



The evolving global crisis

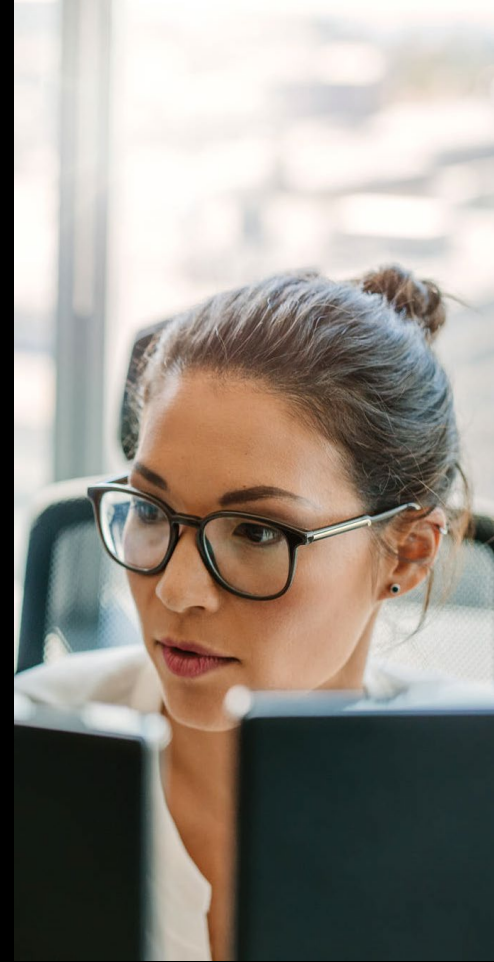
Public sector responses to COVID-19

The COVID-19 crisis has created the biggest challenge to the global economy since the Great Depression of the 1930s. ACCA ran two member surveys to better understand the impact of COVID-19. The first survey ran in March 2020 and the second in early June 2020.

The surveys enable analysis in two areas. First, we can compare the impacts between public sector and private sector respondents. Second, there is the longitudinal analysis, showing how the views of the public sector respondents have changed between March and June. There are interesting findings in both dimensions.

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Key takeaways



The impact of COVID-19 on the public sector

1. Increased demand for services

Unlike much of the private sector, the crisis has led to an increase in demand, particularly for healthcare and social care services.

