greater stringency include: more stringent rules on construction activity during the first lockdown in Scotland; more stringent rules on property viewings, slower reopening of non-essential retail and hospitality businesses, and stricter social distancing rules for the hospitality sector following the first lockdown in Wales. Whether it was a factor underlying such decisions cannot be proved or disproved though.

75. During interviews conducted in late Summer / early Autumn 2021, officials from both the devolved and the UK governments informed us that **there was increased official-level discussions on potential changes to funding and economic support policy during the early months of the Covid-19 crisis**. More generally there is evidence that there was improved intergovernmental communication and coordination during this period with:
  - 75.1. The UK-wide action plan published on 3 March 2020 being jointly produced by the UK and devolved governments.
  - 75.2. The Coronavirus Act 2020, which received Royal Assent on 25 March 2020, being preceded by (rapid) consultation and joint working with the devolved governments.
  - 75.3. The devolved governments attending the Civil Contingencies Committee (COBR) and three of the four ministerial implementation groups (MIGs) that were established to consider policy for specific aspects of the pandemic response (they were generally not invited to attend the international implementation group).
  - 75.4. Expert scientific advisory groups (such as NERVTAG, SPI-M and SAGE) operating on a UK-wide basis, providing advice to both the UK and devolved governments directly.
76. **However, officials from both the devolved and UK governments highlighted in our research interviews that from mid-summer 2020 onwards, the quality and frequency of communication was reduced**. This coincided with growing political tensions and differences between the governments on the handling of the pandemic and the most appropriate policy responses going forwards. This may have been inevitable given the UK and devolved governments will differ in their views and were led by different political parties, but is likely to have made planning harder for the devolved governments than if the enhanced communication had been maintained.
77. In appraising the performance of arrangements in the UK it is also worth assessing arrangements in other countries. Bell et al (2021a) reviewed the experiences of five countries (Belgium, Canada, Germany, Spain and Switzerland) as presented by country-based researchers at a special workshop held in Summer 2021. The experience of these countries with more empowered sub-national governments and long-standing coordination arrangements showed that, **as in the UK, funding arrangements were not a significant constraint on subnational governments' responses to the pandemic, but that coordinating public health policy responses was challenging**. In my view this reinforces my conclusion that funding arrangements in the UK worked reasonably well, and that policy coordination problems were not unusual.
78. **The key findings of our review were that:**

- 78.1. **In most countries, subnational governments' response to the pandemic has been funded through a combination of increased borrowing and additional transfers from the federal government.** However, the balance between these varied substantially between countries.
- 78.1.1. In Germany, the debt brake - which has curtailed the ability of Länder (i.e. German states) to borrow since 2009 and required them to run balanced budgets from 2020 - was relaxed in 2020, and Länder were able to borrow, provided they set out detailed deficit reduction and debt repayment plans. Additional borrowing was the main channel through which the Länder dealt with the funding aspects of the crisis, although the federal government bears the funding responsibility for a large part of Germany's overall Covid-19 response.
- 78.1.2. In Switzerland and Belgium, additional borrowing was the main channel through which the cantons (i.e. Swiss regions) and regions funded their response to the pandemic in 2020. This did not require a relaxation of fiscal rules, as both countries are characterised by having few formal rules on subnational borrowing, and in both cases the regions and cantons had significant fiscal space as a result of prudence in prior years. Again, however, it is worth noting that the federal government bore much of the fiscal costs of the pandemic.
- 78.1.3. In Spain, the national government substantially increased the regional governments' grant funding in 2020, most notably via the €16 billion Covid-19 fund, equivalent to almost 10% of the regions' regular funding. Fiscal rules around regional borrowing were also relaxed. However, the vast majority of the additional spending associated with the pandemic has been funded by the national government either directly or via transfers to the regions, rather than via regional borrowing.
- 78.1.4. In Canada, the federal government provided provinces with substantial additional grant funding, although provinces also made substantial use of their pre-existing borrowing regime to borrow to offset revenue losses and support expenditure. But despite the significant policy autonomy of Canadian provinces, the vast majority of all Covid-19-related expenditures in Canada were made by the federal government.
- 78.2. **There were few, if any, examples of subnational governments facing funding crises as a result of the immediate effects of the pandemic.** Nor do subnational funding constraints appear to have had a major impact in influencing subnational governments' responses to the pandemic. More surprisingly still, there were also relatively few examples of funding issues creating new or heightened tensions between national and subnational governments; tensions, where they arose, are more likely to have been around the stringency of health restrictions (discussed below), rather than the funding response. The fact that funding issues did not emerge as major flashpoints reflects the fact that national governments did not feel it necessary to take fiscally restrictive approaches to the pandemic. Substantial additional funding was provided and/or borrowing rules relaxed, and national

governments have tended to take primary responsibility for most Covid-19 related spending.

## Lessons from the pandemic – changes made and potential future changes

### Summary

#### Changes in future national emergencies

Based on the experience of the Covid-19 pandemic, a flexible rather than rules-based approach for determining funding arrangements in a potential future national emergency is recommended. However, planning can be undertaken in advance, and lessons can be learned from the pandemic.

Updated contingency plans for potential future pandemics and national emergencies should include options for funding arrangements for devolved governments. They should set out the principles for how decisions on the funding arrangements to use in particular circumstances will be made, and guidance for particular funding arrangements that enables their rapid implementation.

The UK government is usually best placed to raise funding for a national emergency, given the large and liquid gilt market, and the Bank of England's liquidity and quantitative easing operations. Direct borrowing by the devolved or local governments would likely take longer and be more costly, especially if large amounts were being borrowed for the first time.

The UK government should be ready to bypass the Barnett formula and target funding at particular nations or regions of the UK in the case of a large asymmetric emergency. This approach would provide greater insurance against asymmetric shocks than allowing devolved and local governments to borrow to fund measures themselves (as in that case, those facing bigger shocks would need to borrow and pay back more).

The use of temporary funding guarantees, set at a level somewhat above the level implied by Barnett formula at any given point mean the devolved governments do not need to wait for announcements of new spending for England before planning and announcing their own measures. The provision of modest discretionary borrowing powers, either during a period of crisis, or more generally (see below) could also them with such flexibility.

An effort should be made to maintain enhanced financial information sharing and coordination for the duration of a future national emergency, not just its early stages as in the Covid-19 pandemic. This would require the different tiers of government to treat as confidential information shared by other tiers, and may sometimes be more feasible at official rather than political level.

Interactions between the responsibilities assigned to different tiers of government need to be accounted for. In a pandemic situation the most important such interaction is likely to be between public health restrictions (which were devolved during the Covid-19 pandemic) and economic support and overall funding levels (which was the responsibility of the UK government). Given the potential for an asymmetric shock, and different views between the UK

and devolved governments on the appropriate public health restrictions to have in place at a given time, efforts should be made to allow economic support (such as the furlough scheme) to be operated on a geographical basis. This could be funded by the UK government if caseloads (or other measures of situation severity) exceed a certain threshold, or via devolved governments (through enhanced borrowing powers) if risk appetites differ.

### **Permanent changes to devolved fiscal frameworks to improve robustness**

The ability of devolved governments to respond to a national emergency depends not only on financial support and arrangements provided specifically for that emergency, but also pre-existing funding arrangements and financial circumstances. To improve the underlying resilience of funding arrangements for devolved governments, several permanent changes to 'normal' arrangements should be made

The devolved governments should automatically be allowed to carry forward late increases or defer late decreases of funding in a given year into future years (even above normal reserves limits). This would be a preferable way of providing more in-year certainty about funding than 'funding guarantees' on a long-term basis.

The devolved governments' borrowing limits for forecast errors and reserves limits should be indexed to the amount of revenue and spending at risk rather than inflation (as in Scotland) or frozen (as in Wales).

The devolved governments should be allowed to borrow a modest amount for discretionary resource purposes, to enable them to respond to shocks to public service spending needs, and to respond to temporary declines in tax revenue or increases in social security spending that are forecast in advance – things they presently cannot do.

Substantial additional borrowing powers (either for resource or capital purposes) for the devolved governments could be considered unfair to England – there is no 'England only' borrowing, in general. Substantial new borrowing powers for the devolved governments would therefore need to be considered as part of a more fundamental and necessarily political review of the UK's fiscal architecture, including for England.

That is also true of any major changes to the way UK government funding for the devolved governments is calculated. There are legitimately different views about the extent of redistribution and risk sharing across the UK. Thus, while the current system (most notably the Barnett formula) is hard to justify on a principled basis, the direction of any reform is an inherently political as opposed to technocratic decision.

79. Bell et al (2021a) looked in detail at the lessons to be learned from the Covid-19 pandemic for the devolved governments' fiscal frameworks and funding arrangements. We considered a set of potential permanent changes to arrangements to make systems more robust in general, in order to help improve financial resilience and better support initial responses to shocks, as well as temporary measures that could be made to help the devolved governments respond to large-sized shocks (once these have been identified). Some greater

fiscal flexibility would help reduce the risk of uncertainty and imperfect communication hampering the ability of the devolved governments to respond effectively to such shocks.

### ***Permanent changes to devolved fiscal frameworks***

80. We considered six potential permanent changes to fiscal frameworks to improve resilience and initial responses to shocks:
- 80.1. Providing funding guarantees on a permanent basis;
  - 80.2. Widening the range of purposes for which the devolved governments can undertake resource borrowing;
  - 80.3. Relaxing limits on reserve levels and drawdowns and Northern Ireland's system of Budget Exchange;
  - 80.4. Allowing the utilisation of a portion of capital funding for resource spending;
  - 80.5. Increasing resource borrowing limits to address tax and social security forecast errors and reconciliation payments; and
  - 80.6. Changes to how block grants and BGAs are calculated.
81. We concluded that **funding guarantees should not be a permanent feature of the devolved governments' fiscal frameworks.**
- 81.1. We made our recommendation because in normal circumstances, big in-year increases in spending in England are not usually announced. This means funding guarantees set at a level meaningfully higher than what would be implied by the Barnett formula would almost certainly lead to the devolved governments receiving more than their population-based share of funding increases. While it is debatable whether the current version of the Barnett formula itself is a suitable way of allocating funding, its use of population to allocate funding increments could be considered in some way 'fair' (or at least 'reasonable'). It is more difficult to justify providing an amount arbitrarily higher than a population-based share of funding changes: unless this were based on some evidence of greater need for additional funding in the devolved nations, it can easily be seen as unfair to England.
  - 81.2. Even setting the guaranteed funding level at what is initially implied by the Barnett formula would mean that if there were subsequent in-year cuts in planned spending in England, the devolved governments would receive more than their population-based share of any changes in funding, which could again be seen as unfair.
  - 81.3. **An alternative way to avoid the devolved governments having to make in-year cuts at short notice is to give them the flexibility to defer the cuts to a later date.** Indeed, the UK government has allowed this in the past (in 2010, for example). There is a case for this flexibility to be made automatically, rather than requiring the permission of HM Treasury on an ad hoc basis.

82. We concluded that **the devolved governments should be able to borrow modest amounts (for example, 1%-2% of their resource budgets) for resource purposes other than addressing forecast errors and reconciliation payments. The UK government appears not to concur, having not granted such powers under the renegotiation of the Scottish fiscal framework in 2023.**

82.1. Such powers would recognise that there can be a need for additional temporary resources for reasons other than forecast errors for tax revenues and social security spending. This includes temporary reductions in revenues that are forecast in advance (perhaps due to a particular slowdown in the Scottish economy); temporary increases in benefits spending that are forecast in advance (for similar reasons); and expected or unexpected increases in resource spending requirements (such as higher-than-expected public sector pay increases). Specifying the circumstances when borrowing could be used for each of these purposes would be more difficult than for tax and social security forecast errors, so we recommended a general power to borrow for resource purposes subject to limits.

82.2. The UK government has traditionally been reluctant to grant discretionary resource borrowing powers due to risks to UK fiscal management. We considered the impact of borrowing limits of 1, 2 and 3% of resource block grant funding on overall UK borrowing. 1% of resource block grants for all of the devolved governments amounts to 0.02% of GDP, whereas 3% of resource block grants for all the devolved governments amounts to 0.07% of GDP. This could, in theory, mean the difference between a UK fiscal target being met or not. But in practice this eventually seems unlikely given the scale, uncertainty and volatility of UK government borrowing. Even if the eventuality did arise, a marginal difference in whether a deficit or debt limit is breached has very little economic significance (although its political significance could be higher). Emmerson and Stockton (2021), for example, argue that *“rather than having firm and fixed fiscal rules, it would be better for these to be considered rough rules of thumb that Chancellors should strive to keep to in most periods”*. And the UK government could define its fiscal rules to exclude borrowing by the devolved governments if it wished, without diminishing any rules (or rule of thumb’s) credibility.

82.3. The UK government has also highlighted concerns about the fairness of devolved governments having discretionary borrowing powers. The argument here is that all borrowing undertaken by the UK government implicitly benefits the devolved nations – it helps fund the UK government’s UK-wide responsibilities (like defence, or the state pension) and/or England-only responsibilities (such as health and education) and so generate funding for the devolved governments via the Barnett formula. It would therefore arguably be unfair to England if the devolved governments were able to borrow ‘on top of’ UK government borrowing (particularly because relatively high levels of public spending means the devolved nations benefit from a substantially higher than population share of UK government borrowing). One might argue that as long as the costs of devolved government borrowing are borne uniquely by the devolved governments and devolved taxpayers in future, then the equity concerns do not provide a strong justification against devolved government borrowing. On the other hand, if devolved governments did choose to borrow

additional funds – despite the associated debt servicing costs in future – this shows that that borrowing is valued, and the fact that the option to capitalise on that is only available to residents of the devolved nations could be seen as unfair. While voters in England could elect a government that was willing to borrow more, such borrowing would either be for UK-wide spending or generate additional funding for Scotland, Wales and Northern Ireland via the Barnett formula, meaning it would not be possible for them to benefit from additional borrowing on top of UK government borrowing without more fundamental reform of the UK’s fiscal architecture.

- 82.4. For these reasons we concluded that modest borrowing powers would be beneficial and justifiable. Annual limits could be combined with a cap on the total stock of debt (as for capital and forecast error borrowing), and/or short repayment periods, to discourage the use of such borrowing powers for long-term as opposed to short-term financial pressures. Requiring any discretionary resource borrowing by a devolved government to be funded through bonds issued directly by itself, rather than by borrowing through the UK government, would help ensure that costs of servicing the debt reflect the perceived risks of holding devolved government debt, and limit the scope for any negative spillovers onto UK taxpayers. And requiring the devolved governments to notify their respective legislatures whenever they plan to utilise their discretionary resource borrowing powers would help enable the rationale for that decision to be robustly scrutinised.
83. We concluded that **reserve drawdown limits should be increased or abolished, and at a minimum, reserve holding limits indexed in some way to account for growth in devolved tax revenues and spending. The Northern Ireland Executive should also have the option to move from Budget Exchange to a Northern Ireland Reserve.**
- 83.1. Abolishing the drawdown limits would provide the Scottish and Welsh Governments with more flexibility to respond to underspends and positive forecast errors and reconciliation payments.
- 83.2. Indexing reserve holding limits would prevent their value falling in real-terms and relative to the Scottish and Welsh Governments’ revenues (It would also reflect what happens for UK government departments and the Northern Ireland Executive, where Budget Exchange limits are based on budgets not fixed in cash-terms).
84. We concluded that **allowing the devolved governments some ability to transfer capital spending limits to resource budgets may be a useful way to provide additional budget flexibility, but that this was less of a priority than relaxed borrowing and reserves rules.**
- 84.1. The principal argument in favour of allowing devolved governments to transfer capital to resource spending more generally is that such switches would not ‘cost’ the UK government anything: one element of the devolved governments’ spending limits would be being exchanged for another. And to the extent that devolved governments have the autonomy to allocate the resource and capital budgets, why should they not have the autonomy to determine the overall balance of their resource relative to capital spending? Additionally the distinction between what is classed as resource and capital spending is at times arbitrary, strengthening the

- case for the devolved governments to have some ability to transfer funding between the categories.
- 84.2. The arguments against such powers are similar to those against discretionary resource borrowing powers - impacts on UK fiscal aggregates and fairness to England.
- 84.3. Having considered this, we concluded that the ability to transfer a portion of capital budgets to resource budgets could be useful but was less of a priority than increased flexibility over borrowing and reserves.
85. We concluded that **borrowing limits to address forecast errors should be increased in Scotland and indexed in all devolved nations. There is a case for abolishing limits provided forecasts are made by independent bodies.**
- 85.1. Statistical analysis shows that negative forecast errors were likely to exceed the £300 million limit on the Scottish Government's forecast error resource borrowing powers then in place on a regular basis. This is because forecast errors can arise both because the Scottish revenues and spending evolve differently than expected, but also because forecasts for revenues and spending on the one hand and the associated BGAs on the other hand are made by different forecasters: the Scottish Fiscal Commission and the Office for Budget Responsibility, respectively. Differences in these forecasters' overall optimism/pessimism increase the likelihood of substantial forecast errors for the net tax revenue position (i.e. revenues minus BGAs) and net social security spending position (i.e. spending minus BGAs).
- 85.2. The statistical analysis shows that an increase in the limit to £600 million - the amount the Scottish Government originally could borrow during and following a Scotland-specific economic shock - would significantly reduce the probability of forecast errors exceeding borrowing limits. The £200 million limit in place for Wales is less obviously constraining than the original limit for Scotland for two key reasons. First, while lower in cash terms, they are substantially higher as a share of devolved revenues than Scotland's limits. Second, we may expect the forecast errors for Welsh revenues and the block grant adjustment (BGA) to be greater than Scottish ones, further reducing the scale of reconciliation required. In part this is because the Welsh and rest-of-UK (rUK) business cycles are more tightly correlated than the Scottish-rUK business cycles, but also reflects the fact that the OBR will forecast Welsh as well as rUK tax revenues (so the same forecasting methodology will be employed and, presumably, similar and consistent judgements will underpin each forecast).
- 85.3. Given the forecasts for tax revenues, social security spending and associated BGAs are made by independent forecasters, the risk of this form of borrowing being 'gamed' by the devolved governments is limited. There is therefore a case for fully uncapping annual limits on borrowing for forecast errors.
86. We concluded that **there is a strong principled case to move away from the Barnett formula, and its replacement with a needs-based funding system (accounting for differences in socio-economic characteristics and other relevant factors) would**

**provide both a more rational basis for redistribution and greater insurance for long-term asymmetric shocks to or trends in spending needs. Both practical and political challenges would need to be overcome in order to implement needs-based funding arrangements. We therefore recommended that any decision to replace the Barnett formula with needs-based assessments and allocations should be considered as part of a UK-wide political review of the devolved funding regimes rather than technical reviews of fiscal frameworks that could consider borrowing and reserves limits.**

