

Date 17 February 2004

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Dear Christopher

Introduction

Following on from your first report, on the 'Review of Statistics for Economic Policymaking', your team asked for comments. Apologies at the outset for the detail and quantity of the comments.

These comments are mainly from colleagues engaged in statistical activities in the Department of Trade and Industry, but also include other contributions. I attach, at annex A, some points gleaned from colleagues which relate as much to the next report as the first one, specifically whether the 'changing economic structure of the UK is being properly reflected in the ... official economic statistics'. These are based on the specific questions previously put to Vicky Pryce by your team. I hope you find them useful.

Because the comments received from within the Department have been very detailed and the Department has wider ranging and diverse policy objectives, some may appear to contradict others. However, I have attempted to present all the comments as far as possible without being directly contradictory and hope that you will appreciate that they reflect the wide range of interests covered by the Department.

One of my primary concerns is that the proposals appear to threaten a lot of DTI established manufacturing industry customer requirements, without an

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assessment of consequences. The proposals appear likely to take precedence over significant and longstanding DTI service industry requirements that are not being met - as well as potentially threatening established DTI service industry supply.

The proposals seem to reinforce a tendency to focus on macro economy and customers at the expense of more operational and micro-economic customers. Through the latter more changes that affect productivity might be made. While proposals for a major increase in regional supply are made, the extent of detailed user needs for regional data is unclear – as opposed to summary needs.

— All user requirements cannot be met so priorities should be set holistically; as part of that, define parameters for setting priorities by consulting users of all types. For instance, any collection of regional information would affect stratification on other attributes. We would very much like to be involved in the prioritisation of the complete set of recommendations and taking forward into an achievable work programme.

General comments

Overall, we welcome the recommendations made in the first of your reports and look forward to the second part that, we understand, has greater emphasis on structural statistics. It may be only after seeing the two reports together that we could provide full comments, particularly on how the recommendations can and should be taken forward. There may also be important decisions to be made on the priorities afforded the recommendations – taking into consideration of both cost and benefit.

We welcome recommendation 2 that each region (and country) should have annual baseline data for GVA at current prices and in volume terms, which should be derived according to the production approach. We interpret 'volume' terms to mean that the GVA information should be available at constant as well as current prices. We also welcome the endorsement (recommendation 5) of the importance of GVA per head. This measure is at the heart of the government's productivity agenda.

However, as our further points below will show, industry and sector detail is possibly the most useful explanatory variable in explaining differences in regional GVA and productivity. So regional analyses need substantial sector detail.

We recognise that in order to achieve the necessary statistics on regional GVA, the Annual Business Inquiry (ABI) is likely to require substantial extension (which itself raises the issue of the burden on business and how this can be resolved), to provide better regional accounts information than that currently available (recommendation 6). Other improvements, notably to the apportionment of returns to local areas, are also needed (e.g., recommendation 8).

We agree that improved coverage of the service sector is necessary (recommendation 30) but query whether this should be at the expense of detail in the manufacturing sector. We look forward to a fuller discussion of sectoral balance in the second report.

We welcome the recommendation (26) that the National Online Manpower Information System (NOMIS) should be retained.

We agree that the GSS needs to be able to respond quickly to changes in the economy and society (recommendation 35) including economy wide changes such as the development of e-business, and that the issue of the strategic capacity to recognise new developments and to respond to them quickly needs to be addressed.

We are interested to see your recommendation (36) that there should be Government Statistical Service representation in each region and would like to be involved in discussions as to how this might be implemented.

We support the recommendations that the Government Statistical Service (not just ONS) should have greater access to administrative data (e.g. tax data) and that the regions should have access to ONS regional micro-data (e.g. the Inter Departmental Business Register) (Recommendation 41).

Indeed there is a further issue of the availability and compatibility of the administrative data which exists across government. It would be a great advantage if analytical (GSS) staff were able to use these data freely. Sometimes it is not necessarily the department which holds or originates the data which could exploit it the most. An example might be information held in Customs and Excise which might be of use to DTI analysis of trade statistics, or the use of Inland Revenue data for analysis of household income, from a welfare point of view.

Specific comments concerning Regional data

Consistency

The first Allsopp report talks extensively about specific data issues at regional level, (particularly factors affecting surveys such as the Annual Business Inquiry etc). However the initial findings pay only scant attention to three sub-national issues of key importance to the analytical requirements REGIONS group.

