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The accounting, budgeting and fiscal impact of COVID-19 on the United Kingdom

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Abstract

Purpose – This paper analyses the nature and impact of budgetary responses to the pandemic in the context of the strengths and weaknesses of UK public sector financial management.

Design/methodology/approach – The analysis is developed through consideration of four modes of government accounting. Data are drawn from multiple official sources, which report actual and forecast government receipts and expenditures as the crisis unfolds.

Findings – There have been dramatic effects on UK government finances. Government receipts have fallen by 12% and expenditures have increased by 36% in the first three months of the crisis (April–June 2020), compared to the previous year. Government debt increased to £1,984bn (99.6% of GDP), the highest percentage since March 1961 (ONS, 2020c). The pandemic will have the greatest impact on UK public finances in 2020–21, with a record budget deficit which, under the OBR (2020c) central scenario, may approach £322bn and increase public sector net debt to £2,205bn (104.1% of GDP).

Research limitations/implications – The research is necessarily limited by the impact of the pandemic and the government's responses in a rapidly changing social, economic and fiscal environment.

Practical implications – Statistical accounting and budgeting dominate attention because of reporting speed and issues of international comparability. The pandemic has emphasised the importance of timeliness. Government financial reporting is marginalised, though this should not be permanent if the pandemic retreats. Fiscal sustainability analysis will warn that UK public finances are even more unsustainable than before the pandemic.

Social implications – The interaction of higher levels of debt and future increases in interest rates might result in a new era of austerity and further centralisation of public power and economic decision-making in one of the world's most centralised democracies.

Originality/value – The paper provides an early, structured analysis of the impact of the COVID-19 emergency on UK government finances.

Keywords Public sector accounting, Austerity, Fiscal transparency, Fiscal effects of COVID-19, Modes of government accounting, Statistical accounting

Paper type Research paper

1. Introduction

The UK has been severely affected by the COVID-19 pandemic. It has reported one of the highest rates of per capita "excess deaths" in Europe (ONS, 2020a) and suffered a record fall in its GDP of over 20.4% in the quarter ending 30 June 2020 (ONS, 2020b), greater than any of the EU27 (European Commission, 2020) and G7 countries (OECD, 2020a). Deeper analysis of causes and government response will no doubt be examined in the inevitable post-pandemic Public Inquiry. There have been dramatic effects on UK public sector finances because of emergency expenditures and falling revenues. The UK public sector net debt increased to £1,984bn (99.6% of GDP) at 30 June 2020, the highest percentage since March 1961 (ONS, 2020c).

The objective of this paper is to understand the nature and impact of budgetary responses to the pandemic in the context of the strengths and weaknesses of UK public sector financial management. The analysis is developed through consideration of the four modes of

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government accounting: (1) financial reporting, (2) statistical accounting, (3) budgeting and (4) fiscal sustainability reporting (Heald and Hodges, 2018).

Section 2 considers the underlying strengths and weaknesses of UK public sector financial management at the start of the COVID-19 emergency. Section 3 describes and analyses the UK Government's budgetary responses. Section 4 considers the potential consequences, financial and political, of the crisis, and Section 5 draws the analysis to its conclusion.

2. Strengths and weaknesses of UK public sector financial management

It is 25 years since the UK Treasury (1995) committed to accruals accounting and budgeting across the public sector, in a White Paper devised by the accounting academic Andrew Likierman, then the Treasury's chief accountancy adviser.

The subsequent technical achievement is impressive. UK government financial reports (the first mode of government accounting), originally linked to the UK GAAP, closely follow IFRS as mediated for the public sector by the Financial Reporting Advisory Board to HM Treasury. With some relatively small exceptions, these arrangements bring consistency between tiers of government and the category of public entity. This involved harmonisation of separate traditions: central government cash basis, local government loans fund accounting, NHS partial accruals and full accruals in arm's-length public bodies. Moreover, the devolved administrations established in Scotland and Wales and restored in Northern Ireland in 1999 were willingly incorporated into the reforms. The conversion to accruals was implemented for the financial year 2000–2001, though the full consolidation "Whole of Government Accounts" (WGA) was not published until financial year 2009–2010. This provides a clear reconciliation between IFRS-based financial reporting and statistical accounts (the second mode of government accounting) based on the *European System of Accounts 2010* (ESA10). Financial reporting and budgeting have been aligned, as foreseen in 1995, on the same accruals basis, which is internationally unusual. The UK's multi-year Spending Review system (budgeting, the third mode of government accounting) has provided policy control and enjoys a high international reputation. In the early 2000s the Treasury pioneered fiscal sustainability analysis (the fourth mode of government accounting) (Eich, 2008), calculating fiscal gaps for 50 years ahead: later this was taken up by the Office for Budget Responsibility (OBR), the UK's independent fiscal council.

