

# 8

## Micro-regional data

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**8.1** Chapter 4 set out the context within which regional and sub-regional data can help users to understand variations within and between regions, and the factors, such as productivity and employment, that influence regional economic performance. We call these micro-regional data, although the distinction between these and the macro-regional data discussed in earlier sections is clearer in some places than in others. For instance, regional investment is an important component of the expenditure measure of GDP, but it is also thought to be a key influence on productivity.

**8.2** The greater focus on economic policy at a regional level has created a growing demand for these data. At the same time there has been increasing demand for small-area data, because of the development of policies such as neighbourhood renewal, which are targeted at specific, often quite small, areas. As discussed in Chapter 3, the RDAs have a direct need for data to monitor their performance against a range of targets, including their Tier 2 and Tier 3 targets set through the corporate planning process.

**8.3** It is also important to recognise that variations within regions are often greater than variations between regions.<sup>1</sup> This is not surprising given the relatively large size of regions, with the average population of an English region being over 5 million. Most regions include a mix of rural areas and large towns or cities. The characteristics of these different areas are also of interest to policymakers. For instance, the Department for Environment, Food and Rural Affairs (DEFRA) has a PSA target to reduce the gap in productivity between the least well performing rural areas and the English median.

**Existing data 8.4** There is already a large amount of micro-regional data available. The range of potential indicators is illustrated by those included in the joint HM Treasury and Department of Trade and Industry (DTI) paper on regional productivity<sup>2</sup> and the DTI's *Regional Competitiveness & State of the Regions*.<sup>3</sup> Regional and sub-regional data presently available come from providers in both the private and the public sectors. And some data are funded by public sector bodies, such as RDAs or local authorities, but undertaken by private contractors. Some data cover all regions, while others only deal with one or two regions.<sup>4</sup> In some cases data are collected independently by several regions, but differences in sampling or survey methods may prevent the data being used for comparisons between regions.

**8.5** Many government departments collect or hold administrative data that include regional or local identifiers. Some of these data are already used in compiling regional indicators. For instance, the DTI's Small Business Service publishes information on small businesses in each region, drawing on data from the ONS and the Inland Revenue. Other sources are not used because of constraints on confidentiality, which can be a barrier to use by others within Government as well as preventing publication.

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<sup>1</sup> *HM Treasury and Office of the Deputy Prime Minister (2003) provided a number of examples of intra-regional differences.*

<sup>2</sup> *HM Treasury and Department of Trade and Industry (2001).*

<sup>3</sup> *Department of Trade and Industry (2003b).*

<sup>4</sup> *Centrally-provided data generally cover all regions, although some are only available for particular countries of the UK.*

8.6 However, as discussed in earlier chapters, this supply is more than matched by a large and diverse demand. There is some common ground in terms of the indicators of potential interest. But there is at present no consensus on which are the key causes of differences in regional employment or productivity and hence which data are required. Nor is it possible to classify in a simple way the widespread demands from other agendas. This part of the Review, therefore, concentrates on a suggested *framework* for regional information, which helps in particular to rationalise the diverse demand for and supply of micro-regional data, rather than a prescriptive list of required data, which would need to accommodate all the different regional interests. Moreover, we do not base our recommendations on any one policy agenda or view of the determinants of regional performance. In Chapter 10 we discuss a possible mechanism for deciding on relative priorities between the various demands for micro-regional information.

### NEIGHBOURHOOD STATISTICS

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**History** 8.7 The increasing focus of economic and social policy on small areas has been accompanied by a significant investment by the ONS in developing Neighbourhood Statistics. This followed the outcome of a specific consultation, *Report of Policy Action Team 18: Better Information*, published in April 2000<sup>5</sup> as part of the National Strategy for Neighbourhood Renewal.

8.8 As part of their remit, Policy Action Team 18 examined a number of Government initiatives for which small-area information was used to construct and implement programmes, and identified 20 Government initiatives as using small-area indicators. The Neighbourhood Statistics Service (NeSS)<sup>6</sup> was launched by the ONS in February 2001 with an initial database, created from existing sources, giving access to data down to electoral ward level. More data have been brought into the system over time, with information from the 2001 Census being added earlier this year.

8.9 The Neighbourhood Statistics Service has built up over a relatively short space of time to include an impressive array of data. This demonstrates the sort of improvement that can be achieved with investment of money, staff and senior management commitment, using technology now available. The service is already used for a wide variety of purposes, although the emphasis so far has been primarily on social and population statistics.

**Potential for development** 8.10 The ONS now plans to build on the successful implementation of NeSS by expanding the range of statistics covered, including available economic data as well, with the eventual aim that it should become the primary platform for area-based *National Statistics*. This would take NeSS further beyond the current key focus of neighbourhood renewal, reaching out to new groups of potential users. It could potentially include economic data collected by other government departments such as the DWP, the DTI and the Small Business Service. Over time, there will be scope to improve the coverage of data further by ensuring that a regional and local dimension is built into new surveys (including planned survey of household wealth, for example), and by looking for opportunities to exploit the potential of current surveys to provide better regional data.

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<sup>5</sup> *National Strategy for Neighbourhood Renewal (2000)*.

<sup>6</sup> *The ONS Neighbourhood Statistics Service is available on the ONS website. It covers only England and Wales; both Northern Ireland and Scotland have funded and developed their own similar projects. Where we discuss how to build on the base established by NeSS, we envisage similar development of the systems in Northern Ireland and Scotland.*

8.11 As well as serving those interested in regional policy and performance, NeSS appears well placed to include other features such as the ability to identify and to sort rural areas (once there is an agreed definition), which could be a valuable addition in relation to the Government's rural policy objectives. We have been reassured in discussions with ONS staff that the present NeSS infrastructure is capable of supporting a large amount of additional data, going beyond the original emphasis on statistics to support neighbourhood renewal.

8.12 Overall, we believe that an expanded system derived from the NeSS infrastructure could become the central resource that brings together the micro-regional data currently collected by the ONS and other government departments and agencies. Chapter 10 discusses a possible mechanism for agreeing priorities and which data should be provided by the ONS and other government departments. Substantial progress beyond the original remit of NeSS raises the question of whether a single access portal (on the ONS website) would be suitable for the full range of potential users. While there would be advantages in retaining an area that is very closely related to neighbourhood renewal, which would retain the 'Neighbourhood Statistics' badge, there might be benefits from having different ways to access the system for those interested in other types of information. This might involve, for instance, a portal specially designed for those looking at regional economic performance, or for particular sectors of the economy.

8.13 **Recommendation 22: The considerable work undertaken in recent years to develop the Neighbourhood Statistics Service shows what can be possible, although not without a price. We support the aim of the ONS to continue development of the Service. We recommend that this should include scope to cover an expanded range of economic data, which could be presented at a range of different geographies below and up to NUTS 1 regions, to become the key central resource for micro-regional data. Where possible, data for small areas should identify those that cover rural areas, once a consistent definition has been agreed within government. The range of different data, including regional economies and local neighbourhoods, might suggest a suite of different access portals for such an expanded system. But the 'Neighbourhood Statistics' badge should be retained for those data most relevant for neighbourhood renewal.**

8.14 **Recommendation 23: When designing new surveys, the ONS and other bodies should take full account of the need for regional and sub-regional data. How precisely this is done will depend on the particular circumstances, but cases of surveys that produce robust results only for the UK as a whole and not for regions should be the exception rather than the rule.**

8.15 There is considerable advantage from stable geographical definitions. The NUTS hierarchy (see Annex A1) is increasingly becoming the standard, although there are exceptions, particularly below NUTS 1, such as the present education, health and police geographies. Changing geographies, for instance shifting boundaries of electoral wards, pose a particular threat to data on relatively small areas. To reduce this threat, the ONS is developing a policy on geography for Neighbourhood Statistics that is based on grid-references and has more stable geographic building blocks (currently called Output Areas and Super Output Areas) below local authority districts.

8.16 **Recommendation 24: The NUTS hierarchy is now widely accepted across a broad range of statistical and administrative bodies. It should ideally be the standard, at the very least at the NUTS 1 level, unless there are overriding operational reasons to do otherwise. We welcome the ONS' proposals for a more stable small-area geography. Any new classifications that are introduced should where possible be built up from this proposed geography.**

8.17 Users we have spoken to have suggested that complete coverage should not always be a requirement before data are made available. Sometimes problems with small samples or confidentiality constraints may mean that data for some areas are suppressed, or simply not calculable. Similarly, there may be surveys that cover only some regions but do nonetheless provide useful information. Moreover, some types of data might not be sensible to collect for the whole country. A policy decision would be needed about the minimum coverage required for inclusion in NeSS, but we would encourage the ONS not to let incomplete coverage become a barrier to providing useful information.

8.18 **Recommendation 25: The current policy is that data included in the Neighbourhood Statistics Service should be available for all areas. However, in some cases, there may be good reasons why data are not available for all areas. Within reasonable bounds, we do not believe this should prevent their inclusion on a central system.**

**NOMIS** 8.19 At the moment, Neighbourhood Statistics are presented in a way that caters to the less sophisticated user rather than the professional user. As discussed in Chapter 7, there is already quite a rich array of labour market information available for both regional and sub-regional geographies. The ONS makes these available through the platform of the internet-based National On-line Manpower Information System (NOMIS). This system is rightly appreciated by professional users, who value the ability to select particular areas and retrieve time series with relative ease. Users have, however, expressed concern that such facilities are not at present readily available on NeSS, giving rise to fears that NOMIS will be left to wither on the vine to make room for the development of NeSS, with a long-term goal for NOMIS to be incorporated into NeSS. Users have also noted that some of the data included in NeSS are at present only available with quite a long time lag.