Namely:

- **Geographic consistency over time:** There is a strong emphasis on producing data at the lowest level possible (whilst respecting disclosure and quality standards). In a number of key series this means that data are available (electoral) ward level. The problem that arises are the constant revisions to ward boundaries. For example, revisions were introduced during 1993, 1995, 1998, 2001 and 2003). This ongoing process of change causes problems with comparisons over time, not just

for wards but for higher level geographies aggregated from current ward boundaries. Two particular examples where this issue has affected the work of REGIONS have occurred with the ODPM *Index of Multiple Deprivation* and low (geographic) level benefits estimates from the DWP.

This requirement is mentioned in section 8.15 of the report, and is currently being examined by the ONS. However, the focus needs to revolve around much longer – term boundary consistency, and getting ‘buy in’ to this from other key data producers, particularly the DWP.

- Consistency in Revisions Policy: A number of recent examples of ONS revisions to key economic survey estimates have illustrated the need for a consistency over time. The clearest example of this were the discontinuities that occurred between the former annual employment survey and its replacement the ABI/1, where the adjustments to employee jobs estimates were only back cast as far as 1995 (irrespective of the issues affecting the results from previous surveys). Applying revisions only to more current ends of a time series often introduces discontinuities and impedes interpretation of longer - term trends, particularly at low geographic levels.
- Consistency in Definitions: In those series where accuracy and relevance can be maintained, revisions to definitions or groupings such as standard industrial and occupational (SIC/SOC) codes need to be back – cast as far as is feasible. Recent changes to SOC codes are have restricted the time series analysis that can be carried out on the New Earnings Survey. Secondly given the approach of the ‘Operation 2007’ restructuring of the UK SIC system, this issues needs to be addressed.

The emphasis in all three of these points is the need for some degree of comparability over time. It is difficult to assess the impact of policy using short or discontinuous data. A good and relevant economic survey does not just provide an indication of how an area looks at a given year or quarter, it should also provide an indication of how a given area has changed over time.

Timescale and Estimates of Reliability/Metadata

The First Report makes a wide range of suggestions for improvements to a range of key economic surveys and outputs. Although somewhat speculative, it would be very useful if the ONS provided (tentative) indications of how long some of the changes suggested in the report could take to implement fully. Speculation surrounding how quickly certain recommendations could be developed (specifically those relating to regional GVA), have already caused some disruption to the work REG are involved in.

Metadata describing the *quality or reliability* of individual National Statistics estimates is covered in the First Report. Further, the ONS is making significant advances in meeting this requirement.

However, the need for these estimates to be available quickly (i.e. at the same time as the actual estimates are published), and available flexibly (i.e. for geographic or industry splits of the same series), is important given our usage key economic and labour market surveys.

Decisions within this group are often made on the basis of very defined geographic and/or industry split data. In a number of recent cases (a specific example being the ABI), indications of the of the reliability of the estimates we have used have not been available. This needs to be addressed in the short term.

Stratification

The stratification of a number of key economic surveys (particularly the ABI) is discussed in the first report, with a focus on boosting the samples of a number of surveys. In the case of the ABI (and particularly the ABI/2), the most preferable method of sample design in relation to our needs would be a region *by* industry (i.e. interactive) factor. Using a region or industry factors in isolation may produce estimation issues of the type that have affected recent regional ABI/2 estimates.

Sectoral Issues

The first report has generally been presented as a review of the statistical information available at regional level. It may have passed largely unnoticed by users of industry and product statistics, particularly outside government. This is unfortunate, as the recommendations thus far make it a review of the balance between regional and sectoral requirements, particularly in the context of the Annual Business Inquiry (ABI) and PRODCOM/SERVCOM. Users outside government should have the chance to contribute to any review that will affect industrial statistics.

Within the sectoral dimension there is a further issue of the balance between production and service industry statistics. It is asserted that the statistical system is skewed towards manufacturing and the ABI sample excessively detailed and biased towards manufacturing and the amount of detail in which these data are produced is old-fashioned and imposed by international requirements. It is worth noting that the structure of the next ISIC is pretty clear; while detail within services will increase, detail within manufacturing will be broadly unchanged.

