
Director General for Regulation

Jonathan Athow
Deputy National Statistician, Economic Statistics

28 August 2018

Dear Jonathan

ASSESSMENT OF ONS REGIONAL GROSS VALUE ADDED (INCOME AND PRODUCTION APPROACHES), UK STATISTICS

We have reviewed the actions that ONS has taken in response to our Assessment Report number 335¹ on the statistics in Regional Gross Value Added (Income and Production Approaches).

On behalf of the Board of the Statistics Authority, I am pleased to confirm the designation of these as National Statistics. During this assessment ONS staff involved in implementing the enhancements arising from this assessment have shown enthusiasm and commitment to improving the value and quality of these statistics. We welcome particularly the positive approach taken to seek out ways to further improve the statistics and to engage with the many users of the statistics.

The Bean Review of Economic Statistics² set many challenges to ONS in making economic statistics fit our modern economy, not least of which were to develop good economic statistics for devolved nations, regions and local areas. ONS's response to the findings of this assessment has demonstrated how well it is meeting users' needs for better statistics on local economic growth to support better decision making. The range and quality of the economic data in this space are very impressive.

I have been struck by ONS's response to our findings and applying a different method for deflating the GVA from imputed rent. The influence of the different rates of house price inflation as a contributor to divergence between the growth in R-GVA across the nations and regions has been investigated and significant progress has been made in making better estimates. I found admirable the industry review into new ways of regionalising the GVA of the Finance and Insurance industry and using new sources of data. I very much look forward to seeing the fruits of these investigations on the estimates of R-GVA for this important industry.

During the assessment some users shared with us concerns about the degree to which regional GVA estimates are based on observed, estimated and modelled data. The article that ONS published following our assessment about the degree to which the statistics are

¹ <https://www.statisticsauthority.gov.uk/publication/statistics-on-regional-gross-value-added-phase-1/>

² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/507081/2904936_Bean_Review_Web_Accessible.pdf

based on estimated data and the extent to which modelled estimates³ are used is an excellent first step in addressing users' concerns. I would encourage you to highlight the findings from this work alongside your next publication of these statistics.

We have included more detail about our judgement in an annex to this letter. I, or my team, would be very happy to talk you or colleagues through any aspects of this letter, the annex or Code compliance more generally.

National Statistics status means that official statistics meet the highest standards of trustworthiness, quality and value and is something to be celebrated. We invite you to include a statement alongside the statistics which reflects this status.

Please feel free to discuss any aspect of this with us at any time. I am copying this letter to Debra Prestwood, Head of Profession for Statistics at ONS and Trevor Fenton, Head of Regional Accounts at ONS.

Yours sincerely



Ed Humpherson

Director General for Regulation.

³<https://www.ons.gov.uk/economy/grossvalueaddedgva/articles/analysisoftheextentofmodellinandestimationinregionalgrossvalueadded/2018-03-28>

Annex: Review of actions taken by ONS in response to Assessment Report 335 on Statistics on Regional Gross Valued Added.

| Requirement | Action taken by ONS to meet the Requirement | Office for Statistics Regulation evaluation of evidence in meeting Requirements |
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| <p>Requirement 1</p> <p>ONS should plan to put in place enhanced quality assurance of the regionalisation of HMRC source data in estimates of regional Mixed Income</p> | <p>ONS documented the quality assurance procedures of this administrative data within both ONS and at source by HM Revenue and Customs. ONS, using the quality assurance of administrative data (QAAD) guidelines for data sources, rated this administrative data as posing a medium risk to the mixed income component of GVA and a low risk to R-GVA aggregates. ONS said it would publish its assessment within its Regional Accounts Guidance and Methodology webpage.</p> | <p>We checked this on 08 November finding the link. ONS's assessment of profile and risk for the HMRC self-assessment source data in splitting the data into regions is justified and the arrangements to quality assure this data are proportionate to the risk posed. This requirement is met.</p> |
| <p>Requirement 2</p> <p>ONS should:</p> <p>(a) Review whether new data sources or methods will more accurately regionalise the GVA of the Financial Services and Insurance industry</p> <p>(b) If new data sources or new methods allow, plan to improve the regionalisation of Financial and</p> | <p>ONS published on 9 April the findings of an industry review of the Finance and Insurance industry in estimates of RGVA.</p> <p>Background: The review reported that Compensation of employees (CoE) makes up around 60% of GVA(I) in the finance and insurance industries, and is allocated using employees from the Business Register and Employment Survey (BRES) multiplied by average weekly earnings from the Annual Survey of Hours and Earnings (ASHE) to give total earnings. Gross trading profits of corporations, which makes up around 30%, uses the same data as CoE. Rental income for the financial sector, comprising 7% of GVA, uses national non-domestic rates (NNDR) to allocate to NUTS1, then total earnings to allocate to NUTS2 and below. NNDR is conceptually a better</p> | <p>As a consequence of this work a number of opportunities for better assessment of the GVA and how to split it fairly between the nations and regions have been identified and will be followed up. This requirement is met.</p> |

