

Poor accounting by the ONS should not stop the necessar...

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I posted this thread on Twitter this morning. It covers water, nationalisation and dire accounting by the Office for National Statistics:

Discussions I have had over the last day or so suggest that there is massive political reticence to consider nationalising water because this might increase the UK's national debt and this, apparently, is a political taboo which prevents consideration of something so important.

The thread that follows is a bit geeky, nerdy or whatever else you might like to call me. But I've avoided technical complications and stuck to the core issues because they should matter to people who care about politics, water, and our survival. I hope you will read it.

There are three possible responses to this supposed debt problem. One is to consider whether nationalising water will increase the national debt. The second is to ask why we have such poor accounting for that debt. The third is to look at solutions that prevent this paranoia.

I have suggested that water nationalisation is essential. I can see no way that England's water companies can raise the £260bn required to deliver clean water, rivers and beaches to the people of this country. That's because they are environmentally insolvent.

Nationalisation will require that the shareholders and (maybe) the debt financiers of the water companies be compensated for their losses. My best estimate is that this might cost £45 to £50 billion. But this will not be paid in cash. It will be paid for with government bonds.

As most people know, issuing bonds creates a liability for the government. Assuming the bonds have a redemption or repayment date on them (and all UK government

bonds do at present) they have to be repaid at some time.

Bonds used to pay for nationalised industries in the 1940s were repayable in 30 years. The fact that they were immediately replaced by new bonds, meaning no effective repayment took place, is ignored for accounting and by MPs who claim debt is a burden on their grandchildren.

Accounting, properly done would, however, recognise something that the debt fetishist MPs do not, which is that in this case the debt is used to buy an asset. That asset would be the water companies, whose fair values would have been determined to be £45bn to £50bn.

In other words, debt would have been issued, but only because an asset would have been bought. So, the actual net worth of the government would not have changed as a result of nationalisation. The debt repayable in a generation's time would be represented by something of value.

Claiming in that case that the national debt has gone up and so the government can do nothing about the water industry - which is fundamental to not just our well-being but to our survival - is absurd. That is putting accounting before need, and that should never happen.

It is, however, what the UK's Office for National Statistics, which is responsible for preparing the UK's national debt data, would probably do. I can say that because since 2013 they have included the borrowings of Railtrac

k in UK national debt, but ignored all its assets when doing so.

The result is that because Railtrack is nationalised and owns the rails on which all the UK's trains operate because that network is too important to be in private ownership UK national debt is claimed to have increased by £28bn at present but the track is treated as worthless.

That, of course, is not true. But that's how the ONS accounts for this.

And this is not the only such issue. Right now it claims that the Bank of England, which is owned by the government, contributes around £300bn to the national debt but you will find no such number in its accounts.

Instead, that figure is made up (I use the term wisely) by the Office for National Statistics because it will not recognise the value of some of the assets that the Bank of England owns that are related to the debt in question. That is deeply misleading accounting.

There are exceptions, though. For example, the nationalised banks (NatWest and Lloyds

and others in the past) have massive liabilities on their balance sheets and are, or were, state-owned. But the ONS excludes those liabilities from the national debt.

The ONS does this because whilst these companies were or are state-owned and effectively state-guaranteed, they have supposedly independent boards of directors and so the ONS says they aren't state-controlled and so can be excluded from the national debt.

Again, this is complete nonsense. The reality is that the government could change the directors of these companies at any time to make sure that they do what the government wants. Of course they were or are state-controlled in that case.

As a result both their assets and their liabilities should be included in the estimation of the national debt - which will go down as a result.

The only reasonable conclusion to this discussion is that the ONS produce what I call CRAP accounts - they are completely rubbish approximations to the truth.

The ONS know I think this. We have discussed it. They began publishing how they calculate that bogus figure for debt created by the Bank of England as a result, as if that would keep me happy. It does not.

There is good reason for that unhappiness. If you want to know why Labour is talking about using social enterprise companies to control water is precisely and only to get around the dire accounting rules used by the ONS. And that's ridiculous when nationalisation is needed.

Accounting should never shape the way in which a transaction is done, most especially when as a result of dire accounting standards the wrong policy is pursued. But that is what looks likely when it comes to water.

Nationalisation of water should not increase the UK's national debt. If terrible accounting suggests it does then there is something wrong with the accounting, not the idea of nationalisation. So what can be done about this?

First, the ONS could be told to produce national accounts which properly reflect the assets owned by the UK government and the companies it controls. It has the power to do that.

The ONS will protest as a result saying that the resulting figure does not comply with international standards for national accounting, which were last revised just before the 2008 financial crash and, as a result, hopelessly fail to reflect current data needs.

That said, I accept the ONS's point. It is correct in the sense that the UK does have an obligation to produce the CRAP data required for international comparison purposes. But the ONS excuse is also nonsense.

The reality is that the ONS already produces a range of figures for UK national debt. None recognise the assets I want included, but that's not relevant. What the range shows is that the ONS can decide how to account when it wants. And it is choosing to produce misleading data.

It could now, if asked, in that case also produce figures that are not misleading by including asset information. They would not be internationally compliant, but so what? Call them management accounts if need be. I don't care. What I want is useful data.

Useful national accounting data is:

- True and fair, which at the very least means it is not misleading
- Helps good decision-making
- Reflects economic reality.

Right now what the ONS do does not meet any of those criteria so we get poor decision-making as a result. The political fear that I have already mentioned of nationalisation is clear indication of that. And that has to stop.

I reiterate: poor accounting should never get in the way of good decision-making, but it is in the UK because the ONS is producing really poor and deeply misleading accounting data. It is time to tell the ONS to produce decision-useful data. Then we might get better political decision-making as well.