- 86.1. As discussed above, the block grants resulting from the Barnett formula are essentially arbitrary. Whether the Barnett formula should be replaced with needs-based funding or some other system (such as funding based on revenue generation or simple equal per-person funding) depends on one's view about the degree of redistribution and insurance that should be provided across the UK.
  - 86.2. Within each nation of the UK, funding for public services is often allocated between local areas in order to equalise on the basis of estimated spending needs and, in the case of councils, to offset differences in their own revenue-raising capacities. Depending on how quickly funding is updated to account for changes in circumstances, such needs-based formulas can also provide insurance against long-term shocks and trends differentially affecting the spending needs of different places.
  - 86.3. Implementing a needs-based funding regime would entail both practical and political difficulties. On the practical side, estimating spending needs is difficult: the typical approaches used can be subject to circular reasoning (past funding allocations determine past spending patterns, and in turn determine estimated relationships between regional characteristics and spending, and hence future funding allocations) and gaming by subnational jurisdictions (if the characteristics used in the spending needs formulas are partly under the control of subnational government). There are ways to at least partially address such concerns but it is impossible to avoid subjective judgements when assessing spending needs. This links to the real difficulty in implementing needs-based funding for the devolved governments: politics. Changes in the way funding is allocated would be effectively a zero-sum game, with some nations of the UK losing and some gaining. Moreover, implementation of needs-based funding is not one-off: formulas would need to be updated as the characteristics of the different nations and the drivers of spending needs change and as the balance between different services (for which patterns of relative need may differ) in total spending changes. Political disagreement would therefore likely be an ongoing feature of a needs-based funding system, at least while the constitutional future of the UK is such a live issue.
  - 86.4. Moves towards needs-based funding arrangements would therefore be a major political undertaking, with consensus unlikely.
87. **We concluded that reform of the BGAs is the main way to provide greater insurance against long-term fiscal shocks and trends differentially affecting the devolved revenues and social security spending of different nations of the UK. However, designing such a system which also means that each government continues to bear**

**the effects of its policies on its revenues or spending would be difficult. And, whether such insurance is desirable or not depends on one's conception of the role of the Union. We therefore recommended that decisions over whether BGA indexation should be reformed to provide greater insurance should be considered as part of a UK-wide political review of the devolved funding regimes rather than technical reviews of fiscal frameworks that could consider borrowing and reserves limits.**

- 87.1. As discussed earlier, the indexation of the BGAs using equivalent revenues or spending in other parts of the UK (mainly England) provides significant insurance against common shocks or trends, but does not provide insurance against shocks or trends that disproportionately or only affect the devolved nations. In principle, reforming the way the BGAs are indexed so that marginal changes in revenue-raising capacity or social security spending needs are partially equalised for would provide greater insurance for such differential long-term shocks or trends.
- 87.2. Providing such insurance in practice is challenging though. So that the devolved and UK governments still bear the revenue effects of their own tax policies, one would have to strip out the effects of any policy changes. This could be done by defining a benchmark tax system with which to assess each devolved government's tax revenue capacity, in turn basing updates to BGAs on these assessments. This is the approach traditionally used within each nation to assess each council's revenue-raising capacity (using a reference level of council tax) and also in many other countries (such as Australia and Canada). Doing this becomes more difficult the more that tax systems diverge in structure - or example, if the definition of tax bases differs, there may not be the administrative data to calculate revenue capacity under a common benchmark tax system.
- 87.3. Potentially more of an issue is the treatment of behavioural effects of tax policy decisions. In particular, if tax policies differ between different parts of the UK, to what extent is it those differences that are driving differences in revenue capacity versus other underlying factors? This matters because ideally (and under the 'economic responsibility' principle), we would want the government in question to bear the behavioural impact of its tax policies on revenues, not just the direct mechanical effects of any changes in tax rates, thresholds, etc. If the devolved governments do not face these behavioural costs and benefits, their incentives are skewed towards setting higher tax rates and higher benefit rates than they otherwise would.
- 87.4. However, even after a policy is implemented, one cannot know for sure what the behavioural response to it is - one can only estimate it statistically, and such estimates are subject to both measurement error and methodological difficulties. Agreeing the size of the behavioural adjustments to make to estimates of the tax revenue capacities of the devolved governments would therefore likely be politically difficult.

#### ***Actual changes to permanent rules made since the Covid-19 Pandemic***

88. Several changes to the devolved governments' fiscal frameworks have been made since the Covid-19 pandemic and Bell et al (2021a) was published:

- 88.1. As discussed earlier, the UK government agreed to remove reserve drawdown limits for the Scotland Reserve when the Scottish fiscal framework was renegotiated in 2023. Limits currently remain in place for Wales.
  - 88.2. As discussed earlier, the UK government also agreed to increase borrowing and reserves limits in line with inflation, after first increasing the limit for resource borrowing for forecast errors and reconciliation payments to £600 million in all years (by removing the provision that this higher limit only applied during a 'Scotland specific shock'). Limits currently remain frozen for Wales.
  - 88.3. As discussed earlier, the Barnett formula remains in place but a 'needs-based factor' has been introduced for Northern Ireland providing the NI Executive with 1.24 times its population-based share of any change in planned spending in England.
89. Some features of the fiscal frameworks have remained the same, however:
- 89.1. The UK government appears to concur with us that funding guarantees should not be a permanent feature of funding arrangements, having not used them again since 2020-21.
  - 89.2. The UK government has not followed our alternative suggestion of automatically allowing devolved governments to carry over late in-year increases or defer late in-year decreases in funding.
  - 89.3. The UK government has not followed our suggestion of providing the Scottish Government with limited discretionary resource borrowing power when the Scottish fiscal framework was renegotiated. Nor have such powers been provided to the Welsh Government or NI Executive.
  - 89.4. The BGA calculation method for Scotland has remained the same, despite the Scottish Government requesting some form of insurance against idiosyncratic shocks or trends in revenues (Scottish Government, 2022a). No changes have been made to the calculation of BGAs for Wales either.
90. Taking these changes into account, my view is that the most serious remaining issue for the devolved fiscal frameworks in relation to funding certainty and flexibility is the lack of discretionary resource borrowing powers.

***Potential temporary changes to rules during future crises***

91. Bell et al (2021a), also considers what changes should be considered during future crises with major implications for the devolved governments' finances.
92. We concluded that **some combination of relaxed borrowing rules and funding guarantees should be rapidly introduced in a future major fiscal shock where spending decisions are likely to need to be taken quickly and on a rolling basis.**
  - 92.1. Both would help devolved governments address the short-term effects of the crises, but they are not perfect substitutes and have their own advantages and disadvantages. For example, the funding guarantees allowed the UK government to

continue its direct control over UK borrowing and debt, and also keep devolved government debt relatively low. From the perspective of the devolved governments, the headroom provided by the guarantees comes at no cost to them, whereas the headroom provided by borrowing may require repayment in subsequent years, if additional Barnett consequentialia are not forthcoming allowing them to unwind the borrowing. On the other hand, from a UK-wide equity perspective, granting enhanced borrowing powers instead would have meant that there was no risk that the UK government was providing the devolved governments with a higher-than-population share of the funding to address the shock, whereas such a risk did exist under the funding guarantees. Enhanced borrowing powers would also give the devolved governments greater flexibility to decide how much extra they need to spend, potentially providing greater flexibility to address asymmetric impacts of a shock.

- 92.2. Funding guarantees and enhanced borrowing powers therefore differ in the extent to which they provide certainty to the UK and devolved governments, and the degree of both flexibility and responsibility they provide to the devolved governments. Thus, if a similar shock arises in future, the choice or balance between funding guarantees and enhanced borrowing powers should depend on the importance placed on these different objectives. To the extent that certainty over funding and borrowing levels is valued highly by the UK and/or devolved governments, provision of most of the funding headroom deemed necessary via funding guarantees is likely to be more attractive. But if greater flexibility and/or responsibility for the devolved governments is seen as desirable, and/or the risk of the shock impacting asymmetrically across the nations of the UK is considered likely, greater reliance on enhanced borrowing powers will be more attractive.
93. We concluded that **decisions on the fiscal response to a future fiscal shock should be made on an ad hoc basis, rather than on the basis of a pre-defined set of quantitative rules.**
- 93.1. While the IMF and OECD recommend setting out formal criteria for when the economic situation should warrant a relaxation of the rules (as with the definition of a Scotland-specific economic shock, for example), they recognise that this is not possible for all fiscal shocks, including natural disasters and pandemics (see Eyraud et al., (2020)). And similarly, it is infeasible to set out in advance exactly what sort of fiscal response would be most appropriate to any given fiscal shock.
94. We concluded that **it is unlikely to be feasible to rapidly develop bespoke formulas to allocate funding on a needs basis in response to asymmetric shocks. However, the UK government can and should bypass the Barnett formula (or any replacement formula) if, during the course of forecasting and monitoring the impact of a fiscal shock, it becomes clear it is having disproportionate impacts on one or more of the UK nations.**
- 94.1. Assessing spending needs is difficult, and limited data will likely be available for such purposes during the early stages of a crisis. The design of such a formula is likely to be very politically contentious.

- 94.2. That does not mean the UK government should blindly use the Barnett formula – or any formula that replaces it in future - in all circumstances: the UK government is able and should be willing to bypass the Barnett formula (both to provide more or less funding than for England) when it is obvious that a shock is having or will have very different impacts in different parts of the country.

### *Intergovernmental relations and policy-coordination*

95. We concluded that **improved intergovernmental communication, and a focus on deliberation and seeking consensus, may help the UK and devolved governments to identify the scale and nature of future shocks, and determine the most appropriate fiscal policy response to such shocks. Relative to decisions taken unilaterally, without consultation, by the UK government, it would also provide enhanced legitimacy. However, a requirement for formal agreement between the UK and devolved governments could slow down policymaking.**

95.1. The devolved governments are likely to have better information on how a shock is affecting their territories, and both the fiscal impacts and constraints they are likely to face, than the UK government. Second, decisions on the nature of a response may have greater legitimacy if the devolved governments have informed and been able to influence them.

95.2. However, evidence suggests that a more formal role for the devolved governments in determining the appropriate fiscal response to a crisis may not necessarily lead to a more effective or timelier response. As discussed above, it has been argued that the response to the second wave of Covid-19 in Switzerland in 2020 was delayed by the requirement to seek agreement about health restrictions across the cantons, whereas the response to the first wave was timelier given that it was unilaterally declared at federal level. Similarly, the requirement in Germany to seek agreement across Länder has been argued to have resulted in delays in setting health restrictions - and a weakening in the level at which restrictions were set.

96. We did not consider changes to formal intergovernmental bodies and dispute mechanisms in detail, but **we concluded that the recommendations set out in McEwen et al (2020) had merit.** These proposals included improving the functioning of the Joint Ministerial Committee (JMC), the then main forum for inter-governmental coordination in the UK, through: greater transparency about discussions at the JMC, via the publication of meaningful summaries of discussions and disputes; agreeing a schedule of meetings in advance rather than holding them on a purely ad hoc basis; a greater range of subject-specific subcommittees involving relevant ministers other than the Prime and First Ministers, focusing on areas with the greatest policy interdependencies such as economic development or public health; rotating the chairing and location of meetings between the UK government and devolved governments; and mediation by an independent mediator in the case of disputes. **Some of these changes were adopted as part of a Review of Intergovernmental Relations** (Cabinet Office, 2022), including plans for regular rather than ad-hoc meetings, publishing 'communiqués' of meetings (listing date, location, participants and a summary of discussion points), and more subject-specific meetings. However, a review by researchers at the Scottish Parliament Information Centre (2024) suggests that meetings were less frequent than planned, and minutes often late or even unpublished. **This suggests improved**

inter-governmental coordination is still very much a work in progress. This could adversely impact cross-UK planning for a potential national emergency or pandemic.

97. We did consider coordination in relation to a further wave of the Covid-19 pandemic and/or a future pandemic. We concluded that because the **devolved governments cannot really exercise full control over health policy in the absence of appropriate economic support measures, a feasibility study into making furlough-type support available on a geographical basis should be urgently undertaken and published. If it is feasible, there would be benefits from making two types of support available. First, in order to enable the devolved governments to exercise their subjective judgements on when public health restrictions are appropriate, they should be able to pay for 'reserved' economic support to be provided in their territory, including by making use of their borrowing powers. Second, in order to provide insurance and risk-sharing against asymmetric shocks, criteria should be agreed (e.g. thresholds based on cases or hospitalisations) for the UK government to pay for economic support in particular geographic areas.**
98. **An alternative way to reduce the scope for problematic policy interactions would be to centralise or decentralise competences.** For example, public health restrictions could be determined centrally by the UK government under the Civil Contingencies Act 2004. Alternatively, economic support measures could have been devolved to the devolved nations. The former (centralising competences over the setting of health restrictions) was indeed discussed at the outset of the pandemic and was an approach implemented in Switzerland and Spain. Given the precedent set with the Covid-19 pandemic, it may be difficult to centralise power this way in a future pandemic. Devolving the powers to determine economic support policy instead would likely require a major expansion in the borrowing powers of the devolved governments, and would mean they were responsible for potentially addressing a common shock affecting the whole of the UK, violating one of the key principles agreed by the Smith Commission for Scotland.

#### ***Other suggestions for reform of funding arrangements***

99. **There have been several calls for a much greater expansion of fiscal powers, especially in the case of Scotland.** For example, the Scottish Government has argued that while Scotland is part of the UK it should have a prudential borrowing regime (allowing it to set its own borrowing limits) and 'full fiscal autonomy', with all taxes (with the exception of external tariffs) and spending (with the exception of UK-wide functions such as defence and UK debt servicing costs) determined in Scotland (Robison, 2025). However, as discussed above, there are issues of equity across the UK if there is significant Scotland-specific (or Wales- or NI-specific) borrowing in the absence of England-specific borrowing. And, with each of the UK nations having levels of spending that substantially exceed their tax revenues currently, it is doubtful that the sustainability of their finances and their ability to respond to major fiscal shocks would be enhanced under full fiscal autonomy - unless they were to substantially improve their economic and hence fiscal positions (Office for National Statistics, 2024).
100. Evidence and recommendations from international bodies are also relevant. The OECD and IMF emphasise that **there is no 'one size fits all' recommendation for subnational fiscal frameworks** (e.g. Blochliger and Kantorowicz, 2015; Eyraud et al., 2020; OECD, 2021; Vammalle and Bambalaité, 2021), including in how they should be adapted during crises

such as pandemics. Instead, systems should be designed to be consistent with the balance of responsibilities between tiers of government and the emphasis placed on redistribution and insurance between subnational jurisdictions. However, drawing on public finance theory and practical experience from a wide range of countries, **they do make suggestions on the appropriateness of different forms of rules on borrowing (distinguishing between capital and resource borrowing, for example), on escape clauses and on coordination and institutional arrangements.**

- 100.1. Eyraud et al., (2020) for the IMF and Vammalle and Bambalaite (2021) for the OECD both highlight the role of central government in insuring subnational governments from both common and idiosyncratic shocks. Eyraud et al., (2020) suggest that the benefits of substantial sub-national powers to borrow to pay for resource (non-investment) spending are therefore limited, and that such powers can lead to a bias towards incurring excessive deficits and debts. Vammalle and Bambalaite (2021) highlight that 17 out of 29 countries they study (26 OECD countries and 3 others) require subnational governments' *planned* resource budgets to be in balance - although 14 of these allow *outturns* to be out of balance to reflect the fact that 'shocks' may occur, with revenues unexpectedly low or spending unexpectedly high. Blochliger and Kantorowicz (2015) at the OECD find that there has been an increase in the stringency of sub-national fiscal rules over time, reflecting concern about a 'deficit bias' that might otherwise arise. Taken together, **my view is that this reinforces my suggestion that significant restrictions on devolved government resource borrowing are justifiable**, albeit with scope for some relaxation of existing rules.
- 100.2. Eyraud et al., (2020) suggests rules may be needed to prevent excessive borrowing for capital purposes too – such as limits on borrowing or debt, or debt servicing costs – although it highlights these can be self-regulated though, as with the prudential regime operating for local government in the UK. **My view is that this supports my suggestion that the devolved governments could be provided with additional capital borrowing powers if similar such powers were provided to England.**
- 100.3. As discussed earlier, Eyraud et al., (2020) suggests that escape clauses from normal fiscal rules should precisely define when they can be invoked using indicators that subnational governments cannot easily manipulate. However, **it recognises that this might be difficult in the case of natural disasters or other nonstandard shocks (such as a global pandemic), thereby suggesting a degree of discretion is also important as I have concluded.** Instead, an active decision should be taken as to whether to modify normal fiscal rules if significant natural disasters and other nonstandard shocks (such as a global or regional pandemic) take place.
- 100.4. Blochliger and Kantorowicz (2015) and OECD (2021) highlight how consistency of different aspects of fiscal frameworks and between fiscal frameworks and broader constitutional arrangements and responsibilities is important. The latter, in particular, highlights two key features for systems that are likely to be more robust during crises. **First, an effective settlement tries to minimise issues caused by the**

**delineation of competences between tiers of government.** This involves several elements including: allocating responsibilities to the most appropriate tier of government given economies of scale, spillover effects and preferences over policies (and policy variation); avoiding overlapping responsibilities; and providing sufficient financial capacity to discharge assigned responsibilities. **Second, coordination mechanisms are important, but are especially so where responsibilities overlap and interact.** Such mechanisms involve intergovernmental communication channels, standardisation of procedures and policies, and monitoring and benchmarking of policies and outcomes. **In my view this emphasises the importance of improving arrangements for intergovernmental communication and coordination, and mechanisms to provide greater flexibility where devolved and national responsibilities intersect and interact (e.g. public health restrictions and economic support).**

### 3. Local government finances during Covid-19

#### The standard funding regimes for local authorities

##### Summary

The arrangements for funding the local authorities differ somewhat between the nations of the UK but include government grants, property-based taxes, sales, fees and charges (SFCs), investment income and contributions from other public sector bodies. Local authorities can hold reserves, and in many cases these are quite substantial. They can borrow for capital purposes up to self-determined 'prudential' limits, but borrowing for resource spending purposes is generally forbidden.

Local authorities in Scotland and Wales rely mostly on grant funding. This includes purpose-grants, 'directed' or 'ring-fenced' grants, and redistributed non-domestic rates revenues. Complex systems of assessing spending needs and how much local authorities can raise via council tax systems are used to allocate this funding, with local authority representatives part of the groups determining these assessments.

Local authorities in England rely to a greater extent on local taxation, including a substantial locally retained proportion of non-domestic rates. General grant funding is limited, although the late 2020s saw a growing amount of grant funding ringfenced for social care. Reforms from the mid-2000s onwards left England without a proper system to assess needs and revenue-raising capacity and allocate funding accordingly.

Local authorities in Northern Ireland rely to a very large extent on local taxation and SFCs to fund the narrow range of services they provide, although small amounts of grant funding are also provided, in part to compensated for differences in local revenue-raising capacities.

With cuts to government funding during the 2010s, local authorities became more reliant on local tax and SFC income to fund their services. Especially in England, some local authorities increased their investment activities in order to generate income, but leading to increased debt and risk too.

Local authority reserves levels increased during the 2010s, despite funding cuts, although the level of reserves varied significantly across local authorities.

101. Funding arrangements for local authorities differ somewhat between the different nations of the UK, but there are some commonalities. These include the following elements:
  - 101.1. **General and specific grants** from central (UK or devolved) government, the latter sometimes ring-fenced for the specific purposes they are provided for.
  - 101.2. **Transfers from other organisations**, such as contributions from the NHS to help pay for social care services as part of pooled budgets and other joint arrangements.

