

# 7 Implementation

## Introduction

- 7.1** Earlier chapters have explained the purpose for measuring output of public services in national accounts, the story so far in the United Kingdom and the international context, and have proposed principles to underlie the measurement of government output, inputs and productivity. The treatment of inputs and outputs have been developed further in, respectively, Chapters 5 and 6. Later chapters explain the current position for different areas of the UK National Accounts (Health, Education, Public Order and Safety, Social Protection) and make proposals for change. This chapter sets out some general issues about implementing change.

## Moving from Concepts to Robust Statistical Series

- 7.2** There are rich sources of information in departments and regulatory bodies, often developed to support management information including performance measurement. Changes in priorities and definitions of performance targets often make it difficult to establish a long time series of consistent data in these areas, but experts may be able to advise on ways of combining different sources, where they are relevant to the underlying concepts of an output measure. Data discontinuities, perhaps due to legislative changes, should be recognised and understood. For example, the measure of adult social services proposed in Chapter 11 has a discontinuity when certain social security payments (transfers) ended and equivalent provision was made through local authority funding of nursing home fees (government consumption).
- 7.3** Chapters 8-11 report progress in working with departments to develop new or revised measures of government output which meet the criteria described in Recommendation 6.1. ONS practice is to accept such new measures only after it has submitted each proposal to rigorous quality assurance, as is done for other methodological changes in the National Accounts. We strongly support this rigour. The quality assurance will no doubt take account both of specific requirements for public service outputs and other wider criteria for the National Accounts. Criteria should be explicit.

- 7.4** One particularly important issue for ONS is confirmation of commitment by the departments responsible for source data, including Devolved Administrations, to supply required information regularly in future, with agreed timing and formats, and to be vigilant to discuss any relevant changes and developments in the services and potential measurement issues. Recognition by government departments of their important role in ensuring the validity of the National Accounts would be invaluable. This will require regular discussion by ONS with key contacts in departments to ensure that the context of National Accounts work is understood, as concepts are sometimes rather different from those which departments use in other work. Our review has valued the strong commitments from departments, including the Devolved Administrations, to engage in work to improve current measures and we hope the same spirit of joint responsibility will continue.
- 7.5** **Recommendation 7.1:** we recommend that the National Statistician and Statistical Heads of Profession in relevant government departments should discuss arrangements for formalising their joint responsibilities in respect of the National Accounts.
- 7.6** Once ONS has taken a decision to include a new or revised output series as part of government final consumption in the National Accounts, on the basis of a quality assurance process, it would be very desirable to make public the detailed methods to be adopted, documenting the source data and commenting on the extent to which the change met all the criteria. It would be helpful if ONS made clear whether there are further development plans. Publication should be no later than the time at which revisions are incorporated into the National Accounts.
- 7.7** In view of the high level of public interest in the government output measures, the National Statistician may wish to consider whether an internal quality assurance process is sufficient to assess the measurement of public services which depend on expert knowledge of the services, or which make significant changes to established methods. The first introduction of quality measures in an area, for example, might warrant extra scrutiny, including steps to take the view of those with specialist knowledge of service objectives and methods of measurement. How do service users regard the proposed approach to quality measurement? If wider consultation is undertaken, it would be helpful for results to be documented as part of the process of explaining any agreed changes to the National Accounts methodology.
- 7.8** **Recommendation 7.2:** we recommend that ONS should make public information about new or revised output series, once decisions have been taken that they are fit for use in the National Accounts, including information about the basis for that decision.
- 7.9** Changes to the National Accounts would of course only be made in line with the established ONS Revisions Policy. ONS practice is that revisions going back several years are normally made only at one point during the year – when the annual *Blue Book* is published. Substantial revisions are pre-announced. ONS made clear in its response dated 27 May 2004 to the *Statistical Commission's Review of Revisions to Economic Statistics Report No 17, Vols 1–3*, that it would endeavour to ensure that users understand the reason for revisions.

- 7.10** The following chapters will propose improvements to the measures of government output which have been adopted in recent years. The scope for improvement reflects wider changes in the National Accounts, such as the move to chain linking, and in some cases new sources of data which could not have been used any earlier. It is also an indication of change in public services, to which we referred in Chapter 2. The shape and policies of the public sector change with changing political priorities.
- 7.11** Methods of measuring the output of public services, therefore, need regular review to keep in touch with changing legislation, new approaches to service delivery, changing cost weights, changes in data sources and in some cases changes in the machinery of government. These require ONS to work with departments, including the Devolved Administrations, to understand the services which are being measured and be alert to the need to change methods of measurement. It would be desirable to undertake a formal review of each area of output measurement at regular planned intervals – perhaps about every three years. Reviews should reassess whether the ONS measures continue to meet the real need, and have taken advantage of available improvements in information sources used by departments and other external bodies. These reviews should take account of international developments in guidance and measurement practice. It would be desirable to engage some external expertise in each such review, and to make the results public, with any recommendations for change and actions taken.
- 7.12** **Recommendation 7.3:** we recommend that ONS should undertake a formal review, with external expertise, of each area of public service output measurement about every three years, and that the results should be made public, with any recommendations for change and action taken.