These positive features have gained the UK high scores on most indexes of comparative fiscal transparency and a generally positive "Fiscal Transparency Evaluation" from the IMF (2016). Though remaining IFRS-based, the similarity between IFRS and IPSAS results in the UK being one of the most IPSAS-consistent European countries.

Yet there were serious grounds for concern even before the COVID-19 pandemic inflicted unprecedented damage on UK public finances. The technical achievement in government financial reporting was never matched by user engagement, a point emphasised in the Public Administration and Constitutional Affairs Committee's (2017) report on the democratic uses of government accounts. The UK practice of approving the estimates four months into the financial year rendered the Parliament's Supply procedure irrelevant to financial management practice, while maintaining constitutional symbolism (Procedure Committee, 2017). The remote possibility of meaningful reform increasing the role of Parliament vanished when the minority Conservative Government won a decisive majority in the December 2019 General Election which was dominated by "Brexit" (UK exit from the EU).

Executive-dominated budgeting via irregularly-timed multi-year Spending Reviews has drawn attention away from government financial reporting. Ferry and Eckersley (2011, p. 15) observed that "Budgeting has become the great issue of our time", after austerity was

imposed through Spending Reviews which had earlier managed rapid public expenditure growth. Nevertheless, governments retained annual flexibility within overall expenditure totals (Ferry and Eckersley, 2012).

Delays in WGA publication have reduced the relevance of financial reporting to policy formulation, though the WGA has been valuable as input to the OBR's fiscal sustainability projections. The earlier speeding-up of publication of the WGA was halted by the non-availability of quasi-privatised academy schools' data that delayed the 2014–2015 Department for Education accounts. The 2017–2018 WGA reporting lag was 14.0 months, never having recovered to the 12.0 months achieved for 2013–2014 (Treasury, 2020c). After nine years of WGA publication, the reporting lag is still much longer than the Treasury's medium-term target of 9.0 months (Comptroller and Auditor General, 2019, para. 1.8 on p. 197). The publication of the 2018–2019 WGA in July 2020 had been delayed by the COVID-19 crisis, resulting in a reporting lag of 15.7 months. Such delays reduce the usefulness of the WGA and reinforce the policy focus on statistical accounting numbers published monthly by the Office for National Statistics (ONS).

The beneficial effects of technical achievements have been weakened by the temptations to manipulate financial information for short-term political advantage. More fiscal transparency only brings more trust in government if it is deserved and if there are not departures which colour public attitudes to fiscal numbers (Heald, 2018). UK examples include the pre-IFRS treatment of most public-private partnerships (PPP) as off-balance sheet in government financial reports (Hodges and Mellett, 2012); the continuing post-IFRS treatment of most PPPs outside of ESA-based budgeting numbers in order to keep down the net debt ratio and the placing of activities outside the general government boundary (e.g. Network Rail until September 2014 and that part of student loans estimated not to be recoverable until a December 2018 decision by the ONS). "Cheating at the margin", whether by classifications to avoid breaking the 1998 sustainable investment rule (40% of GDP ceiling on net public debt) by using private finance for public investment even when not value for money, or by redefining the economic cycle to meet the golden rule (over the cycle borrowing should only be used for capital expenditure), had limited macro-fiscal effect, but intensified public cynicism.

Furthermore, these developments have taken place in a political climate that since the 2008 global financial crisis has been dominated by, first, austerity (Heald and Hodges, 2015) and second, Brexit (Jozepa *et al.*, 2020). After the 2010 election resulted in no party having an overall majority, the 2010–2015 Conservative-Liberal Democrat Coalition pinned the political blame for fiscal deficits on the alleged profligacy of the 1997–2010 Labour Government. It also invoked "expansionary fiscal consolidation" (Alesina and Ardagna, 2009) in support of fiscal retrenchment, concentrating almost exclusively on spending cuts rather than a balance with taxation increases. This narrative of austerity was sustained through the 2015 General Election, at which the Conservative Party won a small overall majority. Brexit then took over the political agenda when Prime Minister David Cameron called and lost the 2016 referendum on EU membership. His successor, Theresa May, called another General Election in 2017 to strengthen her parliamentary position over Brexit, but lost her majority and, though supported by the pro-Brexit Democratic Unionist Party (Northern Ireland), failed to secure parliamentary approval for Brexit and officially resigned in July 2019. After months of conflict with the House of Commons, her successor, Boris Johnson, won a decisive Conservative majority of 80 in the December 2019 General Election.