2. Government revenue is falling

Public sector bodies are seeing a fall in their revenue, from tax receipts and service charges.

3. Government interventions are effective

There is some good news. The wide range of government interventions, from wage subsidy schemes to health and safety advice, are seen as effective by all sectors in the survey.

4. Governments should focus on public sector net worth.

The majority of governments' fiscal policy responses are 'below-the-line' and not captured in traditional debt-to-GDP ratios, so governments need to take a balance sheet approach to the crisis.

5. Public sector employment strategies will change

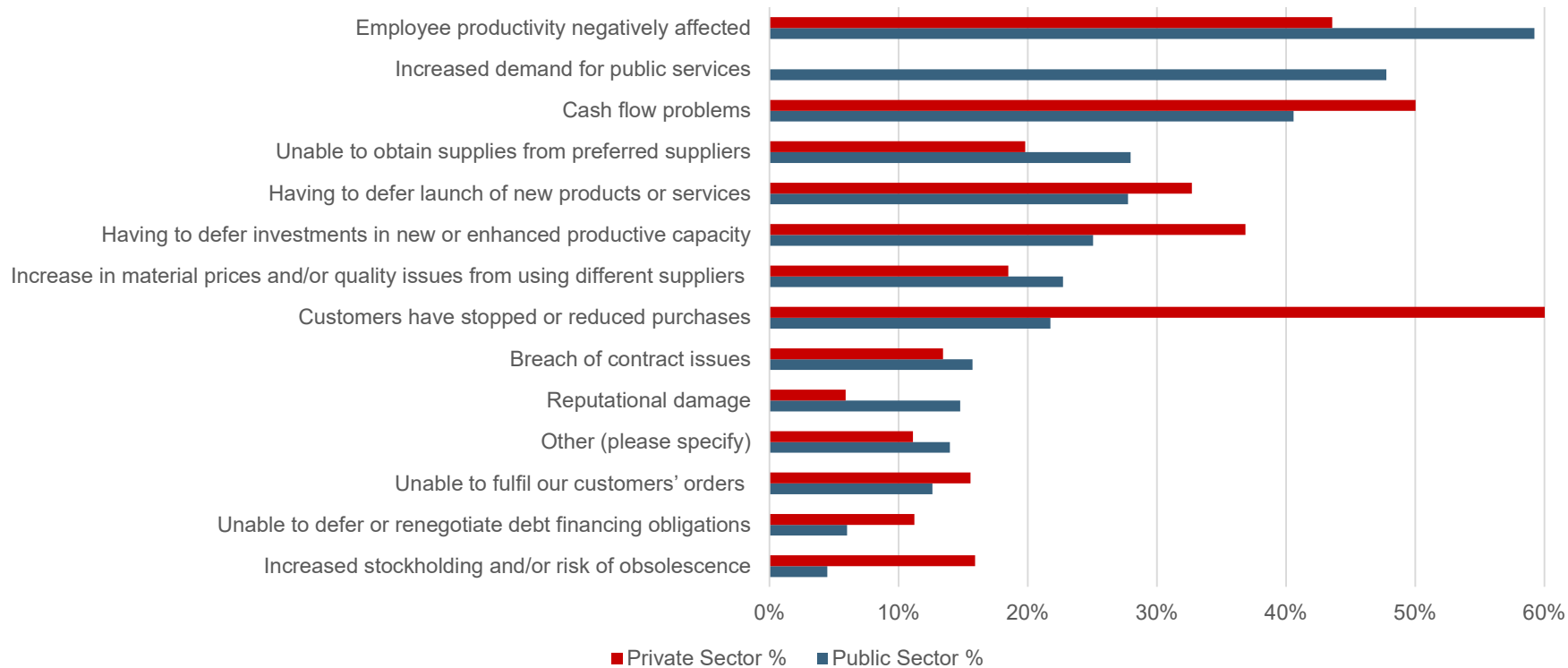
Public sector employers are more likely than their private sector peers to provide flexible arrangements to staff, heighten their H&S practices, and evaluate their social responsibility to the wider community.