8.20 **Recommendation 26: Future development of the Neighbourhood Statistics Service, including the introduction of economic statistics, should take full account of the needs of professional users. Accordingly, the ONS should ensure that the analytical requirements of NOMIS users are met in the new framework. Until this is possible, NOMIS or an equivalent system should be retained separately and adequately resourced to maintain service to users.**

**Transparency** 8.21 Professional users are better placed to make appropriate use of statistics when they are well-informed about how the data have been constructed and which are appropriate uses. For instance, if a particular sector's GVA were apportioned between regions on the basis of employment shares, then those data would be unsuitable for regional productivity comparisons – because the apportionment method implicitly assumes that productivity is the same in each region. Another example where care would be needed is that the ONS is developing modelling techniques to provide synthetic income estimates at ward level for use in the Neighbourhood Statistics Service. While its access to information puts the ONS in a good position to undertake such research, it will be important that users understand that these are model estimates, which may have different properties to data derived from surveys. For instance, in many cases it would be inappropriate to use such modelled estimates in regression analysis.

8.22 **Recommendation 27: The ONS should aim to provide full information to users about how data have been constructed and which are appropriate uses.**

**Advantages of administrative data** 8.23 Chapter 10 explains how we believe that better use could be made of the administrative information held within government, and the legislative and other barriers that might need to be overcome. Many of the components of Neighbourhood Statistics are already derived from administrative information. For small-area data, such sources can be particularly valuable for avoiding problems from small sample sizes, because of their close to complete coverage.

## BESPOKE SURVEYS AND DATA COLLECTION

8.24 Even with a significant expansion of the Neighbourhood Statistics Service providing a focal point for micro-regional statistics, the almost insatiable appetite for data means that gaps will remain. Also, given the different character of the regions, there will be issues where regional or local bodies may wish to supplement the available information on particular aspects.

8.25 In such cases, regions (or sometimes groups of regions) may wish to undertake or commission their own data collection. Some surveys will be of particular interest to one region, for example the London regional authorities may wish to have more detailed information on the financial sector than similar bodies in other regions. But in other cases it is likely that several regions may have an interest in a prospective survey, for instance the use of ICT in their regions.

**Advantages of comparability** 8.26 When similar surveys are undertaken by a number of regions, the results would be much more meaningful if they could be compared. Without some degree of consistency, it would be difficult for individual regions to draw firm conclusions from their surveys: these might show whether an indicator is higher or lower than the previous year, but not whether it is high or low compared with other regions. That would require a certain degree of standardisation of survey questions and sampling methodology, including where possible the use of a common sampling frame. Chapter 10 also discusses the important parallel question of regional access to information from the Inter-Departmental Business Register.

8.27 There are a number of ways in which surveys undertaken or commissioned by regional bodies might be managed. At one end of the spectrum, all surveys could be conducted under central guidance and using the quality control procedures required of *National Statistics*. However, this would not only be expensive but could also infringe the important freedom of regional bodies to gather the evidence that they feel to be needed. At the other extreme, complete freedom would mean forgoing the benefit of comparability between regions and, in all likelihood, some arrangement would evolve to fill at least part of the gap.

8.28 Some of this co-ordination function is already being undertaken by Regional Observatories in the English regions. The Observatories aim to promote access to key regional data and intelligence, covering a range of economic, social, and environmental issues. Members of the Observatories meet regularly, under the auspices of the Association of Regional Observatories, which aims *inter alia* to encourage joint working of regional observatories and to identify and promote good practice in provision of regional data and intelligence. These meetings provide an opportunity to identify joint priorities and explore common issues and concerns.

**Increasing comparability** 8.29 Co-ordination and comparability of regional surveys could be enhanced if the present role of the Regional Observatories were supplemented by an advisory role for the ONS. The regional statistical representatives discussed in Chapter 10 would probably be the most appropriate initial point of contact. These should be able to provide consistent advice to each region on survey practice, standard questions and methodology – not from having methodology experts in each region, but from the ability to call on the central ONS resource (this may require some expansion of the ONS’ central methodological capacity). The regional presence of ONS or GSS members could also help by building links with key users in the regions, including regional and local policymakers and researchers.

**An intermediate ‘kitemark’** 8.30 We do not envisage an ONS or GSS regional presence that would have sufficient resources to offer the level of quality assurance, oversight and guidance that would be required to grant the *National Statistic* badge to local and regional surveys. But we do believe that there could be a potentially useful role for an intermediate form of ‘kitemark’, which would signal that data collection and compilation had been undertaken according to ONS guidance and that the results should be comparable with equivalent figures collected in other regions.<sup>7</sup>

8.31 There is obviously a range of practicalities of any such scheme that would need fleshing out to make it workable. As part of the nature of an *intermediate* kitemark, short of the full *National Statistic*, we envisage the role for the ONS in terms of activities such as setting standards, promulgating best practice and providing guidance, rather than the considerably more resource-intensive policing of those undertaking surveys.

8.32 **Recommendation 28: Regional and local bodies will still have particular needs that are best met through *ad hoc* data collection. Regional autonomy is important, but balanced against this are significant advantages of having data that are compiled on a consistent basis and that are comparable across regions. We therefore recommend that:**

- wherever possible, business surveys should use a common sample frame, usually the IDBR;
- Regional Observatories can play an important role here, including sharing of best practice;
- but this may be further facilitated by the ONS acting as a source of advice and best practice for data collected by regional bodies; and
- the ONS and others should consider an intermediate ‘kitemark’ for surveys which have been undertaken in accordance with ONS advice and compiled according to agreed standards and procedures, but are outside of ONS responsibility.

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<sup>7</sup> This would complement the views of the Statistics Commission, see *Statistics Commission (2003)*, which wishes to emphasise the ‘kitemark’ nature of National Statistics.



## Official statistics and changing economic structure

9.1 Most of the focus of this First Report is on regional data, as explained in the Introduction. This chapter presents our initial views on the extent to which the changing economic structure of the UK is reflected in official statistics. We intend to cover this issue more fully in our Final Report next spring, taking account of responses to this First Report.

9.2 Here we look at national macroeconomic statistics from the point of view of two principal (but related) sets of needs:

- conjunctural analysis and forecasting requires timely indicators of the most recent developments in the economy, not necessarily at high levels of disaggregation. A prime user is the Monetary Policy Committee of the Bank of England, but the information is equally essential for the Government in assessing fiscal policy and also for economic forecasters; and
- structural analysis typically needs greater disaggregation and a consistent picture of the economy. Timeliness tends not to be quite so important.

### Box 9.1: The effect of our proposals on national economic statistics

An important principle we have adopted is that our recommendations for enhancing regional data should also improve national data. We are looking to bring more information to bear on economic statistics, rather than simply improving the way that a given national total is divided between regions. That we have to make such a distinction between national and regional data is itself indicative of the disjuncture between national and regional accounts.

Therefore, over time, we would expect some improvement in the quality of the national picture from the inclusion of a regional dimension to the ONS' work, particularly through bringing more local information to bear<sup>1</sup> and through the increased sample sizes that would be necessary for good quality regional estimates. In addition, larger sample sizes could provide a richer source for some of the micro-regional data discussed in Chapter 8.

Chapter 10 discusses how access to administrative information, including tax records, could help to improve regional and national data and also reduce the compliance burden arising from statistical surveys. For instance, VAT records could improve the measurement and accuracy of value added estimates and self-assessment income tax records could contain useful information about self-employment income.

<sup>1</sup> Under the present Regional Accounts framework an increase in Scottish GVA, for example, because of local information would initially be balanced by offsetting reductions in the GVA of other countries or regions. If the new information should instead have been reflected in an increase in total UK GVA, this would not occur until the next set of National Accounts revisions.

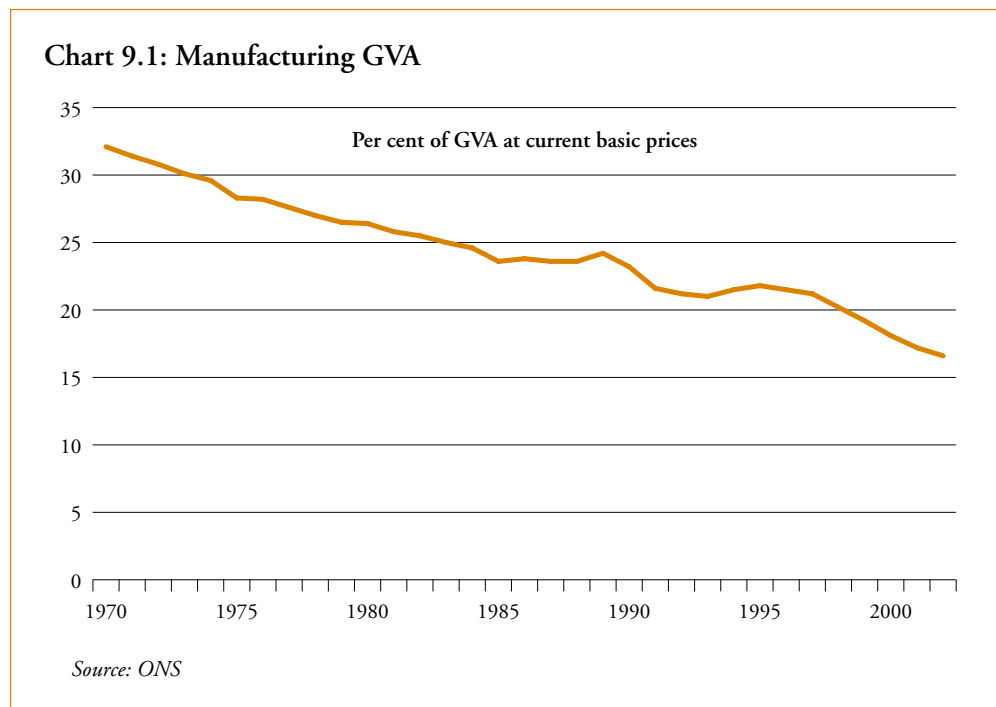
## CAPTURING THE CHANGING ECONOMIC STRUCTURE

9.3 Economies change in structure over time. The UK moved from a primarily agrarian economy at the start of the 18th century to an industrial economy by the end of the 19th century. The second half of the 20th century saw the growing importance of the service sector, which is now over three times larger than the manufacturing sector. And an increasing amount of activity now takes place in a global rather than a national setting.