Some features of this political climate are salient coming up to the COVID-19 pandemic. Periods of UK austerity over the preceding century had relatively short durations of two to three years (Hood and Himaz, 2017), whereas the post-2010 "fiscal squeeze" has already lasted for ten years. During this period, many of the previous Labour Government's New Public Management-inspired performance management systems were abandoned, with

central policy enforced by hard constraints on public expenditure, including deep cuts in local government expenditure [1]. The Coalition Government "devolved the axe" to English local authorities (Ferry and Eckersley, 2011, p. 18), as it did to devolved administrations and those public bodies which were not abolished. By 2017 the Treasury, concerned that systems designed to achieve value for money had been subordinated to successful downward pressure on expenditure, commissioned the Barber (2017) review of "public value", and was considering what its implementation involved before the COVID-19 pandemic struck.

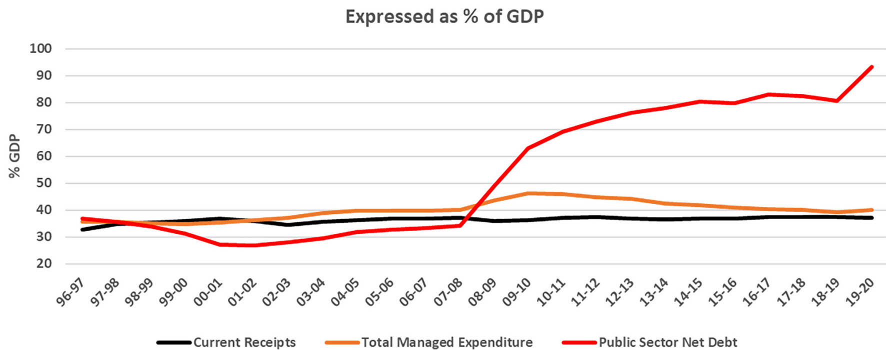
The UK has exhibited problems of political culture, some of which are legacy effects and others emerging developments. The UK's General Government Expenditure/GDP ratio in 2019 was 40.9%, significantly below that of France (55.6%) and Germany (45.2%) (OECD, 2020b), yet there is a continuing expectation of Scandinavian style public services at US tax rates. The historical tradition of fiscal centralisation has been partly challenged by devolution to Scotland, Wales and Northern Ireland, yet austerity in the 2010s led to intensified centralisation in England, with its local authorities rendered financially vulnerable and operationally less capable. The residential property tax ("council tax"), which is local authorities' main source of own revenue, is still based on 1991 property values in England and Scotland, despite massive shifts since then of regional house prices. Constitutional issues (Scottish independence and the future of Northern Ireland), external relations (particularly Brexit) and media-driven populism are the dominant features of UK political life. The UK left the EU *de jure* on 31 January 2020, but practical arrangements will not change until 31 December 2020 which, being the end of the negotiated transition period, is *de facto* Brexit. The economic and fiscal effects of Brexit will be submerged in the larger damage from COVID-19 and from the public health response to it.

3. UK budgetary responses to COVID-19

The OBR's (2018) pre-COVID-19 fiscal projections showed that UK public finances were unsustainable: on unchanged policies, the UK net public debt ratio would reach 283% of GDP in 2067–2068, mostly due to low expected productivity performance and to demographic ageing.

Figure 1 shows the UK government receipts, expenditures and net debt from 1996–1997 to 2019–2020, before the major fiscal impacts of the pandemic took effect (OBR, 2020a).

