

REVIEW OF STATISTICS FOR ECONOMIC POLICYMAKING – FIRST REPORT, DECEMBER 2003

Comments from the Statistics Commission

The First Report from Christopher Allsopp and his team, published in December 2003, invited comments on the report's recommendations and on any aspect of the report. This note sets out some comments from the Statistics Commission.

2. Christopher Allsopp's remit was to review statistics for economic policymaking. The Statistics Commission's perspective is slightly different – as well as statistics for policy, we are concerned with the wider user community and its demands for data. Some of our comments reflect this different angle.

3. Nevertheless, the Commission strongly welcomes the Review team's First Report. We believe that following the proposals set out in the Report for developing regional statistics and the supporting statistical framework and infrastructure would make an important contribution to enhancing the evidence base for decision making at a number of levels. So we would encourage the National Statistician to act on its recommendations, and welcome the assurance that we understand the Treasury has now given that the Government intends to support the report and provide the resources needed.

INFORMATION REQUIREMENTS FOR REGIONAL ECONOMIC POLICY

4. The Review was asked to look at two different aspects of information requirements for economic policymaking – the information and statistical framework for regional policy, and whether the changing economic structure of the UK is being reflected in its official statistics. Most of the Review team's First Report is concerned with the first part of this remit - meeting the information requirements for regional economic policy.

Regional accounts and regional GVA (recommendations 1 to 9, 11, 13 to 15)

5. **The Statistics Commission welcomes the clear set of recommendations in the Review report on developing regional accounts**, which both set out (in recommendations 2, 3 and 4) the main changes needed to meet key policy requirements (in particular development of annual Gross Value Added (GVA) from the production approach), and make proposals (recommendations 6, 7 and 8) as to how to these needs might be met, eg. extending the Annual Business Inquiry (ABI).

6. Implementing these recommendations will have significant resource costs. The Review report makes a strong case that there are important policy requirements that are not met by the existing data, but which could be met

through the additional work that the review proposes. **We believe that resources should be found for this work, subject to consideration of any impact this would have on other statistical activities.** In this context, we welcome the assurance that we understand the Treasury has now given, that the Government intends to support the report and provide the resources in full.

7. The Review proposes that work on regional accounts should focus on improvements at the NUTS1 level, but invites views as to whether there is a need for additional work aimed at improving the quality of sub-regional data (recommendation 13). We agree with the Review conclusions here. We believe that there is a policy need for NUTS2 GVA estimates in the allocation of EU structural funds, but the proposed work to improve GVA estimates at the NUTS1 level, eg through extension of the ABI, should also provide the basis for better estimates of GVA at the NUTS2 level. There does not seem to be an obvious case for further work specifically aimed at NUTS2 GVA.

Regional GVA, expenditure approach (recommendations 3 and 12)

8. We agree with the Review report that measurement of GVA through the expenditure approach, which would require comprehensive measurement of inter-regional trade flows, should not be pursued. We also understand that there may be a requirement for estimates of individual components of final expenditure by region, and agree that these should be produced, wherever feasible (recommendation 12).

9. As part of recommendation 12, the Review report proposes that the ONS put together proposals for “the production of an annual national accounts measure of government final consumption expenditure”, and then “subsequently revisits the fuller government accounts exercise”. (The latter refers to experimental regional government accounts for 1998 compiled by ONS as a one-off exercise.)

10. The Review reports notes that the issues surrounding measurement of regional government expenditure are wider than those relating to national accounts. A regional breakdown of government final consumption based on location of government purchaser – the national accounts measure that would be required to construct total GVA from the expenditure approach – may be of only limited interest as an indicator of the regional impact of public spending, unless it forms part of a suite of indicators of government expenditure by region covering social benefits and other transfer payments, and capital spending, as well as government final consumption.

11. We believe that regional government accounts would provide this, as well as providing information on the relative contributions of the regions to Government revenues. Besides a regional breakdown for all the main categories of public spending, including full details of government final consumption by region, the ONS experimental regional government accounts also included estimates of the flows (of taxes) from the regions to central government, thus providing a starting

point for analysis of the regional impact of the government's fiscal policies. **We believe that the emphasis in this area should be on revisiting regional government accounts and moving to regular production of these accounts.** Regional government accounts would include *inter alia* estimates of government final consumption by region following a national accounts measure. But, in the absence of any plans to measure GVA through the expenditure route, regional government final consumption would not seem to be a priority in its own right.

Regional prices and deflators (recommendations 10 and 21)

12. We understand that there is a policy requirement for regional GVA in volume terms, which requires regional deflators as well as estimates of regional GVA at current prices. However the Review report's recommendations on deflators are rather less firm than those for regional GVA itself, inviting further studies rather than offering specific recommendations on how to go about producing estimates (recommendations 10 and 12, fourth bullet).

13. This relative tentativeness extends to the Review's recommendations on regional prices and inflation (recommendation 21), which states that the ONS should only integrate change and level systems for regional price information as necessary, and not aim at full coherence between price levels and changes. We are not entirely comfortable with this line of argument, which looks to place a lot of weight on an assumption that there is no strong policy demand for regional inflation rates as opposed to regional price levels.

14. This may be to ignore the other potential users of these data besides government policy makers. It may be difficult to get across to these users, and also to some government users, that they can't simply deduce regional inflation rates from the latest regional price level data. Once regional price levels have been published for two or more successive years, users are likely to start to do just this. **We believe that in developing systems to measure regional prices, it is important that ONS aim for some reasonable coherence between measures of price levels and measures of inflation.**

Labour market and population data (recommendations 16 to 20)

15. The Commission are aware that divergences between Labour Force Survey (LFS) and ABI estimates of employment are a matter of concern to users. So **we would support the recommendation that "ongoing investigations concerning (these) discrepancies ... should be pursued as a matter of urgency"** (recommendation 17).

