

Our ref
Your ref
Date 31 July 2003



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REVIEW OF STATISTICAL REQUIREMENTS FOR MONETARY AND WIDER ECONOMIC POLICY MAKING – RDA SUBMISSION

The RDAs welcome the opportunity to submit views to your team as part of its review of statistical requirements for monetary and wider economic policy making. The suggestions below form the collective view of the English RDAs around the following elements of the Review:

- The regional information and statistical framework needed to support the Government's key objective of promoting economic growth in all regions and reducing the persistent gap in growth rates between the regions;
- Whether the changing economic structure of the UK is being properly reflected in the nature, frequency and timeliness of official economic statistics.

The consultation process has highlighted a third issues, which this paper also seeks to address:

- Restrictions on official datasets, and coordination at regional and local level.

The paper concentrates on the key principles, but there is a lot of information we have collected which we would be happy to share with you.

I do hope the attached paper proves useful to your Review. We look forward to seeing the results of this crucial work.

Yours sincerely

DR J N BRIDGE
CHAIRMAN

Regional information and statistical framework needed to support the Government's key objective of promoting economic growth in all regions and reducing the persistent gap in growth rates between the regions

Regional GVA and other headline measures

A key theme is that in present form regional statistics don't adequately reflect the government's regional productivity and economic growth agenda. Time series data need to articulate how policy interventions by RDAs and other delivery agents are impacting on their economies in a way that accurately reflect the governments objectives – particularly the PSA target to promote economic growth in all regions and reduce the persistent gap in growth rates between the regions.

At present it is very difficult to link interventions and investment to consequential economic effect or impact. The problems are a symptom of the complex process and methodology used to regionalise headline variables such as Gross Value Added (GVA). Regional GVA data have not been updated since 1999, which is symptomatic of the difficulties surrounding this data. It is also felt that the effectiveness of the regional GVA measure is limited as its collation is driven by administrative requirements (Eurostat and International comparability) rather than by its relevance and usefulness as a true measure of economic activity.

Due to the difficulties outlined above, it is felt that a more appropriate headline measure of regional economic performance could be developed. Rather than a single 'headline' measure of economic growth, it is recommended that as a proxy for regional GVA a 'basket' of indicators based on the individual components of GVA be used. Such a basket might include income and output components of GVA; regional consumption; economic activity' employment; household expenditure; etc. The development of such a basket of indicators would provide a more timely and fit for purpose measure of economic performance than the current regional GVA estimates.

RDAs have also highlighted an issue around discrepancies between workplace statistics and residence based statistics – particularly around GVA, Labour Force Survey and Annual Business Inquiry data. For example, the release of regional GVA data on a workplace basis tends to inflate GVA in regions such as London, which experience high levels of inward commuting whilst depressing GVA in regions like the South East where there is a high degree of commuting out of the Region to work. Release of GVA data on a residence base in addition to workplace base would overcome these distortions, and would also allow useful analysis around 'Core Cities'. It is recommended therefore that research be undertaken around the most appropriate geographies for analysis and a consistent approach be taken.

Regional deflators/price indices

Fundamental to the measurement of the Regional Economic Growth PSA Target is the development of 'price deflated' or 'constant price' regional GVA estimates. Whilst the DTI, ODPM and Treasury have provisionally agreed an industry based regional price deflation method, more refined estimates of regional price inflation are needed. This

would allow more accurate assessments of regions' progress against this joint target. Moreover, regional inflation figures would enable accurate estimates in differences in cost of living by region, and the construction of 'real' wage/income/expenditure figures.

Sub-regional and local statistics

The government has consistently highlighted that differences in economic performance are at least as great within regions as differences between regions. 'Productivity in the UK: 4 – the Local Dimension' highlights the dispersion of productivity rates within regions, and that areas of high productivity and employment opportunities can sit alongside areas of low productivity and high unemployment.

