Reviewing quangos

Today I refresh my suggestion that the government during its spending review improves its financial and policy controls over quangos. The long trend to hive off more and more activities into so called independent bodies should be halted. In practice the public expects the government to shoulder the blame for anything in the public sector that goes wrong, so Ministers need to review policy and resources of the quangos that report to them and ensure value for money and fitness for purpose.

Ministers should be appointed by each Secretary of State to review the annual budgets, to review the annual reports and accounts and undertake any other meetings with quango heads where things are going wrong or where a change of direction is needed. This should all be reported to Parliament in the usual way. The review should decide which of these bodies are a needless overhead or a function the relevant department could carry out, and where a quasi judicial role or some other function warrants specialist management and a quango format under a policy and law determined by Ministers in Parliament.

If we take the case of Homes England it had assets of £21 bn and receives grant in aid of almost £5bn a year. It would be good to have a more open debate about the need to hold all these assets in such a body and to find out how much value taxpayers get for the grant in aid, given the substantial private sector money available to provide housing of all kinds.

Hollowing out government responsibility by giving it to so called unelected bodies does not succeed in shifting blame if things visibly go wrong. It can however shield these activities from proper scrutiny and criticism allowing waste and poor performance to persist. Some quango bosses come to think of the Quango assets as some independent fiefdom., when they are just part of the huge state balance sheet. The Treasury should review how much insurance individual quangos need as they are all backed by the state, and be critical of any independent financings which occur at higher costs than the general government. Network Rail, for example, has substantial index linked borrowings and foreign currency borrowings (c. £20bn)which increase public sector debt risk.

Buying more at home

If a bus company buys a bus made abroad the impact of the transaction on the UK economy and state finances is very different to a bus company buying a UK made product. The overseas product requires the UK to acquire the necessary foreign exchange, which means either borrowing in a foreign currency or selling UK assets to overseas buyers to balance the UK's balance of payments. Buying a domestic bus imposes no strain on the balance of payments and means no demand for foreign currency.

Buses are often bought with public subsidy, as many bus services are supported by Councils. The situation is even clearer where the public sector directly buys vehicles from foreign makers rather than domestic product. If a Council buys a home produced vehicle the state will get the benefit of the tax on the employees who made it and on the profits of the firm selling it. If the state buys a foreign product there is no tax gain from taxing the producers. The more we make at home the higher employment is, so the lower benefits to the unemployed can be.

When you look at countries like France and Germany you see that despite EU procurement rules their governments tend to buy domestic product in areas like vehicles much more than the UK does. The UK government should start taking into account the wider costs and losses of revenue from sourcing from abroad, and within international rules should seek better outcomes for domestic supply as other countries do.

The UK government is puzzling over whether and how to stop the rash of foreign acquisitions of UK companies and assets. One way to slow that tide is to buy less from abroad. The days of UK governments offering UK assets to foreign buyers and calling it inward investment seem to be coming in for some criticism.

What should the post pandemic railway offer us?

The latest figures from Network Rail reveal almost total dependence on taxpayers. Last year to March 2021 operating costs surged by 14% and passenger miles fell by 83%. Grant from the government was 68% of revenue, whilst much of the revenue from the train companies was also of course government grant supported. The railway is not only effectively nationalised, but it is largely paid for by taxpayers, not passengers.

It seems likely that there will be a permanent substantial drop in commuter demand for travel at morning and evening peaks. Many more people will only go to offices for part of the week, and there will be more flex over the timings of their journeys. Commuters have been dominant providers of passenger revenue, as many of the off peak leisure travellers have bought heavily discounted tickets for their travel. The railway needs to undertake an exercise to see what pattern of services would best fit the new working patterns. It also needs to do more work on flexible season tickets. I still think they need a model where a traveller can buy a full fare or an off peak fare ticket and gain an increasing discount for more use on an accumulator system.

The capital expenditure of the railway is distorted by the huge cost of HS2. It does need to spend on capacity and service improvements across the network. Digital signalling is the cheapest way of increasing rail capacity, allied to short pieces of by pass track to allow fast trains past stoppers. The railway should expand in to more freight which will require more branch lines and sidings into industrial parks and major locations.

The current rate of losses and subsidy is unacceptably high.The railway needs to be asked to show how it will get back soon to a majority of its costs being paid for by those travelling on it. Commuters and leisure travellers tend to have higher incomes than many non users. Relying more on fares as the pre pandemic railway did also helps to decide what services are needed and popular.