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| <p>Insurances Services industry GVA</p> | <p>measure than earnings as it reflects the value of property held in each region. Prior to the GVA(P) publication in December 2017, employment was used to split all finance and insurance industries GVA into regions and sub-regions, except monetary financial institutions at NUTS1 level. There are issues with this approach, as within the finance and insurance industries it is possible that a small number of employees could be associated with a large turnover for the company.</p> <p>For regionalising monetary financial institutions, group 64.1 (central banking, banks and building societies), ONS currently uses FISIM (financial intermediation services indirectly measured) and fee data received from the Bank of England (BoE).</p> <p>The work: ONS investigated alternative methods for regionalising GVA including (a) Replacing total earnings with national non-domestic rates in gross value-added income approach (GVA(I)); and (b) replacing employment with compensation of employees in gross value-added production approach (GVA(P)). They also investigated adopting new data sources such as Bank of England regional data, financial surveys, pensions data and administrative data.</p> | |
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The outcomes – short-term: As a consequence of this review, ONS plans in their gross value added (GVA) December 2018 publication to use national non-domestic rates (NNDR) to regionalise rental income in GVA(I) at all levels of geography. This will be an improvement on its current method as it reflects the value of property held in each region. Additionally, ONS will use compensation of employees (CoE) to regionalise GVA(P) for all finance and insurance industries (with the exception of monetary financial institutions at NUTS1 level) using a lower industry breakdown of Annual Survey of Hours and Earnings (ASHE) data.

ONS thinks that both Value Added Tax (VAT) data and Bank of England (BoE) data may deliver improvements that it can introduce into the December 2018 publication, however there remains some uncertainty around these data and timings. Once ONS has developed the local unit VAT data, they will be able to assess the viability of using VAT data to regionalise the finance and insurance industries in GVA(P).

Outcomes – medium term: Regional accounts will stay up to date with the ongoing work within enhanced financial accounts (EFA) and update their assessment of alternative data sources for insurance, pensions and other financial institutions (OFI). They will also assess the viability of the Financial Services Survey (FSS) for accessing regional data as a potential improvement for OFI (Other Financial Institutions).

Outcomes- long-term: ONS also researched the potential to obtain location data and institutional information from the messaging standard ISO 20022

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| | <p>in the sterling high value payment system. There is optimism that such data would be a significant improvement that ONS can use at some point in the future, although this is still a few years away from fruition. In the short term, the outcome of the consultation on the ISO 20022 messaging standard will be followed to see whether the location at both ends of the transaction, the type of institution and the purpose of the transaction will be included in the messaging standard.</p> <p>ONS reports in its findings that it is likely that a collaboration with the Scottish Clearing Banks, Bank of England (BoE) and Scottish Government will provide the basis for a wider range of variables to be modelled and used in Regional Accounts, which could potentially be used in both GVA(P) and GVA(I) to improve both measures.</p> | |
| <p>Requirement 3</p> <p>ONS should: review whether the current method for deflating regional estimates of regional imputed rent is robust</p> | <p>ONS reviewed whether the current method for deflating regional estimates of regional imputed rent was robust concluding that there is clear evidence of differences in rents across regions of the UK. It found that better deflators were available using the new experimental set of price indices called the Index of private housing rental prices (IPHRP), available for the countries and regions of Great Britain. Various challenges to adopting this data were overcome. ONS judged that these new deflators are of sufficiently good quality regional deflators for imputed rental. They used the new deflators in the publication of GVA statistics in December 2017</p> | <p>This requirement is met</p> |

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| <p>Requirement 4</p> <p>ONS should: a) publish revisions triangles for RGVA (P) and b) better convey whether revisions have provided more news than noise and which estimates display significant volatility.</p> | <p>(a) ONS published revisions triangles for R-GVA(P), alongside the reference tables published in December 2016 on its website. ONS published GVA(P) estimates for only four years since December, so the triangles are smaller than those published alongside the GVA(I) statistics. We checked that they had been posted and confirmed that they had.</p> <p>(b) ONS published more information about the nature and extent of revisions to R-GVA statistics on its Regional Accounts Guidance and Methodology webpage</p> | <p>This requirement is met</p> |
| <p>Requirement 5</p> <p>ONS should examine whether opportunities exist for even greater use of the ONS regional statisticians initiative with newly established sub-regions (particularly new city-regions).</p> | <p>There is considerable evidence of engagement initiated by ONS with for example New Economy in Manchester (now Greater Manchester Combined authority), the West Midland Combined Authority and through their Regional Economic Forums. We spoke with all the senior and operational staff in ONS responsible for statistics on city-regions who told us about the considerable engagement with the Combined Authorities. Senior ONS staff have set up an analytical statistical priorities group with sub-groups, one of which is will about analysis for city regions- which is a strategic steering group. The Combined Authorities (CAs) of Manchester and West Midlands are represented. The Centre for Cities is also involved in that sub-group.</p> | <p>ONS has appointed staff to act as a liaison between CAs and they have involved established immediate statistical needs of the CAs. Centre for Cities told us that in the past the focus had been about jobs, but now increasingly it is about productivity as employment does not give the full picture. ONS's new work looking at GVA at workplace zones is exciting as is the analysis of productivity in rural and urban areas. Centre for Cities had collaborated with ONS in this area and obtained extra data which helped look at city centres in contrast with the rest of cities and this work is ongoing. The analysis of R-GVA for CAs in the December 2017 publication of the statistics is impressive and appreciated by users.</p> <p>This requirement is met.</p> |
| <p>Requirement 7</p> <p>ONS should clearly explain to users the impacts of</p> | <p>The main findings are</p> <ul style="list-style-type: none"> • ONS broke down the source data used in the regional measurement of gross value added (GVA) into three different types of data- observed | <p>ONS also produced analyses using the three types of data for industries and for the different regions and devolved nations. One of the users who had raised concerns about the degree of modelling has fed back</p> |