There is therefore a need for statistics to be available at the appropriate level of geography to enable analysis and measure progress against this productivity agenda, and to facilitate policy delivery at sub-regional and local level. Labour market statistics in particular need to be robust at a sub-regional and local level. However, there are often sample size constraints with data from the Labour Force Survey and other surveys at this level of spatial disaggregation. Therefore, it is recommended that the feasibility of boosting sample sizes be investigated, and also the scope for greater use of administrative data as an alternative approach (such as Inland Revenue data, for example).

The government's regional economic growth agenda focuses on a bottom-up approach of increasing growth by building on the indigenous strengths and building blocks of growth in each region and city. Regional statistics therefore also need to take a similar bottom-up approach reflecting the building blocks of growth within regions. Such building blocks might include regional and sub-regional databases, and regional input-output models.

Is the changing economic structure of the UK being properly reflected in the nature, frequency and timeliness of official economic statistics?

Structural changes

The terms of reference of this review place a particular emphasis on whether changes in the structure of the economy have been reflected in the provision of economic statistics. A key element on the assessment of the impact of policy on regional economies is the requirement for consistency in the primary indicators of regional economic performance over time. This encompasses several dimensions:

- (a) Increased consistency over time in the methodologies used to compile regional data series, and consistencies in the geographic levels at which sub-regional data are presented.
- (b) Delivery of key annual regional economic and business survey estimates such as Labour Force Survey, GVA and Annual Business Inquiry to a much tighter timescale. For example, the latest local area employment estimates from LFS are more than 18 months out of date. Regional GVA figures have not been updated since 1999, and sub-regional GVA since 1998.

- (c) Where feasible, to roll back over time changes in definition and structure which affect regional economic indicators and surveys. Key examples of this include changes to the Standard Industrial Classifications and Standard Occupational Classifications, which need to be wholesale and reflect the changing economic structure.

These points reflect the ongoing need for RDAs to assess changes in the business environment, labour market and economic infrastructure at the most localised level.

Sectoral data

As the structure of the UK and regional economies has shifted increasingly towards services, there is a requirement for improved statistics on services (particularly around value added and productivity), and sectors such as tourism and target clusters that are of increasing importance to regional economies and RDA activity. Allied to this is the production of regional input-output tables, which would be a significant step forward to understanding sectoral linkages on a regional level. Statistics on hours worked by industry, particularly within services, are also very much in demand on a regional level.

Business data

RDAs have also highlighted business statistics as an area for improvement. More timely release of statistics on business registration and survival is necessary. However, statistics in their current format miss a lot of activity that takes place below the threshold for VAT registration. The Inter Departmental Business Register (on which the Annual Business Inquiry is based) covers businesses that are currently registered for VAT. However, below the VAT registration threshold there is no single point of business registration, and so a lot of activity is missed. It is recommended, therefore, that there can be economies of scale and a more comprehensive coverage of business activity by establishing a single national point of business registration. This would as a consequence improve the business statistics available to RDAs.

Trade statistics

Trade data is another area highlighted by RDAs for improvement, particularly with regard to frequency of release and the breakdown of major industrial groups (such as within the service sector and manufacturing). Regional import and export data in the service sector does not exist at present.

Restrictions on official datasets, and coordination at regional and local level

RDAs have frequently suggested that potentially very useful data are collated that RDAs cannot currently tap into. Related to the above point on business statistics, RDAs currently don't have access to the Inter Departmental Business Register, and individual company level responses from the Annual Business Inquiry. Access to such data is crucial to RDA cluster activity and general business intelligence. A significant step forward would be for there to be a single coordinated business database with RDAs having full and transparent access to such data.

There is also a need for a coordinated approach to regional data collation and dissemination between government departments, and with regional and sub-regional structures. Regional Observatories (or their equivalent – such as the North East Regional Information Partnership) have a crucial role in matching up top-down data from central sources, and bottom-up data from business surveys and commercial research providers. Yorkshire Forward's work on 'Lifestyle' data provides useful best practice in this area.