Response to the Allsopp Review
from the
Royal Statistical Society

1 Introduction

The terms of reference of the review have three basic strands and, although the strands are obviously linked, we shall comment on each in the following order:

- The implications of joining the single currency
- The changing economic structure of the UK
- The need for regional information

However we wish to make some general comments:

1.1 The Society is anxious that the review is conducted in the context of National Statistics: in particular that there is an active engagement with the wide range of users who may desire improvements to the range and quality of statistics within the review's terms of reference. The Framework for National Statistics and the Code of Practice require effective user consultation. There are mechanisms established by the National Statistician to achieve this and the Statistics Commission has a role in considering the annual work programme proposed. The Chancellor's statement and the subsequent establishment of the review appear to ignore the very mechanisms that the Government itself put in place. We fear that this has generated a cynical reaction from users who believe that the review has been established to do no more than give effect to the Chancellor's wishes. **We welcome the steps that the review team has taken to engage in a genuine and extensive consultation and trust that this spirit of openness and consultation will be reflected throughout their deliberations.**

Whilst the sections below contain a number of suggestions they do not represent a comprehensive analysis of needs. To do so would take time and would duplicate the work of the review team. Hence our concern that the user consultation should be wide and effective.

1.2 The term 'policy needs' could be interpreted narrowly in several respects. For example, it could lead to too narrow a focus on monetary policy or even macro-economic policy and economic management. There are strong links between macro-economic policy and micro-economic and social policies. The role of the labour market in both economic and social policy is but one example and the question of income distribution and inequality is another. Additionally the term should be interpreted to cover the policy related needs of users other than central government – local and regional organisations as well as the devolved administrations.

But National Statistics are intended to take account of the needs of all users, in particular the business community and academic researchers will have views about the range and quality of regional statistics for example.

We hope that the review team will interpret their mandate as broadly as possible.

1.3 The review team is required to consider the range and quality of statistical information related to the possibility of the UK joining the monetary union and the UK's regional policies. However it is important that any recommendations are consistent with statistical needs that may arise from other policies and needs. Looking at statistical developments for some area of economic statistics, for example, while overlooking the wider picture may result in inefficient recommendations and missed opportunities. In particular the European policies on E-Europe (the information society and e-commerce and the imminent enlargement of the EU are relevant. **We ask the review team to take account of the wider policy context when making its recommendations.**

1.4 We observe the emphasis on regional statistics as opposed to any other form of geographic breakdown. The UK is exceptional within Europe in terms of the number of different geographies that are applied for different purposes. Local Authority areas are different from Parliamentary areas, Health Regions, Police Authority areas and so on. In the 1990s a review by ONS identified over 100 different geographies in active use. Hence any set of proposals that concentrate narrowly on a specific geography without recognising the diverse needs of different users will represent a missed opportunity.

In particular the NUTS 2 areas on which the major EU financial programme of infrastructure development is based does not coincide with the English Regions and the Devolved territories. Hence a major aspect of 'regional' policy is on a different geographic base.

It should also be said that the UK is exceptional within the EU for the frequency with which geographical boundaries are changed. This further emphases the need for a system that is flexible and will allow consistent time series to be generated as boundaries change over time.

It is essential that data is collected, and geographical referencing applied consistently so that the information can be analysed flexibly to meet different needs. This requirement covers administrative sources as well as surveys.

1.5 Additionally there are many economic and social questions that will not be illuminated by data that is simply classified at the regional level. For example the links between health and economic activity and the impacts of policies on local labour markets and economic growth will be concealed within a set of broad brush regional statistics. Very often statistical information needs to be disaggregated to much finer geographical divisions to draw out the statistical picture of the policy effects. **Given the emphasis the Government rightly places on evidenced based policy and evaluation the nature of the statistical base from which these evaluations are drawn needs careful consideration.**

1.6 There is a particular issue about the statistical infrastructure when one considers regional or other sub-national economic information collected from businesses. The basic register of businesses is mainly concerned with the enterprise or enterprise group and most data is collected at this level. Hence Sainsbury will provide data for the whole company. But if regional or other sub-national estimates are required then information will be needed at the local unit level. This has a range

of implications. For example some local units of an enterprise may be retail units, some distribution, some corporate services and so on. The industrial classification of the local units will be different from the enterprise as a whole (most lorry transport in the UK takes place outside of the industrial sector where you would imagine it should be found). Also the geographical referencing system for local business units is much inferior to that for domestic housing so that there are quality issues about the geographical identifiers. Additionally not all information is available at all levels (capital expenditure may be available as a whole from the head office but not on a local unit basis). ONS has used local unit employment as a means for disaggregating enterprise level information and for some items this may be adequate. But major capital investment by a supermarket chain, for example a new store, will almost certainly be directed at a location where there is no current employment by the company. **In our view the whole statistical infrastructure for business statistics may need investment to support good quality regional and other sub-national statistics.**