Receipts and expenditures were broadly in balance up to 2000–2001. A period of increasing public expenditure followed up to 2008 without concurrent increases in taxation receipts. This caused an increase in public sector net debt, though it remained below the



Source(s): OBR, 2020a

Figure 1.
UK government receipts, expenditure and debt, 1996–1997 to 2019–2020 expressed as % of GDP

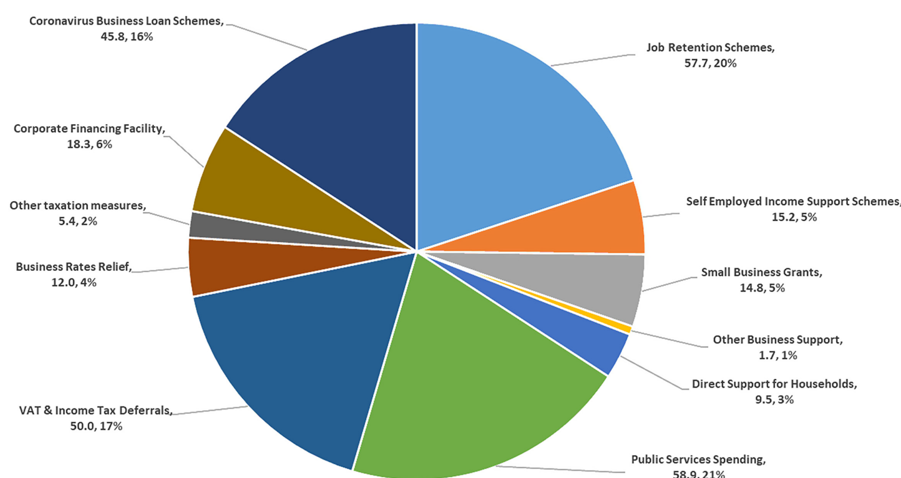
Labour Government's self-imposed limit of 40% of GDP. The financial crisis of 2008 changed that, with rapidly increasing public expenditure to save the UK financial system and provide welfare benefits, resulting in public sector net debt approaching 70% of GDP by March 2011. The period of austerity was marked by reducing levels of expenditure, while taxes and other government receipts were maintained at about 37% of GDP from 2010 to 2020. The annual deficit was reduced but never eliminated. Public sector net debt stayed above 80% of (an increasing) GDP from 2015 onwards. The sharp increase in 2019–2020 represents the early impact of COVID-19 emergency measures.

3.1 COVID-19 fiscal response

The UK Government's response to the COVID-19 crisis has seen dramatic economic interventions, greater than any similar measures since the Second World War. Major features of these budgetary responses are discussed below. Unlike the US, which has stressed payments to households and not to firms, UK policy has been designed to maintain the connection between employees and firms. The long-term implications of these measures are considered in Section 4.

The main spending measures cover protection of income for both employed and self-employed persons, grants and loans to businesses and extensive use of government guarantees. A break-down of the commitments to date of almost £290bn is shown in Figure 2.

First, in terms of scope and scale of expenditure, is the Coronavirus Job Retention Scheme (CJRS) designed to avoid, or at least delay, employee redundancies. The scheme provides government funding of 80% of employees' pay up to a maximum of £2,500 a month for each worker. Introduced on 20 March 2020, it was based upon employees being absent from all work, though later modified to allow part-time working. Employers were encouraged, but not required, to make up the other 20% of pay to those employees "furloughed" under the scheme. The CJRS has been popular and successful in avoiding redundancies, though at large cost to the public finances. It is estimated that around 9.6m workers will be furloughed under the scheme at a cost of £57.7bn (OBR, 2020b). There was disquiet that the CJRS did not apply to those individuals who are self-employed; in the UK this includes many on low incomes forced into self-employment in the "gig" economy. On 26



Source(s): Adapted from OBR, 2020b

Figure 2.
UK fiscal response to COVID-19 2019–2020 and 2020–2021, as £ billion and % of total, at 14 July 2020

March, the Government announced the Self-Employment Income Support Scheme (SEISS) which provided a taxable grant of 80% of average monthly profit of up to £2,500 per month for those whose self-employment income was the majority of their total income. This has been taken up by 2.7m individuals, at an estimated cost in 2020–2021 of £15.2bn (OBR, 2020b). Despite the CJRS and SEISS, there was still an increase in the number of people claiming unemployment benefits of 1.4m between March and July 2020 (ONS, 2020d).