Evolving impact on the public sector



Figure 1: Evolving impacts on the public sector (sector comparison)



Impact on the public sector (figure 1)

Many of the impacts shown in figure 1 have broadly similar responses from both sectors but there are some noticeable differences.

The public sector sees demand rise; private sector sees it fall

- One of the notable differences between the public and the private sectors is the finding that the public sector is seeing an increasing demand for their services. The private sector, on the other hand, had customers stopping or reducing purchases as the most common response (60%). This is understandable as government social distancing measures have reduced the ability for many business to sell their goods and services whilst the virus is having a direct impact on the need for public services, like healthcare and social care.

Public sector productivity negatively affected

- The negative impact on productivity was the number one impact for the public sector, cited by 59% of respondents. Whilst there is an increasing demand on some public services there are others, such as schools, which are closed or operating at a capacity than normal.

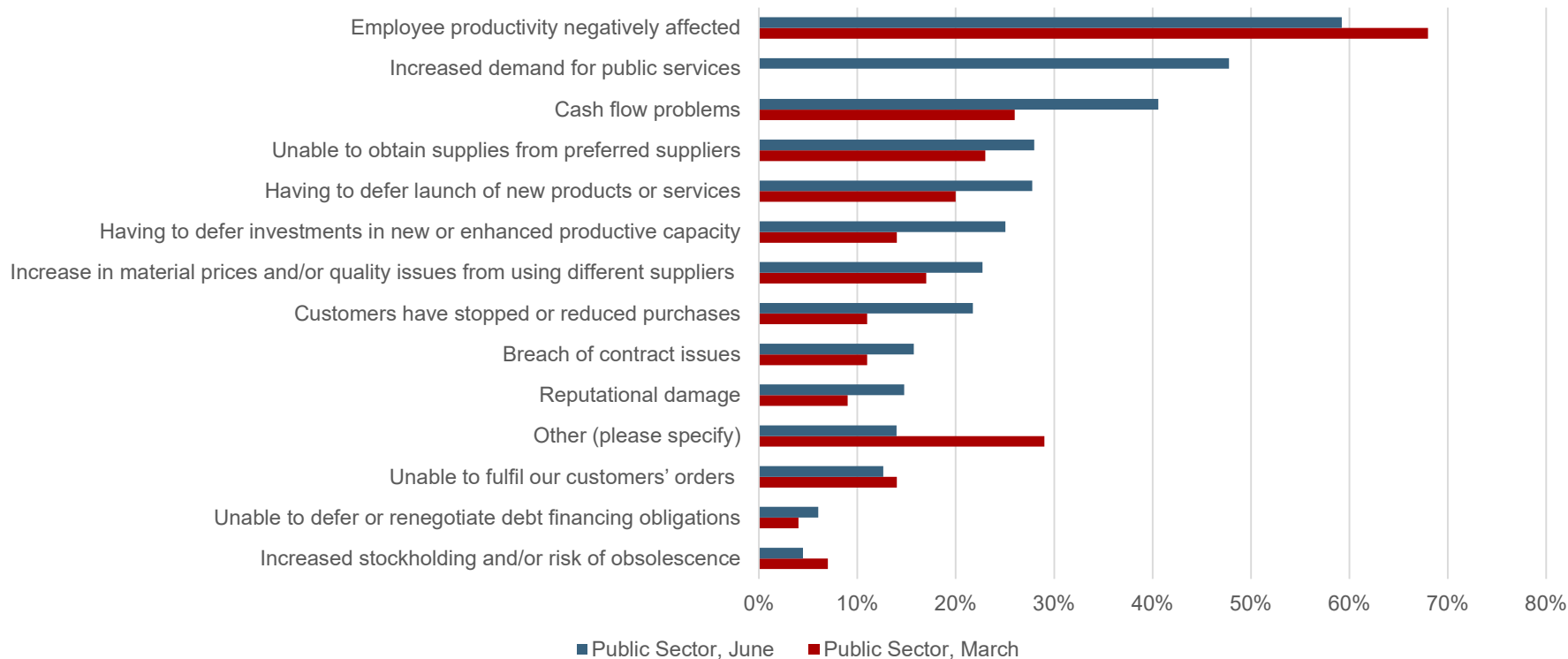
Cash flow is a problem in both sectors

- Private businesses and public sector organisations may get their cash from different sources, but cash flow problems are common to both sectors during the crisis. 40% of public sector responses cite cash flow as an issue, compared with 50% of the private sector, which suggests that it is comparatively less of a problem in the public sector.

Public sector more concerned about reputational damage

- The loss of reputation was identified as an impact by 15% of public sector respondents, nearly three times as many as in the private sector (6%).

Figure 2: Changes in public sector response from March to June 2020



Changes between March and June (figure 2)

Cash flow is a bigger problem

- The surveys show that for most of the impacts the position worsened between March and June. This may reflect the fact that extra time has allowed people to understand better the impact of the crisis on their organisation. The change in respect of cash flow is the biggest, moving out from 26% to 41%.

The negative impact on productivity has lessened

- There is a modest fall, from 68% to 59%, in the negative impact on employee productivity..

76% of public bodies have completed a reforecast of their revenue

In March, only a minority, 35%, of public sector organisations had completed a reforecast of their revenue. By June this proportion had risen to 76%. This is good news. It is critically important for organisations to assess the financial impact of the crisis and use the best information possible to plan a response. Reforecasting revenue enables activities, like scenario planning, to take place.

Public sector revenue slightly less badly affected than the private sector (figure 3)

- Figure 3 (below) compares the estimated impact on revenue for public and private sector organisations. For both sectors 12% expect growth, in very similar patterns. When it comes to “no growth” more public sector organisations (14% against 6%) see this as the likely outcome. This means that slightly more private businesses (83% versus 74%) expect to see their revenue fall, with over half of businesses putting their estimate in the range of a 10% to 49% reduction.

Figure 3: What is the expected impact on revenue growth compared with the previous financial year?

