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**Chair of the UK Statistics Authority, Sir Andrew Dilnot CBE**

Andrew Tyrie MP  
House of Commons  
LONDON  
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17 March 2015

Dear Andrew

**STATISTICS BOARD 2014-15 SUPPLEMENTARY ESTIMATE**

Thank you for your letter dated 3 March 2015. The attached note prepared by John Pullinger, the National Statistician, addresses the specific questions that you have asked and also provides a further update to some of the work that Glen Watson discussed in his letter to you in April 2014.

Yours sincerely



**Sir Andrew Dilnot CBE**

## ANNEX

In 2013 the Authority identified that budget cuts in the last Spending Review settlement would have a significant impact on the ability of the Authority to continue to deliver and improve outputs to meet the public need. As a consequence, the Authority sought access to the Reserve for an additional £15m of funding in both 2013/14 and 2014/15, and the Authority engaged with HM Treasury (HMT) officials throughout, providing a comprehensive business case to make improvements to economic statistics, systems and wider user experience of ONS data. The Chief Secretary to the Treasury confirmed consideration for access to the Reserve for both 2013/14 and 2014/15 in three ring-fenced areas:

- improvements to statistical outputs;
- data systems and organisational capability; and
- user experience and functionality.

During the 2013/14 and 2014/15 Supplementary Estimate process the Authority was required to demonstrate progress made against these plans. This evidence was reviewed by HMT and approval was granted to drawdown the additional funding in February 2015.

Glen Watson's letter to Mr Tyrie in April 2014 (attached) described the major development work to the ONS suite of financial inquiries and the range of developments required to enable compliance with the European System of Accounts 2010. The additional funding in 2014/15 has continued this work and has resulted in key improvements to Blue Book and Pink Book 2014 including:

- better comparability in measuring Gross National Income (GNI) across European Union (EU) countries; and,
- meeting user needs, including implementation of the Review of Public Sector Finances (PSF) and alignment of National Accounts with PSF; improving methods for Inventories and Gross Fixed Capital Formation; updating the base year and reference year from 2010 to 2011; Producer Price Index and Services Producer Price Index re-basing from 2005 to 2010.

During 2014 there has also been a further focus on 'Flow of Funds'. We have made key progress in a number of areas. A formal working group has been organised with key external stakeholders from the Bank of England, HMT, the Office for Budgetary Responsibility and the Department for Business, Innovation and Skills. The main purpose of the Group is to provide advice, guidance and quality assurance to ONS in the development of financial statistics, including Flow of Funds. The initial focus has been undertaking a gap analysis which will allow ONS to understand where data coverage needs to be improved.

The additional funding also enabled the Authority to complete two National Statistics Quality Reviews (NSQR): one focused on the Labour Force Survey (LFS), and the other on National Accounts and Balance of Payments which was externally led by Kate Barker and published in July 2014. The LFS review identified a number of methodological and process improvements to be taken forward, while the National Accounts review highlighted the following key recommendations:

- reintroduce the Purchases Survey (or alternative);
- change Industrial Output coherence process with Annual Supply Use Tables;

- develop 'Double Deflation' estimates of Gross Value Added;
- seek international guidance for further Capital Stock improvements;
- further develop the Inter-Departmental Business Register; and
- two recommendations centred on making system improvements (particularly for the move to producing annual balanced Supply and Use Tables in Previous Year's Prices).

During, and following, publication of the National Accounts review, there have been ongoing discussions with key departments, such as Bank of England, Department for Business, Innovation and Skills and the Office for Budgetary Regulation, to discuss the initial NSQR response, priorities and broader National Accounts work plan. Broader user engagement was undertaken in early 2015 culminating in a public consultation on a long-term (5 year) work plan and our response to the NSQR.<sup>1</sup> As a response we commenced work this financial year to implement the Purchases Survey to go live in January 2016.

In addition to these specific improvements we have also invested in a range of methodological and developmental work to review our methods and processes for the National Accounts to ensure they remain up to date, effective and efficient. This has included increasing the skills and capability of staff to achieve this, boosting the numbers of economists.

