

Response to call for evidence: review of economic statistics

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For what purposes do you use economic statistics produced by ONS?	For academic research and policy advice, including that to Parliamentary institutions

Instructions for responding to the call for evidence

We would appreciate it if all responses had a summary of the key response points.

Summary of key response points:

Q1: Economic and societal changes have greatly complicated the ONS's task. Certain media coverage of the commissioning of this Review was deeply depressing, suggesting that those who did the briefing are looking for a hatchet job and wish to point the Review in certain directions. This context impacts on the ONS's role of providing high quality statistics and on the preservation of its independence. Communication and dissemination are central tasks, not add-ons.

Q2: Within my area of expertise, I argue for improved public expenditure time series, more attention to public sector balance sheet data, and expanded public finance statistics for the UK nations and regions. Outside my own research and policy specialisms, improved coverage of the financial sector is a high priority, not least because of the damage that irresponsible behaviour and regulatory failures have inflicted on the real economy and UK public finances, and might do so again.

Q3: Despite the United Kingdom scoring highly on international indexes of fiscal transparency, there is evidence of Treasury arbitrage between financial reporting standards and national accounts standards (for example, on PPP accounting and budgeting) and of pressure on the ONS with regard to sectoral classification decisions (eg the design-engineering of Network Rail to keep it off balance sheet under ESA95). As with student loans, what politicians and their advisers regard as 'clever accounting' can distort policy and damage fiscal transparency. Austerity and political commitments to a smaller state will intensify these pressures: new instruments such as government guarantees will be designed with accounting and statistical treatment in the forefront. Preserving the integrity of public sector statistics by limiting the opportunities for the Treasury to exert pressure on the ONS to deliver ministerially-favoured treatments is imperative. Pressure can be exercised in subtle ways: communication of ministerial or official displeasure, planting of media stories, and exhausting pressurised staff.

Q4: The ONS should be resourced to fulfil its mission in the context of operational tasks of increasing difficulty. Adequate resourcing includes being competitive in the labour market for qualified personnel: otherwise there will be recruitment and retention problems. Whether the ONS requires a revived London presence should be an operational decision

for ONS senior management, not something imposed by the Government or by this Review.

Q7: I conclude that making the present system work is preferable to governance alternatives. The issue to be addressed is resourcing. There are two reasons for wanting ONS to be among the best in the world: first, as the United Kingdom is a highly open economy with a large financial sector, the ONS operational mandate is a difficult one; and, second, there are many countries in the world where good and bad UK practice is influential in terms of their own institutions and practices.

Summary of call for evidence questions

Section 1 questions: assessing the UKs future statistics needs	Response
Q1. From your perspective, what are the most significant outstanding challenges in measuring the modern economy?	<p>(a) For multiple reasons, including globalisation, liberalisation, financialisation and digitalisation, economies have become more difficult to measure. One example of this concerns the size of the ‘non-observed economy’ and the extent to which national statistical institutes and international statistical agencies make compensatory adjustments (Gyomai and van de Ven, 2014). Another is the challenge of analysing the severity of the 2008 recession and the subsequent slow recovery, including the issues of price indices, disguised under-employment, population growth and UK economic performance in the period before 2008.</p> <p>(b) While the above can be regarded as facts of life, to be coped with, there are worrying developments that are within policy control. Primary among these is the widespread denigration of public institutions and of those who work for them. News of the commissioning of this Review by the Chancellor of the Exchequer provoked conflicting reactions on my part. First, I remember commissioned reports promulgated on past Budget Days, some diverting attention from substantive public finance matters and others delivering the policy conclusions which had been the purpose of the exercise.</p> <p>Second, what happens to the Office for National Statistics (ONS) is profoundly important for understanding of the UK economy and for internationally consistent public finance data. Reading the <i>Financial Times’s</i> coverage (Cadman, 2015a,b,c) of the announcement of the Review was not encouraging. This made the Review sound like a hatchet job, with predetermined conclusions. Those news items constituted a reminder, if one were needed, of the parasitical relationship between parts of government and certain media outlets. The damage done to transparency and public trust by such relationships was emphasised by Stiglitz (1999) and</p>

this also applies in countries, such as the United Kingdom, which score highly on international indexes of fiscal transparency.

Aggressive news management is characteristic of contemporary governments but sight should not be lost of the extent to which this aggravates intrinsic and constructed obstacles to fiscal transparency (Heald, 2012, 2015). It renders more difficult the task of organisations, such as the ONS, whose remit is to communicate, as objectively as is possible, data about the evolution of the economy and public finances. It is not sufficient just to produce reliable data but, for effective transparency to result, these must be rendered as accessible as the subject matter allows.

