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**Director General for Regulation**

Philip Turnbull  
SIGMAPLUS LTD  
Bletchley  
Milton Keynes MK3 7QR

18 December 2014

Dear Mr Turnbull,

**BIS REVIEW OF CONSTRUCTION PRICE INDICES**

Thank you for your letter dated 13 October 2014 raising some concerns around BIS's programme to develop new methods for the production of Construction Price and Cost Indices. I am sorry that it has taken some time to respond because there have been significant developments over the last eight weeks. I am copying to you two letters that I sent on 11 December, to Siobhan Carey, the Head of Profession for Statistics at BIS, and to John Pullinger, the National Statistician. These letters are now available from the UK Statistics Authority's website. As you will see, your concerns about the revised methodology are widely shared, and the Authority has concluded that neither the Construction Price and Cost Indices statistics, nor the Construction Output statistics which depend on the indices, merit the designation as National Statistics.

I trust that sight of this correspondence provides assurance that the Authority is taking this matter seriously, but if you would like to discuss further, please do not hesitate to contact me.

Yours sincerely,



Ed Humpherson

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**Director General for Regulation**

Siobhan Carey  
Head of Profession for Statistics  
Department for Business, Innovation and Skills  
1 Victoria Street  
London SW1H 0ET

11 December 2014

Dear Siobhan,

**CONSTRUCTION PRICE AND COST INDICES**

Thank you for your letter dated 10 December advising me of your decision to suspend publication of the Department for Business, Innovation and Skills (BIS) statistics on *Construction Price and Cost Indices*. As you are aware, I have been monitoring this situation closely and I have discussed my concerns with John Pullinger, the National Statistician.

Under the *Statistics and Registration Service Act 2007*, the Board of the UK Statistics Authority is responsible for deciding on the designation of statistics as National Statistics, on the advice of the Director General for Regulation. Having reviewed the published response to BIS's consultation and the associated documents detailing the new methods, I support the view that there is still some way to go to develop the methods and to test the assumptions on which they are based. When the Authority reinstated National Statistics status for *Construction Price and Cost Indices* in 2012, the decision to do so was finely balanced and took into account BIS's commitments to review the methods and to publish detailed methodological and quality information. While I appreciate that BIS's development programme represents a positive step towards meeting these commitments, I note that the process of signing off the methods as fit for purpose did not include an empirical evaluation of the impact in relation to key uses of the statistics.

In light of these developments, and based on my advice, the Authority has decided to discontinue the designation of *Construction Price and Cost Indices* as National Statistics. Taken as a whole, the Code of Practice for Official Statistics aims to ensure that official statistics meet the needs of users; are produced, managed, and disseminated to a high standard; and that statistics are well explained. The suspension of the publication of these statistics and the continuing uncertainty around their quality has led the Authority to conclude that this overall objective of the Code has not been met.

The Authority would, therefore, be grateful if you would make clear to users that National Statistics designation has been discontinued. Some timely advice to users of the statistics about how they might manage the suspension of the statistics would also be welcome.

The classification of official statistics as 'experimental' and their designation as 'National Statistics' are mutually exclusive.

If you do take the decision to label the statistics as experimental when they are reintroduced, it will be important to publish a timetable that indicates for users when the experimental status of the statistics will be reviewed with a view to removing the label.

I look forward to receiving regular updates and a further report in due course when the work to address the concerns about the statistics has been completed. At that point, the Authority will undertake a re-assessment of *Construction Price and Cost Indices* to determine whether or not they should be re-designated as National Statistics. Given the importance of these statistics, I think that it would be helpful to attach some priority to regaining National Statistics status and so providing users with necessary assurances.

I am copying this letter to Sir Andrew Dilnot, Chair of the UK Statistics Authority; Professor David Rhind, Chair of the Authority's Regulation Committee; the National Statistician, John Pullinger; Glen Watson and Nick Vaughan at ONS; and Sam Beckett at BIS.

I also attach a copy of my letter dated today to the National Statistician in respect of how this decision impacts the designation of ONS's *Construction Output and New Orders* statistics.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ed Humpherson', written in a cursive style.