Government and private sector investment

I'm all for better schools and health facilities. These services paid for out of taxation need a suitable level of capital spend each year to update older buildings, expand inadequate capacity and replace buildings and equipment whose life has ended. There is no market test of this investment as no-one pays to use the services, so judgements need to be made about the scale of maintenance and replacement appropriate to have a decent service. The same judgements are needed for other services like defence and law and order where again there is no consumer market.
In other cases there either is some market test or there should be some market test as customers pay for all or part of the costs of the service, allowing civil servants to forecast returns on capital, and to compare with private sector equivalents. The case of the railways is a good one to examine, as the industry has until recently had a mixture of public and private capital and involvement, and passengers are meant to pay most of the costs of their collective travel. Many Councils run municipal versions of private sector businesses in areas like leisure and sport, so there is a test or standard of comparison to see what return is available and what level of investment makes sense. In these mixed areas it is also important the public sector does not swamp the activity with subsidised capital, driving out private sector provision.

Roads are heavily nationalised and display many of the problems of this form of organisation. Whilst many people like the fact that they do not need to pay tolls on most of the public highway saving some crucial bridges and tunnels, it comes at a high price in Vehicle Excise duty, car tax, VAT and fuel taxes which mean the motorists together pay far more than the cost of the roads. It also means important roads are often partially or wholly closed for long periods for roadworks which would doubtless be done more quickly and at off peak times were the roads earning revenue directly for an owner. It also means the design of such roads may often be vexatious to the users, whose priorities do not always figure high up the list when it comes to specification time.

The UK has spent less on road provision and provided far less high quality major road than competitors like Germany, the Netherlands, Belgium and Italy. The notional exercises to create a rate of return usually underestimate the likely use of a major new road and so understate the notional benefits. In contrast a project like HS2 greatly exaggerates the likely use and revenue potential of this planned new rail line and dismisses the point that fares will be under downwards pressure on competing lines once the new line is running, hitting the viability of other provision. The HS2 investment is disproportionate to the rest of the road and rail programme and will buy precious little useful capacity relative to its cost, and relative to the much better value for money capacity improvements we could achieve with less grand projects on parts of the rail and road networks.
It is time the evaluations of state investment was looked at again, with a view to greater accuracy and greater assistance to decision takers on priority projects. It is bizarre that much needed improvements to the A 303 holiday road to Devon, the A 34 haulroad from the Midlands to Southampton, the south coast missing highway, the poor capacity on the A12 and A14 to the east coast ports, the missing links on the A 1 to Scotland and the lack of capacity on parts of the M5 hold back economic development and increase industrial costs.Everyone will have their own local example of a bad road in need of improvement.

Funny figures

I rely a lot on official statistics to read trends and make policy suggestions to government. The problem is the figures themselves are very unreliable and need careful interpretation. Recent extreme movements caused by lockdown and closures on an unprecedented scale here and in most overseas economies makes it both revealing and hazardous to live by official figures. The experience has also blown apart many official forecasts, as the ranges are extreme and well outside past behaviours.

We have recently been told that there are over 5.5 million EU citizens living in the UK when throughout the referendum we were told it was around 3 million. We do not know how many illegals there are living here from around the globe. It mans that the official figures for the population are likely to be understated by a substantial margin . This affects figures for public service provision. It may depress income per head unless there is an offsetting amount of undeclared income by the unregistered or partially registered. What are we to make of productivity, as clearly there are more workers but maybe more work is being done as well.

The inflation figures have been under stress. They are based on a typical basket of goods and services that people buy. Our buying habits were transformed by lockdown. Gradually the weights and contents of the basket were changed, only now to need changing back as we come out of lockdown. Trying to forecast the inflation index has meant first trying to forecast what will be in it before then trying to forecast price moves of the components.

Official forecasts of the economy went haywire over Brexit as I forecast at the time. A series of grim and stupid negative forecasts were duly proved wrong by events. Then the official forecasters greatly exaggerated the debt and deficits forecasts for the pandemic lockdown period. These were more difficult to get right.

During the pandemic as reported here it was very difficult getting accurate figures for NHS capacity, for death rates and other crucial figures, and difficult getting meaningful comparisons between countries. We need better and more honest data. A hospital admission does not tell us anything about how ill someone is, how long they will stay and whether they will need intensive care.

We cannot have an informed public debate about health or the economy without better official figures from the state. We need those in the media citing the figures to understand what the figures are actually counting and how inaccurate they may be.