Communication and dissemination are thus fundamental and require the commitment of resources to this continuous task. Otherwise, fiscal transparency is likely to be seen as a contestable hierarchical imposition and will not gather the stakeholder support necessary to protect the independence of the statistical and financial reporting processes (Heald, 2013).

References:

Cadman, E. (2015a) 'Shake-up aims to bring official statistics into the internet era – Ex-BoE deputy Bean begins review – Number crunchers put on notice', *Financial Times*, 5 August.

Cadman, E. (2015b) 'Bean seeks statistics agency rethink as disquiet over its performance mounts – Former bank deputy governor calls for evidence towards his evaluation of controversy-hit ONS', *Financial Times*, 5 August.

Cadman, E. (2015c) 'Statistics agency struggles to make move from London to Wales add up – Former BoE deputy tipped to recommend return of high-level presence in capital', *Financial Times*, 18 August.

Gyomai, G. and P. van de Ven (2014) 'The non-observed economy in the system of national accounts', *OECD Statistics Brief*, June, no. 18, available at: <http://www.oecd.org/std/na/Statistics%20Brief%2018.pdf>.

Heald, D. (2012) 'Why is transparency about public expenditure so elusive?', *International Review of Administrative Sciences*, Vol. 78(1), pp. 30-49.

Heald, D. (2013) 'Strengthening fiscal transparency', in R. Allen, R. Hemming and B. Potter (eds), *The International Handbook of Public Financial Management*, Basingstoke, Palgrave Macmillan, pp. 711-41.

Heald, D. (2015) 'Surmounting Obstacles to Fiscal Transparency', in *Academic Thinkpieces on Incentives for Fiscal Transparency*, Global Initiative for Fiscal Transparency, pp. 1-30, available at:

http://fiscaltransparency.net/wp-content/uploads/2015/04/Surmounting-Obstacles_David-Heald_.pdf

Stiglitz, J.E. (1999) 'On liberty, the right to know, and public discourse: the role of transparency in public life', Oxford Amnesty Lecture, January 27, available at:

https://www0.gsb.columbia.edu/faculty/jstiglitz/download/2001_On_Liberty_the_Right_to_Know_and_Public.pdf

<p>Q2. Are there features of the modern economy that you think are not well captured in the present range of UK economic statistics?</p>	<p>Within my area of expertise on the public sector, I urge the following:</p> <p>(a) More consistent time series public spending data, at both aggregate and disaggregated (COFOG, economic category, governmental tier) levels. Thanks to extensive Treasury co-operation, Soroka <i>et al.</i> (2006) presented more consistent data on control aggregates but that was a one-off exercise that did not lead to regular publication. Attention should be paid to reconciliations between national accounts, Spending Review and financial reporting numbers, with necessary explanations being provided.</p> <p>(b) Improved balance sheet data for the public sector. I am puzzled why the ONS continues to use the Perpetual Inventory Method for estimation of capital consumption, rather than the depreciation data that has become available since the implementation of Resource Accounting and Budgeting in 2001-02. If there are substantive reasons for not using these data, for example, international obligations under ESA10, then these should be made explicit and the possibility of publishing supplementary data explored.</p> <p>(c) It is no exaggeration to state that the United Kingdom is experiencing an existential crisis in relation to its territorial integrity. The Scottish Government and its predecessors deserve credit for the regular annual publication of <i>Government Expenditure and Revenues in Scotland</i> (Scottish Government, 2015) which now has the 'national statistics' kite mark. The Scottish Referendum campaign emphasised both the loss of trust in government numbers and the lack of public and media understanding of territorial patterns of expenditure and revenues or what is likely to be the pattern within a nation state. The 'better not to know' attitude which prevailed until quite recently in both Wales and Northern Ireland is no longer viable. Although some of the technical issues are tricky and political reception will be fickle, the ONS should devote resources to ensuring that the best possible public finance information is available at the level of all UK regions. These data will become more useful for research and policy once there is a substantial run of years on as consistent a basis as is achievable.</p> <p>Although outside my own expertise, more attention is required to the financial sector, which is difficult to track because of its inherent complexity (eg output valuation) and international linkages. The 2008 global financial recession has inflicted huge damage on the real economy, on UK public finances, and on taxpayers and users of public services. It is imperative that decision-makers and researchers have available, in as close to real time as possible, accurate information on the</p>
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	<p>evolution of this sector. Better information, for example that which would facilitate the estimation of implicit fiscal subsidies between sectors and regions, might alter the terms of public debate.</p> <p>References:</p> <p>Scottish Government (2015) <i>Government Expenditure & Revenue Scotland 2013-14</i>, Edinburgh, Scottish Government.</p> <p>Soroka, S., C. Wlezien and I. McLean (2006) 'Public expenditure in the UK: how measures matter', <i>Journal of the Royal Statistical Society Series A</i>, Vol. 169(2), pp. 255-71.</p>
<p>Q3. What do you think should be the two or three top statistical priorities for measuring the modern economy?</p>	<p>My research and policy interests relate to UK public finance data. There is a paradox. In internationally comparative terms, the United Kingdom is in a good position. An indication of this can be seen by consulting the generally positive IMF 'Fiscal Transparency Evaluation' of Finland (IMF, 2015). Finland's shortfalls include limited (accounting) consolidation, whereas the United Kingdom's Whole of Government reporting provides that information (Treasury, 2015; Heald and Georgiou, 2011b). Another indication is that the United Kingdom's public sector accounting practices are the most advanced in the European Union (Ernst & Young, 2012), with the consequence that Eurostat's proposals for uniform standards across Europe (the EPSAS project) could be implemented without significant incremental cost (PricewaterhouseCoopers, 2014).</p> <p>However, there is a dark side, evidenced by the drive to arbitrage financial reporting standards and national accounts standards. Whatever the merits or otherwise of Public-Private Partnerships (PPPs) from a value-for-money perspective, manipulations of <i>ex ante</i> evaluations in order to 'justify' the adoption of PPPs has spread from the United Kingdom to many other countries less able to fund or manage the resulting liabilities (Heald and Georgiou, 2011a). There has been a long history of pressure – mostly behind closed doors, yet with evidence seeping into the public domain – of pressure on financial reporting standard-setters, auditors and the ONS to allow such assets and liabilities to be recorded outside government. Even when the UK public sector brought most PPP liabilities on-balance sheet when moving from UK GAAP to IFRS in 2009-10, the Treasury continued the distorting practice of conducting Spending Reviews on the laxer ESA95 basis.</p> <p>Classification decisions have been contentious and the ONS has been put under pressure to deliver decisions that suit the Treasury's policy purposes. The classic case was the design-engineering of Network Rail's status so that it would be classified to the private sector under ESA95: the Treasury</p>

