

Ed Humpherson | Director General for Regulation

Angus Brendan MacNeil MP
Chair, International Trade Committee
House of Commons
London
SW1A 0AA

05 May 2021

Dear Mr MacNeil,

I write to update the International Trade Committee on the Office for Statistics Regulation's (OSR) compliance check of Foreign Direct Investment statistics from the Office for National Statistics (ONS) and of Inward Investment statistics from the Department for International Trade (DIT). This review follows up on recommendations made in our 2018 compliance check¹ of ONS's FDI statistics and those by your Committee's 2019 report into UK Investment Policy², which identified specific limitations to the existing FDI statistics and requested improvements.

In 2019, we wrote to the Committee saying that we would actively monitor the joint work being carried out by the ONS and DIT and their progress in meeting its recommendations. I am pleased to inform you that the ONS and DIT have made progress on some important development priorities, both separately and collaboratively, such as development programmes, FDI statistics by type, asymmetries research, availability of investment data and economy wide impact of FDI.

In April 2019, DIT collaborated with the ONS to fund a comprehensive investment statistics improvement programme. The ONS published clear and transparent priorities for FDI statistics in a 2019 development plan³. Significant progress is now being made on the aims of this plan, although we have some concerns that this progress has been slow since the Committee's initial report in 2019. We encourage both departments to be transparent about progress on meeting development priorities and to implement changes as quickly as possible for users. We are pleased to hear that the ONS plans to update users publicly on its progress later this year.

One of the Committee's concerns about the statistics was that different types of FDI have significantly different economic impacts in the UK. Some of the investment that is counted is simply 'passing through' the UK and makes very little difference to employment or economic growth. In response, the ONS is introducing new questions into its FDI surveys, to obtain more-detailed information on FDI by type, as well as on disinvestment

¹ <https://osr.statisticsauthority.gov.uk/correspondence/compliance-check-on-foreign-direct-investment-fdi-statistics/>

² <https://publications.parliament.uk/pa/cm201719/cmselect/cmintrade/998/998.pdf>

³ <https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/articles/developingforeigndirectinvestmentstatistics/2019>

and subnational FDI. We welcome the ONS's efforts to produce more-meaningful FDI data, which will increase the value of its statistics to stakeholders.

In 2020, the ONS published a detailed report on asymmetries⁴ in UK FDI statistics. By categorising the different reasons that asymmetries exist, this extensive research will help inform the ONS's efforts to address asymmetries in its statistics, while recognising some issues are outside of its control – such as companies giving different responses to different countries.

DIT is looking into opportunities to make more investment data readily available for the public and has also recently developed an econometric model using ONS data to estimate the economy-wide impact of FDI⁵. We commend both these developments, which will enhance the insight and value that the statistics provide in helping meet both priorities of Government and improve wider public understanding.

We also identified some areas where progress has been slow since the Committee's inquiry in 2019, and where more could be done to improve the quality and value of the statistics. These include a reliance on external data sources and narrow user engagement.

Both DIT and the ONS rely to an extent on external data sources for their statistics. In 2019, the Committee recommended that DIT should seek and publish information about the sources and methodology employed by the bodies concerned. DIT told the Committee it would add further information to the publication about the methodology used by third-party data providers to make it easier to understand, whilst also working to reduce its reliance on external sources for its inward investment statistics. We support this approach and have asked that DIT confirm to us the extent to which it has reduced its reliance on external sources and its plans to further reduce such reliance.

We also recommend that the ONS and DIT look to broaden their user engagement – by proactively engaging with groups outside of government, to encourage greater challenge and impetus in meeting development priorities.

We have asked the ONS and DIT to update us on their progress against these suggestions by October 2021. Please do not hesitate to contact me if I can be of any further assistance.

Yours sincerely,



Ed Humpherson

⁴<https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/articles/bilateralasymmetriesinukforeigndirectinvestmentstatistics/september2020>

⁵ <https://www.gov.uk/government/publications/estimating-fdi-and-its-impact-in-the-united-kingdom>