

Funding the Future

Only tax holidays and wage subsidies can keep UK househ..

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What Rishi Sunak needs to know before he announces his third round of coronavirus crisis measures in little more than a week is some quite basic accounting that I suspect no one has ever explained to him.

Accounts should include three financial statements. One is the profit and loss account, or income statement. The next is the cash flow statement. The last is the balance sheet.

Right now his job is to support the cash flow of people and companies in the UK. Nothing else matters if survival is to be ensured. Money has to be injected, now.

When we get through the pandemic he has to boost demand that drives the income statement. That will mean households may well need more cash boosts then, or VAT cuts will be required.

At the same time he has to ensure companies can survive the pressures of that period. That means they may well still need cash injections via grants and tax holidays, because they will need to boost their balance sheet strength after the battering they will have had. Loans are liabilities and invariably weaken balance sheets so they are the wrong solution.

And he will have to ensure banks survive, even if I would add considerable conditions to their doing so. Without their balance sheets the UK has no economy. Like it or not, more bail outs for them are coming.

So it's cash flow first.

Then it's boosting demand to drive up incomes and so profit.

But he has to shore up balance sheets to make sure business can get through this, and loans can never do that.

Only tax holidays and wage subsidies can keep UK households and businesses going

now. But does Sunak know enough accounting to realise that?