trialled successive 'models' with ONS until it achieved the desired off-balance sheet treatment. Not long after Network Rail had been reclassified to the public sector under ESA10 there emerged media stories that the Treasury was preparing a change of status, substantive or cosmetic, that would reclassify Network Rail back to the private sector.

Increasing attention to public deficits and debt, and the problematic recovery from the fiscal damage done by the global financial recession, will increase the temptation to put activities off-budget and off-balance sheet. Controversial areas will include the treatment of government guarantees and the implications for financial reporting and national accounts of the use of regulatory power over organisations that are outside general government and the public sector. A contemporary example relates to the Government's proposed extension of 'right-to-buy' to housing associations.

There are two distinct reasons why the above issues are of paramount importance:

- (a) Understanding the public finances is fundamental to the achievement of fiscal transparency and informed public policy.
- (b) A loss of public trust in government financial information is not only damaging to the workings of democratic institutions but is also very difficult to restore.

References:

Ernst & Young (2012) *Overview and Comparison of Public Accounting and Auditing Practices in the 27 EU Member States: Prepared for Eurostat*, Brussels, Ernst & Young.

Heald, D. and G. Georgiou (2011a) 'The substance of accounting for Public Private Partnerships', *Financial Accountability & Management*, Vol. 27(2), 2011, pp. 217-47.

Heald, D. and G. Georgiou (2011b) 'The macro-fiscal role of the U.K. Whole of Government Account', *Abacus*, Vol. 47(4), 2011, pp. 446-76.

IMF (2015) *Finland: Fiscal Transparency Evaluation*, IMF Country Report No. FO/DIS/15/60, Washington DC, International Monetary Fund.

PricewaterhouseCoopers (2014) *Collection of Information Related to the Potential Impact, including Costs, of Implementing Accrual Accounting in the Public Sector and Technical Analysis of the Suitability of Individual IPSAS Standards, prepared for Eurostat 2013/S 107-182395*, Brussels, PricewaterhouseCoopers.

Treasury (2015) *Whole of Government Accounts – Year Ended 31 March 2014*, HC1091 of Session 2014-15, London, Stationery Office.

