

10th February 2004.

The Allsopp Review Team
HM Treasury
1 Horse Guards Parade
London
SW1A 2HQ

Dear Sir/Madam,

Response to the Review of Statistics for Economic Policymaking on behalf of the Sector Skills Development Agency (SSDA)

The Sector Skills Development Agency (SSDA) welcomes this important review of statistics for economic policymaking. We have a number of issues we would like to respond to and would welcome an opportunity to meet members of the Review Team to discuss the final report and to expand upon the points below, particularly as the Review is considering further 'whether the changing economic structure of the UK is being properly reflected in the national economic statistics'. We begin by explaining the role of the SSDA in the evolving skills and productivity agenda and then we set out our responses to issues/recommendations in the order they appear in the Review.

The SSDA and the Skills for Business Network

Launched in 2002, the Skills for Business Network (SfBN) comprises the SSDA and a Network of employer-led Sector Skills Councils (SSCs). The Network is key to bringing employer demand for skills centre stage in delivering and planning education and training provision. A vital element of this is to increase demand for skills amongst employers through demonstrating the links between skills and enhanced business performance. Representing employers; the sectoral analysis; productivity, labour market and skills data are fundamental in enabling us to build the evidence base to engage employers and achieve the ambitious objectives set for us by Government.¹

Because of the need for us to work with a range of partners it is essential that we understand and make use of the same data sources. Thus the review of statistical data is equally as important from the sectoral perspective as from the geographical. Many of the partnerships and institutions alluded to in Chapter 3 have been developed/superseded by initiatives outlined in the White Paper '21st Century Skills: Realising our Potential', a Paper whose focus is on bringing all partners to work together to enhance skills and productivity, overseen at the national level by the Skills Alliance. In England, Regional Skills Partnerships, led by the RDAs, will work together to deliver on the skills and productivity agenda. The Skills for

¹ To increase productivity in the UK; to reduce skill deficiencies; to increase opportunities for learning for everyone and to improve the learning supply to employers. Further details about the SSDA and the SfB Network are available at www.ssda.org.uk.

Business Network is a major player in these partnerships, bringing the employer voice of demand to the planning and delivery of skill supply.

The White Paper also gives a key role to the Skills for Business Network itself, expecting SSCs to deliver top quality analysis of 'international, national and regional trends in labour, skills and productivity in their sector. This will feed into the cycle for planning and funding the supply of training'. Clearly, we need to be able to use the same statistical sources with a shared understanding as our partners in order to deliver this high quality analysis. It is for these reasons that we submit our responses below.

SSDA Response to the Review

Chapter 3

As highlighted above, we feel this chapter should be updated to reflect the policy developments of the last few months, to properly represent the importance of the 'demand-led' approach and thus the sectoral use and interpretation of official data sources. These policy developments mean there is an equal need for regional statistics on skills and productivity and the 'demand-led' sectoral statistics.

Recommendation 5 – We would like GVA to be measured with regard to two measures of employment – per person employed and per hour worked. This allows us to obtain much better employment measures by consideration of these two factors in employment – people and time. It would also enable regional benchmarking in the context of national and international trends. HMT prefers GVA to be measured per hour and most of its international studies/comparisons of productivity do so.

The 'per head of population' denominator takes no account of the age structure of the population and whether or not they are in employment. Some areas with high proportions of retired persons may appear to have low productivity on this measure, but it is not an accurate representation of productivity in that region and can lead to misdirected resources. It is **essential** to use the 'per worker/employed person' measure as denominator (see HMT 'Productivity: The Regional Dimension') or better still, hours worked.

Recommendation 6

We very much agree that there should be less bias toward manufacturing in data collection and reporting and there is a real need to be cogniscent of changing industrial sectors. However, we would strongly urge against removing the current level of detail of manufacturing data without further consideration of the need for data at 4 digit level amongst all data users.

SSCs, which are employer led and so employer defined, often rely on the finer level of detail of 4 and 5 digit SIC codes in order to fit the definition of their sector to SIC. We would argue strongly on the evidence of the coming together of SSCs that 4 digit SIC is most certainly not outdated. Indeed it is **essential** to understanding sector productivity, employment and skills needs at the regional level.

We would welcome the opportunity to discuss data needs and appropriate levels of aggregation (as further mentioned in the report on p125) which would fit with sectoral needs.

As a general point on ABI data, this is only published for GB. As a UK Network (employers do not necessarily recognise the 4 nation boundaries), it would be enormously beneficial if further consideration could be given to the ARI, or otherwise extension of ABI to include Northern Ireland. At present we have no consistent, detailed sectoral breakdown of productivity in Northern Ireland, or including Northern Ireland – one of our key objectives and constituencies.

Paragraph 7.18

What are the 9 industries mentioned in this paragraph? We should seek to ensure that sectoral data is presented consistently. The SSDA has developed the Sector Skills Matrix (www.ssdamatrix.org.uk) a web-based resource of sectoral Labour Market Information. We base our analysis around SSCs and a standard 14 and 27 sectors. The 14 disaggregation of the economy is consistent with ONS regional statistics, the 27 a more detailed level closer to our data requirements. We are working with partners (e.g., the Learning and Skills Council) to use these definitions so we can begin to understand sectors in a consistent way and greater convergence across data providers would be invaluable. Both the LSC's National Employer Skill Survey and the SSDA's 'Working Futures' forecasts of employment have used these sectoral classifications. These were developed in co-operation with the RDAs.

