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**Debate: What support should local government expect from accounting during a sudden crisis such as Covid-19?**

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The Covid-19 pandemic has led to a crisis in public services. More specifically, there is pressure on financial management to respond. However, a gap exists in understanding the support accounting can provide during a sudden crisis. The purpose of this debate piece is to consider the role of accounting during the pandemic at the local government level. After an initial ‘whatever it takes’ approach the fundamentals of good planning and budgeting become ever more important moving forward to not only deal with the pandemic but its impact and implications.

**Impact on public services**

In the wake of Covid-19, government agencies around the world have been asked to create additional public services and expand existing ones. This has generated tremendous operational and fiscal pressures at a time when key sources of government income, such as

taxes, fees and revenues from services, have been severely reduced. Beyond the demands made of various forms of anticipatory and responsive risk management, this raises important questions about how governments can account for crisis-relevant resources and their best uses under the changing circumstances of the crisis. Local government is responsible for many of the services that are required for an effective response. An ineffective local government could not only affect the crisis response but also undermine any post-crisis economic recovery (Travers, 2012). In what follows, we outline key requirements that local government should make of its accounting, as well as sketching some of the ways in which accounting can generate additional insights that can feed into the local government practices in the wake of the crisis. Presently, there is only a slim literature on the roles of accounting in urgent crises (for example Ahrens & Ferry, 2020; Newberry, 2020).

### **UK central and local government responses**

The UK central government's generous fiscal stance to do 'whatever it takes' has resulted in emergency budget allocations from central to local government but also created the potential of extraordinary future funds transfers (Office for Budget Responsibility, 2020). This has created a potentially unproductive agency problem for the whole of government in which local authorities may be incentivized to exaggerate their budget shortfalls. At the same time, prudent local authorities need to know what resources they have realistically available for crisis response activities and their normal services.

### **Financial management during the crisis**

Key are their budgets and budget reviews, accountability, audit, and risk management (Ferry & Eckersley, 2019), which feed into the wider accountability relationships of local authorities (Ahrens & Ferry, 2015; Ferry et al., 2019). Reserves have for many local authorities been strained by the decade of austerity (Ahrens & Ferry, 2015). Any transfers from reserves to current year revenue budgets need to be planned with knowledge of earmarked reserves for long-term investment and finance plans.

An analysis of net reserves is the starting point for local authorities' revenue budget reviews, along with broader cash flow imperatives and balance sheet strength. The challenges to individual authorities are very different (Public Services Committee, 2020). Often, wealthier councils were concerned about revenue losses (for example due to closure of leisure centres or drops in tourism-related income), whereas poorer councils faced cost pressures from additional demands from more deprived members of their communities. Covid-19 was to complicate financial resourcing due to pressures on revenues as well as cost (Ogden & Phillips, 2020). Further ambiguities arose where council services were subcontracted or jointly provided, and the contractual terms for cost sharing and reimbursement, as well as revenue sharing agreements, became difficult to interpret due to rapid and extreme volume changes. Parallel issues emerged from the corporatization of services.

Local authority financial management depends on scenario planning based on assumptions about the macro factors of the crisis, such as expected duration, infection, treatment, and fatality rates, and the restrictions of movement on people and the provision of goods and services decreed by central government. Additionally, the revenue budgets need to consider the local authorities' microenvironments and the effects of particular behaviours on individual service units in the different local authority directorates, such as health and social services, education, housing, transport, and waste management. Key to effective financial management are here the various interactions that can arise in the service provision, for example between education and transport. Such planning can take place without affecting larger presentational and policy considerations, for instance where councils prefer to revise current revenue budgets to reflect new pressures or, instead, keep their original budgets in order to show the overall impact of Covid-19 at the end of their financial year. For example, budgets can remain but forecasts can be adapted.

An important role for financial planning and management is also the analysis of the hidden costs of the crisis response arising from the redeployment of existing resources. For example, nationally in the UK, the unplanned use of NHS resources for Covid-19 has led to cancellations of medical procedures and discontinuation of other services, many of

which were urgently needed. In the local authority context, too, the uses of existing and fully deployed resources to address Covid-19 can create costs for the community. There are costs to crowding out ‘business as usual’.

### **Future crises**

The lesson is not limited to COVID and not to the UK. A significant virus threat had been forecast for many years. COVID is only the latest and most global in a series of recent virus outbreaks. There is every reason to expect new and more aggressive viruses that will pose new challenges for local government. The threat ahead is broader, however. Climate-related flooding, droughts, wildfires, and desertification are intensifying. The global insurance industry is planning for this and so is the US Department of Defense. Local governments cannot just respond to the crises ahead. They must anticipate, and finance directorates needs to support appropriate resource deployments. This is not work to be left to finance specialists alone. It can only succeed if tied into the overall political objectives and scenarios. This calls for enhanced scrutiny by councillors, officers, and the public. Local governments around the world need to learn how to use accounting better to fight crises because there is no reason to believe that COVID was ‘the big one.’

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