

Date 21 October 2003

Mr Christopher Allsopp
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HM Treasury
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Dear Christopher

THE ALLSOPP REVIEW – DTI RESPONSE

Background

I understand that the Chancellor has asked you to undertake a wide-ranging review of the statistical requirements for monetary and wider economic policymaking.

The review asks for an assessment of the following:

1. How the UK joining the European single currency would change the statistics and information necessary for economic policymaking;
2. The regional statistical and information 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; and

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3. Whether the changes in the structure of the UK economy have been properly reflected in the nature, frequency and timeliness of official economic statistics.

Thank you for inviting comments from the DTI and I hope the following prove helpful.

Introduction

The DTI is very involved in all three areas of the review: Euro, regional and the structure of the UK. In many of these areas, we have adequate and timely data; others where the data may be detailed enough, but out of date when released; and others where we have a distinct lack of information. Many of the policies for which DTI are responsible require both sectoral and regional information. It is, therefore, often impossible to prioritise between these – we simply require both.

It is difficult to expect that there will be huge increases in sample sizes and speed of processing to obtain these data in the short term. We must, therefore, consider alternative ways to obtain relevant information. Increased (and earlier) data sharing between government departments (both local and central) and better data matching would increase our knowledge base and aid evaluation of policies. Administrative data (eg trade data) usually provide detailed and timely information. The sectoral and regional data we would like may need a full Census of Employment/Productivity, but, recognising the cost implications, we may need to consider alternative sources. For example, could the Inter Departmental Business Register (IDBR), held by the Office for National Statistics (ONS), be modified to provide such data.

These issues have been considered in various consultations and in a brainstorming event involving statisticians and economists from across the department. The results of this consultation are set out below.

1. Joining the Euro

The Treasury is in the lead in matters relating to the European single currency. However, by the nature of its support for trade and industry almost every DTI policy will be affected by the move to a single currency.

The most likely impact may be expected under the following headings.

- Trade within the Euro zone
- Transparent price differences
- Exporters and Importers
- Structural and cohesion funds issues

- Democratic accountability – but some questioning as to whether all the present economic indicators were still needed
- Information needs from ECB/Eurostat
- Greater economic competition from EU new countries -old and new EU countries
- EU governance
- International price comparisons

There are also very specific issues such as monitoring the move to fixed rate mortgages and its impact on the construction industry. Also business is likely to look to the DTI for advice in the run-up to a changeover and the ensuing period.

Other policy areas which cut across a number of departments and which will be affected include urban deprivation, social exclusion and general issues relating to education and skills.

2. Regional Requirement

DTI has a strong interest in regional economic policy and shares with ODPM PSA Target 7 to improve the economic performance of all regions.

There are a number of general issues that arise in constructing statistics to measure whether this target has been achieved. There is a need for consistency of methodology and definition between regions and for timeliness of the data. The Office for National Statistics seems to be the natural arbiter on these matters.

Current UK-wide samples are, in general, designed to produce national estimates and are not structured appropriately for regional analysis. To obtain the level of detail required by regions would require larger samples that would have an impact on both the burden on business and compliance costs. There are also the operational costs of collecting a larger sample. Even allocating to an individual region the share of the activity of a firm that has units spread over a number of regions poses difficulties – and questions as to how this should be interpreted anyway.

To support the measurement of this PSA target 7 the following key data requirements are required:

- i) Region (and if possible sub-region) specific price deflators - Fundamental to the measurement of progress against the PSA target is the need for 'price deflated' or 'constant price' regional GVA estimates. Whilst DTI/ODPM and the Treasury have, initially, agreed a crude industry - based regional price - deflation method, more refined estimates of (region specific) price inflation information are

needed. This would allow the most accurate assessments possible of region's progress against the joint target. We note with interest that the Chancellor, in his Pre Budget Speech, has committed to producing '*regional price indexes showing differences in regional inflation rates*'.