Second, a series of grant and loan schemes for businesses have been implemented. The major loan schemes, all with full or partial government guarantees, are the Coronavirus Business Interruption Loan Scheme (CBILS) with loans of up to £5m, later extended for higher amounts to larger businesses (CLBILS), together with a Bounce Back Loan Scheme (BBLS) aimed at smaller businesses, providing loans of up to £50,000 or 25% of annual turnover. These three schemes, together with some bespoke loans, have assisted over 1.13m businesses with loans of £45.8bn (OBR, 2020b). In addition, the COVID-19 Corporate Financing Facility (CCFF) supports the Bank of England in the purchase of the short-term unsecured debt of large companies, with £18.3bn outstanding at 8 July (OBR, 2020b).

There are a Small Business Grant Fund and a Retail, Hospitality and Leisure Business Grant Fund which provide grants of either £10,000 or £25,000 for many small businesses and charities. Grants of £14.8bn are expected to be paid during 2020–2021 (OBR, 2020b). Other items are shown in Figure 2. “Direct Support for Households” relates to the effect of increasing universal credit entitlements and housing allowances. “Other Business Support” relates mainly to payments for trade credit insurance. “Public Services Spending” of £58.9bn is the estimate of additional spending by the National Health Service, local authorities, transport authorities etc., including £32.9bn announced in July and adjustments to the funding of the devolved administrations (Treasury, 2020a). “VAT and Income Tax Deferrals” of £50.0bn are the estimates of the amounts due but deferred to later periods. “Business Rates Relief” refers to the deferral of this business property tax in 2020–2021. “Other taxation measures” relates mainly to temporary reductions of VAT in the hospitality and tourism sectors (from 20% to 5%) and of stamp duty land tax (a tax on property transactions) to support the housing market (Treasury, 2020a).

The losses that will arise from loans that are not repaid or from guarantees crystallising to further damage the financial position of the public sector depend upon many uncertain future events (Heald and Hodges, 2018). The OBR (2020c, p. 68) includes a provision of £16.9bn in its 2020–2021 central scenario, [2] based upon a 10% default rate for CLBILS and CBILS and a 40% default rate for BBLS, for part of each loan portfolio. The data in Figure 2 are on a cash commitment basis, including loans that have been advanced, but not losses on loans or from guarantees that may crystallise in future years.

3.2 COVID-19 income reductions

The costs of deferring various taxes are included in Figure 2. Another significant element contributing to future budget deficits will be the reductions in revenue from taxes and duties. These include lower VAT receipts due to reduced economic activity, lower receipts from user charges for public facilities, and lower taxes on income as a result of higher unemployment and reduced profits. The OBR (2020c) has estimated this reduction of income in 2020–2021 to be over £130bn.

3.3 Actual and projected public sector deficits and net debt

The OBR’s latest Fiscal Sustainability Report (2020c) estimated a deficit of £57bn (2.6% of GDP) in 2019–2020, a substantial figure, though less than any year between 2008–2009 and 2015–2016, which were all above 4% of GDP. Public sector net debt was expected to rise to £1,806bn (88.5% of GDP) by 31 March 2020. The pandemic will have the greatest impact on

UK public finances in 2020–2021, with a record budget deficit which, under the OBR (2020c) central scenario, may approach £322bn and increase public sector net debt to £2,205bn (104.1% of GDP). In the longer term, fiscal projections indicate that the threat of non-sustainability in UK public finances will be worsened by the effects of the pandemic and the policy response to it. The OBR (2020c) central scenario projects public sector net debt of 418% of GDP in 2069–2070.

Figures for government receipts and payments are provided monthly by the ONS (2020c). The results from April to June 2020 are shown in Table 1. They give a broad indication of the expected immediate fiscal impact of the pandemic and the associated government measures. Receipts have fallen by 12% and expenditures have increased by 36% compared to the same period of the previous year. The net result is that the deficit of £127.9bn is over five times that recorded in 2019–2020. This deficit contributed towards public sector net debt increasing to £1,984bn (99.6% of GDP) at the end of June 2020.

4. Potential consequences

Consideration of the potential consequences of the global pandemic should be cautious, given the massive uncertainties involved. Moreover, the UK trajectory cannot be separated from the legacy effects of the 2008 global financial crisis, impending *de facto* Brexit on 31 December 2020, and the deterioration in international relations. However, it is possible to identify major issues facing the UK.