The first report accepts that it has dealt with these issues in less depth. Given this it seems somewhat premature that reductions in manufacturing detail are proposed in the regional chapters as a means of accommodating a regional dimension within the stratification for ABI.

It is not obvious that such a shift in stratification will actually produce markedly better data:-

- Previous ONS work has, I understand, demonstrated that industry is a more useful stratifying variable than region, from the point of view of national estimates. This *could* also hold for regional results if, say, detailed industry is important in explaining variation in GVA/head within the higher level aggregates likely to be available at regional level.
- There will probably still be a need for apportionment of data from reporting unit to local unit level. The current methodology is criticised as producing volatile results. The relative importance of the apportionment issue (and how much is itself related to sample design issues) is not apparent from the report, nor how far the process could be improved. It would be unwise to “bet the farm” on regional stratification only to find that the major problem was not soluble.

The first report recognises the need for considerable methodological work. The danger is that it will not yield the evidence needed to inform this key decision on the future shape of the evidence base until after the fundamental decision is made.

The review argues that current samples are designed with national rather than regional requirements in mind. The implication appears to be that data for each region should be of similar quality and thus (although it is not stated as such) sample sizes should be similar in each region. Given that the North East has 41,000 enterprises while London and the South East each has over 250,000, the resultant sample could be far from optimal for producing national results, and would also imply much higher chances of selection for small businesses in small regions.

Allsopp suggests that a substantial expansion of sample sizes may be necessary. Increases by factors of 3 and 7.7 in the ABI sample size are discussed, though there is no precise recommendation. Leaving aside the issue of statistical burden, there is also an issue of opportunity cost – if resource is available, would it be more useful in terms of generating analysis and understanding to use most of it to improve sectoral statistics – particularly for the service sector – rather than geographical?

In particular, I note that if sample increases are much more modest than indicated by the illustrative examples in Allsopp, the reduction in the sectoral detail used in ABI stratification would almost certainly have to go beyond manufacturing. Thus service sector statistics themselves could be adversely affected.

I am wary of the recommendation that new surveys should generally be expected to produce regional as well as national data. This would increase the costs of exploring new topics and thus inhibit reaction to important changes within the economy. By all means let us consider the regional dimension, but if the relationships with business performance that we wish to explore are likely to be universal, or are going to be felt company-wide, we should be robust in arguing against a regional dimension.

Finally, one aspect of the regional data requirement does not seem to be covered. For some industries, such as construction and transport, there is a major interest in where the activity takes place, not where it is based.

Comments on specific recommendations

We note your recommendation (44) that compliance costs for industry should not be a barrier to the improvements recommended elsewhere in the report, but we have to take into account DTI's role as business champion, especially for small business. We welcome the suggestion that a reduced ABI form could be used for businesses in any additional sample.

— It would be useful to be able to offer business back something in return, such as providing information that they would find valuable. Business should be consulted, through appropriate fora, about all the proposals and their implementation (see also Annex A).

Your report recommends (43) that ONS should improve its relationship with companies providing data by ... offering firms information about their sector. In our experience companies are interested in data for their detailed products or industry, not at some broad sector level, but this is exactly what the report threatens, within manufacturing. They are also already concerned with timeliness; if a bigger survey were slower, this would be unwelcome.

We understand that, historically, more information was collected on a product basis but this was reduced for a number of reasons, including the burden on respondents. Such a calculation does not take into account any likely gain that a respondent might make from providing the information, e.g. in terms of information returned to the respondent. A question that the Government Statistical Service may want to address is whether the current principles underlying the calculation of burdens on respondents is the correct approach for the future.

We thought that the report might say more about the need for reliable and fully implemented 'workplace based' and 'residence based' estimates of GVA in each region and country.

For the purposes of the regional PSA target, any estimates of constant value GVA should be provided for a substantial time series (at least from 1991, and preferably before). This does not appear to be covered in your recommendations.

It is clear that, from the point of view of providing regional statistics, such as GVA, the current design of the ABI is inefficient and introducing an effective regional stratification is an essential step. It is not self evident, however, that this means that the detail available on industrial sectors needs to be reduced. We think that you should recommend that ONS seek a sample design which optimally meets user needs. We think that methodologists should consider

carefully the optimum sample design, taking into account user needs, and the importance of GVA per head to government.