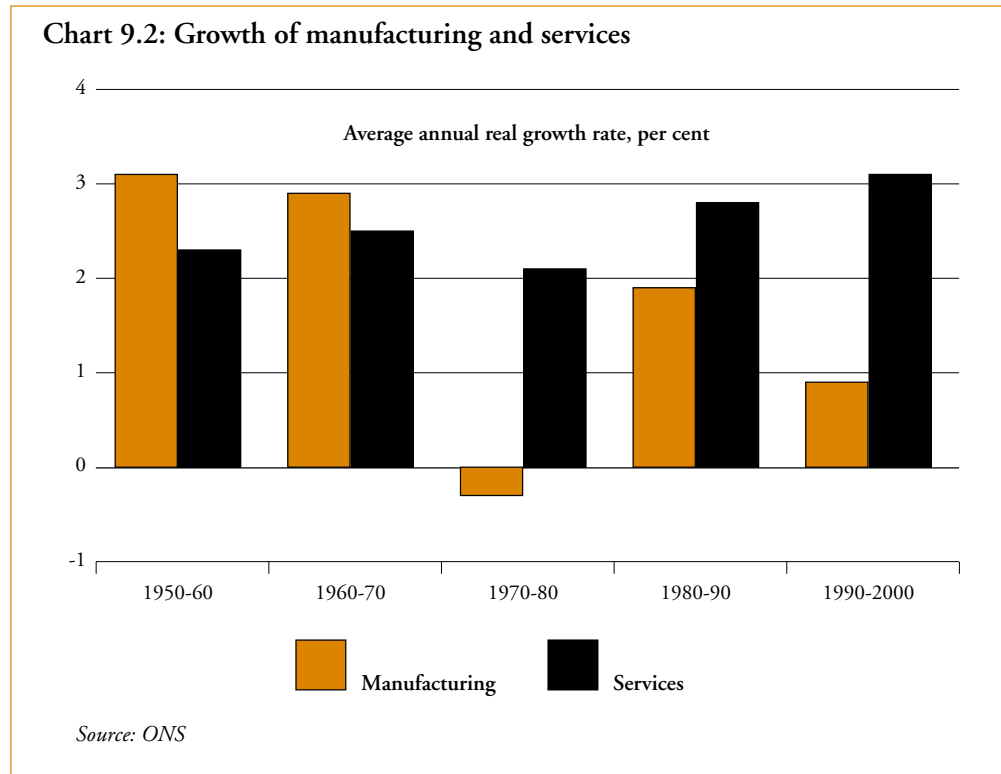
9.4 An essential feature of a statistical system is that it keeps up with changes in the things that it is trying to measure. Most of the broad changes outlined above occur relatively slowly, and similar trends can be seen in all major industrialised economies. More rapid innovation in recent years has included the rising importance of information technology and the ‘knowledge economy’.

9.5 The National Accounts system for the UK was developed in the middle of the 20th century. In 1950 manufacturing accounted for around 40 per cent of GDP and over 80 per cent of exports. So it is not surprising that the statistical systems were developed in a way that focused on manufacturing rather than services. However, the share of manufacturing in national income has almost halved since 1970, as shown in Chart 9.1.

9.6 Over time the statistical infrastructure has evolved to take account of many of these developments in the economy. But incremental change has left a significant gap between the present system and that which would be created if starting out today. However, this is probably equally so in most, if not all, developed countries. Nevertheless, UK official economic statistics remain considerably more developed for the manufacturing sector, accounting for under 20 per cent of GDP, than for the service (including public services) sector which accounts for over 70 per cent.



9.7 Since 1970 the manufacturing sector has grown on average at a slower rate than the service sector, as shown in Chart 9.2. This not only reflects the overall mix of economic activity but also other trends such as the increasing tendency for companies to purchase services from specialist providers rather than undertake them in-house. The effect on the relative shares of national income will be compounded by the tendency for goods prices to fall relative to service sector prices.



9.8 Table 9.1 illustrates how heavily the current statistical system is skewed towards the manufacturing sector. This is based on the nine broad sectors used for the initial disaggregation of the production measure of GDP, for instance in the National Accounts quarterly releases. The table shows that the 1992 Standard Industrial Classification (SIC – see Box 5.1) covers manufacturing in more detail than the service sector.<sup>1</sup> The 123 industry and product disaggregation used in the Input-Output Supply and Use Tables, which underpin the annual benchmark estimates in the National Accounts, is more heavily biased in favour of manufacturing, which accounts for nearly two-thirds of the products listed.

<sup>1</sup> To some extent this may reflect the nature of manufacturing and services. Types of goods are easier to delineate than certain types of service.

Table 9.1: Economic and statistical structure of the economy

	GDP <sup>1</sup>		SIC(92) Divisions <sup>2</sup>		SIC (92) Classes <sup>2</sup>		Input-Output Tables	
	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	
Agriculture, forestry & fishing	1	3	5	16	3	3	2	
Mining & quarrying (inc oil & gas extraction)	3	5	8	16	3	4	3	
Manufacturing	18	23	38	241	48	77	63	
Electricity, gas & water supply	2	2	3	4	1	3	2	
Construction	5	1	2	17	3	1	1	
Distribution, hotels & catering; repairs	16	4	7	86	17	4	3	
Transport, storage & communication	8	5	8	21	4	7	6	
Business services & finance	24	8	13	49	10	16	13	
Government & other services	23	9	15	53	11	9	7	
<b>Total</b>	<b>100</b>	<b>60</b>	<b>100</b>	<b>503</b>	<b>100</b>	<b>123</b>	<b>100</b>	
<i>Memo: services</i>	<i>71</i>	<i>26</i>	<i>43</i>	<i>209</i>	<i>42</i>	<i>36</i>	<i>29</i>	

<sup>1</sup> 2000 weights

<sup>2</sup> Divisions are 2 digit SIC, classes are 4 digit SIC

Source: Office for National Statistics (2003f)

**Sectoral classification 9.9** The SIC(92) is consistent with the NACE international classification<sup>2</sup> used by Eurostat (see Box 5.1). Outside of international agreement to change classifications, the ONS is left with little or no discretion to vary the categories up to the 4 digit classes, but can expand the detail by adding further subclasses at the 5 digit level. Using an internationally-agreed classification has significant advantages in terms of comparability of accounts and meeting Eurostat requirements for national statistics under regulation, as well as the ONS sharing the costs of developing and maintaining the system. However, such arguments apply less directly to the 123 industry disaggregation chosen for the Input-Output Supply and Use Tables, which is more heavily skewed away from services towards manufacturing.

**9.10** It is not immediately obvious what advantage there is in such an uneven distribution, other than going with the tide of history. Some of the focus on manufacturing reflects the ONS' commitments in the European context, but this seems unlikely to account for all of the imbalance. It may also reflect what can be most easily measured, which in turn has been determined by investment in data collection and methodology, or related issues such as data quality and disclosure.

**9.11** The pattern is broadly matched by statistical surveys, which have greater coverage of goods than services, although there has been substantial progress over the past decade or so in improving the coverage of the service sector in ONS shorter-term surveys – for instance the Monthly Inquiry into the Distribution and Service Sectors and the Corporate Services Price Indices, discussed below.

**PRODCOM 9.12** An extreme illustration is the quarterly PRODCOM (Products of the European Community) survey of production, covering some 5,000 products across 250 manufacturing industries. This survey is required under European Community regulation and gives useful information on manufacturing, in particular for the allocation of industries and products in Input-Output Supply and Use Tables. But it carries a disproportionately heavy burden in terms of both financial and compliance costs.

<sup>2</sup> The Structural Business Statistics Regulation (for which the ABI provides most of the data) requires delivery according to the NACE classification.

**9.13** Perhaps more importantly, there is no comparable information for the service sector, apart from a one-off pilot survey of the computer services sector, which was viewed as a study of the feasibility of a ‘SERVCOM’ inquiry similar in structure to PRODCOM. Such an inquiry would enable the provision of better breakdowns of service sector sales by product and meet user demand for more detail on the service sector. It would also improve the quality of annual GDP estimates through better product supply and demand balancing (see Chapter 5) and deflation of some GDP components. While the heavy detail required for PRODCOM makes it unwieldy and unsuitable for duplication for the service sector, there would be some advantage in finding more efficient and less burdensome ways of collecting similar information for the service sector.

**9.14 Recommendation 29:** The ONS should investigate ways of reducing the financial and compliance burden associated with the PRODCOM survey of production, in discussion with Eurostat and others as appropriate. The ONS should look at the best way of collecting similar information for the service sector.

**Other surveys** **9.15** The overseas trade statistics show a similar divergence between fine detail published monthly for trade in goods but only broad totals for trade in services.<sup>3</sup> And producer price measurement remains very much more developed for goods than for business services,<sup>4</sup> although development of these prices has been accorded high priority in recent years. But there has been better progress in other areas. In particular, the ABI was introduced as a single survey to replace the Annual Census of Production and a number of different annual construction, distribution and service sector surveys.