First, as summarised above, the hits to GDP and the public finances are unprecedented. The UK has an unusually long public debt structure, with a wholesale average debt maturity of 15.3 years at 31 December 2019 (Treasury, 2020b, Table A1) which, together with high market liquidity, has enabled the UK Government to issue huge amounts of new debt. Many other countries are more constrained. Even if GDP did recover quickly and economic scarring were limited, the pandemic-induced deficits would continue to increase the debt/GDP percentage. The medium-term consequences would derive from higher debt servicing costs resulting from higher interest rates or from a loss of market confidence.

This raises the question as to how the policy response will be paid for. The UK experience in the 2010s suggests that current expressions of "We are all in this together" are not convincing. There is discussion in the media of turning towards a renewal of society based upon equality and fairness, as a result of the vivid differentiation of pandemic costs according to gender, generation, ethnicity, occupation and income. However, no major political party in the UK has been willing to risk votes by admitting that broad-based tax increases are necessary to help both reconstruct public services and reduce public borrowing, not just heavier taxation of "the rich". The revenue from taxes that have been reduced (property transfer taxes) or deferred (business rates) or both (VAT) is unlikely to be fully restored within the next few years. At the same time, pressure has built up for more spending on, *inter alia*, "green" and IT infrastructure, housing and the National Health Service.

Table 1. Preliminary UK government receipts and expenditures for April–June 2020

	Receipts			Expenditure			Net deficit		
	2019 £bn	Change £bn	2020 £bn	2019 £bn	Change £bn	2020 £bn	2019 £bn	Change £bn	2020 £bn
April	66.8	−8.7	58.1	77.7	29.0	106.7	10.9	37.7	48.6
May	61.6	−6.2	55.4	67.4	31.9	99.3	5.8	38.1	43.9
June	65.5	−9.9	55.6	72.7	18.3	91.0	7.2	28.2	35.4
Total	193.9	−24.8	169.1	217.8	79.2	297.0	23.9	88.2	127.9

Source(s): Adapted from ONS (2020c)

Second, the overwhelming pressure has been to "get the money out quick" in order to support the economy and alleviate suffering. For macroeconomic purposes, the fact that it landed was more important at the height of the crisis than whether it was well-targeted. The UK public sector has a relatively good record, internationally, in terms of fraud limitation. However, the nature of the schemes and the haste with which IT systems had to be developed must have increased fraud risk. The SEISS scheme might be less vulnerable because the tax authority (Her Majesty's Revenue and Customs) could use self-employment tax returns from earlier years. How much fraud there has been will be a major issue for public audit bodies, together with potential future risks given that weaker checks will have exposed system vulnerabilities. The National Fraud Initiative, which performs electronic data checking across the records held by many public bodies, will provide some *ex post* protection, though recoveries are likely to be difficult. Another fraud risk relates to the business loan schemes, with government guarantees. Even when everything has been legitimate, many of these loans will never be repaid in full because of default or future forgiveness; the OBR (2020c, p. 68) assumes a 40% default rate on part of the BBLS loan portfolio. The threat of non-repayment will add to public sector deficits and debt as a result of write-offs and provisioning as well as increasing contingent liabilities (Heald and Hodges, 2018).

Third, accounting and budgetary arrangements do not cause either austerity or centralisation, but they may facilitate them, by making the finances of all public sector bodies transparent to the political centre, through the multi-year Spending Review system and by centralised control of the major revenue-generating taxes. Indeed, the austerity drive in the UK during the 2010s was an impressive managerial achievement, putting the burden of adjustment almost entirely on expenditure reduction, as ministers wished to do. State size reduction was supported by appeal to expansionary fiscal consolidation. However, this austerity programme lost sight of value for money (performance management systems were rolled back), of the macroeconomic damage to economic recovery (fiscal consolidation came too early in the recovery), and of the social consequences in terms of increased inequality and insecurity (which were a factor in the 2016 referendum vote for Brexit). Neither the three devolved administrations (Scotland, Wales and Northern Ireland) nor local authorities have borrowing powers that can bridge the collapse of revenue and sudden increases in expenditure resulting directly and indirectly from the pandemic. Only the UK Government can borrow to meet these circumstances. This might result in further fiscal centralisation in what is already one of the world's most fiscally centralised democracies.

Fourth, there has been a strong focus on tracking cash, echoing IMF Managing Director Kristalina Georgieva's (2020) injunction to "spend as much as you can, but keep the receipts". The Treasury relaxed the administrative deadline for 2019–2020 departmental accounts from three to six months, while holding the legislative deadline at ten months. To reduce burdens on finance functions, the 2020–2021 planned implementation of IFRS16 (lease accounting) was cancelled. The lockdown will have slowed accounts preparation and prevented certain audit tasks from being undertaken. If the pandemic retreats relatively quickly, the damage to the financial reporting mode will be limited.