1.7 There is a marked, but understandable difference, between access to social and economic data. A very wide range of analyses are carried out using social survey data. Hundreds of papers are published by academics and a significant proportion of these are policy related. This activity is supported through the micro-data being made available to the ESRC sponsored ESDS (Economic and Social Data Service) for academic purposes. The data is made available since the nature of the data means that respondents remain anonymous and no breach of confidentiality occurs. Microdata from business surveys could not be made available in this way because of the identifiability of respondents from the data provided. However it is possible to provide a safe setting whereby analysts can get access to micro-data for secondary analysis. This is done for the Longitudinal Study where the data are particularly sensitive and additional safeguards are necessary. **In our view a similar arrangement would greatly enhance the use of business data and would allow a greatly under-used resource to be exploited.**

1.8 The growth in demand for devolved territory, regional and other sub-national statistics reinforces the need to widen access to administrative records for statistical purposes. These will include central government administrative systems but also systems operated by other tiers of government and other institutions. The issue is not just one of access but also influence over the design and administrative protocols that have an impact on the value of the data for statistical purposes**. The review may wish to consider recommending a comprehensive assessment of the availability, potential use and access to such systems for statistical purposes. This would be valuable.**

1.9 Finally the Society assumes that most of the review team's recommendations would relate to ONS outputs and as such would be designated as National Statistics. The Society feels that all important statistics should be designated as National Statistics regardless of the producing department. Under the Framework for Statistics the decision whether a new statistics would become a National Statistic would be for the Secretary of State concerned. **We request the review team to make a clear recommendation that any new statistical outputs that may arise as a result of its report should be National Statistics.**

2 The implications of joining the single currency

Joining the single European Currency may have implications for policy areas such as Monetary Policy, other Macro-economic Policy, and Micro-economic Policy. But given the obvious inter-dependencies between economic and social conditions there could be wider policy implications. Additionally there will be implications for non-governmental users (particularly the business community). There are broadly two kinds of implication of joining the single European currency.

The first is whether new statistical indicators would be needed. The second is whether the single currency would erode the quality or range of existing statistics so that additional actions would be necessary.

2.1 New Statistical Needs

Looking narrowly at the macro-economic policy needs it is difficult to see that these would lead to new statistical requirements. When the Bank of England was made independent this did not lead to new demands for macro-economic statistics from the Bank (for monetary policy) or the Treasury (for other macro-economic policy needs). So far as the ECB is concerned the UK already provides the same range of economic statistics as countries already within the Euro area and with better timeliness than others. So far as the residual national responsibility for economic management is concerned it is striking how little development there has been for new policy options and related information requirements. Fiscal policy and public expenditure decisions are typically made annually and governments have not developed new short term mechanisms for economic management. In countries such as Ireland where there has been a significant mismatch between ECB-determined monetary policy and Irish rates of inflation and growth, this has not spawned the creation of new levers of economic management and associated statistical indicators.

However entry into the single currency would inevitably create a debate about monitoring the consequences and this would give rise to new or improved statistical requirements. Specifically there would be even greater focus on comparison between the UK and other countries within the single currency area. Additionally one needs to take account of the European enlargement and the impact that this will have. There will be demand to monitor various statistics at a greater level of geographic detail than is currently available and this will have statistical resource implications. **The areas of concern will likely include:**

- **Direct inward investment from within the single currency area and also from the rest of the world,**
- **UK outward investment into the euro-area and the new member states.**
- **Trade statistics and the flows of goods and services (euro-area and new member states)**
- **Migration between member states.**
- **Impacts on the labour market.**

It is arguable that attention will also focus on the regional effects of joining and whether this increases the divergence between the South East and other regions. These aspects will be covered in section 4. More speculatively one could imagine

cross-channel development areas creating a requirement for statistics that covered an area spanning both ends of the channel tunnel for example.