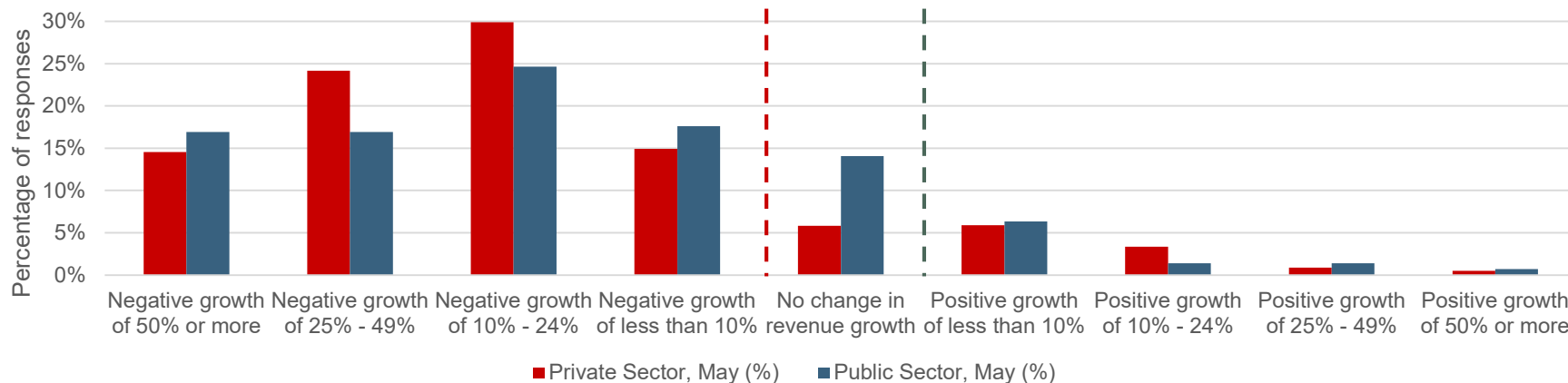
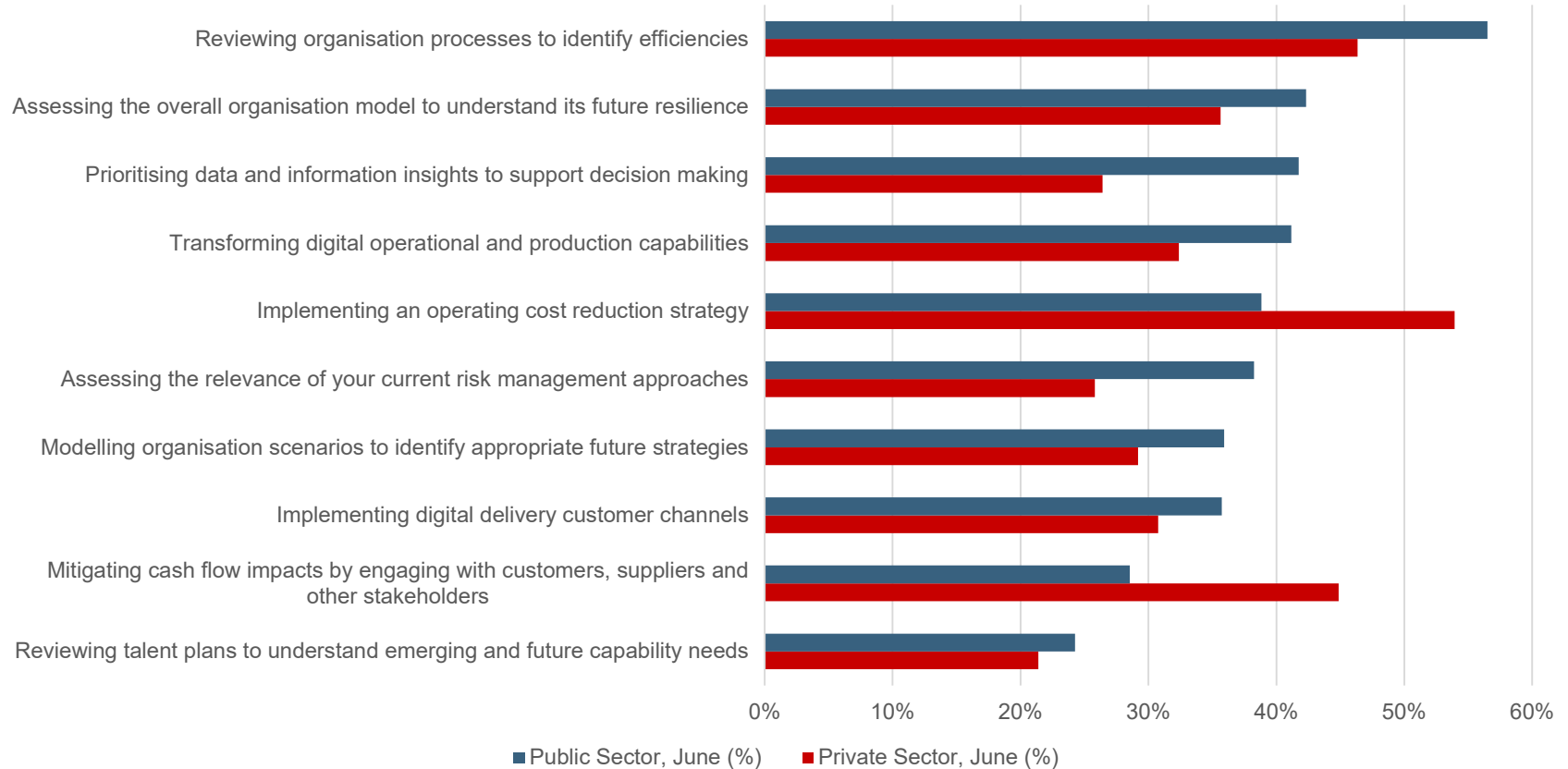