We are also concerned that it is suggested that improved coverage of the service sector could be offset by the detail in manufacturing, which is also of very great importance to the DTI (recommendation 30). We do not agree that manufacturing detail is a relic from the past. Goods still account for most of the UK's international trade. The European regulation covering ABI is fairly recent, while the draft ISIC 2007 contains more service headings but no fewer for manufacturing. This reflects user requirements for internationally comparable data at detailed level.

— Similarly we do not agree that the PRODCOM survey of production should be reduced in scope (recommendation 29). We would oppose any moves to reduce the frequency at which information is available from PRODCOM. We support the suggestion in paragraph 9.13 of the report that comparable information for the service sector should be collected in a 'SERVCOM' inquiry. The business services sector is the most obvious priority area. We note that product information is already collected for some activities, such as transport.

We also note the availability of SERVCOM would greatly assist compilation of the input-output framework, which is fundamental to national accounts, and could facilitate an increase in I-O categories within the service sector. The Department uses input-output tables to analyse the impact of policy options (the Climate Change Levy is a good example). Our view is that compilation of I-O tables would be difficult without the availability of more detailed ABI data underneath.

While the report notes that its remit was restricted to data needed for monetary and wider economic policymaking, we have some concern that this will be overlooked when the reports are being considered. Government Departments have a much wider need for analysis in support of policy development and implementation. In particular, data linking and analysis of the ARD is increasingly important in explaining the drivers of productivity improvement. Those with experience of data linking may have particularly relevant views on the relative analytical importance of region and sector.

Users outside government have quite distinct needs. Given that the first report was largely trailed as a review of regional data, users of industry statistics may well not have grasped its relevance to them. All these needs must be properly taken into account before final decisions are made.

One of our needs is for detailed data for trade disputes (& potential anti-dumping/safeguarding trade measures) when we need to estimate the cost to the UK. Disputes are typically focussed on very specific products. Matching these with existing data can be difficult enough and a move to less detailed data would make this process even more approximate.

As a big user of the present detail, and as potential users of information on the service sector and on knowledge-based industries, DTI should be a key member of any body considering how to implement the report. We consider that it is important the the ONS set up such an implementation group, with DTI representation, immediately. Any changes should, of course, be by agreement. There seems in any case to be a disproportionate emphasis on the ABI. Other regional needs are important, trade in services, other sources of information on distribution and services, employment statistics. Some of these will be important alternative indicators of regional performance, as discussed in your paragraph 6.14.

I hope you find these comments constructive and happy to discuss.

I am copying this letter to Greg Phillpotts and Colin Mowl, at ONS, as well as Vicky Pryce and other colleagues in DTI.

Yours sincerely

Glenn Everett
Chief Adviser on Statistics

Annexes:

- A DTI comments on the whether the changing economic structure of the UK is being properly reflected in the nature, frequency and timeliness of official economic statistics
 - B Comments by Construction Market Intelligence
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Annex A: DTI comments on the whether the changing economic structure of the UK is being properly reflected in the nature, frequency and timeliness of official economic statistics.

Policy Demand for data

The DTI deals with much of industry at a detailed level, sometimes in response to specific events (e.g., closures, anti-dumping and other competition issues) but also pro-actively (e.g. sector competitiveness analyses, working with the industry to assess future growth areas etc.). Key current issues include the knowledge based economy, e-commerce, broadband, 'offshoring', energy and high technology and, in terms of policy measures, the impact of environmental measures such as the Climate Change Levy. The department typically works closely with Treasury and others on such issues. Although some of the issues are cross-sectoral, it is necessary to be able to assess the quite different impacts on different industries. This can be done to a considerable extent using the input-output framework and more detailed ABI data. Users have highlighted the heterogeneity of some SIC 3 digit groups. For example, group 24.6 mixes explosives, adhesives, fragrances, blank tapes and CD's. Aggregated data are of very limited use in such cases.

A further responsibility of the DTI is to facilitate improvements in productivity levels and growth. Industrial sector is a key parameter that helps identify differences in productivity performance. There is great pressure to ensure that policy is evidence-based, and in this context there is a lot of interest in labour productivity and (if available) total factor productivity at detailed industry level, and a desire, which we are trying to address, to make comparisons with the UK's major competitors. It is important to ensure we are comparing like with like, which implies a need for detail.