Paragraph 7.19

Individual respondents to the Labour Force Survey do not have to provide SIC classification of their industry, the data is coded to SIC by Labour Market Information specialists post-hoc. There is a very real danger that the value of this data is being under-estimated here through misrepresentation. Whilst we urgently need a review of some of the level of detail at which LFS data is published², we think the data is much better than some may interpret from this paragraph.

Recommendation 18

We would welcome involvement in this Review, which is of fundamental importance. Some sectoral employment estimates vary quite dramatically, e.g. some parts of Business Services (SIC 74) and Hotels and Restaurants (SIC 55) have lower estimates of employment in LFS (UK) than ABI (GB); employment estimates for the Construction sector in ABI is half of the estimate in LFS!

Recommendation 28

We welcome a kite mark for surveys and a recognition of products that all users can share and have confidence in. However, it would be important that there was agreement on the basis that this was awarded. For example, if there was a requirement that IDBR was used as a sample source for employer surveys, then this would not be satisfactory as the IDBR holds poor telephone records and matching exercises often lead to only 50-60% of records being matched, introducing an immediate bias to such surveys. Additionally, the coverage of non-VAT registered business is an issue with the IDBR which is extremely problematic.

² In particular, greater disaggregation to 4 digit level of Construction (SIC 45) and wholesaling (SIC 51).

Recommendation 34

We use a number of sources of data where ONS is not the provider, though some may be derived from ONS data. For example, we have recently published regional, sectoral and occupational employment forecasts based on LFS, ABI and output data, in partnership with the LSC, DfES and RDAs. The LSC have recently published a National Employers Skill Survey, the largest of its kind, in partnership with ourselves and the DfES. Both of these projects were commissioned on behalf of the forerunner of the Skills Alliance in England, the Champions Group. Similarly, we work with partners in Scotland, Wales and Northern Ireland on their employer surveys and they are all important components of the evidence base.

Some sectors are also reliant on data from DEFRA, DCMS etc, though it is not entirely clear how all of this data often ties up together. Whilst necessary to enhancing the evidence base, consideration of these issues would be helpful in interpretation and use.

Chapter 9

This is a crucial part of the report for us. Whilst we would not disagree with any of the initial recommendations, we would request that due consideration is given to the new Skills for Business Network as we seek to fulfil our remit. We need to ensure that as a Network we are able to use the statistics detailed in this Review on an equal basis and with a shared understanding with our partners as we take forward the regional and sectoral foci on increasing skills and productivity. For these reasons, we would welcome a meeting to discuss these issues further.

It would also be useful if the Review could be mindful of some of the recent changes to SIC which are problematic to the sectoral agenda and which we would like the Review to pick up on and bring to the attention of decision makers, notably, the treatment of Head Offices in SIC 2003. Under SIC 1992, Head Offices were classified to the principal activity of the enterprise to which they belonged. Whilst this will continue to be the case for enterprises, it will not be so for local units (individual sites, or establishments) and this will affect all parts of SIC at the regional and sub-national level (see Economic Trends, No. 593. April 2003). This will have huge implications for establishment coding across all sectors and at the regional level too. The new code, 74.15, only factors in 'sectors' at the 5 digit level, and then only very broad sectors, which do not tie in particularly well with SIC Sections (wholesale, transport, construction, catering, service trades, retail, production, other non-financial holding companies). Given concerns over the sectoral detail of published LFS data, it is difficult to envisage that ONS will publish this data at the 5 digit level. There is a danger that we will be left with Head Offices for all sectors reported together and outside of their principal activity coding. This is a real backward step in sectoral analysis at the regional level.

Recommendation 35

We would very much welcome this discussion around these issues and how we can be invited to join some of the reviews in paragraph 9.35 etc. Perhaps part of the answer lies in expanding the role and reviewing the membership of current groups (as outlined in para 10.13).

Recommendation 36

There also needs to be experts in sectoral issues and data given the political and institutional changes initiated over the last few months. There is a real need for sectoral and regional interpretations to converge and this recommendation could be a powerful tool in taking this forward.

Overall, there seems to be insufficient attention paid to the dissemination of data discussed within this Review and how we can develop a shared and common understanding and use of the data. In addition, we need to carefully think through changes to data sources, given the range of users of the data – broader than the current focus of the Review.

I do hope that you will be able to incorporate our comments in your final report and recommend actions consistent with them. We would very much like to meet with you to discuss further and I hope that we can input to the final report of this important Review.

Yours truly,

A handwritten signature in black ink that reads "Mike Campbell". The signature is written in a cursive style and is positioned above a long, thin horizontal line that extends to the right.

**Professor Mike Campbell OBE
Director of Policy and Research
Sector Skills Development Agency**