Figure 4: Strategic and financial responses to COVID-19

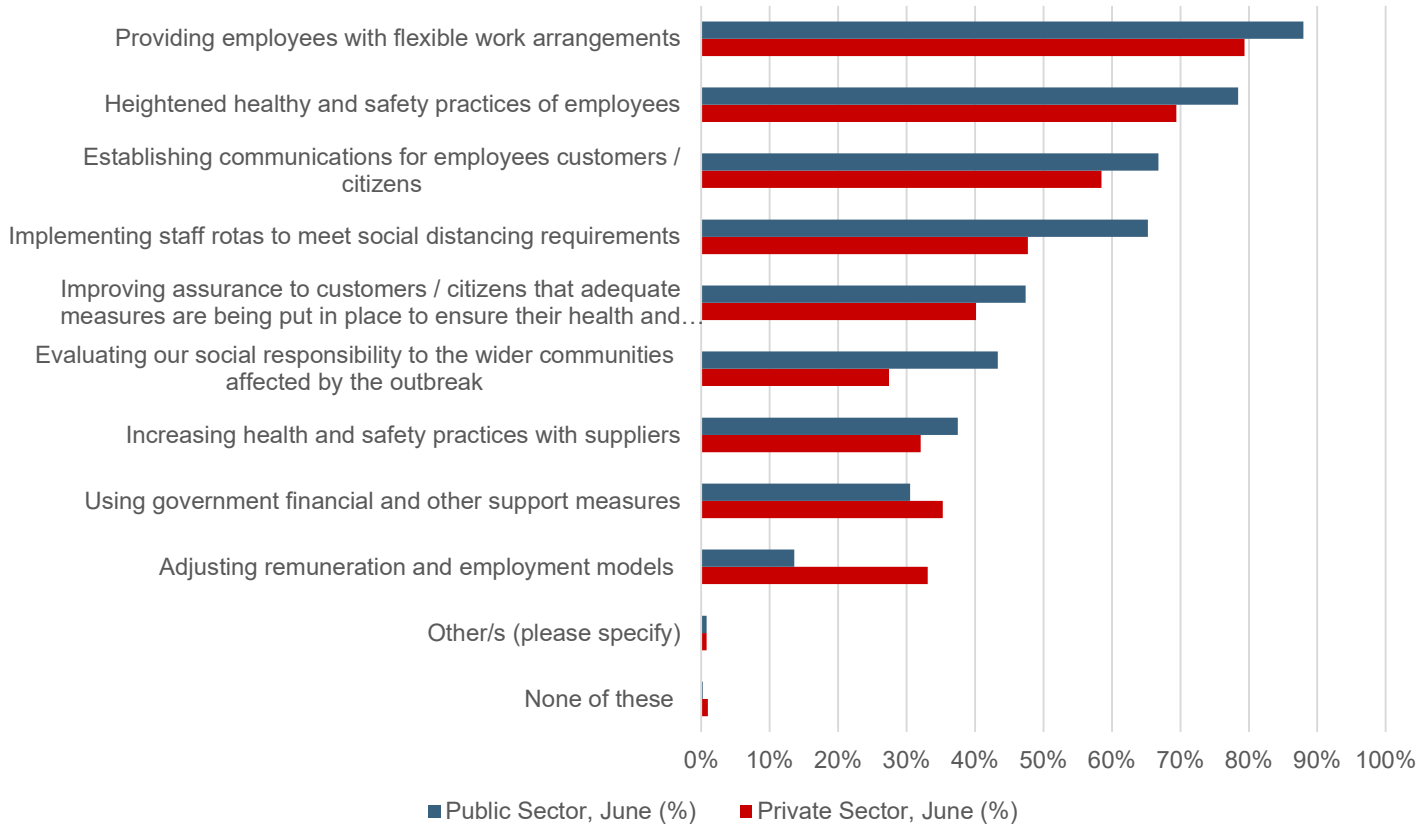


Financial and strategic responses to COVID-19 (figure 4)

Public sector has made more medium- to long-term responses

- Figure 4 compares the strategic and financial responses of the two sectors. Public sector respondents were more likely than private sector colleagues to be prioritising data insights, assessing organisational resilience and risk management approaches, and modelling alternative future strategies. This suggests that more public sector organisations are already thinking about their medium and long-term activities.
- The data shows the private sector has focused more on the immediate and necessary activities. Responses such as cost reduction, efficiency improvements and mitigating cash flow problems.

Figure 5: Implementing human resources responses



Human resources responses to COVID-19 (figure 5)

The public sector is on the front foot in implementing people strategies

- The survey data shows that the public sector use of a range of people strategies is greater than the private sector by around 10 percentage points.