The evidence base on productivity is being greatly enhanced by microdata analysis using data linking techniques and the ABI Respondent Database. If detailed classification ceased to be used in publication, its quality on the business register would probably decline, affecting its use in microdata analysis. All of these policy issues has to be mapped on to sector definitions that have been developed independently of, and do not fall neatly into, the Standard Industrial Classification (SIC). The DTI needs considerable industry detail to allow it to identify and aggregate industry sectors into groups affected by the issue of the moment. While at any one time only some of the detail is required, the requirement five years later may be quite different and at that point a time series for several past years is probably required. While it is impossible to cover all options, restricting ourselves to the detailed requirement as of now could severely inhibit future work.

In any analysis of business conditions (e.g., insolvencies) industry is a key determinant.

For these reasons, DTI take the view that detail is essential in manufacturing and service industries. Consequently DTI support any moves to provide more

comprehensive and detailed information on the service sector, but also require the fullest possible information on manufacturing and other production. Trade in products and services is, of course, an essential part of the information base.

Which policy levers depend on sectoral data being available?

Most schemes for aid to business, including structural funds and assisted area schemes, require industrial detail to assess their impacts. Generally, a scheme will not cover a simple industry (SIC) category and so SIC detail is necessary to allow DTI policymakers to assess effects. In particular, applications for Regional Selective Assistance require market assessment using all available data sources. We have recently been asked for access to national 4 digit GVA per head data, for use by the RDA's in assessing applications under the successor scheme to RSA, a good example of how work with a regional aim actually requires national data.

What data does industry itself generally say it needs?

It is vital that outside users are consulted direct. The Business Statistics User Group, for example.

It is fairly clear that businesses are interested in statistics that relate closely to what they do. This often means product rather than industry statistics. It also means value and volume of sales, and not GVA or GVA per head. The indicator at the centre of HMG's agenda is rarely of direct interest to business. PRODCOM is thus an important source on their markets, and would be even more important to them if it were not (in their eyes) so tardy appearing. Timeliness is important; if an expanded ABI took longer to process, that would be unacceptable. We are not aware of significant business interest in regional data; even where markets are genuinely local they do not fit administrative boundaries.

Trade associations have a broader remit and are more likely also to use industry level information.

There are many businesses that provide advice or analysis to other businesses, based on sources such as ABI and PRODCOM. Their usage should not be overlooked.

What level of detailed data does DTI need? Does DTI need the same level of detail for all sectors/industries?

Largely covered above. 4 & 5 digit level is essential in some areas. There is a risk in assuming that a sector will remain low priority over the next decade. If we did, pragmatically, find some categories likely to be of low priority, this would be more than balanced by the need for more detail within services.

How important is collecting statistical data by SIC codes to the DTI?

Absolutely fundamental to the productivity agenda. GVA and employment cannot usually be attributed to individual products, if that is the alternative being proposed.

The importance of international comparability also comes into play. A SERVCOM for the UK in isolation would deliver nothing on that front. There has to be an industry-based survey as well.

Does DTI need data on industries/sectors that are not defined under SIC (e.g., tourism, creative industries)? If so, what non-SIC classifications do you use?

— Yes. Tourism, ICT, ITEC, knowledge based industries, information society, creative industries, biotechnology are current issues. For some sectors which are defined in SIC, such as aerospace, users would like more industry detail, not less. Reducing detail would make it hard to develop worthwhile classifications as new policy issues arise, or to service definitions developed by bodies such as OECD.

What use do you make of PRODCOM, do you see room for streamlining, particularly if it meant the introduction of a SERVCOM?

DTI support retaining the detail and frequency of information from PRODCOM, while supporting the introduction of the service sector equivalent (SERVCOM) PRODCOM is an important source for sector units and analysts. Again, without wishing to defend every code, the detail is what matters. Rolling up codes would greatly reduce its value to business, without significantly affecting compliance costs. An attempt to do this on trade statistics a few years back was largely abandoned due to the adverse reaction from users. Conducting the survey on a rolling basis would also devalue the survey, as the time series would disappear and the latest available data would usually be years out of date. SERVCOM is necessary, particularly for business services and Section O. We note that product data are already collected for certain service industries, such as transport. Also that the regional dimension of most interest to users in that case is where the activity takes place, not where it is based. This is also the case for the construction industry.