Businesses in the UK will enjoy greater opportunities to export to the euro-area and are likely to want higher quality (more detailed) trade statistics.

2.2 Maintaining Existing Statistics

Joining the single currency (together with other socio-economic changes such as the growth in e-commerce and electronic money of various kinds) is likely to make it more difficult to collect a range of statistics that are already produced. Cross-border purchases and flows of funds will be harder to measure as will tourist and business expenditure. These developments will erode the quality of existing statistical series at a time when they are likely to be most needed. Given the strong drive toward deregulation and open borders the whole question of cross-border transactions needs to be addressed since these are very important for measuring a national economy. **Statutory access to some information systems (such as credit-card and debit-card transactions) for statistical purposes with adequate safeguards for protecting confidentiality may be beneficial.**

Given the importance of data quality to the statistical indicators it will be essential to ensure that data returns from companies operating in several euro-area countries are mutually consistent and coherent. **This raises the question of the National Statistician having the power to compare confidential data with colleagues in other countries for statistical purposes only but ensuring that there is no breach of confidentiality outside of the authorised statistical users.** Developing new methodologies for cross-border flows may also benefit from this power.

3 The changing economic structure of the UK

The question of the changing economic structure of the UK is more general.

The growing importance of the service sector has long been recognised and many steps have been taken to improve the related statistics. But this is not an area where one can develop and implement some new procedures and consider that the problem is solved. **There is a continuing need to improve the statistical base.** In particular price indices for various services need to be developed or further improved so that the index of services will be better founded and the separation of volume and price changes better grounded. Also the issue of separating price and quality changes is notoriously difficult for services (and is becoming equally difficult for goods). This has a direct bearing on the service index and price deflation for both the PPI and RPI.

An illustration of this is the enormous variation in apparent prices of computer software used by different National Statistical Institutes (and within institutes for different indices, it must be said). **One must question the impact on the international comparability of macro-economic measures when internationally traded items show such wide variation in price indices.**

The UK is one of the leaders in developing measures of productivity for the public sector but this area is very difficult and **will require continuing development for many years.**

There has been much work on measuring some aspects of ICT and e-commerce. This has spanned both economic investment and public access to the internet for example. As yet international standards are still to be fully developed and have focussed somewhat narrowly on the so-called ICT sector. But the impact of ICT on business activity spans the whole of the economy and covers both business functions and the skills required of the work force, investment in staff development etc. Additionally the impact of ICT spans Government (in terms of public sector productivity and delivering services to citizens). The impact of ICT on public services (Health and Education for example) is in its infancy. Finally the public have very different levels of access to the internet (by age, education, socio-economic class) and make use of it for very different purposes (information sourcing, e-commerce, downloading intangible products etc). **This whole change in society carries a range of policy issues and calls for a coherent strategy for statistical information to monitor developments and policy effectiveness over a long period.**

Many of the issues raised in this section point to the need for a substantial research and development programme over many years. This is needed to develop and maintain the range and quality of statistics as the economic and social conditions change in the country and more generally. Additionally some development programmes will call for additional resources for data collection on an ongoing basis.

4 The Need for Regional Information

We have argued that the regional needs for statistics should take a broad view of the needs of users, that it is essential to take a holistic view covering sub-regional as well as regional geographies and that there are many geographies in use.

Economic Statistics

The main regional economic statistics produced in the past have been regional estimates of GDP per capita and regional economic accounts more generally. These have been of too poor quality. In particular while estimates of GDP per capita in any one year may look plausible year-on-year comparisons have revealed implausible variations that cannot be reconciled with other economic measures or a general assessment of regional economic development. **This basic framework is an important cornerstone and needs to be substantially strengthened. This will almost certainly require more extensive data collection from businesses and access to administrative sources that would provide more detailed breakdowns. These sources may need to be modified to support the statistical need.** We note that there are important needs (such as for objective 1 status) that do not coincide with the regional boundaries.