- 101.3. **Residential and non-residential property taxes.** Residential property taxes (council tax in Great Britain and domestic rates in Northern Ireland) levied by local authorities are fully retained by the authority in question. Non-residential property taxes (non-domestic rates) are subject to redistribution from local authorities with large tax bases (and/or low spending needs) to those with small tax bases (and/or high spending needs).
  - 101.4. **Sales, fees and charges (SFCs)** received from the users of services provided by local authorities on a non-commercial basis.
  - 101.5. **Commercial and investment income** received from the users of services and facilities provided on a commercial basis, as well as income received from financial and property investments.
  - 101.6. **Financial reserves** that local authorities can pay into and draw down to help fund investment, smooth expenditure, and self-insure for contingencies (e.g. in case the value of their assets falls).
  - 101.7. **Borrowing for investment purposes** such as new infrastructure, facilities and equipment, but not in general for day-to-day spending, which must be funded from revenues or reserves.
102. Local authorities in England, Scotland and Wales are responsible for a wide range of services (the specific services differ somewhat). The main responsibilities include:
- 102.1. **Education**, including large parts of pre-school and school-based education (in England an increasing number of schools are directly funded by central government) and elements of post-school education.
  - 102.2. **Social care**, including support for adults and children with significant personal care needs due to disability or illness, safeguarding and residential care for children at risk of harm, and community-based services, such as day centres, children's and youth centres.
  - 102.3. **Public health (England only)**, such as sexual health services; alcohol, drugs, obesity, physical activity and smoking strategies; health checks for the over 40s, and children's preventative healthcare services (excluding vaccination).
  - 102.4. **Housing services**, including housing advice and regulation, grants for urgent improvements and renovations, and homelessness prevention services (including temporary accommodation).
  - 102.5. **Highways and transport**, including local road maintenance, parking provision and enforcement, street lighting, transport strategy and support for bus services (including concessionary bus passes).
  - 102.6. **Environmental and regulatory services**, such as waste collection and disposal, street cleaning, trading standards and food safety, noise and pest control, licensing, community safety, drainage and flood prevention, and the provision of cemeteries.

- 102.7. **Culture and recreation**, including community centres, cultural and heritage facilities, leisure centres, libraries, open spaces and parks, and the promotion of the arts and tourism.
  - 102.8. **Planning and economic development**, including building and development control, planning policy and local economic development and aspects of business support.
  - 102.9. **Central and other services**, such as support services for other functions, the organisation of local and national elections, local tax collection, emergency planning and local welfare schemes.
103. Local authorities in Northern Ireland have a much narrower range of responsibilities, mostly under the ‘environmental and regulatory services’, ‘culture and recreation’ and ‘planning and economic development’ headings above. They are **not** responsible for education, social services, housing, roads and transport, urban regeneration, local tax collection and local welfare schemes, with central government or separate agencies instead providing these services. See the NI Direct website (<https://www.nidirect.gov.uk/articles/local-councils>) for further information.
104. The rest of this section explains the salient features of the standard funding regimes for local authorities in each nation of the UK separately. Fuller explanations can be found in Local Government Association (2024) for England, Scottish Government (2025) for Scotland, the Welsh Government’s ‘Local government finance’ sub-topic webpage for Wales and Northern Ireland Fiscal Council (2021) for Northern Ireland. Our analysis for England is restricted to ‘main councils’ – boroughs, counties, districts and unitary authorities – and excludes combined and mayoral authorities, fire authorities and police authorities, which have distinct funding arrangements and differentiated responsibilities. The vast majority of funding and responsibilities in relation to the Covid-19 pandemic fell to ‘main councils’.

### **England**

105. Excluding government grant funding ring-fenced specifically for schools (which for most purposes is not treated as part of the local government finance system in England), **the largest source of funding for English local authorities on the eve of the pandemic was council tax**. As in Scotland and Wales, the structure of council tax was (and remains) largely determined by central government, with local authorities setting the headline ‘Band D’ rate of tax. Since 2011, English local authorities’ ability to increase council tax has been constrained by the requirement to hold a referendum of local voters for increases above a certain percentage – with percentages varying by year, and higher limits for councils with social care responsibilities. Since 2013, English local authorities have been responsible for covering the cost of means-tested reductions in council tax for low-income low-wealth households (‘council tax support’ or ‘council tax reduction schemes’).
106. **The second largest source of funding on the eve of the pandemic was retained non-domestic rates** under the business rates retention scheme (BRRS). Under this scheme, in general, 50% of business rates revenues are transferred to the UK government (which uses it to fund grant funding for English local authorities) and 50% retained by local government. Of the part retained by local government, revenues as of 2013 are distributed

between councils according to their assessed need for those revenues. Councils covering each local area then bear 50% of the real-terms increase or real-terms decrease in revenues since 2013 (stripping out the effect of any national property revaluations), with the aim of providing them with a financial incentive to support the development of local business property. In areas with two-tier government (shire counties and shire districts), it is the lower-tier district that bears the highest proportion of change and therefore faces the strongest incentives but also the greatest risks. A 'safety net' system prevents funding falling below 92.5% of the assessed need for business rates revenues as of 2013. Some areas of England (such as Greater Manchester and the West Midlands) have 100% retention of real-terms increases or decreases in business rates, meaning stronger incentives and greater risks.

107. **English local authorities then received a range of grants allocated on a range of different bases.** The main grants included:
- 107.1. **Revenue support grant (RSG).** This was historically the main general grant provided to English local authorities but was cut significantly during the 2010s and amounted to just £1.6 billion in 2020–21 (MHCLG, 2020a). As discussed in Amin-Smith et al (2016) and Ogden et al (2022), the ending of updates to underlying spending needs assessments in 2013–14 and a series of ad hoc changes to this grant meant it was increasingly disconnected from local circumstances. In particular, allocations did not account for changes in population let alone changes in other local area circumstances since at least 2013–14 (and in many cases, much earlier than this).
  - 107.2. **Social care grants.** Several ring-fenced grants were introduced during the late 2010s to help councils cover the rising costs of social care provision. These were allocated on the basis of social care spending needs assessments (as of 2013–14), and accounting partially for how much councils could raise themselves via the council tax 'social care precept'. These grants amounted to £3.5 billion in 2020–21 (MHCLG, 2020b).
  - 107.3. **Public health grant.** A grant provided to councils following the transfer of responsibility for funding public health services from the NHS to local authorities between 2013–14 and 2015–16. The amount of funding provided was based on pre-transfer NHS spending in a given area, which analysis suggests differed considerably from the needs of different areas (Ogden et al, 2022). This grant amounted to £3.3 billion in 2020–21 following real-terms cuts over most of the previous 7 years (DHSC, 2020).
  - 107.4. **Homelessness services grants.** Several ring-fenced grants to support the cost of homelessness prevention services and temporary accommodation, based on historic need for such services.
  - 107.5. **New Homes Bonus.** A grant providing matching payments to local authorities for newly built properties or newly re-occupied long-term vacant properties, with payments based on the average council tax for the council tax band of every such property. This scheme aimed to incentivise local authorities to support property construction and redevelopment.

**108. English local authorities also raised significant sums from the private sector and other public sector bodies.**

108.1. In 2019–20, English local authorities raised £11.1 billion for SFCs for non-education services (MHCLG, 2024a). Rules constrain what local authorities can charge for and how much they can charge, with fees typically capped at ‘cost recovery’ (although this is broadly defined). The largest sources include co-payments for adult social care services (£3.2 billion), various transport-related fees (£2.3 billion), various environmental and regulatory services fees (£1.3 billion), various planning and economic development fees (£1.0 billion), various housing-related fees (£0.9 billion) and various leisure and culture related fees (£0.8 billion). In contrast, little was raised from SFCs for children’s social care and public health. Reliance on SFC varies significantly across local authorities, with shire district councils especially dependent on SFCs on non-social care services (see Ogden and Phillips, 2020a).

108.2. In addition to income from regulated SFCs, English local authorities can generate income from commercial trading and investment activities. In 2019–20, they raised £0.5 billion from external trading, and £1.2 billion from investments and interest income. The second half of the 2010s saw a significant expansion of commercial investment, particularly in property and energy supply, by a subset of local authorities, often funded via borrowing (National Audit Office, 2020). With local authorities able to borrow at low rates via the Public Works Loans Board, such investment provided them with the opportunity to generate additional income (after paying debt interest), but did increase financial risks (if income and capital values fell). Reliance on commercial and investment income varied even more than reliance on SFCs income, meaning significantly different degrees of financial risk for different local authorities.

108.3. Local authorities also receive funding from other public sector bodies for joint ventures and to help cover the cost of services. The most notable example is transfers from NHS bodies under the ‘Better Care Fund’ to help pay for adult social care costs. The amounts provided were (and are) negotiated on a case-by-case basis provided the NHS makes certain mandated minimum contributions. In 2019–20, contributions are estimated to have amounted to £2.3 billion across England (NHS Digital, 2024).

**109. As discussed, local authorities can hold and utilise financial reserves and borrow for capital investment but not resource spending.**

109.1. Despite substantial cuts to funding during the 2010s, English local authorities substantially increased their financial reserves in cash-terms during the decade, with total reserves for the main local authorities (i.e. districts, boroughs, counties and unitary authorities) amounting to approximately £19 billion in April 2019 (MHCLG, 2024a). Reserves amounted to less than 15% of annual non-schools expenditure in around one-in-twenty local authorities, and less than 25% of annual non-schools expenditure in just under one-in-five local authorities (see data in Ogden and Phillips, 2020a). In contrast, some local authorities (mostly shire district councils) held very high reserves: reserves amounted to over 220% of annual non-schools expenditure in one-in-twenty local authorities, and over 120% of annual non-schools

expenditure in one-in-five local authorities. Alongside differences in trajectories in reserves levels, this illustrates different degrees of financial resilience of different local authorities.

109.2. Most local authorities had outstanding debt which they were required to service, with total outstanding debt as of April 2019 amounting to £95 billion (MHCLG, 2024b). Again, debt varied significantly across local authorities (Ogden and Phillips, 2020a), with one-in-ten forecasting zero debt servicing costs in 2019–20 (all but two of these being shire districts), median debt servicing costs amounting to 6% of non-schools expenditure, and one-in-ten forecasting debt servicing costs of 22% of non-schools expenditure or more (again all but two of these being shire districts).

110. **English local authorities are required to produce audited accounts and file a series of financial returns to the UK government on their revenues, spending, reserves, debt and activities.**

110.1. English local authorities were generally required to publish audited annual accounts within 4-6 months of the end of a financial year. External audit was (and still is) provided by a range of private sector accountancy companies, following the abolition of the Audit Commission in the early 2010s.

110.2. English local authorities were also required to submit budget and outturn financial data to the UK government by certain fixed dates, with quarterly reporting of spending and local tax receipts also required. In addition to these general financial returns, separate specific returns for certain types of spending such as education and children's services returns for the Department of Education and adult social care services returns for the Department of Health and Social Care.

### **Scotland**

111. In contrast to England, most funding for Scottish schools is provided as part of Scottish local authorities' general grant funding and is considered part of their core funding. This means **the largest source of funding for Scottish local authorities at the outset of the Covid-19 pandemic was grant funding**. There were (and remain) several different streams of grant funding:

111.1. The main general grant funding provided by the Scottish Government is the **General Revenue Grant (GRG)**. It is calculated using a complex set of formulas accounting for local authorities' assessed spending needs, and council-tax raising capacity, with these formulas overseen by a joint group of the Scottish Government and Convention of Scottish Local Authorities (COSLA) (although final decision-making power rests with the Scottish Government). Most of the GRG is unlabelled general funding, but part of it is 'directed' funding, initially held in other Scottish Government portfolios but transferred to the GRG during the course of the year (although the amounts to be transferred are agreed at the start of the year, subject to small revisions). 'Directed' funding is not formally ring-fenced but Scottish Ministers can withhold it or claw it back later if local authorities do not spend it on their intended purposes. As of the initial plans for 2020–21, the general-purpose

GRG amounted to £6.7 billion. Directed revenue grants amounted to £0.2 billion, with most of this relating to education (Scottish Government, 2020).

- 111.2. **Specific grants** are formally ring-fenced for specific purposes. As of the initial plans for 2020–21, specific revenue grants amounted to £0.7 billion, with the largest share of this (just under £0.5 billion) ring-fenced for the expansion of early learning and childcare provision (Scottish Government, 2020).
- 111.3. **Redistributed non-domestic rates.** The vast majority of non-domestic rates revenues collected by Scottish local authorities are collected and redistributed in line with the overall assessment of spending needs and revenue-raising capacity. As of the initial plans for 2020–21, redistributed non-domestic rates revenues were budgeted to amount to £2.8 billion. A proportion of non-domestic rates revenue is directly retained by local authorities covering the area they were collected from under the Business Rates Incentivisation Scheme. Retained income is based on targets for tax base growth which vary by local authority depending on their tax base growth. As of 2019–20, the total amount retained across Scotland was £1.6 million, less than 0.1% of all non-domestic rates collected in Scotland (Scottish Government, 2021a).
112. The next largest source of funding was council tax, which amounted to £2.5 billion, in 2019–20 (Scottish Government, 2021b). As in England and Wales, the structure of council tax was (and remains) largely determined by central government, with local authorities setting the headline 'Band D' rate of tax.
113. As in England, Scottish local authorities receive funding from the private and public sector (Scottish Government, 2021b):
  - 113.1. SFCs amounted to £1.4 billion in 2019–20, excluding rents on council housing. The contribution of different services to overall SFC income is similar to England.
  - 113.2. Investment and interest income, including valuation changes for investments, amounted to £67 million in 2019–20.
  - 113.3. Scottish local authorities also receive significant transfers to and from other public sector bodies, most notably the health service to help pay for adult social care costs.
114. Scottish local authorities also hold reserves and can borrow for investment purposes. Again, there is significant variation across local authorities, albeit not to the same extent as in England due to the single-tier nature of local government in Scotland (lower-tier shire districts in England have by far the greatest variation in reserves and debts).
115. As in England, Scottish local authorities are required to publish audited accounts by a certain date, with external audit being provided by the Accounts Commission. A range of financial data must also be submitted to the Scottish Government for publication in financial statistics – although published statistics are less detailed than in England.

## **Wales**

116. As in Scotland, most funding for Welsh schools is provided as part of Welsh local authorities' general grant funding and is considered part of their core funding. This means **the largest source of funding for Welsh local authorities at the outset of the Covid-19 pandemic was grant funding**. There were (and remain) several different streams of grant funding (Welsh Government 2020):
- 116.1. The main general grant provided to Welsh local authorities is the **revenue support grant (RSG)**. It is calculated using a complex set of formulas accounting for local authorities' assessed spending needs, and council-tax raising capacity, with these formulas overseen by a joint group from the Welsh Government and the Welsh Local Government Association (WLGA) (although final decision-making power rests with the Welsh Government). RSG was initially set at £3.4 billion for 2020-21.
  - 116.2. Specific grants are labelled or ring-fenced for specific purposes. As of 2020-21, specific grants amounted to £1.0 billion, with the largest grants related to education (£0.4 billion), children's social care (£0.14 billion), housing and homelessness services (£0.12 billion) and childcare (£72 million).
  - 116.3. **Redistributed non-domestic rates**. The vast majority of non-domestic rates revenues collected by Welsh local authorities are collected and redistributed on a per-person basis as part of the overall assessment of spending needs and revenue-raising capacity. As of the initial plans for 2020–21, redistributed non-domestic rates revenues were budgeted to amount to £1.1 billion. The local authorities that are part of the Swansea City Deal (Carmarthenshire, Neath-Port Talbot, Pembrokeshire and Swansea) retain 50% of the additional rates revenues from projects supported by City Deal funding. Information on the amounts retained under this arrangement are not readily available.
117. The next largest source of funding was council tax, which amounted to £1.37 billion, in 2019–20 (Welsh Government, 2022b). As in England and Scotland, the structure of council tax was (and remains) largely determined by central government, with local authorities setting the headline 'Band D' rate of tax.
118. Welsh local authorities also receive funding from the private and public sector:
- 118.1. SFCs amounted to £0.8 billion in 2018–19 (Ifan and Sion, 2019) (I have been unable to access data for later years). The contribution of different services to overall SFC income is similar to England.
  - 118.2. Local authorities also receive investment and interest income.
  - 118.3. Welsh local authorities also receive transfers to and from other public sector bodies, most notably to help fund schools and adult social care services.
119. Welsh local authorities also hold reserves and can borrow for investment purposes. Again, there is significant variation across local authorities, albeit not to the same extent as in England due to the single-tier nature of local government in Wales.

120. Welsh local authorities are required to publish audited accounts by a certain date, with external audit being provided by Audit Wales. A range of financial data must also be submitted to the Welsh Government for publication in financial statistics – although published statistics are less detailed than in England.

### ***Northern Ireland***

121. Northern Irish local government funding arrangements differ significantly to those in Great Britain, reflecting the much more limited set of responsibilities Northern Irish local authorities have, and its different local tax system.
122. Revenues from the district components of domestic and non-domestic rates are the largest source of funding for Northern Irish local authorities. They set the tax ('poundage') rate for both the domestic and non-domestic components of the district rates, although unlike in the rest of the UK they do not collect these revenues – the Land & Property Service division of the Northern Ireland Executive. In 2019–20, the district rates yielded £638 million of local authorities' £945 million of income (NI Fiscal Council, 2021).
123. The next largest source of income was income from SFCs, and contributions from other public sector bodies for services provided. Together these amounted to £224 million in 2019–20 (NI Fiscal Council, 2021).
124. Grant funding is a relatively small source of funding for Northern Irish local authorities, with £52 million of resource grants and £31 million of capital grants provided by the Northern Ireland Executive in 2019–20 (NI Fiscal Council, 2021). The Rates Support Grant plays the role of the Scottish General Revenue Grant and Welsh Revenue Support Grant, and is allocated to offset differences between authorities' assessed spending needs and revenue-raising powers. Smaller grants include those to cover the costs of responsibilities transferred to local authorities, and civil contingencies planning (which is allocated based on claimed costs of such activities)
125. Northern Irish local authorities also hold reserves and can borrow for investment purposes. Again, there is significant variation across local authorities, albeit not to the same extent as in England due to the single-tier nature of local government in Northern Ireland.
126. Northern Irish local authorities are required to publish audited accounts by a certain date, with external audit being provided by the Northern Ireland Audit Office. The Northern Ireland Executive provides annual guidance on the form of the accounts, and spreadsheet templates for the preparations of accounts. However, unlike in the rest of the UK, information on local authorities income and expenditure is not collated and published on a regular basis – an issue I return to later when discussing lessons for the future.

## **Funding arrangements during the Covid-19 pandemic**

### **Summary**

In England, Wales and Scotland, local authorities were responsible for large elements of the Covid-19 response, including support to social care providers, support to vulnerable

households, and business rates reliefs and grants. Most of these were the responsibility of central government bodies in Northern Ireland.

Local authorities were provided with substantial additional funding to address the financial pressures and pay for their new responsibilities. Indeed, in each nation of the UK, the additional funding local authorities received generally significantly exceeded the financial impacts they faced during the pandemic years themselves. This allowed for substantial increases in aggregate financial reserves during 2020–21 and 2021–22.

The way additional funding was allocated to local authorities differed between the different nations of the UK.

