

Monday 31 January 2005

Atkinson Report on measuring government output and productivity published today

"Public accountability requires measures of what is achieved by spending on public services", Sir Tony Atkinson said today, publishing his independent report on measurement of public services output and productivity. "We cannot simply assume that outputs equal inputs in such a major part of the economy. ONS has taken the right route, but needs to develop further, under a principled framework."

The report, commissioned by National Statistician, Len Cook in December 2003, makes 54 recommendations on how to improve the measurement of public services output and productivity, which is a fifth of total GDP. These include nine principles to provide the framework for methods to measure public services.

Sir Tony stressed the importance of a principled approach to measurement of output and productivity in this sensitive and important area. "In that way", he said, "we can take a coherent approach to the difficult methodological issues involved, while at the same time providing a defence against unwarranted political intrusion into technical measurement issues. Many of our recommendations set out a clear process for documentation, expert review and transparency, so that development work is made public and the limits of official measures are clearly understood."

Sir Tony said: "The method of measuring government output can make a considerable difference to the recorded growth rate of the economy. The UK growth rate 1995 – 2003 would have been about ¼% a year higher if the old input method had been used, and this would have halved the gap between the UK and the USA – who don't use output measures. But the UK methods are better – we don't capture the value of services to people who use them if we only count what is spent."

Sir Tony commented on key points from the Report:

"The traditional Output=Input convention, from which ONS has properly moved forward in recent years, does not capture the complex workings of the public sector and the UK cannot return to using this convention. We have also set out the shortcomings in current input measures and recommended improvements. We want senior officials to understand the importance for the National Accounts of accurate measures of public spending.

“Direct measures of output should be used. There is an intrinsic case based on public accountability for seeking to measure what is achieved by spending on public services. We cannot simply assume that outputs equal inputs in such a major part of the economy. To fail to measure the output would be to miss the essential complementarity between public services and private economic growth.

“There is a need for major improvements in indicators used to measure public service outputs. Current indicators have been too limited in their coverage of activities, have been aggregated at too high a level and have often used data from England, not the whole United Kingdom. In some cases they have been misclassified or affected by changes in the machinery of government. They often use information with a substantial time lag.

“Measurement of government output, should, as far as is possible, follow methodology parallel to that appropriate for the private sector. In essence, what we are trying to measure is the same for both sectors.

“The measurement of quality is central to our concerns. We are firmly of the view that measures of output growth should take account of quality change. Quality has many dimensions, and some will prove elusive, but there are several possible ways forward. If quality adjustments cannot be comprehensive, they should be representative of the range of dimensions. This will not always be straightforward and may take some time.

“Productivity change is extremely complicated to measure. No single number, however carefully constructed, can fully capture the performance of complex public services with multiple objectives. Productivity change should be interpreted in the light of a range of other information – the triangulation principle.

“This review is part of a dynamic process. We fully support the significant revisions to the health indicators carried out by ONS in June 2004, and work is well under way in other fields. While our remit was for the UK, we strongly urge joint learning and development with other countries, to underpin international comparability of economic statistics.

“We urge ONS and departments to be transparent, engaging the substantial expertise of academic and regulatory bodies, and others with a legitimate interest. It would be highly regrettable if objective study of a matter of public importance were to be inhibited by misunderstanding and public criticism of figures that are clearly interim.”

Sir Tony's report also includes specific recommendations for the way forward in the key areas of Health, Education, Social Protection, and Public Order & Safety. In each case, these build on work currently in progress and on what has been achieved so far. Main proposals are:

Health

- Better measures for primary care;
- Movement towards measuring whole courses of treatment;
- Ideas for measuring quality change in health care.

Education

- Measure pupil attendance not pupil numbers;
- Update the quality measure for schools as an interim measure;
- Develop new extended quality measure, which might include measuring the value of education through increased earnings;
- New measures for output of initial teacher training and publicly funded nursery places.

Public Order and Safety

- More detailed measures for the Criminal Justice System, with possible quality adjustment to reduce the value accorded to overcrowded prison cells;
- Measure fire output on basis of weights which reflect the cost to the community of fire;
- Further development of measures of the output of the Criminal Justice System as a whole.

Social Protection

- Wider and more detailed coverage in the measure of adult social services output;
- Extension of the children's social services output measure;
- Development work on quality adjustments for social services;
- Update the index for social security administration, including adjustment for accuracy and timeliness.

Background Notes

1. The independent review of the measurement of government output in the National Accounts was commissioned by National Statistician, Len Cook, in December 2003, with a Final Report to be produced by the end of January 2005. An Interim Report was published on 19 July 2004.
2. The terms of reference of the review set out by the National Statistician were:

‘To advance methodologies for the measurement of government output, productivity and associated price indices in the context of the National Accounts, recognising:
 - the full scope of government outputs;
 - differences in the nature and quality of these outputs over time;
 - the relationship between government outputs and social outcomes;
 - the need for comparability with measures of private sector services’ output and costs;
 - the existing work of the Office for National Statistics (ONS); and
 - the appropriate measurement of inputs, including quality and the distinction between resource and capital, so that, together with the measurement of output, light can be thrown on developments in government productivity.’
3. Sir Tony Atkinson has been Warden of Nuffield College Oxford since 1994. Previously he was Professor of Economics successively at Essex University, University College London, the London School of Economics and Cambridge University. His main research interests are welfare and public economics on which he has published extensively. He served as a member of the Royal Commission on the Distribution of Income and Wealth, the Pension Law Review Committee, and the Social Justice Commission. He was a member of the Retail Prices Index Advisory Committee between 1984 and 1990.
4. Sir Tony has been supported by a team of staff from the ONS, the Treasury, Department of Health and the Bank of England, directed by Joe Grice, Deputy Head of the Government Economic Service, and Aileen Simkins of the Department of Health. The team consulted extensively with ONS National Accounts Group and worked with officials in the spending Departments, Devolved Administrations, and the Treasury. The review team also consulted international statistical bodies, other national statistical offices who are working actively on measurement of public service outputs for national accounts, and with a wide range of other experts and stakeholders.
5. The Final report benefited extensively from comments received on the Interim Report published in July.
6. International guidelines on the measurement of government output are set out in the United Nations System of National Accounts (SNA) and the European System of Accounts (ESA). This review will consolidate the UK’s position at the forefront of government output measurement, and its conclusions will influence the future shape of the SNA and ESA.

7. Announcing the review on 4 December 2003 [ref] , National Statistician Len Cook, said:

"The UK is a world leader in the measurement of government output. It is one of very few countries to follow best practice as set out in international guidelines. In 1998 we began the task of measuring output directly, rather than from the amount of money spent on producing it, that is from the inputs. The review will take this work forward taking account of changes in economic and social structures, technology, institutional arrangements and analytical techniques that have taken place in recent years.

"Since 1998, the amount of resources allocated to public services has increased. Delivery and management mechanisms have developed and are more complex. There is an increasing emphasis on the quality of service for the customer. As a result there are greater demands on, and expectations of, measures of government output. This is reflected in increased interest in government performance indicators more generally.

"It is essential that National Accounts measures keep up with these developments and that the UK continues to be at the forefront of measurement issues. I am delighted that Tony Atkinson, one of the world's leading economists, has agreed to help us do this and establish the future strategic direction for statistics in this area."

The full text of the announcement can be found at www.statistics.gov.uk/pdffdir/nsr1203.pdf