Statistical demand

What are DTI's views on stratifying ABI using different levels of SIC classification or by something other than SIC codes (SIC codes are designed for another purpose and may not provide the best estimate of GDP)?

Stratification by SIC codes makes perfect sense if the aim is to produce efficient estimates for industries. It is hard to see what else would serve the purpose. The issue is whether regional stratification should be introduced. In the current design, industries may be proportionately represented across the nation, but not within regions. As a result the regional mix within regions can be

unrepresentative. (This is not a theoretical issue, there were practical consequences for the most recent estimates of regional GVA). The key is to devise a sample which addresses both issues efficiently. The suggested increases in sample size for the ABI are part of a solution (since it gives more scope for segmentation within regions) but other possibilities may include a rotating sample design which covers all sectors (whether by section, sub-section, division, group or (sub)class) over a period of time, say 2-3 years, (but this would need to be agreed with users). There is a need to tackle the issue of allocation of information to regions and sub-regions, however, i.e., use of local unit as opposed to reporting units as the 'building blocks' of the ABI information. It is unclear from the report whether stratification or apportionment is the major problem. If it is the former, detailed industry estimates will surely suffer from similar problems to regional data if it is dropped from the stratification.

Provision of data

Construction data:

How do DTI collect the short-term estimates of construction output?

Are there features of the construction sector that make measurement particularly difficult?

What are the relative roles of ONS and DTI?

What plans are there to improve the data?

See Annex B

Sample Frames

Which sample frames do DTI mainly use for surveys of business? Is the IDBR satisfactory for your purposes? If not, what attempts are made to ensure consistency between your sample frames and IDBR?

The IDBR is not a perfect sampling frame, although we appreciate that it is intended to be comprehensive (for its scope) and we support a coordinated approach across government. The reporting unit concept is not a 'natural' breakdown, and it is frustrating that local units, for example, do not have turnover data. The contact details could be more helpful; the provision of telephone numbers would be a significant improvement and would open up the option of conducting telephone surveys to get quick results on burning issues while retaining the link with the wider body of statistics. There are technical problems with multiple VAT registrations and registrations at official receivers' offices and from the point of view of micro-business but our main difficulty is with the accessibility of the IDBR for a sampling frame. DTI statisticians have been working with colleagues in ONS to improve the accessibility of the IDBR for samples, and samples have been successfully provided. Nevertheless issues to do with accessing disclosive data have led to alternative sample sources being used if only because the principles cannot be resolved in the timescale DTI require. DTI statisticians, as members of the GSS, would appreciate a more explicit acknowledgement that they should have delegated

responsibility for granting access to bona fide researchers and contractors. Alternatives include business directories and databases, including FAME (which itself contains useful information on the financial status of companies, which is not available from IDBR).

The International Benchmarking Study on ICT is carried out using Dun & Bradstreet and Yellow Pages, partly for international comparability, since official registers are not available in other countries, and partly because of the need for telephone numbers. This has a downside in terms of data quality and implications for data linking.

Capital

What are DTI's views on a measure of capital stock vs good investment data? Do you need capital stock?

The DTI needs to measure foreign investment in terms of "physical capital", i.e., plant and machinery etc, in addition to the financial measures of FDI in BoP which have well established drawbacks for monitoring inward investment policy. The main benefit of FDI statistics is that the established international standards allow extensive international comparisons which would not be available for a plant and machinery basis. However, one example of a major drawback is the conceptual and practical difficulty in providing FDI statistics by region.

The full DTI requirement for physical capital is for capital stock and flow data by country of ownership, by sector within region; and as a minimum foreign and UK ownership separately by sector and region. The ABI has the potential to provide information on net capital expenditure but there have been problems with the foreign ownership markers which remain to be resolved. Physical capital stock figures on a plant and machinery basis are analogous to the financial FDI position statistics which are much more useful than FDI flows for monitoring policy. The physical capital stock figures are needed to evaluate medium term inward investment policy effects which are likely to be masked by short term factors in the ABI flow (net capital expenditure) series.