**Which level of aggregation?** **9.16** If designing a statistical system from scratch, a deliberately naïve first point of departure might be to assume that, at any particular level of disaggregation, each category or group of categories would account for a similar share of GDP. Even before considering statistical properties, there would be obvious problems – for instance, a cursory glance at Table 9.1 might suggest that the agriculture, mining, energy and construction sectors should be aggregated together if seeking similar size sectors. But the result would not be economically meaningful. There is a good case for some activities, for instance agriculture and forestry, remaining distinct even if they account for only a small proportion of total output.

**9.17** In reality, sample design would seek to optimise the sample to produce the most accurate results. This would include the need to take account of factors such as the degree of homogeneity within and between categories, and may provide some rationale for greater relative disaggregation of manufacturing than of services.<sup>5</sup> But is unlikely to explain how it is that at the 2-digit SIC(92) level we have the contrast between division 19 “Tanning and dressing of leather; manufacture of luggage, handbags, saddlery, harness and footwear” (around 0.1 per cent of GVA) and division 52 “Retail trade, except of motor vehicles and motorcycles; repair of household goods” (over 5 per cent of GVA).

<sup>3</sup> The principal survey, *International Trade in Services*, is quarterly.

<sup>4</sup> Prices of consumer services are measured as part of the Retail Prices Index.

<sup>5</sup> Another case could be made if there were greater variability in manufacturing than in services, though any relative measure of volatility would be difficult to assess, as it would itself be a product of the imbalanced detail of the statistical system.

9.18 Thus there is a case for moving away from stratification according to one specific level of the SIC(92) structure, but instead varying the level of stratification depending on the sector concerned (i.e. not all specifically tied to, say, four digit classes).<sup>6</sup> The classification was not designed as a stratification guide, but as a breakdown into identifiable industries. So it may be sensible to consider stratification according to different levels of the SIC(92) for different parts of the economy. Where the SIC(92) classification is very detailed, these groups could be covered at a higher level of aggregation; where the SIC(92) classification is broader then groups could be covered at a more disaggregate level. Extensive discussions have been making progress towards a major review of the SIC for 2007. This could be an opportunity for some rebalancing between sectors.

9.19 In considering how to achieve a more even coverage of the manufacturing and service sectors, an important issue is whether to equalise the level of detail up, down, or more likely somewhere between the two. It would be extremely costly to replicate the detailed coverage of manufacturing across the whole economy. But a certain level of disaggregation is needed:

- on the statistical side, it has been argued that the accuracy of the Input-Output Supply and Use Tables theoretically depends on the detail of the product (and hence industry) disaggregation. Also that price deflation is best carried out at a level of detail where products are suitably homogeneous;
- for users, some detail is needed to analyse particular sectors and to enable meaningful analysis of issues such as whether differences in regional productivity simply reflect the industry mix; and
- others have an interest in specific groups of industries, for example the ‘creative’ industries, which are not standard SIC categories.

9.20 Regional modellers have suggested to us that a level of detail equivalent to the 2-digit SIC is needed for analysing regional differences. Greater detail may be needed at the national level, but, as suggested in Chapter 6, it may be possible that less sectoral disaggregation would be provided for regional than for national data.

9.21 Once made available, people are likely to find uses for detailed figures and could object to their withdrawal. But without an effective way of challenging data needs, the implication is that virtually everything that is done to improve measurement of the service sector would involve net increases in total ONS activity – in other words, expansion rather than rebalancing. Accordingly, we believe that increased detail for the service sector should be accompanied by some scaling back of the most detailed coverage of parts of manufacturing (see also the discussion of the stratification of the ABI in Chapter 6).

9.22 **Recommendation 30: While it is always more difficult to stop an existing activity than to refrain from a new one, improved coverage of the service sector would imply a significant and continuing expansion of ONS activities overall unless there were some offset from reducing the detail in which some sectors are covered, particularly manufacturing. While recognising that EU regulations themselves focus particularly on the production industries, we ask the ONS to review the level of detail that is required of its surveys and sectoral coverage, including consideration of the statistical requirements for accurate aggregate results.**

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<sup>6</sup> This is already done for the Scottish component of the ABI (see Chapter 6).

9.23 **Recommendation 31:** The introduction of the ABI as a single survey covering most of the economy was a welcome move away from the previous separate treatment of the manufacturing and service sectors (and Recommendation 6 on the level of industrial stratification may help to rebalance the ABI coverage). But the Input-Output Supply and Use framework remains heavily skewed towards the manufacturing sector. We would welcome the views of the ONS and others on whether this is still appropriate and on options for future development.

**Measuring the service sector**

9.24 Apart from historical remnant, it is simply more difficult to measure the output of some service industries than that of manufacturing. For instance, what is the output of financial services companies? What precisely are the services provided by banks, fund managers and others? And how are they paid for? In many cases services are bundled within financial instruments – a deposit account offers liquidity, safe-keeping and payment facilities, but payment is often made indirectly through a relatively low rate of return on funds in the account. (In other cases, payment occurs through dealing spreads or may be supplemented by holding gains on securities acquired with the funds placed.) In practice, the ONS adopts a standard convention for financial services based on fees and the difference between interest receipts and payments.

**Government output**

9.25 In other cases, the major difficulty is in determining the price-volume split. This is probably most notable in the government sector, where for the most part no charge is made for services provided. We have a reasonable idea of how much is spent on the health service, but what is the volume of output? Until relatively recently, employment was used as a proxy for real output, with an implicit assumption of no increase in the productivity of those employed in the public services. The ONS is developing indicators of the volume of output, such as operations performed or pupils taught.<sup>7</sup> This progress is encouraging, though the measurement of public sector output remains an area where there is substantial room for further development.

## SHORT-TERM INDICATORS

9.26 The above discussion concentrates on the broad coverage and the foundations of the National Accounts, rather than the monthly and quarterly estimates that are needed to understand current economic developments. Good baseline data are, of course, required for structural analysis. And work towards the development of constant price Input-Output Supply and Use Tables<sup>8</sup> is a welcome component of the overall programme to modernise and improve the National Accounts. But policymakers face a classic trade-off between data that are well-founded and those that are timely (and hence of most interest for assessing the current conjuncture). Chapter 5 sets out how early estimates of the National Accounts aggregates are derived, and their development up to the time when fully-balanced figures from the Input-Output Supply and Use framework are available.

<sup>7</sup> Some further detail is given in Pritchard (2003).

<sup>8</sup> See Powell (2002) for a report on progress.

**Improving coverage of services** 9.27 The ONS has a number of initiatives to improve the measurement of the service sector. In particular there are experimental series published:

- the monthly Index of Services (IoS) uses turnover figures collected by the Monthly Inquiry into the Distribution and Service Sectors, which contributes to quarterly estimates within the output measure of GVA;
- Corporate Services Price Indices (CSPIs) are the equivalent of producer price indices for those services purchased by business and government; and
- quarterly labour productivity indices for the service sector and for distribution, hotels and catering.<sup>9</sup>

9.28 Development of the IoS and the closely-associated CSPIs has continued over a number of years.<sup>10</sup> The IoS production process has been speeded up and an industry review programme has looked at the methodology in seven out of 26 sectors, with seven more under review. CSPIs now cover around 50 per cent of the targeted sector. However, as yet no date has been set for the ONS' aspiration to drop the experimental label and make these series *National Statistics*.

9.29 **Recommendation 32: The coverage of the service sector in surveys of activity and prices should continue to be increased, building on the development of the experimental Corporate Services Price Indices and Index of Services, especially on improving the sectoral coverage. The ONS should accelerate work toward both the CSPI and the IoS losing their 'experimental' labels. A target date should be set for this to happen, which we suggest should be by 2006 at the latest.**

**Short-Term Output Indicators Review** 9.30 The first of the ONS' Quality Review programme was the Short-Term Output Indicators Review<sup>11</sup> (STOIR) published in October 2000. This looked at three key short-term output indicators: the monthly Index of Production (IoP), the quarterly production measure of GDP and the experimental monthly Index of Services (together with the CSPIs). It focused on those thought to be the most troublesome areas within the indicators. The Review concluded that the IoS and CSPIs were at the forefront of work on service sector statistics and the methods used to estimate output compared well with those used in other EU countries. The main recommendations were:

- support for continuing the integration of short-term indicators and National Accounts into a coherent system;
- the short-term indicators and sources should use consistent approaches and methods;
- the user requirement – particularly its focus on measuring changes rather than levels – should be reflected in indicator and survey methodologies;
- there should be a more structured, consistent and formalised process for the adjustments and interventions, sometimes on an *ad hoc* basis, applied to data series; and
- data collections for new indicators such as the IoS should be better co-ordinated with other ONS products, for instance reflecting the needs for National Accounts purposes.

<sup>9</sup> Described in Daffin et al (2002).

<sup>10</sup> Recent development of the IoS is set out in Drew and Morgan (2003).

<sup>11</sup> ONS (2000b).

9.31 Many of the detailed recommendations of the STOIR have been implemented already.<sup>12</sup> For instance, the development of the CSPIs has become more focused and co-ordinated with the IoS and the monthly and quarterly service sector surveys. Others are in progress, including benchmarking short-term indicators against constant-price Input-Output balances, once those are of sufficient quality to be in the core of the National Accounts framework. However, recommendations in several areas have not been started or have been deferred, including a harmonised economy-wide design across the short-term inquiries and exploring the scope to use VAT data. These might have been taken forward through a Monthly Business Inquiry project, but funding was not available beyond an initial scoping study.

**Consistency across surveys**

9.32 More generally, a coherent statistical system would not only take a consistent approach across sectors to surveys and sampling, but would also set monthly, quarterly and annual surveys as far as possible in a common framework that maximised the synergies between different surveys. Thus, for instance, there would be a close relationship between the Monthly and Annual Business Inquiries, which would probably include benchmarking the monthly data series onto the annual estimates when they are available.