In England and Scotland, most funding was allocated on the basis of formulas assessing the need for funding based on local characteristics. In England, additional general grant funding was eventually allocated on the basis of the relationship between stated Covid-19 financial impacts and local areas' populations and deprivation. In Scotland, existing arrangements for the Scottish Government and local authorities to jointly determine allocation principles were used.

In Wales, the main way funding was allocated was on the basis of stated financial impacts in monitoring returns. Claims were assessed by panels of civil servants, with some local authority representatives.

In England and Scotland funding to offset losses in SFCs income was based on stated losses rather than formulas. Unlike in Wales, though, losses were only partially compensated for, with the aim of maintaining incentives for income generation where possible.

Several other changes were made to funding and financial monitoring arrangements to ease administrative burdens, collect Covid-19 specific data, and prevent cash-flow problems.

The UK and devolved governments gave local authorities more time to comply with standard financial reporting and audit requirements. The UK government also paused significant funding reforms that would have absorbed significant central and local government capacity.

The UK and Welsh governments collected financial monitoring information from local authorities on the financial effects of the Covid-19 pandemic, which were then used to help allocate funding. The Scottish Government did not collect such data, although the Convention of Scottish Local Authorities (COSLA) did undertake several ad hoc collections.

Front-loading grant payments (Wales), debt servicing holidays (Scotland) and providing additional flexibility over use of capital funding and borrowing via 'exceptional financial support' requests (England) were used to avoid cash-flow problems and support local authorities facing particular difficulties.

Local authorities in England, Scotland and Wales were also provided with additional funding to cover business rates reliefs and grants, although these were often confirmed relatively late, with significant pressure on local authorities to rapidly identify and pay beneficiary businesses.

127. The approaches taken to providing additional funding to local authorities during the course of the Covid-19 pandemic differed more significantly between nations than local authorities' standard funding regimes do. Broadly speaking: the UK Government provided general and specific funding largely on the basis of formulas designed to assess local needs; the Scottish Government did so too, albeit with greater use of specific as opposed to general funding; the Welsh Government provided general funding on the basis of submissions of the costs incurred; and the Northern Ireland Executive provided funding via top-ups to its existing general grant funding, with a focus on offsetting income losses. Local authorities in England, Scotland and Wales were also provided with grants to cover the cost of Covid-19 non-domestic rates reliefs and business grants that were linked to the rateable value of properties occupied, but in Northern Ireland these were administered by the NI Executive. The rest of this section describes the arrangements in each nation in more detail.

### **England**

128. **The UK government provided English local government with additional funding specifically to address the Covid-19 pandemic from March 2020 to March 2022 amounting to £15.7 billion** (MHCLG (2022a) sets out £15.2 billion of this but omits £0.5 billion provided in 2020–21 for enhanced council tax reduction schemes). This included several tranches of general grant funding, and grant funding for specific services or purposes, including to support public health measures, cover higher costs faced by social care providers, and partially compensate for reduced SFCs and local tax income. In addition, over £44 billion of funding was provided to pay for non-domestic rates reliefs and grants. Of this, £17 billion was for rates reliefs (MHCLG, 2024c) and £27 billion for grants, with £22.6 billion of the allocation for grants ultimately spent (DBT, 2023).
129. **Temporary changes were also made to accounting and financial reporting rules** to allow local authorities to spread deficits on their local tax collections over several years, and to provide more time to prepare and submit validated accounts and financial data. At the same time, the **government also collected additional data from local authorities on the financial effects of the Covid-19 pandemic** through a monthly financial monitoring return, which it used to inform its decisions over funding allocations.
130. **General purpose Covid-19 funding was provided in four tranches for 2020–21 (with the first payment actually being made before the end of the 2019–20 financial year) and one tranche in 2021–22.** Local authorities were free to allocate this funding as they saw fit, with a total of £4.6 billion provided in 2020–21 and £1.55 billion provided in 2021–22. The amounts and distribution methodologies differed between tranches:
- 130.1. An initial £1.6 billion tranche of funding was announced and distributed in March 2020. £1.4 billion of this was allocated according to assessed spending needs for adult social care services as of 2013–14 (the last time the data underlying spending needs formulas had been updated, as described above). The remaining amount was allocated on the basis of the extent to which local authorities relied on central government funding as of 2013–14. As discussed in Phillips (2020c), this approach resulted in much higher allocations for deprived areas than affluent areas – the equivalent of £45 per person in Knowsley, for example, compared to £15 per person in Wokingham. It also meant very little funding for lower-tier shire district councils,

despite them being most reliant on SFCs income (for example from off street parking and leisure facilities) that fell significantly during lockdowns.

- 130.2. A second £1.6 billion tranche of funding was announced and distributed in late April 2020. This time a per-person allocation method was used, and in two-tier areas, shire districts received a larger share of funding than in the first tranche.
- 130.3. A third £0.5 billion tranche was announced and allocated in mid July 2020. This was allocated on the basis of a Covid-19 spending needs formula accounting for population and deprivation that was estimated using data from rounds 3 and 4 of the Covid-19 financial monitoring returns (see below), and accounting for estimated differences in costs across councils due to differences in labour and property markets. In two-tier areas, shire districts received 21% of the funding, which was the average share of reported Covid-19 related expenditure in two-tier areas attributable to shire districts. Further information on this methodology can be found at MHCLG (2020c).
- 130.4. A fourth tranche of £0.9 billion was announced and allocated in mid-October 2020. This was allocated such that the sum of all allocations to date was in line with the aforementioned Covid-19 spending needs formula (subject to a minimum allocation of £100,000 from this tranche). In other words, after the fourth tranche, the Covid-19 spending needs formula superseded the previous allocation methods used for tranches 1 and 2.
- 130.5. A fifth tranche of £1.55 billion was announced in mid December 2021 for allocation in 2021–22. This was again allocated on the basis of the estimated Covid-19 spending needs formula.
- 130.6. All told, this meant general grant funding of approximately £6.15 billion in 2020–21 and 2021–22 to help support English local authorities' Covid-19 spending pressure.
131. **In addition to the general grant funding, English local authorities were provided with a range of specific grants for particular purposes.** These were allocated using a range of formulas.
132. **The 'Contain Outbreak Management Fund' and related funding ('Test and Trace Service Support Grant' and 'Additional Surge Funding') was ring-fenced funding for public health measures to help reduce the spread of Covid-19 and enforce Covid-19 public health restrictions.** Local authorities had significant discretion to choose how to spend the funding within this broad ring-fence though, with examples of the type of activities that could be funded provided by DHSC (2021, 2022).
  - 132.1. £0.3 billion was allocated via the general public health grant formula to all local authorities in early June 2020.
  - 132.2. £1.4 billion was allocated between July 2020 and March 2021 to local authorities that were facing heightened public health restrictions (including all local authorities during periods of national lockdown). Initially, flat amounts per authority were

provided. Subsequently allocations were made on the basis of population and the stringency of public health restrictions in place.

132.3. £0.4 billion of funding was provided in 2021–22 on the basis of the aforementioned Covid-19 spending needs formula used for general purpose grant funding.

133. **The Adult Social Care Infection Control Fund provided £1.15 billion of funding in 2020–21 and £1 billion of funding in 2021–22 to help pay for higher social care costs associated with the Covid-19 pandemic.** Allocations were made on the basis of the number of care home beds in each area, adjusted for differences in labour and property costs. A proportion (initially 75%) had to be allocated to care homes on the basis of their number of beds, with all other funding (initially up to 25%) having to be used to reduce infection risk in adult social care settings.

134. **Additional funding of just under £0.3 billion in 2020–21 and just under £0.5 billion in 2021–22 was provided to maintain and increase the adult social care workforce and provide rapid testing of social care staff** (prior to the roll out of lateral flow tests more generally). For workforce funding, allocations were based on the 2013–14 adult social care spending needs formula. For rapid testing, allocations were based on care home bed numbers, with 80% having to be passed on to care homes on the basis of bed numbers.

135. **A range of smaller specific grants amounting to a total of £0.8 billion in 2020–21 and just over £0.4 billion in 2021–22 was provided to local authorities for issues including:**

135.1. Homelessness support;

135.2. Support for the clinically extremely vulnerable;

135.3. Food and financial support;

135.4. Home-to-school transport;

135.5. Measures to support the safe re-opening of commercial areas; and

135.6. The financial viability of leisure and sporting facilities.

136. **Local authorities were also provided with additional grant funding to cover lost income:**

136.1. In early July 2020 a scheme to partially compensate local authorities for reduced SFCs income was announced. Under this scheme, which applied from March 2020 to June 2021, local authorities had to bear any shortfall relative to pre-Covid-19 forecasts of up to 5%, with the UK government compensating them for three quarters of any loss of income above this level. Just over £0.9 billion and £0.6 billion were provided to local authorities in 2020–21 and 2021–22, respectively, although a portion of the latter related to lost income in 2020–21 (given payments were in arrears). The scheme only partially compensated local authorities for reductions in SFCs income so that they still had incentives to generate income where possible.

- 136.2. Also in early July 2020 a scheme to partially compensate local authorities for shortfalls in collections of council tax and non-domestic rates (on top of any reductions in revenues due to non-domestic rates reliefs) in 2020–21 was announced. It was confirmed in October 2020 that this would compensate local authorities for 75% of these losses, with payments made in 2021–22 once the scale of losses in 2020–21 relative to pre-Covid forecasts were known. These amounted to £0.15 billion for council tax and £0.65 billion for non-domestic rates. Councils were also allowed to spread remaining deficits over three years (2021–22 to 2023–24) rather than one year as under normal rules.
- 136.3. Local authorities were also provided with £0.5 billion in 2020–21 and just over £0.6 billion in 2021–22 to provide enhanced council tax reduction schemes for low income residents, as well as to help pay for higher costs associated with more claims for support. In 2020–21, support consisted of £150 for anyone entitled to a means-tested reduction, which for those entitled to a full reduction would mean a net ‘refund’. In 2021–22, no specific enhanced support was mandated.
137. Table 2, below, summarises the funding provided to English local authorities to compensate them for higher expenditures and lower income as a result of the Covid-19 pandemic. In addition to the figures included here, local authorities estimated that they received approximately £1 billion from NHS organisations in 2020–21 to help pay for higher adult social care costs (Ogden and Phillips, 2021). Unfortunately, figures for 2021–22 are not available.

**Table 2: English local authority Covid-19 funding, £s billions**

<b>Funding type</b>	<b>2020–21</b>	<b>2021–22</b>
General grant funding	4.61	1.55
Contain Outbreak Management Fund	1.72	0.4
ASC infection control funding	1.15	0.98
Other ASC grant funding	0.27	0.46
Other smaller grants	0.83	0.43
SFCs compensation	0.93	0.61
Local tax income guarantees	N/A	0.79
Council tax reduction scheme funding	0.50	0.61
<b>Total</b>	<b>10.01</b>	<b>5.83</b>

Source: MHCLG (2022a)

Notes: Part of the SFCs compensation provided in 2021–22 related to losses incurred in the 2020–21 fiscal year. All of the local tax income guarantee funding provided in 2021–22 related to losses incurred in 2020–21. This reflects the payment of these compensation schemes in arrears once income data was available.

138. As well as providing additional funding to local authorities, from March 2020 onwards (and ongoing), **the UK government asked local authorities facing unmanageable financial pressures to contact MHCLG to see if ‘exceptional’ financial support could be provided. This would normally take the form of a ‘capitalisation direction’, allowing authorities to use capital funding (including the proceeds of asset sales, and in the**

**interim, borrowing) to fund resource spending.** Information on the number of local authorities requesting such support is not published, but information on those granted such permission is: 9 authorities received permission in 2020–21, 8 received permission in 2021–22, with many more receiving permission in later years post-pandemic (see MHCLG (2025) for a full list). From June 2020 onwards, CIPFA (the representative body for public accountancy professionals) changed its guidance to state that local authorities should contact MHCLG before issuing a Section 114 notice, providing an opportunity to request exceptional financial support.

**139. In addition to funding to cover higher expenditure and lost income, local authorities also received funding to cover the cost of non-domestic rates reliefs and related business grants that they administered.**

139.1. Specific rates reliefs were introduced and funded by the UK government for the retail, hospitality and leisure (RHL) sector; and childcare providers. Funding was also provided for additional discretionary reliefs.

139.1.1. The cost of the RHL sector relief was £11.1 billion in 2020–21 and £5.2 billion in 2021–22, while the cost of the childcare provider relief was £98 million and £63 million, for 2020–21 and 2021–22, respectively. The reduction in relief costs in 2021–22 reflects the fact that relief was partial from July 2021 onwards. Under the business rates retention system, part of this cost was borne directly by central government in the form of a lower central share of retained rates. Part would have been borne by local authorities, but they were provided with Section 31 grants to cover the cost to them: £7.1 billion and £3.2 billion in 2020–21 and 2021–22, respectively, for the RHL sector reliefs; and £62 million and £42 million in the same years for the childcare provider reliefs.

139.1.2. From April 2021, local authorities were also authorised to provide reliefs of up to £1.5 billion for other businesses impacted by the Covid-19 pandemic, eventually allocating £1 billion via this Covid-19 additional relief fund (CARF) for the 2021–22 fiscal year.

139.1.3. The RHL and childcare provider reliefs for 2020–21 were announced on 17<sup>th</sup> March 2020, after the point at which local authorities had to produce forecasts for non-domestic rates revenues but prior to the start of the financial year. Accounting rules mean that local authorities therefore had to report large deficits on their non-domestic rates revenue collections (because actual revenues were lower than their revenue forecasts), retaining Section 31 grants within reserves to offset these deficits in subsequent years. This also meant some bills that had already been issued had to be reissued, but unless taxpayers had paid in advance, no refunds were needed.

139.1.4. The RHL and childcare provider reliefs for 2021–22 were confirmed on 3<sup>rd</sup> March 2021, again after the point at which local authorities had to produce forecasts for non-domestic rates revenues but prior to the start of the financial year. Accounting rules mean that local authorities therefore had to

report deficits on their non-domestic rates revenue collections (because actual revenues were lower than their revenue forecasts), retaining Section 31 grants within reserves to offset these deficits in subsequent years.

- 139.1.5. The CARF was announced on 21<sup>st</sup> March 2021, but guidance for its operation was not published until 15<sup>th</sup> December 2021, almost three-quarters through the financial year (MHCLG, 2021). This means most of the reliefs were paid out in 2022–23 as refunds of bills paid in 2021–22, rather than as discounts in 2021–22 itself.
- 139.1.6. Each of the schemes came with rules about the businesses that could benefit from the relief. These were sectorally based for the RHL and childcare providers reliefs, and principles-based for the CARF.
- 139.1.7. Funding for the RHL and childcare provider reliefs were provided initially on the basis of local authorities' estimates of the costs of providing these reliefs, subsequently reconciled to outturns after the end of the financial years in question. Funding for the CARF was allocated via a formula accounting for the value and types of properties, with funding weighted towards types of properties occupied by businesses in sectors suffering large falls in economic output during 2020–21 (MHCLG, 2021).
- 139.2. Local authorities were tasked with operating a number of mandatory and discretionary grant schemes for businesses, based on the rateable value of the properties they occupied, their business sector, and local public health restrictions.
  - 139.2.1. Overall, 90% of funding was provided to local authorities for mandatory schemes targeted at sectors required by law to close, and those severely affected by restrictions or guidance put in place. The remaining 10% was via discretionary schemes (DBT, 2023).
  - 139.2.2. The Retail, Hospitality and Leisure Grant Fund (RHLGF) and Small Business Grant Fund (SBGF) were announced in March 2020 and provided one-off grants of £10,000 or £25,000 for RHL businesses occupying low and middle-valued properties, and other businesses in receipt of small business rates relief or rural rates relief with grants of £10,000. Funding was allocated to local authorities on the basis of estimates of the cost of providing these grants calculated using data on the types of properties in their areas. A total allocation of just over £12 billion was provided.
  - 139.2.3. The Local Authority Discretionary Fund (LADF) was announced on 1<sup>st</sup> May 2020 and provided just under £0.6 billion in funding for local authorities to provide additional grants of £1 - £10,000 or £25,000 on a discretionary basis to businesses negatively affected by the Covid-19 pandemic, with a focus on those not receiving support under the RHLGF or SBGF. The amount of funding provided was equal to 5% of the total provided under the RHLGF and SBGF.

- 139.2.4. The Local Restrictions Support Grants (LRSGs) provided regular, smaller grants for businesses facing additional restrictions or forced to close during periods of tiered restrictions and national lockdown from Summer 2020 to Summer 2021. Funding was allocated to local authorities on the basis of estimates of the cost of providing these grants calculated using data on the types of properties in their areas. A total of £7.5 billion was allocated to fund these grants.
- 139.2.5. The Additional Restrictions Grant was an extension of the LRSGs introduced when localised restrictions were replaced with a national lockdown in November 2020. Most funding was allocated to local authorities on a per-person basis but later top-ups were made on a per-business basis. Most of the approximately £2.1 billion in funding could be used at local authorities' discretion for business support, but the final tranche of approximately £100 million was subject to more restrictions (BEIS, 2022).
- 139.2.6. The Christmas Support Payment ran in December 2020, providing £1,000 grants to pubs predominantly serving drink rather than food, located in areas placed under tier 2 or 3 public health restrictions on 2<sup>nd</sup> or 16<sup>th</sup> December 2020 (BEIS, 2021a). Initially funding equal to 80% of the estimated cost of this scheme was provided to local authorities, with the remainder paid on an outturns basis, if required.
- 139.2.7. The Restart Grant commenced in April 2021 and provided one-off grants of up to £6,000 for non-essential retail properties and £18,000 for hospitality and leisure properties to help with safe reopening (BEIS, 2021b). £3.4 billion in funding was allocated for this grant. Initially, funding equal to 90% of the estimated cost of this scheme was provided to local authorities, with the remainder paid on an outturns basis, if required.
- 139.2.8. The Omicron Hospitality and Leisure Grant (OHLG) was introduced in January 2022 and provided one of grants of £2,667 to £6,000 to hospitality and leisure business premises for costs associated with mitigating the Omicron outbreak (BEIS, 2021c). £635 million in funding was allocated. Initially funding equal to 90% of the estimated cost of this scheme was provided to local authorities, with the remainder paid on an outturns basis, if required.
- 139.2.9. The allocation of these grants to beneficiaries was a major undertaking for local authorities, and particularly those with many small businesses and properties (particularly 'beach huts' as discussed in Ogden and Phillips, 2020b). £22.6 billion (84%) of the £26.7 billion allocated to local authorities was actually spent, with the remainder returned to the UK government. Rates of usage by grant varied from 68% for the LRSGs to 97% for the ARG. At a local level, usage varied from 50% in Tendring to 111% in West Berkshire.

140. **Changes were also made to local authorities' financial reporting requirements.** Formal requirements were relaxed, but the government also requested additional data from councils

through a series of Covid-19 financial monitoring returns. In addition, specific grants also came with reporting requirements so that the government was assured funding was used for specified purposes.