<p>Section 2 questions: effectiveness of ONS in delivering those statistics.</p>	
<p>Q4. What are the strengths and weaknesses in ONS's current ability to deliver the existing range of economic statistics?</p>	<p>I have no involvement in ONS operational matters, instead being a user of ONS statistics and therefore one of its external stakeholders.</p> <p>I urge the protection and, where need is established, the expansion of the ONS budget. The ONS plays a fundamental role in generating the information base for policy and research and for ensuring that the United Kingdom not only meets its international obligations but acts as an exemplar of statistical quality and operational independence. It is imperative to avoid nonsense about taking a 'fair share of cuts' in the context of continuing austerity. The time lag over which data problems emerge and the cost of later recovery should warn against this option.</p> <p>During my period (2002-08) as specialist adviser to The Public Accounts Commission (TPAC), I was astonished by the intensity of Treasury hostility to the National Audit Office (NAO), as evidenced by the memoranda it submitted in successive reviews of the NAO Corporate Plan and Estimates. When the issue arose of the potential refurbishment of the NAO's Buckingham Palace Road headquarters, TPAC laughed off a Treasury suggestion that the NAO should move out of Central London. That would have been a recipe for the loss of a huge proportion of its professional staff. The ONS did not have such parliamentary protection when the move to Newport was decided and implemented.</p> <p>I am on public record as decrying the increasing way in which London and the South East dominate the United Kingdom. However, I take the view that there are certain key functions of the state that are best located in the capital city. Whether the move to Newport was a sensible decision is no longer the issue to hand. Staffing issues are beyond my knowledge; therefore I do not take a view on whether ONS requires a re-established London presence. My view is that this should be an operational decision for a properly resourced ONS.</p> <p>A vital dimension of adequate resourcing is the ability of public institutions to pay the market wage for highly skilled labour. Since 1979, UK government has vacated much production space to the domestic and foreign private sectors. To the extent that these vacated sectors still raise public policy issues, the weight of public action now falls on regulation and various forms of audit (Power, 1997, Hood <i>et al.</i>, 1999).</p> <p>What is fundamentally important is that government sufficiently rewards its employees so that it can recruit and retain them.</p>

	<p>Untold damage is done by the nonsense that no-one should be paid more than the headline pay of the Prime Minister. Whereas government statisticians perhaps do not have the same alternative employment opportunities as accountants and auditors, there is leakage to international institutions which may partly be driven by relative remuneration. Therefore the Review should carefully examine and publish the historical record of ONS recruitment, retention and quits.</p> <p>References: Hood, C., C. Scott, G. Jones and T. Travers (1999) <i>Regulation Inside Government: Waste-Watchers, Quality Police and Sleaze-Busters</i>, Oxford, Oxford University Press. Power, M. (1997) <i>The Audit Society: Rituals of Verification</i>, Oxford, Oxford University Press.</p>
<p>Q5. What steps do you think are needed for ONS to have the capability to collect, analyse and disseminate the relevant data to meet future statistics needs?</p>	<p>No response to this Question, beyond my response to Q4.</p>
<p>Q6. What scope is there for ONS to exploit emerging data-science techniques in meeting future statistics needs?</p>	<p>No response to this Question.</p>

<p>Section 3 questions: the governance framework</p>	
<p>Q7. Do you think the current governance arrangements for economic statistics support their effective production?</p>	<p>My work on the governance of public bodies has provoked scepticism on my part about the effectiveness of structural remedies to perceived governance problems. If there were a clean slate, I would argue for the Head of the ONS to be an Officer of Parliament, analogous to the Comptroller & Auditor General as Head of the NAO. Both have system-critical roles as generators of information that are fundamental to fiscal transparency and democratic accountability.</p> <p>Yet, on balance, I believe that making the existing UK Statistics Authority/ONS model work should be given priority. First, a factor influencing my view has been the willingness of the Comptroller & Auditor General and the National Audit Office Board to embrace the mistaken argument that the NAO should</p>

	<p>take a 'fair share' of austerity, notwithstanding the increased risks to public audit that derive from austerity, fragmentation of public service delivery, and the abolition of the Audit Commission. Second, such is public distrust of Parliament that such a proposal would be construed as increased political control rather than as a protection for independence.</p> <p>The governance task is to ensure that the ONS has the necessary resources to fulfil its mission and international obligations.</p> <p>There are two main reasons for wanting the ONS to be among the best in the world: first, as the United Kingdom is a highly open economy with a large financial sector, the ONS operational mandate is a difficult one; and, second, there are many countries in the world where good and bad UK practice is influential in terms of their own institutions and practices.</p>
<p>Q8. Are there changes to those arrangements that you would advocate?</p>	<p>No response to this Question, beyond my response to Q7.</p>

If there is anything else regarding the terms of reference of the review which you would like to feedback please do so here:

I have nothing to add.

The closing date for responses is **25 September 2015**. Responses received after this date may not be read. Call for evidence responses should be returned to:

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Or if you would prefer to send your response by post:

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