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Mr Christopher Allsopp
Room 3/19
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Dear Mr Allsopp

REVIEW OF STATISTICS FOR ECONOMIC POLICYMAKING

Highlands and Islands Enterprise welcome having the opportunity to contribute to this important consultation document. While we strongly support the broad thrust of the recommendations made in this report we would like to strengthen these in a number of areas to assist us in the delivery of our objectives in the most rural and sparsely populated part of the UK.

The make-up of the Highlands and Islands economy is quite different from the rest of the country, making analysis and interpretation of statistics a more challenging task. The economy is dominated by SMEs, and self-employment rates are higher here than elsewhere in the country. (Across the Highlands and Islands 47% of employees work in firms with 24 or less employees, compared to the Scotland figure of 33%. In Orkney, the 2001 Census revealed that over 16% of the economically active population is self-employed, compared to the Scottish figure of 7%.) It is also interesting to note that average earnings for the self-employed in this region tend to be lower than average earnings for employees. This is due to the reliance on agriculture and other primary industries, and the tendency for people to have a number of part-time occupations in areas where economic opportunities are scarce.

The third key difference between the Highlands and Islands the rest of the Scottish economy relates to the manufacturing sector. Fewer than 10% of the region's workforce are employed in manufacturing, while the figure for Scotland (from 2001 Census) is over 13%.

The impact of these factors is that national statistics are unable to accurately reflect the economic conditions experienced in this region. Current reliance on returns from large employers, and the lack of regular information on the self-employed introduces a significant margin of error into the figures. In addition, many of the national surveys that are undertaken door-to-door do not operate north of the Caledonian Canal (due to the additional cost of surveying sparsely populated areas and islands). These surveys are practically worthless from a policy making perspective, as the samples are so small and provide only limited coverage of the region.

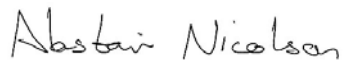
Taking the above factors into account, we fully endorse your recommendations and would augment them with the following points:

- 1 Inland Revenue data would be especially useful for small businesses and the self-employed where all trading is undertaken from a single address. The dominance of this type of activity in this region means utilising this data source would greatly improve the accuracy and therefore usefulness of national statistics.
- 2 We would agree that present GVA estimates are not of a high enough quality. The Scottish Executive is pursuing a strategy for enterprise that proposes evidence-based policymaking. Measuring the *impact* of this strategy (at NUTS II level) would be far easier and more able to inform future policy if the margin of error in GVA estimates was reduced.
- 5 The Highlands and Islands is a very large and sparsely populated area. (Population density is around 10 persons per square kilometre, compared to the rest of Scotland at 130, and the UK at 243.) The size of the area means that the economy does not operate as a single cohesive unit and therefore data at the NUS III or even NUTS IV level would be extremely useful for monitoring intra-regional differences. The development of other indicators to provide a better picture of local economic conditions is an idea we would be keen to support.
- 6 The ABI reliance on larger businesses and the skew towards the manufacturing sector is bias against this region, where the economy is dominated by smaller businesses and the service sector. We also have concerns that the SIC coding system does not offer the flexibility to capture data on emerging sectors which may not have a specific code (such as renewable energy) but may have higher GVA growth potential and therefore require specific monitoring and support from regional development agencies. The inclusion of standard error data would also be very useful for determining the reliability of ABI data.
- 10 The issue of regional price variations is one that is of great interest to us as we are responsible for urban, rural and remote rural communities. In partnership with the Scottish Executive we have undertaken primary research to produce a Rural Scotland Price Survey – comparing prices of comparable goods in different localities across the country. We would be happy to share our findings and experiences with ONS.
- 13 In order to effectively measure progress towards meeting the objectives set out in a Smart Successful Scotland (the Scottish Executive’s Strategy for Enterprise) we will rely on robust data at the NUTS II level. The significant regional variations across Scotland, and the dominance of the Central Belt mean that NUTS I data gives little indication of the pattern of development across the country. We would therefore request that consideration be given to producing reliable regional accounts at the NUTS II level.
- 19 It is not practicable to undertake any time series analysis of the NES at Local Enterprise Company level. The annual fluctuations in the data are impossible to explain, making this a most unreliable source. Earnings are a proxy for productivity, and improved data would give us a much clearer indication of the productivity deficiencies experienced in this region. Time series analysis would also allow us to monitor progress in addressing (intra) regional variations.
- 28 We would welcome the opportunity to scrutinise IDBR entries within our region to determine their accuracy and representation of the local business community. Data cleansing exercises have been undertaken in the past to improve the quality of the data. It would be interesting to compare the register with our own Client Information Database to compare sectoral and geographical coverage.
- 31 The ABI coverage should be rebalanced to more accurately reflect the changing nature of employment in the country. It would be most beneficial if the stratification could be undertaken at a regional level to ensure robust data for regions with an economic make-up significantly different from the national picture.

- 34 The fact that ABI does not cover all sectors of the economy is a fundamental weakness. This probably has a more significant impact in this region than any other in the UK. We have much larger agricultural and construction sectors than the economy as a whole. Other departments of government gather significant volumes of data on the agricultural sector that should be integrated into the ABI outputs. Public sector agencies should be more than capable of providing data in a consistent format reflecting the location of staff.
- 35 At present ONS seems to operate in relative isolation to other departments. Regular liaison, both formal and informal with other departments and agencies should be supported and encouraged to ensure ONS is kept up to date with the changing requirements of its customers.
- 45 The benefits to government and agencies of improved regional statistics in this part of the country would be significant. While we appreciate that the associated cost could be additional bureaucratic burden on businesses, the potential for utilising information gathered for other purposes to augment national statistics is worthy of detailed investigation. In particular, information from the agricultural sector and the self employed is already gathered by government in a format that could be adapted to support the other work undertaken by ONS.

I hope the above comments are of use to the overall review process but if you need any further information please let me know.

Yours sincerely



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cc Dr Andrew Goudie, Scottish Executive