### **Publishing Analysis of Public Service Output and Productivity**

- 7.13** The terms of reference for the review relate to the National Accounts. One prime purpose of figures to measure the output of public services is to incorporate them in the National Accounts, and the recommendations in the later chapters of the report are intended to meet this need. However, output figures are of interest in their own right, and it is desirable for them to be published and analysed in ways which allow more scope for commentary than the format of the National Accounts. Separate publication is particularly important where the methodology changes, so that the difference between the results of the old and new series can be understood, with analysis of drivers in the rate of increase or decrease in the preferred measure. Explanation of data discontinuities, for example, caused by changes in classification or machinery of government changes, is essential for the public record and to aid those using the National Accounts. While use of the internet for dissemination is clearly a valuable means of communication, we believe that ‘publication’ should always include a permanent paper form.

**7.14** Separate publication of output series could also be helpful if alternative approaches are being compared before a decision is taken to change the basis of the National Accounts. Sometimes methods and data sets may be judged useful and fit for publication, but not appropriate for the National Accounts. Given the risks that National Accounts measures of government output and productivity will be misunderstood, we consider it most important to provide full information about different methodologies, explaining their limitations, and interpreting the available data in that light. The series of *Economic Trends* articles from 1998 to 2003, which published the estimates and underlying methodology for government output, performed a valuable service. We therefore welcome that ONS has made clear its intention to continue with the productivity article series, following *Public Service Productivity: Health* in October 2004.

**7.15 Recommendation 7.4:** we recommend that ONS should continue to publish articles about outputs, inputs, deflators and productivity, commenting on data sources, methods and results, explaining limitations of different methodologies and interpreting the available data in that light.

### Satellite Accounts

**7.16** Another fruitful way forward is greater use of satellite accounts. The ESA notes that ‘for some specific data needs the best solution is to draw up separate satellite accounts ... Satellite accounts can serve such data needs by:

- showing more detail where necessary and leaving out superfluous detail;
- enlarging the scope of the accounting framework by adding non-monetary information, eg on pollution and environmental assets; and
- changing some basic concepts, eg by enlarging the concept of capital formation by amount of the expenditure on research & development or the expenditure on education’ (see paragraphs 1.18 and 1.19).

**7.17** It is important that satellite accounts be consistent with national accounts principles. ESA states that ‘an important feature of satellite accounts is that in principle all basic concepts and classifications of the standard framework are retained. Only when the specific purpose of a satellite account definitely requires a modification, are changes in concepts introduced. In such instances, the satellite account should also contain a table showing the link between the major aggregates in the satellite account and those in the standard framework. In this way, the standard framework retains its role as a framework of reference and at the same time justice is done to more specific needs’ (paragraph 1.20).

- 7.18** A number of countries have developed satellite accounts. INSEE, the French national statistical institute, for example, has developed satellite accounts for Education, the Environment, Tourism and Health. It has also been at the forefront of the development of satellite analyses, which are similar in nature but are less closely intertwined with the main National Accounts allowing for quicker delivery and greater flexibility. The United Kingdom currently produces satellite accounts for two areas (environment and households) and is developing prototype satellite accounts for tourism. ONS has also been developing health expenditure accounts for the United Kingdom which have some characteristics of health satellite accounts (see paragraphs 8.77-8.79). It is aware of interest in the potential for development of satellite accounts for transport and for culture.
- 7.19** We have suggested in Chapter 4 that it would be useful to have a satellite account for human capital formation. This could make use of analysis of the economic value of education, whether provided by schools, universities or employers.
- 7.20** **Recommendation 7.5:** we recommend that ONS should explore ways of analysing and publishing information about public service outputs in parallel to the National Accounts, such as satellite accounts. In particular, it would be useful to have a satellite account on human capital resource formation.

## International Cooperation

- 7.21** During the review, we have had a number of helpful discussions with international bodies and individual national statistical institutes. There is clearly a strong desire in EU Member States and other countries to make progress on output measurement, and to learn from each other. While every country has distinctive public services and measurement issues, there are common principles and joint work may reduce the overall problems and costs of improving statistics in this area. Joint agreement on the broad techniques to be used would aid comparability between measures of government final consumption in different countries.
- 7.22** Any steps that OECD or Eurostat were to make to foster further international discussion and joint development work would, we believe, be helpful to the United Kingdom, and, perhaps, to other countries. However, we do not suggest that UK developments should necessarily be delayed until international agreement on technical issues can be reached.
- 7.23** **Recommendation 7.6:** we recommend that ONS should work collaboratively with other countries on public service output measurement, as joint agreement on the broad techniques to be used would aid comparability between measures of government final consumption in different countries.