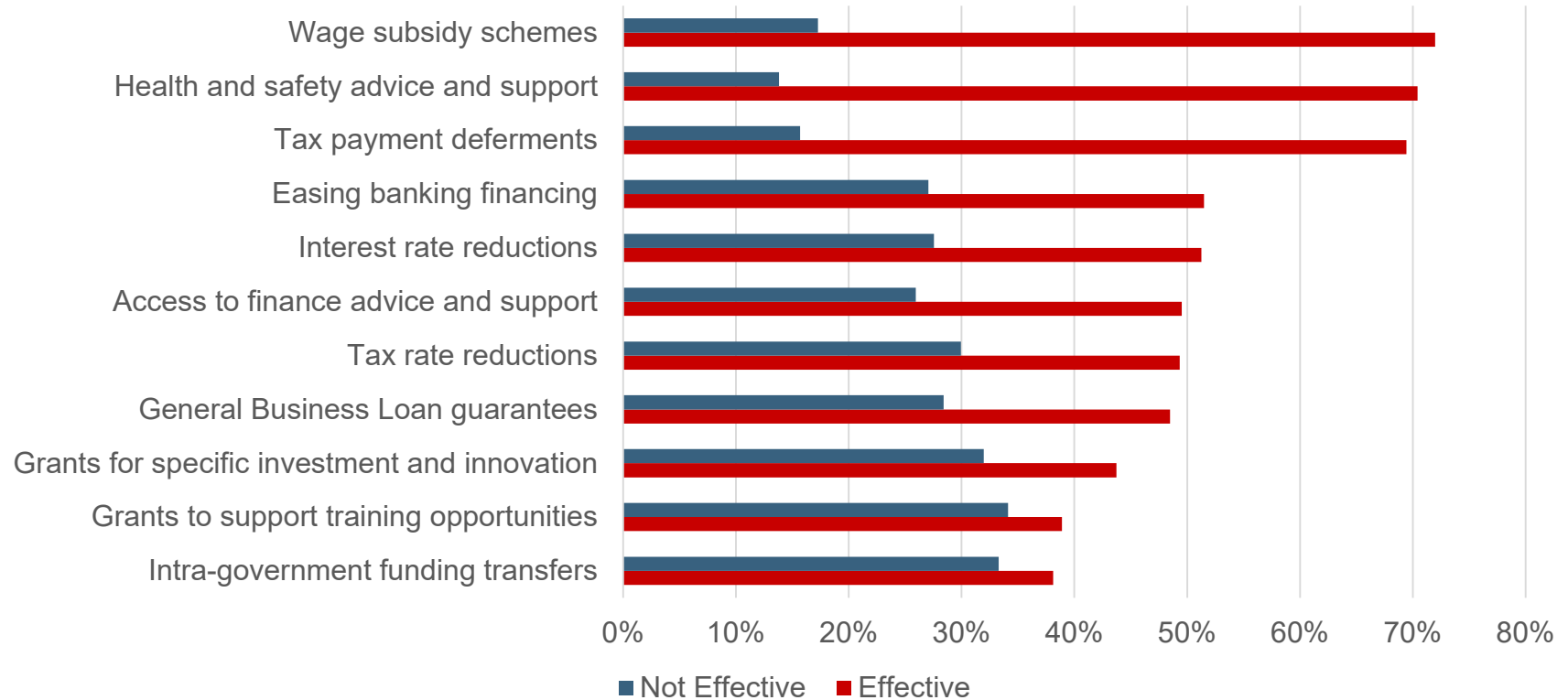
The public sector is much less likely to adjust pay than the private sector

- Only 12% of public sector respondents identified pay or employment model changes, compared with 32% in the private sector. This perhaps reflects the fact that pay arrangements in the public sector are less flexible. For example, there are more likely to be collective bargaining arrangements in place.

Effectiveness of government interventions



Figure 6: Effectiveness of government interventions



The effectiveness of government interventions (figure 6)

Three government interventions have more than 50% net approval rating

- All the government interventions are reported as effective by more respondents than see them as ineffective. Three interventions — wage subsidy schemes, health and safety advice, and tax payment deferral — have a net effectiveness rating of more than 50%.

There are some interventions with room for improvement

- The data suggests governments should review their grants for investments, innovations and training support and intra-government transfers – since fewer than 40% respondents saw these as effective are below 40%, and these figures were almost matched by the number seeing them as ineffective. This finding suggests the interventions are valuable but not as effective as they could be.

Acting quickly creates risks

- Governments have been very quick to implement the wide range of interventions needed to help their citizens and businesses. This speed brings with it the risk of losses, either through mistakes or through deliberate acts of fraud. Governments therefore have to do what they can to prevent the loss of public money in this way.

The majority of interventions are “below-the-line”.

Above-the-line actions like transfers to firms and households, additional health care spend: **\$4.4tn**

Below-the-line actions like loan guarantees, equity injections, convertible loans: **\$4.6tn**