Fifth, the Chancellor of the Exchequer (Rishi Sunak) plans to announce the results of the 2020 Spending Review in autumn 2020. The Conservative Government's secure majority suggests that the period might cover four financial years (2021–2022 to 2024–2025), covering the period up to the General Election expected in 2024. This would resemble the 2010 Spending Review (secure Coalition majority for the period), a political context unlike that of the 2015 Spending Review (the minority partner in the Coalition restricted it to one year) and the one-year-ahead 2019 Spending Round (minority Conservative Government unable to secure House of Commons' assent to Brexit legislation). However, Spending Review 2020 is being conducted amidst unprecedented uncertainty about the long-term effects of COVID-19

and Brexit on the economy and public finances, thereby making it likely there will be later budgeting adjustments.

Sixth, the post-pandemic recovery could be both weak and slow. Leaving aside the debt surge, bringing revenue and expenditure close to balance will be difficult. Statements by UK ministers have ruled out a return to the austerity of the 2010s, but that is not convincing given the historical record. There has been appetite for large spending increases (infrastructure programmes proposed before the crisis), but none for higher taxation in future to pay for that. Tax increases imposed too early would choke off the recovery, and there is also the political context of Conservative Party election commitments not to increase income tax, national insurance contributions or VAT. Heald and Hood (2014, p. 7) attributed "fairly high" political consequences ("imposition of visible and salient losses") to explicit breaking of key election promises on taxes and expenditure. Whether the UK electorate will accept that "this time is different", due to the unexpectedness and global nature of the pandemic, is unknown. Bringing expenditure and revenue back into balance will be profoundly difficult, even assuming much higher levels of public debt become politically acceptable and financially sustainable.

5. Conclusion

This analysis has identified tensions in the UK's response to the pandemic. In terms of the tensions between modes of government accounting, the primacy of budgeting and statistical accounting has been further strengthened. In the UK, the Executive exercises fiscal initiative with minimal substantive legislative constraints. Statistical accounting dominates attention because of reporting speed and issues of international comparability and the market credibility of government. Financial reporting is marginalised, though valuable as a data resource and for assurance about how public money has been spent. Delays to IFRS-based accounts will have to be accepted and such delays may increase unless the pandemic retreats. Fiscal sustainability analysis warns that UK public finances are even more unsustainable than before the pandemic, increasing concerns about the effects of a future return of the pandemic and a worsening climate change crisis.

There are also strategic public policy tensions that have fiscal implications. These include those between (1) two facets of public well-being (health and economy) and the management of their interdependence and (2) national, devolved and local responses in both public health and financial support. The emphasis in the early months of the pandemic on health protection appears to have given ground to an emphasis on economic recovery, not least to help pay for the vast increase in public borrowing. The interaction of higher levels of public sector net debt and future increases in interest rates might result in a new era of austerity and further centralisation of public power and economic decision-making in one of the world's most centralised democracies.

The UK's future political direction is unknown, particularly whether there will permanently be "more government" or whether antagonism towards government will intensify. The economic consequences depend on how much lasting damage is done to the real economy, particularly if premature and haphazard relaxation of lockdown leads to future waves of infection. There has been much media talk of a trade-off between public health and economic damage, but further waves of COVID-19 due to public health laxity would lead to deeper scarring of productive capacity. For most economies these will be challenges enough; for the UK they will compound the hollowing out of state capacity by a decade of public expenditure austerity and the yet unknown impact of Brexit.

Notes

1. Comparisons are difficult to make because UK public expenditure statistics give priority to consistent functional analysis over analysis by tier of government. Harris *et al.* (2019, Figure 3.2)

calculated that aggregate local authority spending in England fell by 21% in real terms (adjusted by the GDP deflator) from 2009–2010 to 2017–2018 while population growth resulted in per capita spending falling by 25%. These data exclude spending on education, national parks, police, and fire and rescue services because transfers of responsibilities lead to non-comparability.

2. OBR (2020c) provides forecasts based upon a central scenario, together with a more optimistic upside scenario and a more pessimistic downside scenario. The central scenario assumes that output regains its pre-virus level by the end of 2022.

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