9.33 **Recommendation 33: We believe there could be advantages from a more consistent approach to short-term surveys across all sectors of the economy, as suggested by the Short-Term Output Indicators Review (STOIR). A Monthly Business Inquiry could be developed to complement the ABI. Also we would welcome further work, as suggested by the STOIR, on the scope for using VAT data in place of surveys (see also Recommendation 41). The ONS should consider the benchmarking of short-term constant price production data onto the Annual Business Inquiry, retrospectively and as a matter of routine.**

## OTHER ISSUES

9.34 The discussion above and in earlier chapters has touched on a number of ONS initiatives aimed at improving the quality of economic statistics, including measurement of the service sector, the Quality Review programme and the planned re-engineering of the National Accounts, prices, population and labour market systems. All of these are welcome and should lead to a more robust, flexible and coherent statistical system.

<sup>12</sup> Full details of progress against the recommendations are given in *Office for National Statistics (2002c)*.

9.35 There are some other areas where work is underway to deal with new developments or to tackle data problems that have come to light:

- measuring the price-quality changes in high technology goods poses a particular challenge in such a fast-moving sector, where models are frequently upgraded or superseded. Earlier this year, hedonic regression techniques were introduced to adjust for quality changes in computing equipment in the PPI and HICP indices,<sup>13</sup> replacing the previous ‘option cost’ and ‘producer cost’ methods;
- measuring the volume of government output also poses problems in terms of price-quality changes. The ONS is developing indicators of the volume of output, attempting to allow for quality improvements, to replace less satisfactory proxies such as numbers employed;
- problems had led to suspension of capital stock data from the *Blue Book*. These have largely been tackled and balance sheets were published in the October 2003 edition, although some methodical questions remain. Over the longer-term the ONS is developing a volume index of capital services; and
- in the light of discrepancies between the ABI and LFS measures of employment, the Quality Review of Employment and Jobs is looking at the coherence of the different sources and the feasibility of developing a single integrated set of labour market statistics that meet all user needs.

**Sectors not covered by ONS surveys**

9.36 There are also a number of issues that may have important implications for how we measure economic activity. For instance, information and communication technologies (ICT) have had significant effects on how business is conducted, as well as being a rapidly changing sector that presents its own measurement problems for National Accountants. And the increasing number of companies operating at a global, rather than a national, level creates challenges as to how we capture their activity in any one country.<sup>14</sup> Neither of these are entirely new phenomena, but trends which have been underway for some time. We have not been able to explore their implications in any detail for this First Report, but will consider them more fully in time for our Final Report. In the meantime, we would welcome views on the implications of these and other changes in society for measuring economic activity.

9.37 As discussed in Chapter 5, the ABI and ONS shorter-term surveys do not cover all sectors of the economy, including:

- agriculture, where some data are collected and published by DEFRA;
- construction is included in the ABI but shorter-term data are collected and published by the DTI;
- public services data, including public sector education and health, are collected by HM Treasury as well as local government and public corporation sources; and
- some financial services data covering banks and building societies are collected and published by the Bank of England.

<sup>13</sup> For a full description, see Ball and Allen (2003).

<sup>14</sup> There are obvious parallels here with the problem for Regional Accounts of companies operating in more than one region.

9.38 Although construction accounts for around 5 per cent of GDP, initial quarterly estimates of construction output have at times been subject to such substantial revision that they have had a material effect on estimates of GDP growth. We have not had chance to explore in sufficient depth for this Report the provision of short-term and baseline information on construction and the other sectors excluded from either the ABI or the ONS short-term surveys.<sup>15</sup> Neither have we examined how compatible the needs of the ONS are with those of the data providers. However, we would welcome views and we intend to pursue these issues further in the Final Report.

9.39 **Recommendation 34: We would welcome views from data providers and others on the quality of data for those sectors where the ONS is not the main data producer, such as agriculture, construction, the public sector and financial services. And also on the availability of regional data, or ways that estimates of regional activity might be derived. If current sources were found wanting, our initial presumption would be for future inclusion in the appropriate surveys to be considered as a matter of urgency.**

## A FRAMEWORK FOR CAPTURING CHANGE

9.40 Much of the preceding discussion is based on improving macroeconomic statistics and reflecting changes in the UK economic structure. But what can be done to move from a reactive to a proactive stance, so that the statistical system does not lag forever behind significant structural changes? This was, in part, an issue picked up by the Short Term Output Indicators Review, with a recommendation that:

“As part of its planning process, the ONS should review whether there are significant new economic phenomena that would benefit from a co-ordinated approach for output and price measurement. If such areas exist, responsibility should be allocated to monitor and/or co-ordinate work programmes.”<sup>16</sup>

9.41 The ONS’ response<sup>17</sup> to this was to introduce a new procedure to the planning process from the 2003 planning round with the aims:

- to capture new economic phenomena as they arise;
- to allocate responsibility for responding to the phenomena; and
- to co-ordinate actions as part of the planning process.

9.42 Quite how these new arrangements will work in practice remains to be seen. The ONS’ modernisation agenda includes developing its understanding of the context in which statistics are produced. And it is paying increasing attention to areas such as globalisation, the new economy, the effect of ICT and its contribution to the UK economy. These are all important issues and we welcome the ONS’ action. But in other areas, and most relevantly here for the English regions, policy developments have so far significantly outpaced statistical capabilities. In part this may reflect the failure to embed the advice of analysts or statisticians in the process of setting targets, which we discuss in Chapter 10. But it may also reflect a need for a wider ‘watching brief’ than is exercised at present.

<sup>15</sup> *As well as construction, there are a number of other areas that are included in the ABI but which are not covered by ONS short-term surveys. These include mining and quarrying (DTI), energy (DTI), rail transport (SRA) and air transport (CAA).*

<sup>16</sup> *Office for National Statistics (2000b).*

<sup>17</sup> *Office for National Statistics (2002c).*

9.43 Recommendation 35: The innovative and strategic capacity within the statistical services needs to be strengthened, so that they can respond in a more satisfactory way to changes in the policy framework, in the economy and in society. A proactive approach to identifying and responding to these issues would include a strengthened research capability and greater ability to prioritise in the face of substantial but disparate user needs. We would welcome views on how this might best be done.

# 10

## Statistical infrastructure and administrative data

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**10.1** Our proposals for developing regional statistics touch on a large number of ONS processes and surveys. This chapter discusses institutional aspects, including two key recommendations: that there should be a regional statistical presence; and that systems should be put in place to enable greater use of administrative information. Our proposals do not, however, change the important principle that the National Statistician should retain ultimate responsibility for the quality of statistics and the integrity of procedures.

### Modernisation programme

**10.2** The UK statistical infrastructure and the ONS are undergoing significant change:

- the ONS' re-engineering project will entail an almost wholesale replacement of IT systems, which will affect the production of all of the main economic statistics over the next five years;
- another strand of the modernisation programme, which could also lead to significant change, is revisiting processes for producing all core statistics, algorithms for common processes and systems of data collection across the whole spectrum of ONS inquiries;
- a review of ONS' sources is aimed at re-evaluating the whole technique of household and business surveys with a view to streamlining and consolidation; and
- alongside these, there is ongoing work arising from reviews of individual statistics and processes under the programme of National Statistics Quality Reviews introduced as part of the recommendations in the White Paper, *Building Trust in Statistics*.<sup>1</sup>

### Constraints

**10.3** At least some of these programmes represent catching up after a long period of underinvestment in the UK statistical system. But there are also other, non-financial constraints that will need to be taken into account:

- the ONS relies on the skills and experience of its staff. Expanding its capacity at too fast a rate could mean that staff resources become spread too thinly; and
- the Government is concerned to minimise compliance costs, which arise because of the burden on business from collating information and filling in survey forms. These are discussed further in Chapter 11.

### Regional statistical presence

**10.4** Chapter 6 discussed how a regional statistical presence could help to improve the quality of Regional Accounts. Regional statisticians could be involved in analysis, validation and updating of IDBR and ABI data. There would also be scope to bring their local knowledge to bear on the Regional and National Accounts balancing processes. These activities follow quite logically from statistical roles in the devolved administrations, which have shown how experts who are closer to a region or country can add significant value to the production of regional data. These statisticians have a wider understanding of the specific issues within their local economies and are well placed to evaluate their detailed performance and structure.

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<sup>1</sup> *HM Treasury (1999)*.

**10.5** We envisage a significant outward-looking role for regional statisticians liaising with regional users. Chapter 8 outlined our suggestions for promoting a consistent approach to surveys, so that results are comparable between regions. Regional statisticians would be well placed to provide advice and guidance, with the ability to call on central ONS resources. So it is clear that close relationships would be needed with regional policymakers and other organisations, in particular Regional Observatories. Given the importance of access to information from the IDBR and the ABI, membership of the official statistics community would be vital in terms of ensuring that confidentiality is protected and that information is only used for statistical purposes. In this way, access to sensitive information might be made possible by virtue of keeping it within the statistical services.

**10.6** The proposals set out here will demand close co-operation between the centre and the regions, as well as building on the relations that are already established between the ONS and the devolved administrations. The wider role of regional statistics bodies and specific practical logistics, such as location within the region, should be largely managerial matters for further debate within the ONS and the Government Statistical Service (GSS).

**10.7** **Recommendation 36: There should be a significant ONS or GSS presence in each English region:**

- they should seek to provide a source of regional expertise to improve the ONS' understanding of the regions, while also developing links with and acting as principal contacts with regional bodies and researchers;
- the offices must be sufficiently resourced to make a real contribution. One person in each region, even with support from ONS Head Office, is unlikely to be enough; and
- regional statisticians should work with the same independence as those in ONS Head Office, while liaising closely with Government Offices, Regional Development Agencies, Regional Observatories, local authorities and other relevant bodies and individuals.