## Extension to New Functions

- 7.24** The next four chapters describe our work in four main areas of Government spending: Health, Education, Public Order and Safety, and Social Protection. We now consider whether work on output measures should be extended to other aspects of government consumption.

- 7.25** Pragmatically, given that the United Kingdom has already moved substantially towards direct output measures, covering some two-thirds of General Government Final Consumption, there are, in our view, strong arguments for seeking to consolidate ONS treatment of the spending covered. This should be a priority. Other countries are working on direct measurement of the functional areas covered in Chapters 8-11 and there will be mutual benefit in joint work in these areas.
- 7.26** Where coverage can be extended relatively easily and to good effect across COFOG categories such as General Public Services, Economic Affairs, and Environmental Protection, it should be. For example, in the course of our work on Social Protection, we have identified a direct output measure of work done by DWP, which relates to the Economic Affairs classification of COFOG and this could be adopted. Direct measures might be possible for some areas of Recreation and Culture, Transport and Public Administration.
- 7.27** As far as collective services more generally are concerned, we recognise the intrinsic merits of a direct measurement approach, but believe that ONS should proceed circumspectly. A number of those we have consulted have urged caution and we believe this counsel to be wise. Caution does not, however, equate with neglecting this agenda. Prudence in decision-making is fully consistent with the continuing vigorous work programme we believe to be necessary.
- 7.28** **Recommendation 7.7:** we recommend that ONS should give priority to consolidating the treatment of that part of General Government Final Consumption covered by existing direct output measures. Extension to other areas should proceed circumspectly, where opportunities present themselves and as resources allow.

## Country and Regional Accounts

- 7.29** This review has been on UK national accounts. We identified in the Interim Report the need to improve measures of output for public services in Scotland, Wales and Northern Ireland, since in too many cases the English output figures were used as a proxy. The Scottish Executive, Welsh Assembly Government and Northern Ireland Departments have each made clear their commitment to find appropriate measures, and progress is reported in later chapters. We welcome this commitment to make the UK national accounts for government final consumption a genuine UK measure.
- 7.30** Building up output figures from four separate countries (where services are devolved), together with corresponding input figures, raises the issue of how far ‘national accounts’ might be published, at least for government final consumption, for the four countries separately. This brings us to regional accounts.
- 7.31** Within the United Kingdom, separate regional accounts are already prepared for GDP at current prices. The recent Allsopp Review recommended that progress should be made in developing estimates of real gross value added by region. Since most of the volume indicators used in estimating government output – hospital operations, school lessons etc – have a known geographical dimension, this information is generally available.

- 7.32** Development of more informative state or regional accounts using figures for government output in different parts of the United Kingdom is a possibility for the future, but the importance of accurate measurement should not be underestimated. Premature comparisons of approximated estimates could be unhelpful. Comparison of productivity change in different parts of the United Kingdom would require the use of pay and price deflators which were appropriate for the inputs – for example, Scottish teachers have a different pay system from English teachers so it would not be appropriate to deflate Scottish school spending by a deflator based on data for English teachers. Obtaining and analysing this necessary information needs proper resourcing if progress is to be made.
- 7.33** **Recommendation 7.8:** we recommend that ONS, with the Devolved Administrations, should consider how to make progress towards separate regional accounts.

### Resource Costs of Statistics

- 7.34** This report makes clear the depth and breadth of information required if ONS is to be sure that measures of government output used in the National Accounts are robust. There is considerable potential, and interest, in wider publications about government output and productivity; each would need to be prepared meticulously, to document methods and sources and aid those who will scrutinise the information and comment on it. Scrutiny of inputs and deflators is as important as scrutiny of outputs. In each area, co-operation between ONS and experts in the responsible departments, including Devolved Administrations, will be necessary. Those specialising in the measurement of government output will need good understanding of the services in question.
- 7.35** We should therefore be clear that good progress in this area will place continuing additional demands both on ONS and on government departments. We appreciate the current pressures on departmental staffing levels. But in our view, greater priority will have to be given to data provision and analysis if improvements in the measurement of government output are to be achieved. We consider that the level of public interest, and proper concern for accountability on public spending, justify an improvement in the information available. This will involve additional statistical and analytical resources to set up a new system and to continue to provide regular information. The areas within the purview of this review are ones where there is a particular premium on good data. Placing reasonable compliance requirements on public sector bodies is no less justifiable than for the rest of the economy, having regard to the benefits to be gained.
- 7.36** **Recommendation 7.9:** we recommend that ONS make resources available to support the developments we have proposed; resources will also be needed in other departments, including the Devolved Administrations.