We need information on foreign investment (either Foreign Direct Investment or on a physical 'plant and machinery' basis) at regional and sub-regional levels. DTI also needs capital stock, or capital services, as an input to TFP calculations. The more sectoral detail, the better. DTI also uses capex data, however.

DTI is a prospective user of the growing TFP-related work using microdata. The leading researchers have developed methods of estimating firm level capital stock from ARD data. While direct collection of capital stock data would have some benefits, is this only feasible for larger businesses?

Quality adjustment

Which areas are important to extend quality adjustment to?

Apart from noting the need to maintain and improve the quality of all the estimates we use, we have no specific proposals.

Productivity

Given DTI shares the productivity PSA target, are there any specific data issues here?

The obvious needs are for national and regionalised information on the five drivers of productivity; investment, innovation, skills, enterprise and competition. DTI, ONS and the Regional Performance Group have been preparing briefing for the regional chapter of the Treasury Consultation document on productivity. There is some concern that the statistical system could become dominated by current PSA targets, to the extent that it results in the loss of data of greater analytic value, and indeed an inability to provide data to meet an alternative set of targets a few years down the line.

And in addition

Consumer expenditure is a key driver of GDP in the UK and as such the systematic collection of disaggregated information about consumer economic behaviour would seem to be essential to the effective monitoring of economic policy. There is, for example, a large gap on indebtedness statistics and individual consumers' economic circumstances and behaviour which DTI is seeking to plug through a new ONS wealth and assets survey with the help of OGDs. The link between consumer indebtedness and consumer expenditure could become increasingly important.

The question is whether there is a need to review the present approach to monitoring the economic (and other, though this would not be for Allsopp necessarily) behaviour and circumstances of individual consumers and, if necessary, to develop a more systematic framework for collecting the statistics. The needs of small business should not be neglected. Businesses below the VAT threshold are not routinely included in registers such as the IDBR. Again, any improvements in this area would have to be balanced against burdens on those businesses. The Small Business Service will have a view.

Annex B: Comments by Construction Market Intelligence for inclusion in the DTI response to the First Report

Data quality

Recommendation 34 of the Review asks for:

“views from data providers and others on the quality of data for those sectors where the ONS is not the main data producer, such as agriculture, construction, the public sector and financial services.”

Following recent revisions to early estimates of construction activity, DTI initiated a joint review with ONS to investigate the reasons for those revisions and to look at ways in which the early estimates could be improved. The quality of early estimates of construction output falls within the scope of this review, which is being conducted in two stages. Stage 1 has been completed and the report will be published on both the DTI and National Statistics websites shortly. Stage 2 will examine the issues in more depth and is expected to report in the summer of this year.

Regional data

Recommendation 34 also invites comment on the availability of regional data. Concerns for regional data are echoed in paragraph 11 of the summary, which states,

“The national perspective of the UK statistics system has two crucial consequences for regional data. First, survey samples are structured to produce national rather than regional estimates. Second, figures are collected for enterprises as a whole, rather than according to the specific geographical location of activity.”

Construction activity is one of the few short term inquiries for which a regional breakdown poses few problems. The quarterly survey is taken over 12,000 firms, with all large firms represented and a rotating sample of smaller firms. From this, a measure of annual GVA growth (or even quarterly GVA growth, although that is not recommended) is already feasible at regional level.

Furthermore, construction data is collected with regional breakdowns in mind and activity data is collected by the area in which it is performed and not for the firm as a whole; the attached document sets out the data available by GOR of activity rather than GOR of registration of firm. This has been done historically because construction is regionally based and completed construction products are assembled on site rather than made in factories. While some components may be transported from region of manufacture to region of consumption, it is very rare for entire office blocks, houses or bridges to be assembled in one part of the country and transported to another.

Compliance issues

Recommendations 42-45 cover compliance issues. By way of general points, firstly it is surprising to find no consideration of the use of ICT to reduce the

compliance burden while maintaining or improving quality. DTI is looking at the possibility of collecting returns via secure internet facilities as a means of reducing respondent burden. Secondly, a perceived reduction in the compliance burden can often be achieved by feeding back survey results in a manner which the respondents themselves find useful, so that they are more willing to invest the time and effort in survey participation, and this point may have been worthy of consideration.