**EU requirements** **10.8** From an alternative perspective, the ONS is itself an element of the wider statistical infrastructure of the EU. There are instances where EU requirements appear to deflect domestic initiatives or priorities – for instance PRODCOM (see Chapter 9) and the detailed industry requirements of other surveys. While we recognise the benefits of statistical initiatives being on an international basis, as well as the significant advantages of harmonised statistics, we see a case for questioning some particular demands. As noted earlier, we support both a challenge to these requirements and/or attempts to meet them in a simplified or less rigorous manner. Moreover, EU regulations and requirements should not remain set in stone but, as we expect of national systems, respond to changes in economic dynamics and in user demands.

**Assessing micro-regional data needs** **10.9** In Chapter 8 we set out a model of micro-regional data provision. This was based on centrally-sourced data<sup>2</sup> made available through an expansion of the Neighbourhood Statistics infrastructure; and other data commissioned or collected locally, though with the possibility of a 'kitemark' signalling some level of comparability with similar data for other regions. What is needed, however, is a mechanism for marshalling the diverse data needs and deciding on relative priorities – for a given level of funding and statistical capacity, this would help to determine which data could be provided centrally.

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<sup>2</sup> Here we mean data provided by the centre, including other government departments, not just the ONS.

**10.10** Such a mechanism would need to include key users and producers of micro-regional data – indeed, regional bodies should play a significant part in balancing competing demands. Central government departments may also have needs for sub-national data to assess their own policy options, but should not be allowed to dominate the setting of priorities. We envisage that, as now, both central government departments and regional bodies would be able to fund additional surveys or boosts to ONS surveys (subject to any capacity constraints).

**10.11** In the first instance, the regional bodies on the group would need to agree their relative priorities. These could then be discussed with the ONS to decide which should be provided as *National Statistics*. We would expect the group to assess needs and priorities according to similar principals to those that we have adopted – a firm basis for data needs and balancing the costs of provision against the benefits of use. This would, therefore, give low priority to information that was felt to be ‘nice to know’ or that was expensive to collect. The group would also need to be able to change priorities and to respond flexibly to changes in policy or other requirements over time.

**10.12** **Recommendation 37: A mechanism should be set up for establishing priorities and assessing demands for micro-regional data. This might take the form of a high-level group including both producers and users of micro-regional data, with regional bodies having a significant voice in the group. The decisions of the group should take full account of the relative costs and benefits of data provision.**

**User groups** **10.13** We are concerned that users should remain closely in touch with all ONS developments and have a significant role in any debate. We therefore strongly support the existing ONS ‘user groups’, but stress that they must be properly resourced from both ONS and user perspectives in order to function effectively. However, we are equally concerned that the groups are not just ‘talking shops’, but fora where real issues are addressed and resolved. This might require the extension of resources specifically for these purposes and development of new groups where necessary. We believe such user groups are critical to key users’ perceptions of the ONS more generally. They also offer opportunities to examine the types of analysis that the ONS might provide for businesses in exchange for their co-operation with surveys.

**ONS central resources** **10.14** From a methodological perspective, our proposals could place increased burdens on an already stretched resource within the ONS. We therefore support the extension of its technical methodological capacity. The same is true for information technology programming and wider resources that are crucial to any changes to ONS outputs and methods.

**10.15** **Recommendation 38: A higher level of resources should be devoted to building methodological, user liaison and ICT capacity to the level necessary for compliance with the wider recommendations in this Report.**

**Policy targets** **10.16** Another specific example where user liaison is particularly important is in the setting of targets based on official data (or in some circumstances the absence of official data). Relevant statisticians in government departments and the ONS should be involved in such discussions from an early stage to advise which data are available, their relative merits, associated quality concerns and potential initiatives necessary to bring estimates up to user requirements. We believe that problems of targets without data, illustrated by the regional PSA target, can be avoided if the expertise of ONS or GSS analysts can be brought to bear on policy discussions before targets are finalised.

**10.17 Recommendation 39:** As targets need to be measurable, there are benefits from ONS or GSS experts being involved at an early stage of the development of targets, to advise on any associated measurement difficulties. All suggestions for new Public Service Agreement targets should therefore set out how performance can be measured, based on early consultation with the relevant analysts.

## ADMINISTRATIVE DATA

**10.18** A large amount of information is collected for administrative rather than statistical purposes, often by public sector bodies. Examples include tax data held by the Inland Revenue (IR) or HM Customs & Excise; benefits data held by the Department of Work and Pensions; and details on individuals held by education and health authorities. Some of this information already contributes to ONS statistics. For instance, regional income estimates have been derived from income tax and national insurance records held by IR. Aggregate estimates are compiled by IR, based on a sample of tax records and then passed to the ONS, rather than being calculated by the ONS from individual records. However, Chapter 5 noted that problems with the dataset in recent years have prevented its use.<sup>3</sup> The ONS would like to be able to use tax information to replace survey returns, particularly for smaller businesses, in estimates of National and Regional Accounts.

### Advantages of administrative data

**10.19** In principle, administrative data have a large amount to offer the statistical services, especially if access allows different datasets to be linked and aggregated, while safeguarding the confidentiality of businesses and individuals. There is often a large degree of common ground between data that are useful for administrative and for statistical purposes – particularly for tax records, which often include data similar to those collected by statistical surveys. For example, ‘value added’ information from VAT returns might lead to a better measure of GVA than the turnover proxy that is currently used.

**10.20** Moreover, administrative data usually benefit from close to complete coverage rather than survey samples based on only part of the relevant population. That can help to improve the quality of both UK-wide and regional statistics, where administrative data can help to avoid the constraints posed by small sample sizes. In addition, compliance costs (discussed in Chapter 11) can be reduced insofar as businesses and people are no longer required to complete statistical survey forms.

**10.21** The case for greater access draws in part on the experience of some other countries which make more extensive use of administrative data, in some cases to the extent that such sources have reduced the reliance on the more traditional statistical surveys. For example, Statistics Canada obtains an increasing amount of its information on small firms from administrative sources such as tax records. Access to administrative data was considered to be a minimum requirement for producing regional GDP data of sufficient quality to be used in allocating public funds between provinces and territories. Indeed, the use of tax records for economic data has been taken so far that Statistics Canada has the opportunity to make input into the design of tax forms.

### Barriers to using administrative data

**10.22** Use of administrative data is not, however, without problems. Administrative data very often contain sensitive personal or commercial information, which means that adequate safeguards of confidentiality are rightly a high priority and are often enshrined in legislation. This creates a legislative barrier that can prevent use of administrative data by the ONS for statistical purposes. In some cases the ONS believes primary legislation would be required to secure access. In others, however, the barriers are more logistical than legislative – for example problems arise because of incompatible computer systems or use of different geographical or accounting referencing conventions.

<sup>3</sup> As an example of other possible problems, Cameron and Muellbauer (2000) suggest that problems in allocating Inland Revenue tax records to regions led to an under-estimate of income growth in the South Eastern regions during the 1980s.

**10.23** An important part of providing safeguards against inappropriate use of sensitive information would be to ensure that information made available to the ONS for *statistical* purposes cannot be used by other bodies or for other purposes. As well as the requirement for public and political acceptability, concern over confidentiality of data used for statistical purposes could undermine survey response rates. It is worth noting here, however, that the handling of sensitive and confidential information is just as much part of the day-to-day business of the ONS as it is of the Revenue Departments.

**10.24** These types of barriers often reflect the fact that the data were not collected with statistical purposes or the needs of the ONS in mind. But for the large part they should be capable of being overcome in time if the gains are sufficient. Moreover, it is important to remember that administrative information can be subject to errors, just as surveys may not always elicit accurate responses. For example, the Inland Revenue may not hold accurate home addresses of all taxpayers, which would reduce the usefulness of information on taxable income classified according to where people live. Similarly, the industrial classifications held on VAT returns may not all be accurate.<sup>4</sup> And, of course, neither tax data nor statistical survey responses take account of activities that are deliberately hidden from the authorities.

**Other initiatives** **10.25** There are already initiatives underway seeking to rationalise how government bodies hold household and business records and to improve their compatibility:

- the Comprehensive Business Directory project is seeking to meet both statistical and administrative needs by improving the matching of data from different sources, including the ONS, the Revenue Departments, Companies House and the DTI. The longer-term aim is to move towards a single business registration number and a business register that would improve the quality and coverage of business data;
- the Citizen Information Project, led by the Registrar General for England and Wales, is examining the feasibility of developing a high-quality common population register. This would hold core data (such as name, address and date of birth) and a unique identifier on UK residents. Any proposals would need to be fully consistent with legislation covering data protection and privacy; and
- the proposed Integrated Population Statistics system aims to bring together data from a number of sources to produce a population statistics database that contains person-level information covering the whole population of England and Wales. Such information would provide a picture of the population far superior to anything currently possible. A number of issues, including legal and public acceptability, would need to be addressed before the proposal could be implemented. But potentially the system could begin to deliver population information early in the next decade.

<sup>4</sup>Such factors lead the ONS to conclude that the tax authorities will inevitably place more emphasis on the quality of information relating to taxation than on ancillary information that would be needed for statistical classification purposes. Such issues would need to be addressed if these tax records were to be used for statistical purposes.

**Access to data held by the ONS** 10.26 Just as the ONS makes a case for access to tax data, other users have spoken of the potential advantages of access to information held by ONS, and in particular the Inter-Departmental Business Register (IDBR): the importance of a common sampling frame was discussed in Chapter 8 in relation to regional and local surveys. The IDBR contains information about which businesses are in a region and access would allow sampling by regional bodies to be undertaken on a consistent and comparable basis. Local access<sup>5</sup> to the IDBR, subject of course to safeguards on confidentiality, could also have benefits to the ONS insofar as those with local knowledge might more easily detect inconsistencies and out-of-date entries. This would help to improve the quality of the IDBR and hence statistics at the national level. The regional statisticians discussed above would be well placed to receive secure access to ONS information and to provide regional intelligence back to the centre.