- 140.1. The deadline for the production of audited accounts was extended, as was the submission of official statistical spending data (so-called 'RO forms').
  - 140.2. Beginning in March 2020 and ending in May 2022, the UK government collected information from English local authorities on both the estimated (to-date) and forecast (future) financial impacts of the Covid-19 pandemic – the Covid-19 financial monitoring returns. Local authorities were requested to submit returns every 1 to 2 months in a template produced by MHCLG, separately reporting estimated and forecast impacts for gross expenditure (by service, and type of pressure), and income source (separately by source), as well as the use of general grant funding to address pressures (separately by pressure), with summaries for England as a whole and council type of these impacts published from June 2020 onwards (MHCLG, 2022b). Authorities were also asked for a range of other information that has not been published but which could help inform the support provided to them (and which Institute for Fiscal Studies researchers analysed as part of a research project confounded by the Economic and Social Research Council and Local Government Association). This additional data includes:
    - 140.2.1. Contributions to costs from the NHS, the furlough scheme, and other organisations and programmes;
    - 140.2.2. Whether any income losses were deemed recoverable later;
    - 140.2.3. The use of payment plans to help residents pay council tax, and information on council tax reduction scheme claimants and enhanced support;
    - 140.2.4. The use of financial reserves to address Covid-19 financial impacts.
    - 140.2.5. Concerns about in-year cashflow due to the timing of expenditures and funding;
    - 140.2.6. And the degree of confidence over the scale of impacts that they had estimated or forecast.
    - 140.2.7. The returns asked local authorities to report financial pressures net of any savings due to activities or services that were no longer deliverable or as important during the pandemic, although there were no specific boxes to enter these savings (they were to be subtracted off relevant gross expenditure figures).
  - 140.3. Local authorities also had to submit information showing that they were meeting grant conditions for a number of ring-fenced grants, as well as regular information on their processing and payment of business rates reliefs and grants.
141. **The UK government also postponed several planned financial changes that were due to take place in April 2021:**

- 141.1. In April 2020 the UK government announced that planned updates to local authority funding allocations (the 'Fair Funding Review') that had already been delayed from April 2019 to April 2021 would not in fact take place. Similarly planned reforms to the BRRS (increasing the rate of local retention from 50% to 75%) would also no longer take place. The first of these changes in particular was important for the long-term financial sustainability and fairness of the local government finance system (see Phillips et al, 2024, and references therein), but would entail significant work and some disruption in the short-term. Similar reforms are now planned to begin implementation in April 2026.
- 141.2. In May 2020, the UK government announced that a planned non-domestic rates revaluation in April 2021 would instead be delayed to April 2022, in order to avoid additional administrative burden for central and local government during the pandemic. This was subsequently postponed again until April 2023 reflecting the fact that the pandemic was ongoing during 2021 (when preparations for an April 2022 revaluation would be needed) and so that the revaluation could be based on April 2021 rather than April 2020 values, accounting for some of the longer-term impacts of the Covid-19 pandemic on property values.
142. **Finally, the UK government relaxed statutory requirements for the delivery of certain services** for a period during the Covid-19 pandemic, including for adult social care needs assessments and children's social care safeguarding, reflecting public health restrictions.

### **Scotland**

143. **The Scottish Government provided Scottish local government with additional funding specifically to address the Covid-19 pandemic from March 2020 to March 2022 amounting to £2.2 billion** (Audit Scotland 2023). This included several tranches of general grant funding, and grant funding for specific services or purposes, such as to support charities, home learning and education catch-up and partially compensate for reduced SFCs and local tax income. In addition, over £4.3 billion of funding was provided to pay for non-domestic rates reliefs and business support grants. In both instances these are substantially higher amounts per person than in England.
144. **The Scottish Government provided Scottish local authorities with both general and what may be termed 'directed' funding through top-ups to the GRG it provides them with each year.** Directed funding is that which does not come with formal grant conditions or ring-fences but which Scottish Ministers expect to be spent on the priority areas identified and may seek to informally claw back (through reduced future allocations) if evidence emerges that funds were not utilised as expected.
145. **Covid-19 funding for 2020–21 that was added to the GRG appears to have been formally confirmed in three tranches in June 2020, February 2021 and March 2021,** although information on allocations may have been communicated to local authorities through the joint Settlement and Distributions group prior to this (see Scottish Local Government Finance Circulars, available [here](#)). In contrast to England, where allocations were determined at the discretion of MHCLG and other departments (such as the Department of Health and Social Care), allocations for Scotland were agreed at the standing Settlement and Distributions group. Unlike in England though, information on the

methodologies for determining allocations, while shared with local authorities, has not been published.

- 145.1. Three tranches of general funding were provided - £155 million in June 2020, £49 million in February 2021 and £275 million in March 2021, meaning a total of £479 million in 2020–21. £259 million of non-recurring general Covid-19 funding for 2021–22 was confirmed prior to the start of the year.
- 145.2. Local authorities received £200 million in compensation for lost income (including from SFCs) during 2020–21, with £90 million of this notified to them in October 2020 and £110 million in December 2020. This was allocated utilising information on income losses reported by local authorities in financial returns collected by COSLA, the representative body for Scottish local authorities. No further specific funding for lost income was provided in 2021–22.
- 145.3. Local authorities received approximately £200 million for spending linked to schools in 2020–21, such as for home learning, additional teachers, education recovery and additional free school meals provision. An additional £60 million was provided in 2021–22.
- 145.4. Funding designed to help local authorities support residents struggling financially with the impacts of the Covid-19 crisis (e.g. through grants, additional council tax reduction claims, etc.) amounted to £230 million in 2020–21. A further £190 million was provided in 2021–22.
- 145.5. A range of smaller directed grant additions were made for things including local test and trace, children and young people's mental health, additional costs for administering business support grants, and death registrations. This funding amounted to £46 million in 2020–21. £3 million for CO2 monitors was provided in 2021–22.
- 145.6. Total funding provided via GRG for things other than business support grants totalled £1.16 billion in 2020–21 and £0.51 billion in 2021–22.
146. **In addition to funding provided as additions to the GRG, Scottish local authorities were provided with specific grants with separate formal grant conditions for certain funding.** This included funding for most business grant schemes (see below), but also appears to include funding for charities and the third sector, as well as some funding for households that local authorities were responsible for administering but which were not added to the GRG. Taking account of this funding, Audit Scotland estimates that total funding provided to Scottish local authorities to address Covid-19 impacts amounted to £1.36 billion in 2020–21 and £0.82 billion in 2021–22 (Audit Scotland, 2023), suggesting approximately £0.2 billion and £0.3 billion was allocated outside the GRG in these years respectively. I have not been able to find information on the breakdown of this funding.
147. **The Business Rates Incentivisation Scheme was suspended for both 2020–21 and 2021–22 to avoid uncertainty and risk related to non-domestic rating income.**

148. **As well as providing funding to local authorities, the Scottish Government also provided Scottish local authorities with additional financial flexibilities:**

148.1. Local authorities were provided with the option to defer the statutory repayment of debt in either 2020–21 or 2021–22, which was subsequently extended to cover 2022–23 as well (Scottish Government, 2022b).

148.2. The Scottish Government also informed local authorities that if financial circumstances required, they would be able to use capital for resource purposes, although I have been unable to find information on whether such capitalisation was made use of.

149. **In addition to funding to cover higher expenditure and lost income, local authorities also received funding to cover the cost of non-domestic rates reliefs and related business grants that they administered.**

149.1. Local authorities in Scotland were provided with additional General Revenue Grant in both 2020–21 and 2021–22 to provide additional non-domestic rates reliefs. This includes: 100% reliefs for the RHL sectors in both years; a 100% relief for the aviation sector in 2020–21; and a relief equivalent to a 1.6% reduction in bills for all ratepayers in 2020–21, to effect the reversal of the inflationary increase in the non-domestic rates poundage that took place in April 2020 (Scottish Government, 2021a). As in England, reliefs for 2020–21 were announced in late March, necessitating some bills to be re-issued. Reliefs for the first three months of 2021–22 were confirmed in the Scottish Budget for 2021–22 in January (Scottish Government, 2021b), with an extension to the whole of 2021–22 confirmed following the UK budget in March 2021.

149.2. Local authorities in Scotland were provided with ring-fenced grants to provide a mix of mandatory and discretionary grants to businesses (Audit Scotland, 2023).

149.2.1. Approximately £1.3 billion was provided via the main small business and RHL grant schemes for 2020–21, with several changes in eligibility (and funding allocated) made to these schemes over time.

149.2.2. £345 million was allocated via the Strategic Framework Business Fund (SFBF) to provide grants of £3,000 every 4 weeks for businesses affected by enhanced restrictions from October 2020.

149.2.3. £427 million was allocated via Restart Grants, providing automatic grants to those businesses previously in receipt of SFBF grants.

149.2.4. £120 million of discretionary funding was provided to local authorities to provide support to businesses impacted by Covid-19 but not eligible for property-value or sectoral-based support.

149.2.5. Just under £0.4 billion of funding was provided to local authorities for a range of other support schemes for different types of businesses, such as taxi

operators, childcare providers, bed & breakfasts and the newly self-employed.

149.2.6. Information on how funding for these schemes was allocated to local authorities is not published but will be held by the Scottish Government. The allocation of these grants to beneficiaries was a major undertaking for local authorities, and particularly those with many small businesses and properties.

**150. Changes were also made to local authorities' financial reporting requirements.**

150.1. Deadlines for the production of audited accounts were extended, as were deadlines for submission of official statistical spending data.

150.2. Unlike in England, the Scottish Government did not collect Covid-19 financial monitoring returns. As discussed above though, COSLA did organise several of its own data collections, covering both spending and income pressures. Additionally, the Scottish Government did engage with councils on their financial situations on a more qualitative basis (although details on what this entailed are not available publicly).

150.3. Local authorities also had to submit information showing that they were meeting grant conditions for a number of ring-fenced grants, as well as regular information on their processing and payment of business rates reliefs and grants.

***Wales***

151. **The Welsh Government provided Welsh local government with additional funding specifically to address the Covid-19 pandemic from March 2020 to March 2022 amounting to at least £1.2 billion** (Welsh Government, 2021a, 2022c). This is the funding provided as 'emergency financial assistance' to local authorities as part of the main Local Government portfolio of the Welsh budget. In addition, the Welsh Government utilised Covid-19 funding to provide in-year top-ups to budgets for social care and education budgets, some of which may have been allocated to local authorities. **As in England and Scotland, Welsh local authorities were also provided with funding to provide non-domestic rate reliefs and business support grants although, unlike in England and Scotland, information on the total spent on these has not been published.**

152. **The Welsh Government's main scheme for providing funding to local authorities, the 'local authority hardship fund', was based on the reported costs incurred, rather than formula-based grants.** Local authorities were initially asked to submit returns identifying additional expenditures and income losses on a monthly basis, with disbursements also monthly. To reduce the administrative burden, reporting and payments were then moved to a quarterly basis. Claims were vetted by committees of civil servants – one for expenditure increases and one for SFC income losses – with a representative of local government setting on each committee. The principle was for additional expenditure (including unrealised savings from efficiencies that were no longer possible) and income losses to be compensated in full, in contrast to England and Scotland, where income-loss schemes were designed to cover only part of the impacts, so as to maintain financial incentives to collect

income. Vetting was designed to disallow claims that did not meet the requirement of the scheme – for example, expenditures or income losses that were not necessary, or that which related to pre-existing pressures. **Information on the total amount made available via the hardship fund has not been confirmed, but the third supplementary budget for 2020–21 says it amounted to £600 million of the £700 million in ‘emergency financial assistance’ provided to local government in that year** (Welsh Government, 2021a). **Information published in the 2021–22 Budget and Budget revisions suggests approximately £340 million of the £500 million provided in that year was via the hardship fund** (Welsh Government, 2021b, 2022c).

**153. In addition to the hardship fund, other emergency funding provided to local government provided specific elements to cover:**

153.1. The increased cost of means-tested council tax reduction schemes.

153.2. Address social care pressures and support social care recovery, with £142 million confirmed for this purpose in the second supplementary budget in 2021–22, for instance.

153.3. Help educational recovery, with a particular focus on pupils in examination years, with nearly £40 million confirmed in the second supplementary budget in 2021–22 for such purposes, for instance, and £6 million allocated for school air quality.

153.4. Funding to provide grants to low-income households adversely affected by Covid-19 and the emerging cost of living crisis in winter 2021, with £61 million confirmed for councils in the second supplementary budget in 2021–22 for a ‘winter fuel support scheme’ providing £200 grants to low-income working-age households.

153.5. And further general support to local authorities provided on a formula-basis (as opposed to a reported cost basis), with £50 million confirmed for this purpose in the second supplementary budget in 2021–22, for instance.

**154. As well as providing additional funding to local authorities, the Welsh Government also supported local authorities’ cash flow by paying more of their grant funding upfront.**

**155. In addition to funding to cover higher expenditure and lost income, local authorities also received funding to cover the cost of non-domestic rates reliefs and related business grants that they administered.**

155.1. The Welsh Government provided local authorities with additional revenue support grants in 2020–21 and 2021–22 to pay for Covid-19 non-domestic rates reliefs. 100% relief for properties with a rateable value of up to £500,000 for businesses in the RHL sectors was provided in both years. As in England, reliefs for 2020–21 were announced in late March, necessitating some bills to be re-issued. Reliefs for 2021–22 were announced on 10<sup>th</sup> March 2021, following the announcement of reliefs for England on 3<sup>rd</sup> March 2021.

155.2. Local authorities in Wales were provided with ring-fenced grants to provide a mix of mandatory and discretionary grants to businesses. Expenditure on these amounted to approximately £1.3 billion in 2020–21 (Audit Wales, 2022).

155.2.1. Approximately £0.7 billion was provided via the main Covid-19 business grant scheme, with one-off grants of £10,000 and £25,000 for businesses on a similar basis to England and Scotland.

155.2.2. A further £0.6 billion was provided via other elements of business support later in 2020–21 mostly via size- and sector-based schemes but also via some discretionary schemes, as in England and Scotland.

155.2.3. I have been unable to find published information on the amounts spent on such grants in 2021–22, although this does not mean it is not published somewhere.

155.2.4. Information on how funding for these schemes was allocated to local authorities is not published but will be held by the Welsh Government. The allocation of these grants to beneficiaries was a major undertaking for local authorities, and particularly those with many small businesses and properties.

**156. Changes were also made to local authorities' financial reporting requirements.**

156.1. Deadlines for the production of audited accounts were extended, as were deadlines for submission of official statistical spending data.

156.2. Like in England, the Welsh Government collected Covid-19 financial monitoring returns. Unlike in England though, these were used directly to calculate compensation for individual local authorities, and so were subject to an enhanced process of review and vetting by civil servants.

156.3. Local authorities also had to submit information showing that they were meeting grant conditions for a number of ring-fenced grants, as well as regular information on their processing and payment of business rates reliefs and grants.

***Northern Ireland***

**157. The Northern Ireland Executive provided Northern Irish local authorities with additional funding specifically for the Covid-19 pandemic to address lost income, cover higher costs of service delivery, and support economic re-opening. In total, this amounted to £135 million between March 2020 and March 2022.** Information on the details of this is not readily available online and has been sourced from evidence submitted to the Covid-19 Inquiry (INQ000587400).

157.1. The Covid Financial Losses and Marketing Support scheme was by far the largest component, amounting to £102 million over this period. It covered losses in income and exceptional costs for services other than waste collection and disposal. Allocations were provided on the basis of claims made by local authorities. Information on funding requests submitted by Northern Ireland Executive

Departments suggests that the Department of Communities requested £124.6 million in funding for support for local authorities in 2020–21, but received only £85.3 million. It is unclear whether this meant it was unable to cover local authorities' reported costs in full though (or, if the Department was requesting additional funding 'just in case') (Keyes, 2022).

- 157.2. The Covid Waste Management Losses scheme operated between April 2020 and June 2021 and provided £15 million of funding to cover higher costs (including those related to social distancing rules) and loss of income from sales of waste-related products. The approach by which this funding was allocated is not published.
- 157.3. The Covid Recovery Revitalisation Fund provided £18 million of funding between July and October 2020 for local authorities to provide grants to businesses and other organisations to help with re-opening and adaptations following the first lockdown. Allocations were formula based, although detail of the formula used has not been published.
- 158. **The Northern Ireland Executive directly covered the cost of Covid-19 reliefs for non-domestic ratepayers (revenues were transferred to local authorities on the basis of revenues if these reliefs were not in place).**
- 159. **I have been unable to ascertain if changes were made to local authorities' financial reporting requirements due to a lack of published information.**

## **Performance of arrangements during the pandemic**

### **Summary**

My overall assessment is that funding arrangements during the Covid-19 pandemic were sufficiently generous and responsive to enable local authorities to address financial pressures (increased spending requirements and responsibilities, and income losses) during the pandemic itself. However, pre-existing pressures and risks, longer-term effects of the pandemic, and the surge in inflation in 2022 and 2023 has led to growing financial strain and stress in subsequent years. There were also a number of issues and 'crunch points' from which lessons can be drawn.

Large sums of funding were provided to local authorities, in part because of the overstatement of the net financial impact of the Covid-19 pandemic on their expenditures in financial returns. Together with measures to provide liquidity and exceptional financial support arrangements, this prevented widespread financial failure and meant most local authorities had substantially larger reserves in March 2022 than at the outset of the pandemic.

The use of central government grants (funded by UK government borrowing), while maintaining general restrictions on local borrowing had both benefits and costs, but my judgement is that the benefits were greater in the context of the Covid-19 pandemic. The UK government can borrow more quickly and cheaply, and can share the costs of response across the entire UK population, in the face of differential impacts and abilities to pay across local areas. The UK and devolved governments have the authority to vary local funding

arrangements to respond to needs not aligning with existing ways of allocating funding, which they used. This includes the development of Covid-19 spending needs formulas for English local authorities, and payments based on reported costs in Wales in general, and in England and Scotland for income losses.

However there were some challenges and issues.

The allocation of funding in multiple tranches, often in quick succession, and sometimes with limited notice (especially for business grants) created uncertainty and placed a significant burden on local authorities. The use of 'directed' and ring-fenced grant funding with major restrictions on their use and sometimes significant administrative requirements on local authorities was also challenging.

The greater targeting of business support grants after the initial grants had been paid out likely increased their value-for-money but it did increase complexity for local authorities, especially where practical considerations appeared not to have been fully considered in their design (especially in England's 'winter support grant' for drinks-focused pubs).

While the UK government has collated relevant information of Covid-19 local authority and business grant funding, aiding a review of practice and performance, such information is not collated for local authorities elsewhere in the United Kingdom. This makes understanding what was done and assessing its performance harder than necessary.

160. **The total amount of funding provided to local authorities in 2020–21 and 2021–22 appears to have been more than sufficient to meet the short-term financial impacts of the Covid-19 pandemic.** Local authorities in every nation of the UK substantially increased reserves, on average, between March 2020 and March 2022, the period covered by the pandemic (see Ogden and Phillips, 2022, 2024a; Scottish Government 2022c, 2023b; Welsh Government, 2022b; Northern Ireland Audit Office, 2024):
- 160.1. After stripping out the effects of the timing of non-domestic rates reliefs and grants, English local authorities' core financial reserves increased from £18.6 billion in March 2020 to £28.0 billion in March 2022, with a large majority but not all local authorities increasing their reserves over this period.
  - 160.2. Scottish local authorities' core financial reserves increased from £1.3 billion in March 2020 to £2.8 billion in March 2022, with all local authorities increasing reserves over this period.
  - 160.3. Welsh local authorities' core financial reserves increased by £0.3 billion in 2020–21 and by £0.34 billion in 2021–22 (reserve levels are not published as part of the main local government finance statistics). All local authorities increased their reserves over these two years, with all bar one (Newport) increasing reserves in both years.
  - 160.4. Northern Irish local authorities' financial reserves increased by approximately 75% between March 2020 and March 2022, from approximately £0.27 billion to £0.46 billion. All authorities increased their reserves over this period, with all two (Belfast,

Mid Ulster) increasing reserves in both years. This reflects increases in overall income and reductions in gross expenditures (the latter, in contrast to the rest of the UK, potentially reflecting the narrower remit of Northern Irish local authorities).