The bill for COVID-19 so far

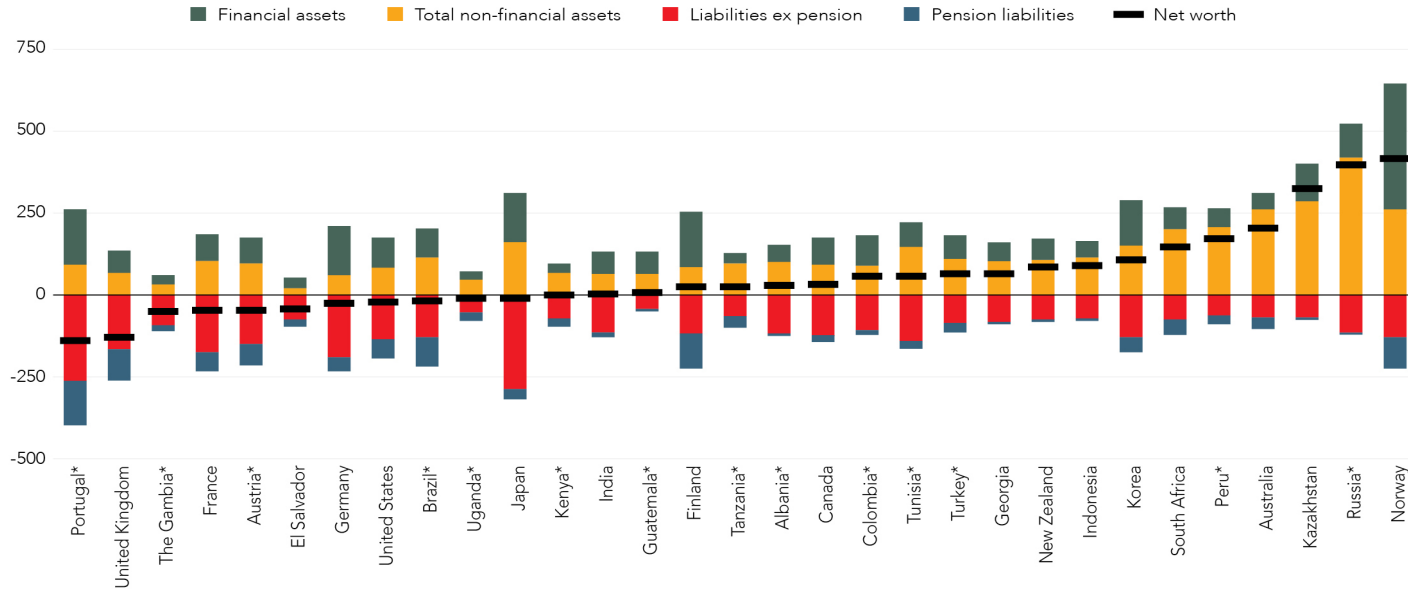
\$9tn

The IMF estimated the total global response to be US\$9 trillion. This is approximately 42% of the USA's GDP in 2019.

It's time to drop debt-to-GDP ratios and focus on public sector net worth

The below-the-line interventions by governments are not sufficiently captured in many traditional economic indicators, such as debt-to-GDP or public sector net debt. A loan guarantee, for example, would only affect debt-to-GDP if a loss is realised.

Figure 8: Countries entering the crisis with positive net worth can expect to have shorter and shallower recessions and lower borrowing costs. (percentage of GDP)



Source: Reproduced from IMF 2018.

*Based on a single year of data, in most cases compiled as part of the Fiscal Transparency Evaluation: Albania, 2013; Austria, 2015; Brazil, 2014; Colombia, 2016; The Gambia, 2016; Guatemala, 2014; Kenya, 2013; Peru, 2013; Portugal, 2012; Tanzania, 2014; Tunisia, 2013; Turkey, 2013; Uganda, 2015.

Contingent liabilities can have a substantial impact on an economy

6.1%

Between 1990 and 2014, the IMF recorded 230 contingent liability realisations with an average fiscal cost of 6.1% of the affected country's GDP. It is important, therefore, that governments adopt a balance sheet approach to this crisis, paying attention to their public sector net worth.

Focusing on public sector net worth means governments do not base decisions on fiscal illusions.

Taking such a balance sheet approach also helps build and maintain public trust because of the transparency and accountability.

Beyond the horizon: long term impacts?

Figure 10: Considering the long-term impacts of Covid-19



Beyond the horizon

The public sector has a little more intention to reduce physical office space and invest in digital working

- There is a lot of similarity in the long-term impacts of COVID-19 between public and private sector. Figure 10 shows the top four impacts are the same across both sectors (less use of office space, increased focus on customer and employ health and safety, greater digital investment, and improving crisis management responses), but the public sector responses were higher in every case.
- The transformation of working spaces and digital investment could be attributed to the public sector lagging behind the private sector in this kind of innovation. Alternatively, it could reflect the fact that public sector responses to COVID-19 have shown what is possible.

Figure 11: ACCA 3 stage framework for organisation recovery

Act Focused on the short term horizon and the initial first few weeks of response to the crisis, this stage is critical to ensure the current situation is managed properly, continuity plans are brought into place, and the wellbeing of employees is protected



Analyse The shift to the medium term horizon reflects the focus on starting to build the path to recovery. At this stage, the organisation starts to resume its business operations, planned in manageable phases