- ii) Quality assessments of regional GVA - Alongside the need to provide an accurate assessment of regional progress against the target, it is also important to provide information covering quality of the economic measures used in the regional PSA framework. Specifically, estimates of the standard error of the total and industry – split regional GVA estimates would be required.
- iii) The Impact of commuting on GVA per head - The estimates of regional GVA per capita used to calculate the regional growth baselines and assess progress against these are affected by in and out commuting of workers in some regions. For regional GVA, the Office for National Statistics uses the assumption that commuting imbalances occur only in the East, South East and London. Some evidence indicates that commuting imbalances may have an impact on regional GVA in other areas and Office for National Statistics should re evaluate these assumptions.
- iv) Timeliness of Regional GVA - Delays to the release of, and uncertainty over the publication timetable for regional GVA estimates (1989 to 2001) for the past 2 years has had a severe impact on the regional growth PSA target. Ideally we would like to see the delivery schedule for these figures tightened considerably, with the series published as soon as possible to updates to the UK National Accounts in October each year.

Sub-regional Policy Aspects

There are also targets at RDA Tier 2/3 level relating to productivity and employment which contribute to achieving the PSA target and draw on micro data. Other Tier 2/3 targets (such as distribution/poverty, renewal) need to be monitored and the problem here is to identify appropriate indicators and information sources. Some detailed sub-regional data exist through the ODPM/ONS Neighbourhood Statistics initiative But may not be widely used by the RDAs.

Specific Requests

From work done on regional analysis the DTI has some more detailed comments on the following surveys:

- i) The New Earnings Survey – greater detail and reliability for certain groups such as part time employees in certain industrial sectors. This is particularly the case in low earning sectors of the economy. Further, we would like to see the range of geographic detail for which NES estimates are published maintained in future years. ONS has proposed abandoning publication at certain geographic levels.
- ii) Annual Business Inquiry/1 (ABI/1) – again, greater reliability for detailed industrial sectors, geographic levels, occupational groups and full/part time employee breakdowns over time.
- iii) Annual Business Inquiry/2 (ABI/2) – more consistent region/industry sector information over time as well as increased consistency in detailed industrial (i.e. SIC 3 – digit level and below) estimates at the national level.

3. Measuring Structural Change

In most economic policy areas, the DTI does not collect its own statistics but relies on the Office for National Statistics (ONS) to supply it with the information it needs. The ONS has invested considerable resources in developing the macro-economic statistics it produces and improving the frequency and timeliness of them.

However, in many areas, policy makers in the DTI are more interested in the micro-economy and want more detailed figures but less frequently. This is particularly the case in the service sector and in trade in services. This is also increasingly important given the changing balance in the economy from manufacture to services. In many cases, the statistics that the ONS produces are not detailed enough to provide up-to-date monitoring changes in industries of interest to DTI.

For example, a number of industries within business services are defined at the 4 digit SIC level eg Market Research (SIC 74.13), Management Consultancy (SIC 74.14) and Conference Organisation (within SIC 74.84). The Annual Business Inquiry is the only source that provides information on turnover and purchases with the information released around a year and a half after the year to which it refers.

There are, in addition areas, where the statistical collections have not been able to follow changing practices within industry. For instance, the growth in the practice of contracting out, and outsourcing abroad, are not captured in official statistics. Similarly there is limited information on e-commerce, innovation and R&D.

Conclusion

Productivity is key to DTI policies. There are 5 drivers (Investment, Innovation, Skills, Enterprise and Competition) but problems with measuring and monitoring cuts across all areas.

We need information on productivity factors internationally (for comparisons); nationally and regionally (locally) and by detailed industry for the internal economy. We also need this information to allow policies to be focused and evaluated. It also needs to be timely.

Increased and easier access to data held by other government departments is important to increase our knowledge and aid evaluation. Ensuring common standards across departments would also increase our ability to match data and also improve our knowledge and evaluation. Of course, this would have to be undertaken using appropriate protocols, but is readily achievable via the Government Statistical Service work practices.

Business survey designs need to consider both industrial/sectoral and regional elements to maximize their usefulness across a greater range of users. Additional further requirements are the need to obtain quickly business feedback (eg from a business omnibus survey) so that new policies may be proposed and developed.

Some of these developments may be achieved in the near future through investment in statistical collection and improved infra-structure. Others are necessarily longer term. Further discussion is needed to establish priorities.

Yours sincerely

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