161. **Ogden and Phillips (2022) explores in detail how English local authorities' expenditures and incomes were impacted by the Covid-19 pandemic in 2020–21 and suggests that a key reason local authorities were able to pay substantially into reserves was that they over-estimated additional expenditures in the financial monitoring returns. In contrast, reported losses in SFCs income appear to have been more accurate. Such analysis has not been conducted for 2021–22 or for the other nations of the UK, but I would expect similar patterns to hold, at least for Scotland and Wales, where local authority responsibilities are similar to England.**

162. **The key findings of the analysis for English local authorities in 2020–21 were:**

162.1. English local authorities last updated their financial monitoring information on the financial effects of the Covid-19 pandemic in 2020–21 in April 2021. At that time, they reported an increase in gross expenditure on non-education services of £6.7 billion, of which approximately £1 billion was covered by transfers from the NHS to cover additional adult social care costs. Reductions in SFCs income were estimated at £2.1 billion. This would mean an increase in net non-education service expenditure of £8.8 billion before accounting for the extra NHS transfers, or £7.8 billion after accounting for them.

162.2. Actual local authority expenditure and revenue outturns data for 2020–21 were published in December 2021. These show local authorities' net expenditure on non-education services increasing by £6.3 billion compared with the previous year. However, an increase of approximately £2.2 billion would have been expected in the absence of the pandemic, based on pre-pandemic budgets. This suggests the pandemic itself was associated with an increase in net expenditure of around £4.1 billion, not much more than half that previously reported by local authorities in their financial monitoring returns.

162.3. The discrepancy appears to have been driven by an over-estimation of gross expenditure increases rather than an over-estimation of falls in SFCs income. Comparison of SFCs income in 2020–21 with what may have reasonably been expected had previous growth in SFCS income continued suggests a shortfall of approximately £2.0 billion, in line with local authorities' reported figures in their monitoring returns.

162.4. Despite this discrepancy, we could not conclude that local authorities purposefully overstated the financial impacts of the Covid-19 pandemic. First, the financial monitoring returns asked local authorities to identify increases in expenditure as a result of the pandemic, and although they were asked to net off any reductions in expenditure, there were no lines in the returns explicitly for gross expenditure reductions. Also, there were areas where gross expenditure was reduced – for example, gross expenditure on culture and leisure services fell, driven by a 44% reduction in expenditure on 'theatres and public entertainment', likely due to lockdown measures. Second, some local authorities may have erroneously

recorded part of their Covid-19 grant funding as 'other income', artificially depressing the change in their net expenditure – although this is unlikely to explain more than a small part of the discrepancy between reported and actual net expenditure.

- 162.5. Because of this discrepancy, the increase in local authorities' net expenditure in 2020–21 was substantially lower than the increase in funding that they received – which had been informed by the (higher) estimates of the financial impacts of the pandemic reported by local authorities in their financial monitoring returns. Previous analysis taking local authorities' financial monitoring information at face value had suggested it was only following the final tranches of funding announced in early 2021 that local authorities had been fully compensated for the financial impacts of the Covid–19 pandemic in 2020–21 (Ogden et al, 2020b, 2021; Ogden et al, 2020) – this turned out to be overly pessimistic.
- 162.6. There was significant variation in expenditure in gross spending and SFCs income across local authorities. The median local authority saw its per-capita net spending on services increase by 14.7% year-on-year, but a fifth reported an increase in net spending of over a third. Nine-in-ten saw their total income from non-education SFCs fall, with the median change being a fall of 18%.
- 162.7. As a result of this, while local authorities as a whole were 'over-funded' for the financial pressures they faced in 2020–21, this was not true of all local authorities. Shire district councils, for example, saw larger than average increases in net expenditure, with around a fifth reporting an increase in net spending of over 50%, driven largely by reduced SFCs income. Combined with the fact that losses in SFCs income were only partially compensated for by design means that shire districts were not 'over-funded' to the same extent as other types of local authorities in England.
- 162.8. A number of local authorities in England required exceptional financial support in 2020–21 and/or 2021–22. Some of these were not pandemic related (Lambeth, which was an extension of support for issues arising in 2017–18 and Redcar & Cleveland, which was related to a pre-Covid-19 ransomware attack). Others related to property or energy investments, where the Covid-19 pandemic may have affected the financial viability and valuation of investments (including Croydon and Nottingham). Others were directly linked to the Covid-19 pandemic (such as Eastbourne, which relied heavily on affected SFCs income, and Luton, related to Luton airport). Further information can be found at MHCLG's exceptional financial support webpage.
163. As alluded to in the last two sub-paragraphs, while relatively symmetric at the nation-level, **the Covid-19 pandemic had highly asymmetric impacts across local authorities**, especially in areas of England with two-tier governance structures, given the differing degrees of reliance on income sources adversely affected by economic restrictions and pandemic-induced changes in economic activity. Differences in the socio-economic make-up of local authority populations are also greater than national-level differences. Additionally, different local authorities' pre-Covid-19 financial positions and resilience also varied significantly. Each of these factors was highlighted in June 2020 by analysis and a 'risk and

resilience dashboard' published by the Institute for Fiscal Studies (Ogden and Phillips, 2020a). My understanding from discussions with local government officials is that this was true for Scotland and Wales too, although I am not aware of similar ex-ante or ex-post quantitative analysis as carried out by the IFS for England.

164. **The different mechanisms used to provide additional funding to local authorities in the different nations could take account of these asymmetries to differing extents:**
  - 164.1. **The Welsh approach was most responsive to asymmetric impacts, as the largest component of funding was based on individual local authorities' reported costs and income losses.** However, funding on this basis comes with a trade-off as it reduces the incentive local authorities have to control additional expenditures and minimise income losses.
  - 164.2. **The English and Scottish approaches, with their use of formula-based funding and partial compensation for income losses, is less responsive to asymmetries.** However, these approaches provide stronger incentives, in principle, for local authorities to control additional expenditure and minimise income losses. Also, the use of funding formulas taking account of local characteristics – including in England, based on the relationships between population, deprivation and reported Covid-19 related costs – means these approaches did still account for asymmetries in impacts to some extent.
165. **Asymmetries in impacts mattered less than they otherwise would have because the total amount of funding provided to local authorities was so great** – while it meant some local authorities were significantly 'over-compensated' for the additional costs and income losses they faced, it meant those facing particularly high financial impacts were also fully or very largely compensated. As with the devolved governments, the large amount expended helped avoid issues that might have otherwise been caused by inefficiencies in targeting financial support.
166. **Financial flexibilities, such as exceptional financial support in England, and debt servicing holidays in Scotland provided additional support and assurance to local authorities.** In England, a number of local authorities initially requested exceptional financial support but did not subsequently need it – this is a sign of the system functioning as intended during the pandemic period, making sure local authorities would not face financial failure, risking services and pandemic responses at a critical time.
167. **Easing of regular financial reporting and accounting requirements helped free up local authority offices and member time for more urgent pandemic work** – especially in the context of significant problems with the local audit system.
168. In evidence to this Inquiry (INQ000653255) and in discussions with the author, **local authorities have reported frequent and effective engagement on financial issues between them and central government, at least in the devolved nations.**
169. **The UK, Scottish and Welsh governments worked effectively with local authorities to establish the initial business grant schemes and distribute funding.**

- 169.1. **For example, monitoring information for England shows over half of initial grants had been paid within 1 month, and almost 90% within 2 months.** The National Audit Office (2023) reports that after being asked to prepare grant schemes in late February 2020, the first schemes were announced by the-then Department for Business, Energy and Industrial Strategy (BEIS) on 11<sup>th</sup> March and expanded on 18<sup>th</sup> March. Funding was rapidly provided to local authorities, who by 19<sup>th</sup> April 2020 had made 484,000 payments totalling £6 billion (54% of the final amount), and by 24<sup>th</sup> May 2020 had made 805,000 payments totalling £9.9 billion (89% of the final amount).
- 169.2. **For example, Audit Scotland (2022) highlights how the Scottish Government and local authorities learned lessons and adapted how grant schemes were developed and implemented during the course of the pandemic.** This includes setting up new teams of civil servants and coordination groups (including local authority representatives) to design and oversee business support, including grants.
170. **While my view is that funding levels and arrangements overall were effective and enabled local authorities to respond to the Covid-19 pandemic itself, several elements and issues did cause some problems:**
- 170.1. **Initial funding allocations in England failed to recognise impacts on SFCs income.** As discussed in Phillips (2020c), the initial tranche of funding provided to English local authorities were allocated overwhelmingly to upper-tier and single-tier authorities, despite lower-tier shire district authorities being most exposed to loss in SFCs. Shire districts tend to hold high levels of reserves relative to their annual expenditures (Ogden and Phillips, 2020a), meaning this was not as problematic as it otherwise would have been. Also, a second allocation did provide a higher share of funding to districts, with a separate SFC compensation scheme announced in Summer 2020. However, some districts have low reserves levels and this delay may have been more problematic for them.
- 170.2. **Compensation was not directly provided for losses in commercial and investment income.** Reliance on such income and assets at risk are even more unevenly distributed across local authorities than SFCs. Also, in the same way that SFCs income was adversely affected by Covid-19 public health restrictions, so too was commercial and investment income. In England, MHCLG decided that it would be inappropriate to provide compensatory grants for local authorities' commercial and investment operations, and that instead affected councils should (a) make use of other available schemes including the furlough scheme, and (b) apply for exceptional financial support in the form of aforementioned capitalisation directions if commercial losses affected an authority's general financial position. My understanding is that the reasoning underlying this was that commercial returns should come with commercial risks, to avoid unfairness both to other local authorities and other (privately-owned) businesses.
- 170.3. **The number of specific or earmarked grants created administrative burdens and reduced flexibility.** As discussed, several grants came with both significant restrictions on their use and associated reporting requirements, such as adult social care grants in England. Even where formal ring-fencing and reporting was not

required, the expectation of utilising funding in a certain way could limit flexibility, as with Scotland's directed grants, as highlighted by COSLA in parliamentary evidence (Scottish Parliament, 2021). Moreover, especially in Scotland and Wales, where funding allocation methods are jointly determined by local authorities and the devolved governments, allocation via multiple bespoke pots rather than a general grant, increased demands on resource allocation technical groups.

**171. While ultimately successfully funded and delivered, the announcement, funding and operation of the Covid-19 business grant schemes did entail challenges.**

**171.1. In England, local authorities were not notified about new grant schemes until they were publicly announced, meaning a 'scramble' to respond** (National Audit Office, 2023). Central and local government had no shared contingency plan in place on how to provide support to businesses in a national emergency. Also, while the UK government did consult confidentially with a small number of local authorities, many reported not knowing about schemes until they were publicly announced.

**171.2. The introduction of more targeted schemes created complexity and administrative burden for local authority teams already under significant pressure.** From Summer 2020 onwards, governments pivoted away from broad schemes to those targeted more specifically at sectors most impacted by the Covid-19 pandemic. While understandable, this could create burdens for local authorities, both in terms of keeping pace with the number of schemes – with one five week period seeing 8 schemes announced in England (National Audit Office, 2023) – and in administering schemes with more complex eligibility criteria. For example, local authorities in England reported that defining what constituted a drinks-led pub for the 'winter support grant' caused difficulties.

**171.3. A lack of data on grant payments and recipients limits detailed analysis of the performance of these schemes, in Scotland** (Audit Scotland, 2022). To reduce administrative burden, the Scottish Government only collected aggregate statistics from local authorities, making it difficult to assess performance in paying out grants (e.g. by comparing application and payment dates).

**171.4. There were tensions about funding for business support in areas under enhanced public health restrictions.** While substantial amounts of funding were provided to local authorities to provide business rates reliefs and grants for periods of national lockdown, especially in England, there were tensions about the generosity of funding for periods of enhanced local restrictions during the tiered-restrictions period (The Guardian, 2020).

**172. The pandemic likely exacerbated underlying weaknesses in finance systems and service provision.** In the short-term, it led to the crystallisation of problems in a number of English authorities with underlying financial resilience and risk issues, that were forced to ask for exceptional financial support or issue section 114 notices (sometimes described as the equivalent of 'bankruptcy' for local authorities, but more accurately a formal arrangement halting non-essential spending until the chief financial officer is satisfied action has been taken to address serious financial challenges). In the longer-term, the pandemic likely

exacerbated rising demands and costs for services (in the short-term, demands often dropped, as public health restrictions reduced direct interactions between the state and the public more generally). For example, changes in social care practices during the pandemic may have led to permanently higher costs. It may have contributed to shortfalls in foster families and associated increased usage of specialist children’s care placements, often at very high costs. It may have delayed socialisation and development of some young children, contributing to additional special educational needs demands. Also, an increase in the relative demand for housing may have contributed to rising housing costs, increasing both the demand and costs associated with homelessness prevention and temporary accommodation. The exact contribution of the pandemic to pressures on the big four drivers’ of local authorities post-pandemic financial difficulties – adults’ and children’s social care, special educational needs, and homelessness and temporary accommodation – is not known, and there were major underlying pressures pre-Covid that would in all likelihood have continued to worsen anyway. However, based on evidence of significant impacts of the pandemic on services and populations (see, for example, Ofsted (2022), Care Quality Commission (2022) for impacts on children’s and adult’s services), it is my judgement that the pandemic did contribute to a worsening of these issues.

## **Lessons from the pandemic – changes made and potential future changes**

### **Summary**

#### **Changes in future national emergencies**

Based on the experience of the Covid-19 pandemic, a flexible rather than rules-based approach for determining funding arrangements in a potential future national emergency is recommended. However, planning can be undertaken in advance, and lessons can be learned from the pandemic.

Updated contingency plans for potential future pandemics and national emergencies should include options for funding arrangements for local authorities. They should set out the principles for how decisions on the funding arrangements to use in particular circumstances will be made, and guidance for particular funding arrangements that enables their rapid implementation.

The UK government is usually best placed to raise funding for a national emergency, given the large and liquid gilt market, and the Bank of England’s liquidity and quantitative easing operations. Direct borrowing by the devolved or local governments would likely take longer and be more costly, especially if large amounts were being borrowed for the first time.

The UK and devolved governments should collect information from local authorities on the financial impacts of the Covid-19 pandemic to help inform the financial support provided to them. They should explicitly ask about areas of reduced expenditure as well as higher expenditure, and could be subject to enhanced vetting. It may also be possible to take information directly from local authorities’ financial accounts and internal financial monitoring processes.

In order to avoid incentivising higher-than-necessary financial costs, a combination of

formula-based funding for additional expenditures and impact-based funding for income losses (with less than 100% compensation) should be the default option for providing additional funding. Ring-fencing of funding for particular services should be kept to a minimum, although ring-fences with broad criteria can provide more flexibility to local areas than specifying particular schemes and provision and so has its uses (for example, to fund discretionary business or household support).

Some combination of upfront payment of grants, debt servicing holidays, and exceptional financial support (including using capital funding for resource purposes) should also again be utilised to support cashflow and avoid financial failure of the most vulnerable local authorities.

Information on funding allocations (including allocation methodologies) and purposes, and other financial responses to a potential future pandemic or national emergency should be collated and published, to support understanding, scrutiny and future learning – in contrast to the situation for local authorities in Scotland, Wales and Northern Ireland this time.

### **Permanent changes to local authority funding to improve robustness**

The ability of local authorities to respond to a national emergency depends not only on financial support and arrangements provided specifically for that emergency, but also pre-existing funding arrangements and financial circumstances. To improve the underlying resilience of funding arrangements for local authorities, several permanent changes to 'normal' arrangements should be made.

Both the UK government and devolved governments should go beyond current approaches to allocating funding to consider not only how needs and revenue-raising capacity compare between authorities, but also the overall funding requirement for the local government sector as a whole: is the overall funding available consistent with the services local authorities are expected to provide? If the answer to this question is "no", as seems likely given evidence of significant financial pressures, a plan is required to address this and improve the resilience of the local government sector as a whole. Such a plan could include some combination of increases in funding (or the provision of additional revenue-raising options to local authorities themselves), changes to the services that they are expected to deliver, and support to improve the efficiency and productivity of service delivery. The absence of such a plan risks the resilience of the local government sector as a whole.

The UK government should conclude its review of the English local government finance system, update assessments of how local authorities' spending needs and revenue raising capacities compare to each other, and re-introduce a funding system that accounts for these assessments when allocating funding between authorities. This will help ensure funding is allocated according to rational criteria, which is not currently the case, risking adverse impacts on the resilience of local authorities that are currently relatively under-funded under existing funding allocations.

Further improvements to the monitoring of the financial resilience and risk of local authorities should be made, including through tracking indicators of likely financial risks in potential future pandemics and national emergencies.

173. **In terms of the provision of funding and other financial support and flexibilities during future pandemics and other major crises, Ogden and Phillips (2022) drew several main conclusions.**
- 173.1. **The (UK) government should again survey local authorities on the expected financial impacts, to guide its decisions over funding.** I would recommend the Welsh and Scottish Governments do likewise, although the much more restricted nature of Northern Irish local authorities' responsibilities may mean it is not so worthwhile in that context (ad hoc requests for information may suffice).
- 173.2. **Based on experience in 2020–21, three changes should be made to such a collection exercise if governments wanted to reduce the scale of short-term 'over-funding' of pressures seen in the Covid-19 pandemic.** First, such returns should explicitly request information where gross spending is set to be lower as well as where it is expected to be higher (after netting off savings in those areas). Second, it should randomly select a proportion of returns for enhanced vetting – which would likely require access to live financial contracting and transactions data. Third, it could consider a system of penalties if outturns financial data differs substantially from the financial monitoring data provided.
- 173.3. **Alternatively, the governments could tolerate a degree of 'over-compensation' in the short-term, and 'claw-back' funding in subsequent years by taking account of the overall change in the reserves position of the local government finance system when determining new funding allocations.** This is in effect, what the UK and Welsh Governments did from 2022–23, with local authorities drawing down reserves to help address spending pressures (Scottish local authorities continued to pay into reserves in both 2022–23 and 2023–24).
- 173.4. **Governments should collect data on relevant financial risk and resilience indicators, and analyse these in the context of any crises faced.** For example, the risk and resilience indicators, and especially reliance on SFCs income and financial reserves included in the IFS 'dashboard' published in June 2020 were predictors of subsequent financial impacts and distress (Ogden and Phillips, 2020a).
174. **A set of principles and protocols for how local authorities would be funded and what business and household support schemes they may be tasked with implementing in a potential future pandemic or other national emergency should be developed. In doing so, lessons can be learned from the Covid-19 pandemic.**
- 174.1. These principles and protocols should cover: the range of mechanisms by which additional financial support could be provided; processes for how decisions over the choice of mechanisms and the scale of support will be made, including the role of local government in these decisions; plans for enhanced joint central-local government coordination and monitoring groups that could be activated in emergency situations; and information on the potential assignment of responsibilities between local and central government. In each instance, lessons should be drawn from experience during the Covid-19 pandemic.