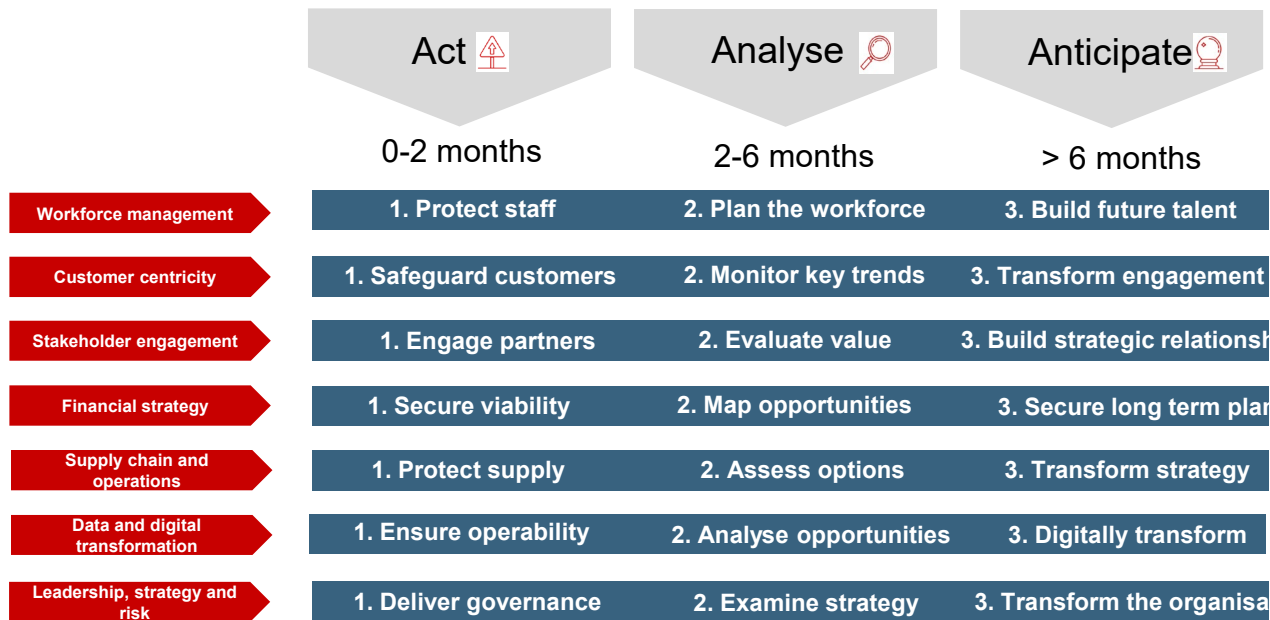


Anticipate The longer term horizon is focused on innovation and understanding how organisations must evolve in the face of the pandemic. Here the business model and organisation strategies may evolve



Roadmap to recovery

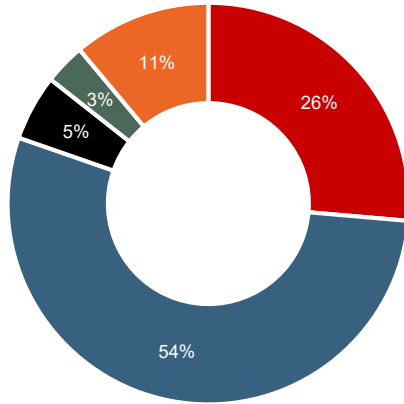
ACCA's COVID-19 global hub includes lots of resources for members and students, including a [roadmap to recovery](#). This suggests a three-stage approach of Act, Analyse and Anticipate, as illustrated in figure 11. The longer-term aspects of this recovery focus on transforming organisations, and this is as relevant to governments and public sector organisations as it is to private sector businesses.



Survey Demographics

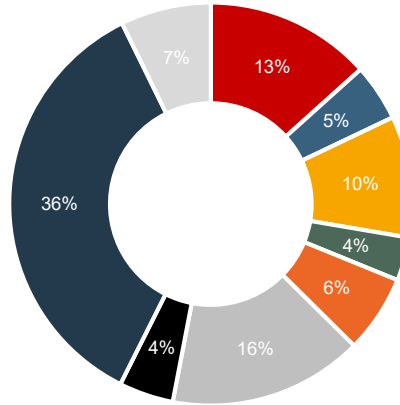


Sector



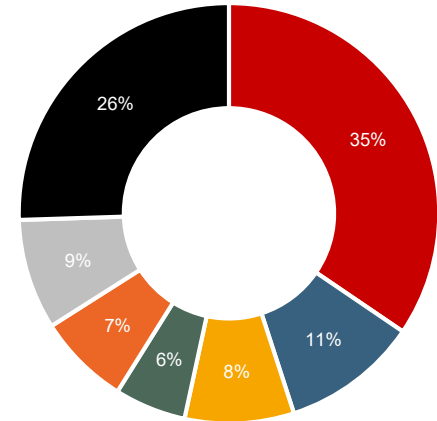
Public practice ■ Corporate sector ■
 Academia ■ Not for profit ■
 Public sector ■

Role



Partner in practice ■ Senior Manager ■
 CFO or FD ■ CEO or Board ■
 Head of Finance ■ Controller ■
 FPA leader ■ Other finance staff ■
 Non-finance ■

Size of organisation



< 50 people ■ 50-100 people ■
 101-200 people ■ 201-300 people ■
 300-500 people ■ 301-500 people ■
 > 1000 people ■

ACCA would like to express its gratitude to the following organisations for supporting the promotion of this survey:

- ASEAN Federation of Accountants
- British Malaysian Chamber of Commerce
- Malaysian Institute of Accountants
- The Vietnam Association of Public Certified Accountants
- Vietnam CFO Club
- Pan African Federation of Accountants
- Fenacon
- AIFC BCPD

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Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

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