10.27 One special case where outsiders are allowed to use the underlying detail is that the ONS grants very limited access to some researchers under the Business Data Linking project.<sup>6</sup> This allows researchers working on projects of benefit to government to use the detailed business information collected by the ONS, with the Annual Business Inquiry being a crucial source, but in strictly controlled conditions within ONS headquarters so that sensitive information is protected against inadvertent disclosure. The process is, however, still at a relatively early stage in the UK, for example not yet including access to data on households or individuals. Many other countries also recognise the potential value to researchers of detailed information on statistical and administrative databases; and some have made greater progress in utilising this source of information.

10.28 **Recommendation 40: Administrative data, if used wisely, appear to offer opportunities to increase the quality and analytical power of key *National Statistics*, as well as reducing the associated compliance costs. More generally, within the important constraints of adequate protection for sensitive information and limiting use solely to statistical purposes, we believe there is considerable scope for the Government to make better use of the information that it holds. The ONS and the Government should explore the extent to which tax and other administrative sources could replace business survey data, considering ways in which the legal, administrative and confidentiality barriers could be overcome.**

10.29 **Recommendation 41: We recommend in particular that the Government should develop mechanisms whereby the ONS and the statistical services in the devolved administrations could have greater access to the information collected by the two Revenue Departments. On the other hand, the ONS should investigate how information on the IDBR could be made more widely available, subject to appropriate safeguards on confidentiality and use only for statistical purposes. Either of these may require changes to existing legislation, or indeed new legislation.**

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<sup>5</sup> Legislation could be required to enable local access, including a guarantee of the protection of information.

<sup>6</sup> For more details see Barnes & Martin (2002) and Criscuolo et al (2003).

# 11

## Business compliance costs

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**11.1** The ONS issued 1¾ million business survey forms during 2002. Forms were sent to 318,000 of the 2 million businesses on the IDBR, with the distribution heavily skewed towards the larger firms. Surveys impose compliance costs on those in the sample because of the time taken to obtain the required information and to transmit it to the ONS, which can be done either by filling in a form or over the telephone. Costs are obviously lower if the request is for information that the business has readily to hand, for instance from management information or accounting systems, than if special calculations are required.<sup>1</sup> In line with the Government's concern to minimise the regulatory burden on business, the *National Statistics Code of Practice*<sup>2</sup> includes a principle that:

“Costs of compliance will be kept to an acceptable level and data collected only when the benefits of a statistical survey exceed the costs to providers”.

In addition, a draft *Protocol on Managing Respondent Load* was issued by the ONS for public consultation earlier this year.<sup>3</sup>

### ESTIMATES OF COMPLIANCE COST

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**11.2** The overall compliance costs to business from ONS surveys are subject to an annual limit agreed by the Financial Secretary to the Treasury. The limit is set out in a Compliance Plan,<sup>4</sup> which also includes projections for a further two years. The compliance cost of surveys on business is estimated taking into account a range of factors, including the number of respondents sampled, the time required to provide the necessary information (including gathering information and any subsequent re-contact) and the typical hourly cost of the respondent's time.

**ONS compliance costs** **11.3** The total compliance cost for ONS business surveys in 2002 was estimated at £28.9 million.<sup>5</sup> Table 11.1 shows those individual surveys with a compliance cost over £1 million. As might be expected, the most expensive survey is the ABI. Compliance costs for the Monthly Inquiry into the Distribution and Service Sectors mainly result from the large number of forms sent out, which in turn reflects both the size of the service sector and the monthly frequency of the survey. PRODCOM is one of several surveys that are required under EU legislation. Much of the information obtained from PRODCOM would still be needed even without the EU regulation, although the ONS would then have greater freedom about how it might best be collected.

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<sup>1</sup> *Surveys on households and individuals have similar associated costs too. While most business surveys are on a statutory basis, the National Statistics Code of Practice says that compliance in household surveys will be sought primarily by persuasion.*

<sup>2</sup> *Office for National Statistics (2002a).*

<sup>3</sup> *Office for National Statistics (2003f).*

<sup>4</sup> *Office for National Statistics (2003c).*

<sup>5</sup> *Ibid.*

Table 11.1: ONS compliance costs, 2002

	Compliance cost, £m	Number of forms	Number of substantive complaints
Annual Business Inquiry (1&2)	7.9	167,000	126
Monthly Inquiry into the Distribution and Service Sector	3.4	346,000	198
New Earnings Survey	2.5	237,000	8
PRODCOM (annual & quarterly)	1.9	37,000	45
Monthly Wages and Salaries Survey	1.7	101,000	27
Annual Register Inquiry	1.3	127,000	18
Monthly Production Inquiry	1.1	107,000	11
Others	9.1	639,000	253
<b>Total</b>	<b>28.9</b>	<b>1,761,000</b>	<b>686</b>

Source: Office for National Statistics (2003c)

11.4 The ONS received only around one substantive complaint for every 2,500 forms sent out in 2002. Most complaints are about the overall burden, rather than specific surveys. However the two surveys most often included were:

- the ABI, which has a high compliance cost per form (averaging nearly £85 per form for ABI(2), compared with an average for all ONS business surveys of a little over £15 per form); and
- the Monthly Inquiry into the Distribution and Service Sectors, which account for around one fifth of the total business survey forms sent out by the ONS.

11.5 The PRODCOM survey also has a relatively high compliance cost per form issued, and an above-average ratio of complaints per form.

**GSS compliance costs** 11.6 The total compliance cost of business surveys undertaken by the Government Statistical Service (including other government departments as well as the ONS) was £70.5 million in 2001, the latest year for which data are available.<sup>6</sup> Of this total, the ONS accounted for £26.2 million. The two most significant contributions from other departments were:

- HM Customs & Excise, £31.4 million for the Intrastat survey of external trade, which is required by EU legislation (and exceeds the total compliance costs of all ONS surveys); and
- the DTI, £6.9 million, of which surveys of the construction industry accounted for over £5½ million.

11.7 Given the central role of the ONS, it is not surprising that it accounts for a relatively large share of the compliance costs of government surveys on business (although the relative costs of individual surveys appear at first sight to compare favourably). However, the costs of government statistical surveys form only a very small part of the overall cost to business of complying with government regulation, and averages under £30 per business a year.

<sup>6</sup> Figures from Office for National Statistics (2003b).

**Compliance planning** 11.8 All government departments and agencies conducting statistical surveys of businesses or local authorities are required to prepare an annual compliance plan on a rolling three-year basis. The ONS Compliance Plan<sup>7</sup> was approved by the Financial Secretary to the Treasury and includes a proposed survey programme with compliance costs for 2003–04 and projected compliance costs for 2004–05 and 2005–06. The forecast of total compliance cost in 2003–04 was £28.1 million, in real terms the same as in 1995. Proposals for surveys that would imply breaching the compliance cost ceiling would require the approval of the Financial Secretary to the Treasury. In the absence of such approval, any changes would have to be postponed, or offset by reducing the compliance burden elsewhere.

## MINIMISING THE BURDEN ON BUSINESS

11.9 The ONS takes the issue of compliance costs seriously and compliance planning is an integral part of the ONS business planning process, in the context of the Government’s emphasis on better regulation. The Survey Control Unit in the ONS was set up to take responsibility for survey control across all government departments, aiming to promote good quality surveys and to ensure that burdens on data providers are kept to a minimum. In addition, all government departments are required to review regular annual surveys at least once every five years, to confirm whether there is a continuing need for the survey and to ensure that it remains suitably designed. Quarterly and monthly surveys are reviewed at least once every three years.

11.10 Other ongoing initiatives include the Budget 2003 announcement that:

“the National Statistician is taking further steps to minimise the survey compliance burden on businesses, in particular through rationalisation of surveys, wider use of administrative data and greater use of new technology in data collection. To strengthen firms’ input into this process and to ensure the most efficient use of data collected, the Office for National Statistics (ONS) will establish a Small Business Forum.”<sup>8</sup>

**Osmotherly Guarantee** 11.11 However, concern over the compliance burden on small firms is not new. The current ONS framework follows from the recommendations of an independent study, Osmotherly (1996), on how to reduce the survey compliance costs to business, and in particular to small and medium-sized firms. The ‘Osmotherly Guarantee’ is that businesses employing fewer than 10 people that are selected for an ONS survey:

- will be notified how long they will be included in the survey (not usually more than 15 months);
- will not be required to contribute to another ONS statutory survey during that time; and
- will not be required to contribute to any statutory ONS postal survey for a further three years.

11.12 In 2002, there were 1.8 million enterprises on the IDBR employing fewer than 10 people. Around 8 per cent of these were selected for inclusion in ONS surveys during the year. Most small businesses remain in the sample for a set period of time and are then rotated out, which means that the burden of compliance is spread between businesses (although this can contribute to sampling volatility).

<sup>7</sup> *Office for National Statistics (2003c).*

<sup>8</sup> *HM Treasury (2003a).*

**11.13** In practice, however, the ONS has found it impracticable to apply the Osmotherly Guarantee to every small firm. A relatively small number of businesses with low employment but very high turnover have been considered so important to particular surveys that they have had to be selected. And Treasury Ministers agreed that the New Earnings Survey should be exempted from the Guarantee, to ensure that the NES results were fit to evaluate the effects of introducing the National Minimum Wage.