- 174.2. My judgement is that the approach to providing additional financial support very largely through additional grant funding during the Covid-19 pandemic worked well, overall. Such an approach also has financing cost benefits: the UK government is best placed to borrow cheaply and quickly, with the Bank of England supporting this via its quantitative easing and liquidity operations. It can then provide funding to English local authorities, and to the devolved governments elsewhere in the UK which can provide funding to local authorities in their nations.
- 174.3. The scale and distribution of financial impacts of an emergency across local authorities is unlikely to be immediately obvious. In this context, governments should focus on speeding up the allocation of existing grant funding (as done in Wales, where 4 months of RSG was paid up front) to provide liquidity, allocating an initial tranche of specific funding using a simple formula, collecting verifiable information on financial impacts, and providing assurance that further financial support will be made available for reasonable costs if necessary. Once more information on financial impacts and response needs is available, later funding allocations can be allocated on a more bespoke basis accounting for this information (as English local authorities' funding allocations were later updated).
- 174.4. Experience from the Covid-19 pandemic suggests that additional funding to cover higher expenditures can be suitably provided on both a formula-basis and an incurred-expenditure basis, although as discussed above both such approaches have their pros and cons. Given that reliance on SFCs income varies so significantly across local authorities, arrangements based on incurred-impacts probably make most sense to help target funding where it is needed most. A partial compensation scheme as in England and Scotland has the benefit of maintaining incentives to generate what income is possible.
- 174.5. The lack of flexibility and administrative burden associated with directed or ring-fenced grant funding means its use needs to be carefully considered, especially for small amounts of funding. However, ring-fencing funding can sometimes provide more flexibility for local authorities than alternatives (such as specifying services or support they need to provide to local residents or businesses), if ring-fences are broadly defined as with the UK government's control outbreak management fund.
- 174.6. A clear process for local authorities facing particular difficulties to receive exceptional financial support should be put in place, as during the Covid-19 pandemic.
- 174.7. Consideration should be given to whether local authority borrowing rules and capital funding rules should be more generally relaxed in potential future pandemics or national emergencies. As discussed in sub-paragraph 2, above, this is unlikely to be the best approach to financing a nation-wide response to the emergency. However, it would provide local authorities with additional flexibility (on top of their use of financial reserves) to spend more on addressing the impacts of the emergency if they so wished.

174.8. Scaling back other administrative and reporting requirements during emergencies can free up local authority and central government staff for more pressing tasks. However, at the same time, additional data will need to be collected

175. **Building on the last sub-paragraph, there is scope to make more information on emergency funding arrangements publicly available, both to improve scrutiny and understanding during the emergency and lesson-learning following the emergency.**

Here I would draw a contrast between the situation for England, where the UK government has collated information on the additional funding provided to local authorities, including for business support grants, and the situation in Scotland and Wales, where the information needed to put this report together has been harder to come by. This may, to some extent, reflect capacity constraints in the devolved governments (who have smaller teams handling local government finance), but collating information in one document or on one webpage (with links to further, more detailed information) is a practise that can save government time in future (e.g. when conducting its own lesson learning exercise) and help immediate delivery (by making it easier for local authorities, businesses and other stakeholders keep on top of the range on support being provided).

176. **The ability of local authorities to respond to a national emergency depends not only on the financial support provided specifically for that emergency, but also pre-existing funding arrangements and their financial circumstances. This has worsened in the years since the Covid-19 pandemic in England, Scotland and Wales. This could make it harder for local authorities to respond to any future emergency, and should be addressed.**

176.1. Despite substantial above-inflation increases in local authority funding in the years since the Covid-19 pandemic, especially in England (Ogden and Phillips, 2024a, 2024b), the increased demand for and cost of services has meant growing pressures on local authorities' finances. Local authorities in England and Wales drew down reserves in 2022–23 and 2023–24, and budget to further drawdown reserves in 2024–25. In England, a growing number of local authorities have also requested and been granted exceptional financial support – 30 for the financial year, 2025–26, up from 4 in 2022–23 (MHCLG, 2025).

176.2. A range of factors underlie these financial pressures, with social care services, special educational needs support, and temporary accommodation being particular areas of pressure in England (Ogden and Phillips, 2024a). In turn, factors such as increases in the National Living Wage, an increased reliance on high-cost types of provision (such as bed and breakfast accommodation, and children's homes as opposed to foster carers), excess market power and profits (for some children's home operators), and legislative frameworks (for special educational needs support, for example), have increased both demands and costs. These pressures follow on from previous cuts to funding that have only been partially undone.

176.3. The National Audit Office (2025) concluded that, in England, a joined up approach between different UK government departments with overarching responsibility for different services local authorities operate (such as the DHSC, DfE and MHCLG) to ensure there was a comprehensive understanding of the expectations placed on local authorities, and synergies could be exploited. It is my view that without

fundamental reform of how some services are designed and implemented, financial pressures will likely continue to worsen unless a substantial tax-funded increase in funding is provided. Such reforms need to focus on increasing the productivity of local authority (and wider public sector) workforces, moving away from high-cost forms of provision (such as bed and breakfasts and children homes), and preventing and removing damaging incentives in legislation that contributes to increased demand and costs (such as exists in special educational needs legislation in England).

177. The UK government is progressing with plans to update and reform the local government funding system in England from 2026–27, which is to be welcomed (Phillips, 2024; Ogden and Phillips, 2025). This focuses on the allocation of funding between local authorities which, as discussed above, is currently to a significant extent arbitrary. However, **addressing the financial sustainability of local government requires consideration of not just how funding is allocated between local authorities ('the slicing of the pie') but also the total amount of funding provided to local authorities ('the size of the pie')**, and whether this is consistent with the expectations placed upon them given current responsibilities, delivery models and legislation. This is a difficult task, but one that I consider important for the financial sustainability of local authorities (both in England and the rest of the UK), and in turn, their resilience and ability to respond effectively to potential future pandemics and national emergencies.

## Conclusions and recommendations

178. This report has described the funding arrangements for the devolved Northern Irish, Scottish and Welsh governments, and local authorities across the country, both in 'normal' times and during the Covid-19 pandemic, addressing questions 1, 2, 3 and 5a in the terms of reference provided to me. It has assessed the performance of these arrangements, in terms of whether they enabled the devolved and local governments to effectively respond to the Covid-19 pandemic, addressing question 4, 5b and 6. It has also drawn lessons for funding arrangements going forwards, both in normal times (to improve resilience to more modest shocks) and in potential future pandemics and national emergencies, addressing questions 7 and 8.
179. Answers to questions 1 – 6 are summarised in boxes in the main body of the report. These underpin the lessons drawn (questions 7 and 8), which we summarise here.
180. The overarching recommendation I would make for potential future national emergencies would be to maintain a flexible rather than rules-based approach for determining which arrangements to utilise. Bearing this in mind, the general lessons I draw from the Covid-19 pandemic for future national emergency situations are:
- 180.1. Updated contingency plans for potential future pandemics and national emergencies, which the UK and devolved governments have committed to producing in response to Module 1 of the Inquiry, should include options for funding arrangements for devolved and local governments. They should set out the principles for how decisions on the funding arrangements to use in particular circumstances will be made, and guidance for particular funding arrangements that enables their rapid implementation. This is not currently the case and should be rectified.
- 180.2. The UK government is usually best placed to raise funding for a national emergency, given the large and liquid gilt market, and the Bank of England's liquidity and quantitative easing operations. Direct borrowing by the devolved or local governments would likely take longer and be more costly, especially if large amounts were being borrowed for the first time.
- 180.3. The UK government should be ready to bypass the Barnett formula and target funding at particular nations or regions of the UK in the case of a large asymmetric emergency. This approach would provide greater insurance against asymmetric shocks than allowing devolved and local governments to borrow to fund measures themselves (as in that case, those facing bigger shocks would need to borrow and pay back more).
- 180.4. The use of temporary funding guarantees, set at a level somewhat above the level implied by Barnett formula at any given point, mean the devolved governments do not need to wait for announcements of new spending for England before planning and announcing their own measures. The provision of modest discretionary borrowing powers, either during a period of crisis, or more generally (see below) could also provide them with such flexibility.

- 180.5. An effort should be made to maintain enhanced financial information sharing and coordination for the duration of a future national emergency, not just its early stages as in the Covid-19 pandemic. This would require the different tiers of government to treat as confidential information shared by other tiers, and may sometimes be more feasible at official rather than political level.
- 180.6. Interactions between the responsibilities assigned to different tiers of government need to be accounted for. In a pandemic situation the most important such interaction is likely to be between public health restrictions (which were devolved during the Covid-19 pandemic) and economic support and overall funding levels (which was the responsibility of the UK government). Given the potential for an asymmetric shock, and different views between the UK and devolved governments on the appropriate public health restrictions to have in place at a given time, efforts should be made to allow economic support (such as the furlough scheme) to be operated on a geographical basis. This could be funded by the UK government if caseloads (or other measures of situation severity) exceed a certain threshold, or via devolved governments (through enhanced borrowing powers) if risk appetites differ.
- 180.7. The UK and devolved governments should collect information from local authorities on the financial impacts of the Covid-19 pandemic to help inform the financial support provided to them. They should explicitly ask about areas of reduced expenditure as well as higher expenditure, and could be subject to enhanced vetting. It may also be possible to take information directly from local authorities' financial accounts and internal financial monitoring processes. As highlighted in Module 1 of this Inquiry (UK Covid-19 Inquiry, Module 1: The resilience and preparedness of the United Kingdom, 2024), investment in systems for the timely collection, analysis, and the secure sharing and use of this (and other relevant) data should be made pre-emptively and such systems tested.
- 180.8. In order to avoid incentivising higher-than-necessary financial costs, a combination of formula-based funding for additional expenditures and impact-based funding for income losses (with less than 100% compensation) should be the default option for providing additional funding. Ring-fencing of funding for particular services should be kept to a minimum, although ring-fences with broad criteria can provide more flexibility to local areas than specifying particular schemes and provision and so has its uses (for example, to fund discretionary business or household support).
- 180.9. Some combination of upfront payment of grants, debt servicing holidays, and exceptional financial support (including using capital funding for resource purposes) should also again be utilised to support cashflow and avoid financial failure of the most vulnerable local authorities.
- 180.10. Information on funding allocations (including allocation methodologies) and purposes, and other financial responses to a potential future pandemic or national emergency should be collated and published, to support understanding, scrutiny and future learning.

181. The ability of devolved governments and local authorities to respond to a national emergency depends not only on financial support and arrangements provided specifically for that emergency, but also pre-existing funding arrangements and financial circumstances. To improve the underlying resilience of funding arrangements for devolved and local governments, several permanent changes to 'normal' arrangements should be made.
- 181.1. The devolved governments should automatically be allowed to carry forward late increases or defer late decreases of funding in a given year into future years (even above normal reserves limits). This would be a preferable way of providing more in-year certainty about funding than 'funding guarantees' on a long-term basis.
- 181.2. The devolved governments' borrowing limits for forecast errors and reserves limits should be indexed to the amount of revenue and spending at risk rather than inflation (as in Scotland) or frozen (as in Wales).
- 181.3. The devolved governments should be allowed to borrow a modest amount for discretionary resource purposes, to enable them to respond to shocks to public service spending needs, and to respond to temporary declines in tax revenue or increases in social security spending that are forecast in advance.
- 181.4. Substantial additional borrowing powers (either for resource or capital purposes) for the devolved governments could be considered unfair to England – there is no 'England only' borrowing, in general – and so would need to be considered as part of a more fundamental change to the UK's fiscal architecture.
- 181.5. This is also true of changes to the formulas used to calculate the block grant and block grant adjustments for the devolved governments of the UK. There are legitimately different views about the extent of redistribution and risk sharing across the UK. Thus, while the current system (most notably the Barnett formula) is hard to justify on a principled basis, the direction of any reform is an inherently political as opposed to technocratic decision.
- 181.6. The UK government should conclude its review of the English local government finance system, update assessments of how local authorities' spending needs and revenue raising capacities compare to each other, and re-introduce a funding system that accounts for these assessments when allocating funding between authorities. This will help ensure funding is allocated according to rational criteria, which is not currently the case, risking adverse impacts on the resilience of local authorities that are currently relatively under-funded under existing funding allocations.
- 181.7. Both the UK government and devolved governments should go beyond current approaches to consider not only how needs and revenue-raising capacity compare between authorities, but also the overall funding requirement for the local government sector as a whole: is the overall funding available consistent with the services local authorities are expected to provide? If the answer to this question is "no", as seems likely given evidence of significant financial pressure, a plan is required to address this and improve the resilience of the local government sector as a whole. Such a plan could include some combination of increases in funding (or

the provision of additional revenue-raising options to local authorities themselves), changes to the services that they are expected to deliver, and support to improve the efficiency and productivity of service delivery. The absence of such a plan risks the resilience of the local government sector as a whole.

- 181.8. Further improvements to the monitoring of the financial resilience and risk of local authorities should be made, including through tracking indicators of likely financial risks in potential future pandemics and national emergencies.

## List of figures

Figure 1: Elements of devolved government funding.....	19
Figure 2. Determination of funding via the Barnett formula (as of 2020–21).....	23
Figure 3. Summary of funding components for devolved governments.....	29
Figure 4: Covid-19 additions to the Scottish block grant in 2020–21.....	32

## List of tables

Table 1: Spending responsibilities of the devolved governments.....	18
Table 2: English local authority Covid-19 funding, £s billions.....	66

## References

- Adam, S. and Phillips, D. (2021), 'The Scottish Government's record on tax and benefit policy', Institute for Fiscal Studies Report BN324, <https://ifs.org.uk/publications/scottish-governments-record-tax-and-benefit-policy>.
- Adam, S. and Phillips, D. (2025), 'Assessing Scottish tax strategy and policy', Institute for Fiscal Studies Report, <https://ifs.org.uk/publications/assessing-scottish-tax-strategy-and-policy>.
- Amin-Smith, N., Eiser, D., Phillips, D., Simpson, P. and Trickey, M. (2016), 'A time of revolution? British local government finance in the 2010s', Institute for Fiscal Studies Report, <https://ifs.org.uk/publications/time-revolution-british-local-government-finance-2010s>.
- Audit Scotland (2021), 'Tracking the implications of Covid-19 on Scotland's public finances', <https://audit.scot/publications/covid-19-tracking-the-implications-of-covid-19-on-scotlands-public-finances>.
- Audit Scotland (2022), 'Scotland's economy: Supporting businesses through the Covid-19 pandemic', <https://audit.scot/publications/scotlands-economy-supporting-businesses-through-the-covid-19-pandemic>.
- Audit Scotland (2023), 'Scotland's financial response to Covid-19: Spending update', <https://audit.scot/publications/scotlands-financial-response-to-covid-19-spending-update>.
- Audit Wales (2022), 'Covid-19 business support in 2020–21: Memorandum for the Public Accounts and Public Administration Committee', [https://www.audit.wales/sites/default/files/publications/business\\_support\\_covid.pdf](https://www.audit.wales/sites/default/files/publications/business_support_covid.pdf).
- BEIS (2021a), 'Christmas Support Payment for wet-led pubs: Guidance for Local Authorities (updated 4 March 2021)', <https://assets.publishing.service.gov.uk/media/60916cf2d3bf7f01363328b8/withdrawn-christmas-support-payment-for-wet-led-pubs-la-guidance.pdf>.
- BEIS (2021b), 'Restart Grant: Guidance for Local Authorities (updated 4 May 2021)', [https://assets.publishing.service.gov.uk/media/61a646b38fa8f50385f7eca4/restart-grant-la-guidance\\_2\\_.pdf](https://assets.publishing.service.gov.uk/media/61a646b38fa8f50385f7eca4/restart-grant-la-guidance_2_.pdf).
- BEIS (2021c), 'Omicron Hospitality and Leisure Grant: Guidance for Local Authorities', <https://assets.publishing.service.gov.uk/media/63c948278fa8f51c8961a86a/omicron-hospitality-and-leisure-grant-guidance.pdf>.
- BEIS (2022), 'Additional Restrictions Grant, Guidance for Local Authorities (updated 20 January 2022)', <https://assets.publishing.service.gov.uk/media/63c94888d3bf7f24aa1affa/additional-restrictions-grant-la-guidance.pdf>.

- Bell, D., Eiser, D. and Phillips, D. (2021a), 'Options for reforming the devolved fiscal frameworks post-pandemic', Institute for Fiscal Studies, Report R207, <https://ifs.org.uk/publications/options-reforming-devolved-fiscal-frameworks-post-pandemic>.
- Bell, D., Eiser, D. and Phillips, D. (2021b), 'Designing and funding the devolved nations' policy responses to COVID-19', Fraser of Allander Institute Report, <https://fraserofallander.org/publications/designing-and-funding-the-devolved-nations-policy-response-to-covid-19/>.
- Bell, D., Eiser, D. and Phillips, D. (2023), 'Fiscal Framework Review: Independent Report', <https://www.gov.scot/publications/fiscal-framework-review-independent-report/>.
- Blochlinger, H. and Kantorowicz, J. (2015), 'Fiscal constitutions: an empirical assessment', OECD Economics Department, Working Paper 1248, [https://www.oecd.org/en/publications/fiscal-constitutions-an-empirical-assessment\\_5jrxjctxp8r-en.html](https://www.oecd.org/en/publications/fiscal-constitutions-an-empirical-assessment_5jrxjctxp8r-en.html).
- Boileau, B. and Phillips, D. (2023), 'The overall funding outlook: Scottish Budget 2023–24', Institute for Fiscal Studies Report, <https://ifs.org.uk/publications/overall-funding-outlook>.
- Burnside, R., McIntyre, S. and Roy, G. 'Additional powers: Better understanding? Better scrutiny?' Adam Smith Business School Report, <https://strathprints.strath.ac.uk/78475/>.
- Cabinet Office (2011), 'JMC agreement on 2012 Olympics consequential funding', <https://www.gov.uk/government/news/jmc-agreement-on-2012-olympics-consequential-funding>.
- Cabinet Office (2022), 'Review of intergovernmental relations', <https://www.gov.uk/government/publications/the-review-of-intergovernmental-relations/review-of-intergovernmental-relations-html>.
- Care Quality Commission (2022), 'State of Care 2021/22', <https://www.cqc.org.uk/publication/state-care-202122>.
- Codd, F., Pickett, L. and Keep, M. (2021), 'Transport funding for Wales and HS2', House of Commons Library Research Briefing, <https://commonslibrary.parliament.uk/research-briefings/cdp-2021-0168/>.
- DBT (2023), 'Covid-19 Business Grants schemes: insights (minor updates to data, May 2023)', <https://www.gov.uk/government/publications/coronavirus-grant-funding-local-authority-payments-to-small-and-medium-businesses/covid-19-business-grants-schemes-insights-august-2022>.
- DHSC (2020), 'Public health ring-fenced grant 2020 to 2021 circular', <https://www.gov.uk/government/publications/public-health-grants-to-local-authorities-2020-to-2021>.
- DHSC (2021), 'Control outbreak management fund: guidance – financial year 2020 to 2021', <https://www.gov.uk/government/publications/contain-outbreak-management-fund-2020-to-2021/contain-outbreak-management-fund-guidance-financial-year-2020-to-2021>.