Specifically with regard to construction statistics, the report makes the point (paragraph 11.6) that it is one of the largest non-ONS collections in terms of compliance costs. This is in part due to the fact that DTI is the customer for a number of surveys of building materials carried out by ONS, where the compliance cost is allocated to the receiving department.

We have already mentioned in considering regional data that construction industry statistics are already collected at a very fine level of detail. For this reason, we would consider that recommendations 14 & 15 do not apply to construction statistics and we would argue against any recommendation to extend samples unnecessarily in view of the increased burden on businesses that would result.

Standard Industrial Classification

Recommendation 6 suggests “challenging the increasingly-outdated basic requirement for industry detail at the four-digit level of the Standard Industrial Classification (SIC)”.

We should like to note that as far as construction is concerned, detailed SIC is not outdated but necessary. Only at the 5-digit level can house building be distinguished from civil engineering, a fundamental division of the construction sector. Until anomalies such as this are rectified there will be a continued need for 4 and even 5 digit breakdowns. In addition, there is great deal of interest in wider definitions of the construction industry, encompassing construction products normally classified to other sectors. Timber products such as windows and door frames need to be distinguished from furniture, and it remains impossible to distinguish electrical wiring for construction from other forms.

Availability of Regional Construction Data

Construction (SIC2003 Division 45)

Construction work does not in general take place at the address of the reporting unit, and may take place in a different region altogether. Because of this, DTI collects the site address and postcode of contracts signed and uses this to report the Government Office Region (GOR) in which work is carried out. Where “GOR” is used below, it refers to the region of work. If the phrase “GOR of Registration” is used, it refers to the address for the company held on the DTI Register.

The following terms are also used:

Registered contractors – contractors registered for VAT and on the department's database

Contractors – the output of registered contractors plus an estimate for unregistered contractors and the self-employed

All agencies – Contractors plus public sector direct labour organisations.

Construction Output

Current price all agencies output by GOR and sector (time series)

- available quarterly when provisional data published in Statistical Press Release

Current price contractors output by GOR and sector (time series)

- available annually in Construction Statistics Annual

Current price registered contractors output by GOR of registration (time series)

- available annually in Construction Statistics Annual

Construction Employment

Registered contractors total employment by GOR of registration (time series)

- available annually in Construction Statistics Annual

Registered contractors total employment by GOR of registration and employee type

- available annually in Construction Statistics Annual

Registered contractors employment of operatives by GOR of registration (time series)

- available annually in Construction Statistics Annual

Structure of the industry

Registered contractors number of firms by GOR of registration (time series)

- available annually in Construction Statistics Annual

Registered contractors number of firms by GOR of registration and size of firm

- available annually in Construction Statistics Annual

Orders for New Construction

Current price value of orders by Government Office Region and sector

- available quarterly when provisional data published in Statistical Press Release and annually in Construction Statistics Annual

Current price value of large contracts (=>£2m) by GOR and sector

- available quarterly on web shortly after provisional data made available

Current price value of orders by Government Office Region and sector

- available monthly on web shortly after provisional data made available

Current price value of orders by Government Office Region and subsector

- available quarterly on web once data finalised

Current price total value of orders by County

- available quarterly on web once data finalised

Current price total value of orders by County and sector

- available six-monthly on web once data finalised

Building Materials

Sales of Sand and Gravel by English Regions, Wales and Scotland

- available quarterly in Monthly Statistics of Building Materials and Components and annually in Construction Statistics Annual

Sales of Sand and Gravel by English and Welsh counties and Scottish regions

- available quarterly in Monthly Statistics of Building Materials and Components

Bricks: Production, Deliveries and Stocks by English regions, Wales and Scotland

- available quarterly and for latest month by type of brick and monthly for all types. Available annually in Construction Statistics Annual

Concrete Building Blocks: Production, Deliveries and Stocks by English regions, Wales and Scotland

- available quarterly in Monthly Statistics of Building Materials and Components and annually in Construction Statistics Annual

Price and Cost indices

DTI publishes some quarterly Tender Prices Indices with location factors to enable the conversion of the national indices to regional indices. The TPIs are available in the Quarterly Building Price and Cost Indices publication, and are:

- TPI of Public Sector Building Non-Housing (PUBSEC) (also available with function factors for different types of building)
- TPI of Social Housing (TPISH)
- TPI of Road Construction (ROADCON) (also available with road type and value factors).