**11.14** The ONS has also been considering how similar guarantees might be extended to firms employing between 10 and 19 people. This issue will be an early priority for the Small Business Forum, which met for the first time in July 2003 and will be covering all GSS surveys, not just those of the ONS. Representatives from the British Chambers of Commerce, the Confederation of British Industry, the Federation of Private Business and the Federation of Small Businesses were invited to join the Forum, along with a member of the DTI's Small Business Service.

**11.15** There are, in principle, a number of approaches to reducing compliance costs without reducing the range of available data. Indeed some may offer opportunities to increase data quality. Possible actions, which the ONS adopts to varying extents, include:

- **making it easier to respond** – simplifying forms, requesting information that is already available to firms on their own systems, improving the interface with business accounting software and electronic transfer of information to the ONS. As part of its Modernisation Programme, the ONS is developing data collection via the internet;
- **fewer surveys** – amalgamating or dropping surveys to reduce the number of forms that businesses receive;
- **using other sources of information** – making better use of information already held by government, especially administrative data, although there are currently constraints on the extent to which data can be shared across government (see Chapter 10);
- **re-stratification** – if there is scope to reduce the industry detail required in a survey, then there may be a consequential opportunity to reduce the sample size; and
- **improving the response rate** – even statutory surveys do not have a 100 per cent response rate. A better response rate would mean that a smaller sample was required to provide the same quality of data. Alternatively, better data could be collected without increasing the sample size and with less chance of significant revisions.

**Simplifying surveys** **11.16** The continuing process of review discussed above should help to improve statistical survey forms. The ONS is also looking at the scope to integrate or rationalise the existing suite of surveys on business, with a similar initiative looking at household surveys (see Box 7.1). Nevertheless, some of the comments we have heard from business indicate that there are still areas where improvement is necessary.<sup>9</sup>

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<sup>9</sup> See the submission to the Review by the Manchester Chamber of Commerce, available on the internet at [hm-treasury.gov.uk/allstopp](http://hm-treasury.gov.uk/allstopp).

11.17 The tone of these comments suggests that there may be a need to go further not only in making survey forms as clear and simple as possible, but also in explaining the purpose of the survey and why the information is required. The ONS has commenced a programme to review the questionnaire design of all its surveys, and a separate flyer is sent to all newly-selected businesses explaining the importance and significance of their contribution to the survey. It is also investigating ways in which survey results can be conveyed back to respondents.

11.18 **Recommendation 42:** We welcome action by the ONS to keep the complexity of its survey forms under review. The ONS should simplify forms as much as possible (recognising the constraint of the need for consistent questions) and also consider whether there is scope for rationalising surveys, for instance by amalgamation, where this would reduce compliance costs.

**Increasing  
response rates**

11.19 Most business survey samples include all large businesses, but only a proportion of small and medium-sized firms. If not all of the large firms in the sample respond to the survey, then increasing the sample size to compensate would not be appropriate, because that would increase the proportion of small and medium-sized firms, rather than tackling the response rate of larger firms. Most ONS business surveys are statutory, but rely in practice on effective persuasion of respondents, with legal action seen as a last resort. So no survey, not even a statutory one, obtains a 100 per cent response rate.

11.20 However, we believe that there may be scope for the ONS to forge a better, two-way relationship with businesses. This could enable better understanding by business of the needs for data collection and its benefits, but also a better understanding by the ONS of how it affects businesses and how it might tailor data collection procedures. Such an approach, building on present ONS plans to improve feedback and relationships with larger businesses, could lead to a better response rate and fewer complaints. The ONS has a Service Delivery Agreement objective to improve the public perception of the integrity of National Statistics. There is a case for going beyond this in improving the ‘brand image’, in particular so that firms recognise how their survey responses contribute to informing national policy.

11.21 **Recommendation 43:** The ONS should seek to exploit full advantage from further developing its relationship with companies providing data, for instance by explaining how surveys are used and offering firms information about their sector. The ONS, possibly with the involvement of HM Treasury and the Bank of England, could also improve its ‘brand image’, so that firms recognise the outputs to which their responses to surveys contribute and their importance for national policy. This could improve the response rate of surveys and the quality of returns made by companies, as well as the potential to reduce complaints over compliance burdens:

- the ONS should review the way it explains to firms why it is seeking information from them; and
- part of this could involve (with help from HM Treasury and the Bank of England) regular roadshows to the regions to show firms how their responses feed into the production of national and regional statistics and subsequently into better policy making.

## THE EFFECT OF OUR PROPOSALS ON COMPLIANCE COSTS

**Pressure on compliance costs** 11.22 Securing the regional data required to support the Government's regional objectives requires a step change in approach. Under the present statistical framework, it seems very unlikely that this could be done without a significant increase in the ONS compliance ceiling. Among our recommendations, the introduction of a regional stratification of the ABI stands out for its potentially large effect. But providing a full range of regional data may also mean adding a regional dimension to other surveys, such as those required for any price deflators and the shorter-term surveys that would be needed for more timely annual estimates of regional GVA.

11.23 Table 11.1 above shows that the ABI is the ONS survey with the heaviest compliance burden, accounting for over a quarter of the ONS compliance budget. The ABI is already stratified for Scotland and Wales, and previously for Northern Ireland until a separate ABI was introduced by the Department of Enterprise, Trade and Investment. Any change in the degree of industry detail required is less likely to be used to reduce the total compliance cost *per se* than as a way of mitigating the effect of increasing sample sizes for regional stratification.

11.24 If regional estimates of the same quality as the present UK National Accounts were required from the ABI, the ONS estimates set out in Annex A2 suggest that the ABI sample size would need to rise from around 74,000 to around 570,000, with compliance costs of the survey rising from £7.3 million to £20–25 million. An intermediate option, that accepted around 30 per cent wider confidence intervals for regional estimates than for the UK National Accounts, would still imply something like a doubling of the compliance cost of the ABI. That would be an increase of £7 million on a total ONS baseline of around £28 million (though we discuss above some ways in which part of the increase might be offset).

**Use of administrative data** 11.25 We have highlighted above some actions that might mitigate the increase. In particular, greater use of administrative data (see Chapter 10) seems to offer significant potential for reducing the compliance burden associated with a given range and quality of data. We have been told that Statistics Canada obtains an increasing amount of information from administrative sources, such as VAT and company taxation records, especially for small firms. This reduces the reliance on traditional statistical surveys, but it does require particular administrative and legal arrangements in place to allow such use of tax information.

11.26 In the absence of a fundamental shift in emphasis towards using tax and other administrative data in place of statistical surveys, a potentially significant increase in the overall compliance cost would be required in order to provide improved regional data. Even if there were sufficient access to tax information, some increase in compliance cost would be difficult to avoid. While it is right that Treasury Ministers and ONS officials should be concerned not to impose too heavy a burden on business, and particularly small businesses, it is important to recognise that serious improvements in economic data are not costless - in terms of both cash and compliance burdens.

**Compliance in context** 11.27 The ONS compliance budget is equivalent to around 0.003 per cent of UK GDP, or 0.007 per cent of public spending. Looking in regional terms, the ONS compliance ceiling is equivalent to 0.007 per cent of the combined GVA of the six 'lagging' English regions outside of London, the South East and the East of England. These very small percentages indicate that if better data helped to achieve the Government's target of raising the growth rate of all regions and reducing the persistent gap in growth rates between regions, then the potential gains would be likely to dwarf any increase in compliance costs.

11.28 **Recommendation 44:** We recognise that businesses today face many administrative and regulatory burdens, which can be especially difficult for small firms. The compliance cost associated with statistical inquiries is rightly under close scrutiny. But we believe that the ONS accounts for a very small part of the overall regulatory and administrative requirements placed on business. While such burdens should never be increased without good cause, it would be unfortunate if concern over compliance costs proved to be a barrier to significant improvements in national and regional statistics. There may be scope to offset some of this, in particular through making better use of administrative and tax information.

11.29 More generally, there is continuing tension between pressures to reduce business compliance costs and the need to improve the quality and develop the range of *National Statistics*. When the number of small firms in a stratum is relatively small, the Osmotherly Guarantee can be a real constraint and lead to inefficient sampling, particularly when looking at smaller levels such as regions. And while we have suggested that there may be scope to reduce the detailed coverage of manufacturing (see Chapters 6 and 9), we would not wish to see the benefits of improved coverage of the service sector diluted by an *automatic* offsetting reduction in coverage elsewhere, and consequentially a potential decrease in reliability.

11.30 **Recommendation 45:** We would welcome the views of the ONS, the Government and others on the trade-off between the cost of any increased burden on business and the benefits from improvements in economic statistics.



# 12

## Next steps

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**12.1** This is our First Report. We have reached fairly firm conclusions on some issues, but on a number of others we would like more information from both users and producers of data to inform our Final Report. Some of our recommendations explicitly request comment. In some cases, however, we have made specific recommendations in part to elicit reactions and to allow us to gauge the views of others.

**12.2** In the time available, we have focused primarily on the economic statistics needed for regional policy. Chapter 9 outlines our initial views on the other part of our remit – whether official economic statistics properly reflect the changing economic structure of the UK. We will cover these issues in greater depth in our Final Report, by the time of the 2004 Budget.

**How to comment on this Report** **12.3** The Review Team would welcome comments on our recommendations or any aspect of our Report, including any issues that we may not have mentioned but that others feel are important. Responses should be received by Friday 13 February 2004. They can be sent in writing to:

Allsopp Review Consultation  
Room 3/19  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

Alternatively, responses can be e-mailed to:

[allsopp.review@hm-treasury.gov.uk](mailto:allsopp.review@hm-treasury.gov.uk)

**12.4** All responses to this Report will be considered carefully. Individual responses and the names of respondents may be quoted in our Final Report and made available to the public unless the response clearly states that it should remain confidential.