16. As the Review notes, population data are important for economic statistics, and regional population statistics for regional economic statistics. The substantial shifts in estimates of population for some regions that occurred when estimates were benchmarked on the 2001 Census were, and are, a matter of substantial concern. Resolution of these concerns with population statistics is of

crucial importance, and **we strongly support the Review's recommendation that the ONS develop its research programme in order to establish how intra-UK migration be estimated more accurately** (recommendation 20). The Commission made a similar recommendation in its interim report on the Census in Westminster in October 2003.

Micro-regional data and statistical infrastructure (recommendations 22 to 28, 36 to 39)

17. The Commission **agree with the recommendation that the scope of the Neighbourhood Statistics Service be extended to cover an expanded range of economic data**, at a range of different geographies, so that it becomes the key central resource for micro-regional data (recommendation 22). We also agree that, where data are not available for all areas, that should not necessarily mean their exclusion from the central service (recommendation 24).

18. The Review report expresses the view that there are significant advantages of having data that are compiled on a consistent basis and that are comparable across regions. We agree, and support the recommendations aimed at helping achieve this (recommendation 28). In particular, in line with the Commission view that National Statistics should be primarily a kitemark of quality, **we support the proposal to consider an intermediate kitemark** to be awarded where surveys have been undertaken in accordance with agreed NS standards and procedures, but are outside the responsibility of ONS or the GSS.

19. **We think ONS should explore the establishment of a significant ONS or GSS presence in the regions**, as the Review recommends (recommendation 36) and should then consult widely on its findings before inviting Ministers to take a decision. This is one possible route towards micro-regional data that is consistent and comparable across regions. But there will be costs involved, particularly if the regional presence involves recruitment of new staff rather than redeployment of existing staff. And there may be other ways of achieving the same objective of improved consistency and comparability of regional data. So there will need to be a clear business case for going down the ONS presence route. This will mean being clear as to what the precise role of that ONS presence should be, what it would bring to the regions, and what the ONS 'centre' might be expected to gain from such an arrangement.

20. The other recommendations on statistical infrastructure (recommendations 37 to 39) are not dependent on the decision on an ONS presence in the regions, and could go ahead without it. In particular **we agree on the need for a mechanism for establishing priorities and assessing demands for micro-regional data**, probably a high level group (recommendation 37).

Administrative data and business compliance costs (recommendations 40 to 45)

21. We agree with the Review team that administrative data, particularly tax data, offers opportunities for increasing the quality of key National Statistics, whilst at the same time reducing compliance costs. So **we support the Review's recommendations** (recommendations 40 and 41) **on exploring the greater use of tax and other administrative data** to replace business survey data, and on increasing access by ONS and the statistical services in the devolved administrations to information collected by the two revenue departments. We would also endorse the view expressed later in the Review that better use of administrative data, especially tax data, may help prevent compliance costs becoming a barrier to improvements in statistics.

22. As the Review notes, restrictions on data sharing arising from existing legislation may be a problem here. The Statistics Commission will be supporting calls for this to be addressed - at least in terms of ONS access to administrative data from elsewhere - when it publishes its report on the need for legislation in about March 2004. We would like to see barriers to the use of administrative, and particularly tax, data as statistical sources removed, and the confidentiality of individual data records given a stronger guarantee.

23. We are in broad agreement with the views set out in the review on the burden on business and compliance costs. It is clearly important when proposing any new or extended survey to keep sight of the implications for compliance costs, and to look for savings in existing requirements.

CHANGING ECONOMIC STRUCTURE AND OFFICIAL STATISTICS

24. Chapter 9 of the First Report addresses the second part of the review team's remit with respect to information for economic policymaking - to report on "whether the changing economic structure of the UK is being properly reflected in the nature, frequency and timeliness of official statistics". The report acknowledges that these are very much initial thoughts - the Final Report will return to these issues in more detail.

Changing economic structure (recommendations 29 to 35)

25. **We agree with the thrust of recommendations 29 to 31, that the balance of detailed coverage between manufacturing and services in our economic statistics should be shifted towards greater coverage of services**, cutting back on detail within manufacturing as necessary - as long as this is cash releasing. The marginal cost implications here are not necessarily obvious. We also agree on the desirability of the Corporate Services Price Index (CSPI) and Index of Services (IoS) losing their 'experimental' status as early as possible, which would send an important message about quality.

26. We believe, however, that the remit for this part of the review gives the scope to go rather wider than this, and look at issues as to whether the nature of the data currently produced properly reflects the modern economy, and in particular the development of the information and communications technologies (ICT) and knowledge industries. One issue that has recently been brought to the Commission's attention is the treatment of 'intangible' assets (eg, research and development expenditures, intellectual property rights, human capital) in national accounts, which it is argued that the national accounting concept of output (ie. GDP) doesn't properly recognise. This has implications for the measurement of productivity, as well as of GDP. There may be similar issues in other areas.

27. We think that the Review might usefully look at issues of this kind, and come to some view as to their importance, both as regards data – is there important information that isn't being collected at present? – and as regards measurement – are the key concepts that we define and measure the right ones? For example, do policy makers share the concerns of some academics about the measurement of intangibles in the national accounts? And if so, do they feel that the solutions, and new measures, that have been proposed are on the right lines? If so, there may be a case for exploring and developing alternative analyses and presentations which treat intangibles in a different way in the accounts, pending and partly anticipating future developments in the official System of National Accounts (SNA) and its European counterpart (ESA).

Statistics Commission

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