- DHSC (2022), 'Control outbreak management fund: guidance – financial year 2021 to 2022', <https://www.gov.uk/government/publications/contain-outbreak-management-fund-2021-to-2022/contain-outbreak-management-fund-guidance-financial-year-2021-to-2022>.
- Eyraud, L., Hodge, A., Ralyea, J. and Reynaud, J. (2020), 'How to design subnational fiscal rules: a primer', IMF Fiscal Affairs Department, How To Note 20/01, <https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2020/02/25/How-to-Design-Subnational-Fiscal-Rules-A-Primer-48967>
- Emmerson, C. and Stockton, I. (2021), 'Re-writing the fiscal rules', Chapter 4, 'IFS Green Budget 2021' (Emmerson, C., Johnson, P. and Zaranko, B., eds), Institute for Fiscal Studies Report, <https://ifs.org.uk/books/rewriting-fiscal-rules>.
- HM Government (2019), 'Devolution Factsheet', <https://assets.publishing.service.gov.uk/media/5c38cc6ce5274a70ca3c3cef/DevolutionFactsheet.pdf>.
- HM Treasury (2021), 'Statement of Funding Policy', [https://assets.publishing.service.gov.uk/media/63f3a4188fa8f561335b4efd/Statement\\_of\\_Funding\\_Policy\\_update\\_Feb\\_2023.pdf](https://assets.publishing.service.gov.uk/media/63f3a4188fa8f561335b4efd/Statement_of_Funding_Policy_update_Feb_2023.pdf).
- HM Treasury (2023), 'Block Grant Transparency Report: July 2023', <https://www.gov.uk/government/publications/block-grant-transparency-july-2023>.
- HM Treasury (2024), 'Statement of Funding Policy Addendum', [https://assets.publishing.service.gov.uk/media/6721134c3ce5634f5f6ef441/Statement\\_of\\_Funding\\_Policy\\_addendum.pdf](https://assets.publishing.service.gov.uk/media/6721134c3ce5634f5f6ef441/Statement_of_Funding_Policy_addendum.pdf).
- HM Treasury and Scottish Government (2023), 'The agreement between the Scottish Government and United Kingdom Government on the Scottish Government's fiscal framework: 2023', <https://www.gov.scot/publications/fiscal-framework-agreement-between-scottish-uk-governments/documents/>.
- Holtham, G. (2010), 'Fairness and accountability: a new funding settlement for Wales', <https://www.gov.wales/sites/default/files/publications/2018-10/fairness-and-accountability.pdf>.
- House of Lords (2009), 'Select Committee on the Barnett Formula – First Report', <https://publications.parliament.uk/pa/ld200809/ldselect/ldbarnett/139/13902.htm>.
- Ifan, G. and Sion, C. (2019), 'Trends in local government finance: October 2019', Wales Fiscal Analysis Report, Cardiff University, [https://www.cardiff.ac.uk/\\_data/assets/pdf\\_file/0003/1709904/Local\\_Government\\_Briefing\\_Oct19.pdf](https://www.cardiff.ac.uk/_data/assets/pdf_file/0003/1709904/Local_Government_Briefing_Oct19.pdf).
- Keyes, R. (2022), 'Covid-19 Funding: Allocations & Spending in Northern Ireland', Northern Ireland Assembly Research and Information Service Briefing Paper, <https://www.niassembly.gov.uk/globalassets/documents/raise/publications/2017-2022/2022/finance/0422.pdf>.

- Local Government Association (2024), 'A councillor workbook on local government finance', <https://www.local.gov.uk/publications/councillor-workbook-local-government-finance-0>.
- McEwen, N., Kenny, M., Sheldon, J. and Brown Swan, C. (2020), 'Intergovernmental relations in the UK: time for a radical overhaul', *Political Quarterly*, 91(3), 632–40.
- Mellett, R. (2009), 'A principles-based Approach to the Barnett Formula', *Political Quarterly*, 80(1) 76–83, <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1467-923X.2009.01960.x>.
- MHCLG (2020a), 'The Local Government Finance Report (England), 2020/2021', <https://www.gov.uk/government/publications/local-government-finance-report-2020-to-2021>.
- MHCLG (2020b), 'Core spending power supporting information', <https://www.gov.uk/government/publications/core-spending-power-final-local-government-finance-settlement-2020-to-2021>.
- MHCLG (2020c), 'Technical note on local government finance Covid-19 package', [https://assets.publishing.service.gov.uk/media/5f8d52a3e90e0727cf827104/200716\\_Technical\\_details\\_on\\_LGF\\_package\\_for\\_Treasurers\\_and\\_FDs\\_FINAL\\_.pdf](https://assets.publishing.service.gov.uk/media/5f8d52a3e90e0727cf827104/200716_Technical_details_on_LGF_package_for_Treasurers_and_FDs_FINAL_.pdf).
- MHCLG (2021), 'Covid-19 additional relief fund (CARF): local authority guidance', <https://www.gov.uk/government/publications/covid-19-additional-relief-fund-carf-local-authority-guidance>.
- MHCLG (2022a), 'Coronavirus (COVID-19): emergency funding for local government in 2020 to 2021 and additional support in 2021 to 2022', <https://www.gov.uk/government/publications/covid-19-emergency-funding-for-local-government>.
- MHCLG (2022b), 'Local authority Covid-19 financial impact monitoring information', <https://www.gov.uk/government/publications/local-authority-covid-19-financial-impact-monitoring-information>.
- MHCLG (2024a), 'Local authority revenue expenditure and financing England: 2019 to 2020 individual local authority data – outturn (revised)', <https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2019-to-2020-individual-local-authority-data-outturn>.
- MHCLG (2024b), 'Borrowing and investment live table, Q3 2024 to 2025', [https://assets.publishing.service.gov.uk/media/67b60da94e79a175a4c2ff50/Q3\\_2024\\_25\\_Borrowing\\_and\\_Investment\\_Live\\_Table\\_Q3\\_2024\\_2025.ods](https://assets.publishing.service.gov.uk/media/67b60da94e79a175a4c2ff50/Q3_2024_25_Borrowing_and_Investment_Live_Table_Q3_2024_2025.ods).
- MHCLG (2024c), 'National non-domestic rates collected by councils in England: 2022 to 2023', <https://www.gov.uk/government/statistics/national-non-domestic-rates-collected-by-councils-in-england-2022-to-2023>.
- MHCLG (2025), 'Exceptional financial support for local authorities', <https://www.gov.uk/government/collections/exceptional-financial-support-for-local-authorities>.

- National Audit Office (2020), 'Local authority investment in commercial property', <https://www.nao.org.uk/reports/local-authority-investment-in-commercial-property/?nab=2>.
- National Audit Office (2023), 'Covid-19 business grant schemes', <https://www.nao.org.uk/reports/covid-19-business-grant-schemes/?nab=1>.
- National Audit Office (2025), 'Local government financial sustainability', <https://www.nao.org.uk/reports/local-government-financial-sustainability-2025/?nab=1>.
- NHS Digital (2024), 'Adult social care activity and finance report, England, 2023-24', <https://digital.nhs.uk/data-and-information/publications/statistical/adult-social-care-activity-and-finance-report/2023-24/appendix-c>.
- NI Fiscal Council (2021), 'The public finances in NI: a comprehensive guide (November 2021)', <https://www.nifiscalcouncil.org/publications/public-finances-ni-comprehensive-guide-november-2021>.
- NI Fiscal Council (2023), 'Updated estimate of the relative need for public spending in NI', <https://www.nifiscalcouncil.org/publications/updated-estimate-relative-need-public-spending-ni>.
- NI Fiscal Council (2024), 'NI's public finances and the UK Government's financial support package for the restored Executive', <https://www.nifiscalcouncil.org/publications/nis-public-finances-and-uk-governments-financial-support-package-restored-executive>.
- Northern Ireland Audit Office (2024), 'Local Government Auditor's Report 2024', <https://www.niauditoffice.gov.uk/publications/local-government-auditors-report-2024>.
- OECD (2021), 'The territorial impact of COVID-19: managing the crisis and recovery across levels of government', [https://www.oecd.org/en/publications/2021/05/the-territorial-impact-of-covid-19-managing-the-crisis-and-recovery-across-levels-of-government\\_08dd4320.html](https://www.oecd.org/en/publications/2021/05/the-territorial-impact-of-covid-19-managing-the-crisis-and-recovery-across-levels-of-government_08dd4320.html).
- Office for National Statistics (2024), 'Country and regional public finances, UK: financial year ending 2023', <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/financialyearending2023>.
- Ofsted (2022), 'Children's social care 2022: recovering from the Covid-19 pandemic', <https://www.gov.uk/government/publications/childrens-social-care-2022-recovering-from-the-covid-19-pandemic/>.
- Ogden, K. and Phillips, D. (2020a), 'The financial risk and resilience of English local authorities in the coronavirus crisis', Institute for Fiscal Studies, Institute for Fiscal Studies, Report BN296, <https://ifs.org.uk/publications/financial-risk-and-resilience-english-local-authorities-coronavirus-crisis-0>.

- Ogden, K. and Phillips, D. (2020b), 'Covid-19 support through the business rates system: how does the pattern of support vary across England?', Institute for Fiscal Studies Report, <https://ifs.org.uk/publications/covid-19-support-through-business-rates-system-how-does-pattern-support-vary-across>.
- Ogden, K. and Phillips, D. (2020b), 'COVID-19 and English council funding: how are budgets being hit in 2020–21?', Institute for Fiscal Studies, Report R174, <https://ifs.org.uk/publications/covid-19-and-english-council-funding-how-are-budgets-being-hit-2020-21>.
- Ogden, K. and Phillips, D. (2021), 'The government has addressed most of the short-term COVID-19 financial pressures facing English councils, but problems loom in 2022–23 and beyond', Institute for Fiscal Studies, Comment, <https://ifs.org.uk/articles/government-has-addressed-most-short-term-covid-19-financial-pressures-facing-english>.
- Ogden, K. and Phillips, D. (2022), 'Looking back to look forwards: what can we learn from data on the impacts of COVID-19 on councils in 2020–21', Institute for Fiscal Studies Report BN337, <https://ifs.org.uk/publications/looking-back-look-forwards-what-can-we-learn-data-impacts-covid-19-councils-2020-21>.
- Ogden, K. and Phillips, D. (2024a), 'How have English councils' funding and spending changed? 2010 to 2024', Institute for Fiscal Studies Report, <https://ifs.org.uk/publications/how-have-english-councils-funding-and-spending-changed-2010-2024>.
- Ogden, K. and Phillips, D. (2024b), 'The 2025–26 English Local Government Finance Settlement explained', Institute for Fiscal Studies Comment, <https://ifs.org.uk/articles/2025-26-english-local-government-finance-settlement-explained>.
- Ogden, K. and Phillips, D. (2025), 'Response to 'Local authority funding reform: objectives and principles' consultation by MHCLG', Institute for Fiscal Studies Comment, <https://ifs.org.uk/articles/response-local-authority-funding-reform-objectives-and-principles-consultation-mhclg>.
- Ogden, K., Phillips, D., Sibieta, L., Warner, M. and Zaranko, B. (2022), 'Does funding follow need? An analysis of the geographic distribution of public spending in England', Institute for Fiscal Studies Report, <https://ifs.org.uk/publications/does-funding-follow-need-analysis-geographic-distribution-public-spending-england>.
- Ogden, K., Phillips, D. and Spilitotis J.C. (2020), 'COVID-19 and English council funding: what is the medium-term outlook?', Institute for Fiscal Studies Report R179, <https://ifs.org.uk/publications/covid-19-and-english-council-funding-what-medium-term-outlook>.

- Paun, A., Cheung, A. and Nicholson, E. (2021), 'Funding devolution: the Barnett formula in theory and practice', Institute for Government, <https://www.instituteforgovernment.org.uk/publication/funding-devolution>.
- Phillips (2020a), 'Devolved governments need more flexible funding and greater borrowing power to tackle coronavirus effectively', Institute for Fiscal Studies, <https://ifs.org.uk/articles/devolved-governments-need-more-flexible-funding-and-greater-borrowing-power-tackle>.
- Phillips (2020b), 'Up to £10 billion of the Chancellor's 'Plan for Jobs' will be funded by underspends on previously planned projects', Institute for Fiscal Studies, Comment, <https://ifs.org.uk/articles/ps10-billion-chancellors-plan-jobs-will-be-funded-underspends-previously-planned-projects>.
- Phillips, D. (2020c), 'How much emergency coronavirus funding are different councils in England receiving? And is the funding allocation sensible?', Institute for Fiscal Studies, Report BN282, <https://ifs.org.uk/publications/how-much-emergency-coronavirus-funding-are-different-councils-england-receiving-and>.
- Phillips, D. (2021a), 'How and why has the Scottish Government's funding changed in recent years?', Institute for Fiscal Studies Report BN321, <https://ifs.org.uk/publications/how-and-why-has-scottish-governments-funding-changed-recent-years>.
- Phillips, D. (2021b), 'Lessons for sub-national government finances post-COVID', Institute for Fiscal Studies Report BN320, <https://ifs.org.uk/publications/lessons-and-issues-sub-national-government-finances-post-covid>.
- Phillips, D. (2024), 'Reforming local government funding in England: the issues and options', Institute for Fiscal Studies Report, <https://ifs.org.uk/publications/reforming-local-government-funding-england-issues-and-options>.
- Plaid Cymru (2009), 'Memorandum by Plaid Cymru', HoL Select Committee on the Barnett Formula, <https://publications.parliament.uk/pa/ld200809/ldselect/ldbarnett/139/9032005.htm>.
- Robison, S. (2025) 'Evidence to the Scottish Affairs Committee's inquiry into the Financing of the Scottish Government', <https://committees.parliament.uk/publications/46344/documents/233832/default/>.
- Scottish Government (2020), 'Scottish Budget 2020–2021', <https://webarchive.nrscotland.gov.uk/20211022180833/https://www.gov.scot/publications/scottish-budget-2020-21/>.
- Scottish Government (2021a), 'Local government finance circular 8/2021: business rates incentivisation scheme 2019-2022', <https://www.gov.scot/publications/local-government-finance-circular-8-2021-business-rates-incentivisation-scheme-2019-22/>.

Scottish Government (2021b), 'Scottish local government finance statistics (SLGFS) 2019–20: workbooks',  
<https://www.gov.scot/publications/scottish-local-government-finance-statistics-slgfs-2019-20-workbooks/>.

Scottish Government (2021a), 'Non-domestic rates relief statistics 2021',  
<https://www.gov.scot/publications/non-domestic-rates-relief-statistics-2021/>.

Scottish Government (2021b), 'Scottish Budget 2021–22',  
<https://www.gov.scot/publications/scottish-budget-2021-22/>.

Scottish Government (2022a), 'Fiscal Framework: Scottish Government's Evidence to the Independent Report',  
<https://www.gov.scot/publications/fiscal-framework-scottish-governments-evidence-independent-report/>.

Scottish Government (2022b), 'Local government finance circular 5/2022 – statutory repayment of debt – short-term financial flexibility: guidance',  
<https://www.gov.scot/publications/local-government-finance-circular-5-2022-statutory-repayment-of-debt-short-term-financial-flexibility/>.

Scottish Government (2022c), 'Scottish local government finance statistics (SLGFS) 2020–21: workbooks',  
<https://www.gov.scot/publications/scottish-local-government-finance-statistics-slgfs-2020-21-workbooks/>.

Scottish Government (2023a), 'Covid consequentials spend: FOI release',  
<https://www.gov.scot/publications/covid-consequentials-spend-foi-release/>.

Scottish Government (2023b), 'Scottish local government finance statistics (SLGFS) 2021–22: workbooks',  
<https://www.gov.scot/publications/scottish-local-government-finance-statistics-slgfs-2021-22-workbooks/>.

Scottish Government (2025), 'Scottish Public Finance Manual',  
<https://www.gov.scot/publications/scottish-public-finance-manual/local-government-finance/local-government-finance/>

Scottish Parliament (2021), 'Official report: Local Government and Communities Committee 10 February 2021',  
<https://webarchive.nrscotland.gov.uk/20220801062143/https://archive2021.parliament.scot/parliamentarybusiness/report.aspx?r=13120>

Scottish Parliament Information Centre (2024), 'Two years into the reform of intergovernmental arrangements – has the new approach been implemented?',  
<https://spice-spotlight.scot/2024/02/07/two-years-into-the-reform-of-intergovernmental-arrangements-has-the-new-approach-been-implemented/>.

Smith Commission (2014), 'Report of the Smith Commission for further devolution of powers to the Scottish Parliament',

<https://webarchive.nationalarchives.gov.uk/ukgwa/20151202171017/http://www.smith-commission.scot/>.

The Guardian (2020), 'North of England mayors reject support plans for local Covid lockdowns', <https://www.theguardian.com/world/2020/oct/10/north-of-england-mayors-reject-support-package-for-local-covid-lockdowns>.

Torrance, D. (2024), 'Introduction to devolution in the United Kingdom', House of Commons Library Research Briefing, <https://commonslibrary.parliament.uk/research-briefings/cbp-8599/>.

Vammalle, C. and Bambalaite, I. (2021), 'Fiscal rules for subnational governments: the devil's in the details', OECD, Working Paper on Fiscal Federalism 35, [https://www.oecd.org/en/publications/fiscal-rules-for-subnational-governments\\_531da6f9-en.html](https://www.oecd.org/en/publications/fiscal-rules-for-subnational-governments_531da6f9-en.html).

Welsh Government (2020), 'Local government revenue and capital settlement: final 2020 to 2021', <https://www.gov.wales/local-government-revenue-and-capital-settlement-final-2020-2021>.

Welsh Government (2021a), '3<sup>rd</sup> supplementary budget for 2020 to 2021', <https://webarchive.nationalarchives.gov.uk/ukgwa/20210404064736/https://gov.wales/3rd-supplementary-budget-2020-2021>.

Welsh Government (2021b), 'Final Budget 2021 to 2022', <https://www.gov.wales/final-budget-2021-to-2022>.

Welsh Government (2022a), 'Finance ministers call for Covid funding flexibility', <https://www.gov.wales/finance-ministers-call-for-covid-funding-flexibility>.

Welsh Government (2022b), 'Financing of gross revenue expenditure, by authority', <https://stats.wales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Financing/financingofgrossrevenueexpenditure-by-authority>.

Welsh Government (2022c), '2<sup>nd</sup> supplementary budget 2021 to 2022', <https://www.gov.wales/2nd-supplementary-budget-2021-2022>.

## Inquiry documents

Document	INQ / link
UK Covid-19 Inquiry, Module 1: The resilience and preparedness of the United Kingdom (2024)	<a href="https://covid19.public-inquiry.uk/documents/module-1-full-report/">https://covid19.public-inquiry.uk/documents/module-1-full-report/</a>
Welsh Local Government Association Module 9 statement	INQ000653255
Department of Finance NI Module 9 statement	INQ000587400