The elements of the package described as 'user experience and functionality' refer to the ONS website. During 2014 a new prototype, 'alpha', website was built. Following positive user feedback a new, 'beta' site is being developed for launch later in 2015.

The additional funding also enabled the completion and launch of our Web Data Access projects, enabling ONS to publish data in an open data format making it easier for third parties to access, use and re-use data. This has been well received by users.

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<sup>1</sup> <http://www.ons.gov.uk/ons/guide-method/method-quality/quality/quality-reviews/list-of-current-national-statistics-quality-reviews/ons-response-to-national-statistics-quality-review-of-national-accounts-and-balance-of-payments.pdf>

Andrew Tyrie MP  
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10 April 2014

Dear Mr Tyrie,

Thank you for your letter of 3 March 2014, posing several questions arising from concerns raised by the Governor of the Bank of England.

The production of trusted and reliable economic statistics is always a significant challenge. This has been amplified by the difficult economic circumstances in the period since 2008, during which some of the long established methodologies and approaches have been stress tested. The degree of scrutiny has intensified since the financial crisis and everything we publish is now of greater interest to policy makers than was often the case during the period of stable economic growth from the early 1990s onwards. Against this more challenging backdrop, the resources available to ONS have reduced considerably, bringing further pressures.

Notwithstanding these challenges, ONS continues to deliver timely economic statistics to a consistently high standard, which are valued by a wide range of users. The Bank of England has recently confirmed that it was satisfied, overall, with ONS's performance in 2013/14 and was complimentary about many of our economic statistics, confirming that the concerns, as highlighted by the Governor, relate to a few specific areas.

I address those specific areas of concern you raised in your letter below:

#### **1. How does ONS intend to address the Bank's concerns that some statistics fall short of its requirements?**

The Governor noted in particular that the quality of data for 'other financial institutions' and private non-financial companies fell short of the Bank's requirements. ONS has established a new team which is scoping and planning improvements in these data and compiling detailed plans on how ONS can implement 'Flow of Funds' data within the National Accounts by expanding on existing data sources. These plans will identify where ONS needs to expand coverage of financial data in terms of flows (financial accounts) and levels (balance sheet information). Using a traditional business survey route will take several years to deliver data to the required level of detail and quality. Given the desire to see much earlier improvements in this area, we are therefore also exploring the potential for using administrative data (for example, that held by credit reference agencies) on the liabilities of households and non-financial and financial companies. This approach, if successful, could lead to far quicker results, substantial cash savings and reductions in respondent burden compared to the survey route, as well as gains in data quality. Such an approach may require additional funding to support commercial arrangements with the credit reference agencies, and would require significant support from the Bank of England. We hope to work with the Bank to take these investigations forward.

In addition, we have put in train a major piece of work to develop the ONS suite of financial inquiries. A range of developments is required to enable compliance with the European System of Accounts 2010, but we are ensuring that Flow of Funds requirements are also being addressed by these developments. We are also working to improve the quality of the industrial classification of the other financial institutions data.

More generally, ONS seeks to ensure all its statistics meet the highest standards, and we are committed to a culture of quality and continuous improvement. As part of this, ONS has initiated a National Statistics Quality Review of National Accounts and Balance of Payments, which is externally led by Kate Barker and is due to report in the spring of 2014. ONS also welcomes views on how its statistics can better meet users' needs and such feedback is an essential input into our future work planning and priority setting. For example, in 2013 a public consultation on the National Accounts forward work plan enabled the publication of agreed priorities for future years. This consultation will be repeated in 2014 and subsequent years to enable continued review and development of the work plan, helping to ensure it meets users' needs. Like all public sector bodies, ONS has to prioritise work as resources are constrained, but we discuss these priorities with the Bank and other key users on a regular basis.