The second important source of regional information comes from the labour market. The quality of the labour force survey regional estimates should be reviewed and if necessary improved. **In addition the ongoing research on the integrated use of**

survey and administrative sources to improve sub-national estimates should be strengthened. There is much attention on local labour markets and local estimates of employment and unemployment ratios as both economic and social measures. It might be argued that the concept of a local labour market needs to be revisited. The local labour market for a stockbroker, a teacher and a school caretaker living in the same area are often quite different. **Arguably a more refined view of local labour markets and the impacts of policy on these needs to be developed and the statistical base improved accordingly.**

Retail Price Index

The Chancellor has referred to the need for regional estimates for the RPI (this has been raised previously by members of both houses of Parliament and the Scottish Parliament). There would be extensive technical problems to solve to achieve this and it would require a considerable additional resource. For example the RPI depends on the Expenditure and Food Survey (EFS) for the weights by which product price indices are combined. If one wanted a regional measure then the EFS would need to be substantially enlarged as would the price collections. An enlarged EFS would feed into the existing HMT tax and benefit model and would allow this to be extended and improved. Alternatively it might be argued that the regional measures could be compiled by cumulating regional EFS data over say 5 years whereas the national RPI is based on annual EFS data. The problem would be that there would be an inevitable pressure to reconcile the two and to claim that the lag was distorting the true regional picture.

Additionally, there are other issues: a significant element of the national RPI depends on centrally collected prices. Presumably these would need to be extended to cover regionally based central prices. It is not clear that these are always available.

It is important to identify the intended uses. The RPI measures price changes over time. When statisticians want to measure price differentials over space (i.e. between different regions and territories) they use a Purchasing Power Parity measure. This is conceptually different and uses different methods for measurement. It is not clear whether the UK needs regional RPI or regional PPP. This depends on the intended uses.

If the intention is to deflate economic measures on a regional basis for consumption (just as the UK uses different measures to deflate industrial production, imports and exports for example) then a regional RPI may be appropriate. However if this is the intention then the UK National Accounts would need a much stronger regional structure than now exists and it is likely that there would need to be an enormous redevelopment and restructuring of the accounts before the regional RPI measures could be used effectively. If the intended use is simply to deflate regional economic accounts without integrating these fully into the overall national accounts then it is difficult to see that the costs could be justified.

On the other hand the intended use may be focussed on social payments. For example setting benefit levels for recipients. For territories such as Scotland and Wales this is a present need. This would lead to different levels of social payment across the UK and this is a natural consequence of devolution. But for the English regions there is no

such immediate policy use. Would they be used to generate regional levels of benefit and pension payments? If so the need is actually to measure the differential costs of living across regions (a PPP task) rather than simply to upgrade existing levels of payment by a regional measure of price inflation (an RPI task).

In our view statistical measures for policy purposes must be designed in the context of the intended use. The costs associated with regional RPI's will be substantial and one cannot make a judgement about whether or not this is the best use of public expenditure (the opportunity costs of alternative areas of statistical development) without being clear about the public interest.

Other Economic Statistics

It is important that the review team takes a forward looking approach to the need for regional statistics. The policies of devolution and regional governance will inevitably raise legitimate questions about the total levels of income, contributions to taxation, public expenditure (both personal and infrastructural) and what one might generally term the cross-boundary flows (including EU contributions) within the United Kingdom. The public is poorly served in terms of understanding these and, by implication, allowing the Government to be fully accountable for differential funding policies. **Developing a robust statistical picture will not be easy but it is essential that this is done under a National Statistics framework so that the figures may command as much public confidence as possible.**

Social Statistics

The development of better quality regional economic statistics must inevitably be coupled with the need for better quality social statistics. Some of the measures (labour market statistics, regional estimates of household expenditure) serve both economic and social purposes.

But there are a range of social statistics which would need to be produced on a regional basis if the economic measures are to be put into the social context. **This would call for increased sample sizes for a number of Household surveys such as the General Household Survey, the Family Resources Survey etc. Similarly regional or local measures of health, morbidity and mortality may call for changes to the vital registration systems as well as the enhancement of health and nutrition surveys.**

Additionally many of the economic measures (such as GNI per capita) depend upon a sound measure of population (by at least age and sex and arguably other breakdowns such as by ethnic group). Similarly such population measures are used for statistical purposes (post-stratification and weighting for non-response) for social surveys. **These are not strong enough at the regional level and would need to be enhanced. In particular better measures of regional migration would be needed (in their own right to measure one aspect of differential regional growth) and in order to properly base economic and social measures.**

6 Summary

The Society would like to see the review team take a broad view of its remit and we have indicated a range of issues that should be addressed.

We would also urge the review team to engage as fully as possible with a wide range of users even if this takes longer than anticipated.

The Society would be pleased to contribute further to the review if required.