Ed Humpherson

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**Director General for Regulation**

John Pullinger  
National Statistician  
1 Drummond Gate  
London SW1V 2QQ

11 December 2014

Dear John,

**CONSTRUCTION OUTPUT AND NEW ORDERS**

We have discussed the Authority's decision to discontinue the designation of *Construction Price and Cost Indices* as National Statistics, as detailed in my letter to Siobhan Carey, Head of Profession for Statistics at the Department for Business, Innovation and Skills (BIS), copied to you today, and the implications for ONS's Construction Output and New Orders statistics.

As you are aware, the Authority re-assessed *Construction Output and New Orders* against the Code of Practice earlier this year and conditionally confirmed designation subject to ONS meeting a number of Requirements, including the need to 'update the published information about methods and quality to reflect the latest developments in the construction output statistics, and provide better information about the strengths and limitations of the statistics'. Assessment report 280<sup>1</sup> made particular reference to the need to do this in relation to ONS's deflation methods.

Subsequent discussions with ONS established that it did not have sufficient information to be able to offer users appropriate assurances about the quality of its deflators, with Dame Kate Barker's *National Statistics Quality Review: National Accounts and Balance of Payments*<sup>2</sup> referring to the existence of a 'black box' around the quality of the source data used for BIS's construction price indices. ONS expected that this would be rectified with the publication of information about BIS's newly developed methods. Over the summer ONS's team, led by Kate Davies, engaged with us very constructively but our concerns, and those of ONS, have deepened somewhat in respect of whether the BIS development programme would deliver statistics of sufficient quality to fully comply with the Code of Practice. Reflecting on my correspondence with Siobhan Carey, the current position as I see it is that:

- ONS was reliant on the development of new and better methods for producing construction price indices, and the transparency that these new methods would offer, to assure itself and users of the quality of its own deflation methods. Not having this assurance means that ONS is not able to meet a Requirement in respect of Assessment report 280;

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<sup>1</sup> <http://www.statisticsauthority.gov.uk/assessment/assessment-reports/assessment-report-280---statistics-on-construction-output-and-new-orders.pdf>

<sup>2</sup> <http://www.ons.gov.uk/ons/guide-method/method-quality/quality-reviews/list-of-current-national-statistics-quality-reviews/nsqr-series--2--report-no--2--review-of-national-accounts-and-balance-of-payments.pdf>

- With BIS's decision to suspend publication of *Construction Price and Cost Indices*, ONS has had to adopt an interim solution, in effect reverting to the old methodology and substituting modelled inputs in place of observed data where relevant data are no longer available.
- Given how quickly the situation has evolved, ONS has not been in a position to provide the Authority with appropriate assurances about the robustness of the new, interim approach that it is now applying, incorporating some modelling in place of observed data

In the circumstances, ONS has adopted a sensible course of action and is taking a prudent approach that will be good enough for many of the uses of the statistics. However, in light of developments, and based on my advice, the Authority has decided to discontinue the designation of *Construction Output and New Orders* as National Statistics. Taken as a whole, the Code of Practice for Official Statistics aims to ensure that official statistics meet the needs of users; are produced, managed, and disseminated to a high standard; and that statistics are well explained. The Authority has concluded that, despite the sensible steps taken by ONS, this overall objective of the Code has not been met.

The Authority would therefore be grateful if you would remove the National Statistics designation from the Bulletin and associated landing page on the ONS website as soon as possible, and include a link to this letter by way of explanation. This change in status and the potential shortcomings of the Construction Output and New Orders statistics should also be made clear to users in future publications.

Assessing the robustness and impact of the new BIS methodology will be an important part of the work to establish the most appropriate deflator for construction data. As such, I think it would be helpful if ONS were to continue to support BIS's work as far as possible.

I would also advise careful consideration of the impact of these developments on other National Statistics with a view to informing me of any appropriate action you think might be needed.

I am copying this letter to: Sir Andrew Dilnot CBE, Chair of the UK Statistics Authority; David Rhind, Chair of the Authority's Regulation Committee; Glen Watson, Nick Vaughan and Kate Davies at ONS; and Siobhan Carey and Sam Beckett at BIS.

Yours sincerely,



Ed Humpherson