## **2. What steps has ONS taken to reduce errors in datasets?**

ONS produces huge numbers of statistical releases and data tables every month. The demands on ONS from users for more and more data continue to increase, but our commitment to quality remains paramount and the error rate is very low. When errors do occur, we always seek to learn the lessons. Since the July 2013 errors in the Business Investment statistics were discovered, ONS has significantly increased resource levels in the relevant areas and taken actions to strengthen capacity and capability. We have increased the number of staff working in National Accounts by more than 100 over the last year. ONS has increased the number of economists over the last few years from around 10 to over 50, and this trend is continuing. The development of more detailed and tightly controlled Quality Assurance plans is being piloted in National Accounts business areas and will be rolled out to all the compiler areas involved in delivering Blue Book 2014 by the end of April. These plans will subsequently be rolled out to all economic statistics and beyond. ONS also involves external subject matter experts on a personal basis in its quality assurance activities. The role of these experts is being fully defined and reflected in the Quality Assurance plans.

A further development is designed to ring-fence the time needed for appropriate levels of quality assurance, to guard against production difficulties eating into this essential activity. The new Quality Assurance plans prescribe specific quality assurance procedures for each output. Any pressures to reduce the time allocated to these are subject to escalation procedures involving senior management. This approach reinforces the importance of necessary levels of quality assurance for ONS statistics, with a view to minimising the risk of errors.

## **3. What work is ONS doing to prevent further delays in the publication of datasets?**

The delay to the Capital Stocks data to which the Governor referred was directly caused by the need for further quality assurance of the data. ONS had been seeking to improve and strengthen the methods used in the compilation of this series. This improvement work necessitated further consideration of the system requirements and more extensive quality assurance of the methods and data, and hence led to a delay in publication. The Capital Stocks team also faced significant competing priorities to meet the data requirements for Blue Book 2014, which led to a further delay. ONS is currently looking at when we can publish Capital Stocks estimates without risking the delivery of Blue Book 2014. The Bank has been kept fully informed of the delays.

More generally, ONS has taken forward a range of actions to reduce the risks of further delays to its outputs. For example, we have invested in faster and more powerful servers for our IT systems, and we recently commissioned a short external review of the strategic computer platform for National Accounts to determine how we can make best use of its potential. The resources within the National Accounts business areas have been significantly increased over the past year, and capability has been enhanced through more focused training and coaching. And the new Quality Assurance plans provide a more structured approach to the timely delivery of quality datasets.

**4. The Governor explained that the Bank could benefit from additional work by ONS to help understand the recent changes to the methodology used to produce investment data. What work does ONS plan to carry out?**

ONS began intensive discussions about the new methodology with Bank staff immediately after Blue Book 2013 was published in July last year. ONS has since undertaken, and continues to deliver, a significant amount of work to help the Bank and other key users to understand the changes in methodology for investment data. ONS has had frequent meetings with Bank officials and others in recent months, during which the various methodological changes have been fully explored and explained. These meetings are continuing, and in addition a public seminar was held on 5 March to set out the methodological changes, the reasoning behind them and their impact. This was well attended (including by the Bank) and was well received. A few days later ONS published an article that fully documented and explained the changes and their impacts.

In addition, following Blue Book 2013, ONS conducted a review of the methods used to apply adjustments from the National Accounts Supply and Use balancing process to the detailed Gross Fixed Capital Formation product level data. The outcomes of that review have led to some changes in approach which will be introduced for Blue Book 2014, and the expectation is that these changes will reduce significantly the level of volatility in the quarterly data. This work has also been shared with the Bank, and was explained in the public seminar and in the recently published article. Some volatility will nevertheless remain as the ONS research has demonstrated that the underlying source data are themselves volatile.

ONS will continue to work closely with key users, to publish articles and hold public seminars to help users understand the further methodological changes that will be delivered in Blue Book 2014.

The Governor also noted that ONS is operating under resource constraints. While that is certainly true, ONS continues to work hard to understand the needs of all its customers and to make best use of the resources available to it to meet those needs wherever possible.

Yours sincerely



Glen Watson  
Director General for ONS