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| <p>modelling and imputation on estimates of R-GVA</p> | <p>data, estimated data and modelled data; they calculated these shares for both the income measure (GVA(I)) and the production measure (GVA(P)), using data for 2014</p> <ul style="list-style-type: none"> • The first type of data is directly observed. ONS collects the data at a regional level in a way that can be immediately and wholly assigned to a single region; at the UK level, there is around 32% observed data in GVA(I) and around 23% in GVA(P). • The second type estimated data, using sampling and weighting techniques common to all sample surveys; at the UK level, there is around 51% estimated data in GVA(I) and around 49% in GVA(P). • The third type - modelled data to provide regional estimates, most often by the apportionment of data collected for a larger area using some regional indicator; at the UK level, there is around 17% modelled data in GVA(I) and around 29% in GVA(P). <p>Most countries and regions of the UK have similar shares of observed, estimated and modelled data; the exception is Northern Ireland, where there is a much higher proportion of observed data and much lower proportion of modelled data, due to the separate data collection that takes place there</p> | <p>to ONS that they thought this was a good piece of work.</p> <p>This requirement is met.</p> |
| <p>Requirement 7</p> | <p>ONS announced its plans to develop quarterly output indicators for the English regions using different publications such as its economic statistics strategies and development plans. It told people about these</p> | <p>The timetable for the project includes a peer review phase of quality assurance in the spring of 2018, followed by a public consultation. ONS updated the Regional Accounts Government User Group meeting</p> |

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| <p>ONS should communicate more widely its plans to make available regional quarterly estimates</p> | <p>developments at events in London, organised jointly with the Centre for Cities, and at a series of regional economic forums in Cardiff, Manchester, Edinburgh, Belfast, Birmingham and York.</p> <p>ONS included the development of the new quarterly indicators in its consultation on introducing new balanced regional GVA, and a representative of the quarterly indicators team visited key users in Belfast, Birmingham, Cardiff, Edinburgh and London.</p> | <p>in January 2018. At that meeting ONS said they intended including agriculture and the public service industries in its quarterly estimates (which are currently not covered by the Welsh indicators). They also said that they intend to publish the first experimental statistics in December 2018.</p> <p>This requirement is met.</p> |
| <p>Requirement 8</p> <p>ONS should explore with Government users what contextual information they want to publish alongside these statistics.</p> | <p>ONS met with key users of these statistics in September 2017, at which they asked them what contextual information they want to see published. In addition, ONS has included this question in its public consultation on balanced regional GVA, to collect views from a wider range of users. ONS published a response which includes a summary of the suggestions made by respondents to this question. For example, one user said: <i>'some contextual local economic narrative would be great'</i>. Another user said <i>'ONS can add value here by providing insight by combining discussion of relevant bits of data on an area'</i>.</p> | <p>ONS made no specific commitments to additional contextual information but did note that people told them that they would like the publication of regional GVA and productivity estimates to be brought closer together. ONS said they are conscious of the benefits to users of having these statistics presented together, and it is their long-term aim to achieve as close to concurrent publication as we can. Currently, the need for additional processing of final GVA estimates with labour market data means that there is an inevitable gap at present, with the productivity release published in February 2018.</p> <p>This requirement is met</p> |
| <p>Requirement 9</p> <p>ONS should review with government users its current development plan for the R-GVA statistics and</p> | <p>We attended the Regional Accounts User Group Meeting in September 2017, the Balanced Estimates Consultation regional meeting in September in Edinburgh and other meetings where Regional Accounts met with some of their users. We also attended the Scottish Parliament's inquiry on</p> | <p>We are satisfied that the development plans for these statistics take good account of different users' needs.</p> <p>This requirement is met.</p> |

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| <p>how to address better their different needs.</p> | <p>economic data when ONS were giving evidence. The Deputy National Statistician for Economic Statistics told the MSPs that everything ONS produces is user-focused. He said that he felt ONS had worked innovatively with the Scottish Government including boosts to sample sizes where needed. He spoke about the Inter-Administration Committee and the economic statistics working group with ONS and the Devolved Administrations. He explained that, through the Authority Board, ONS are accountable to the UK and Devolved Parliaments. He said ONS would welcome closer engagement with the Scottish Parliament, flagging the possibility of tailored updates. While these comments relate to Scotland, we have seen the degree to which there is outreach to other regions, devolved nations and combined authorities. The minutes of the user group meeting were made available to us and we have witnessed the work of the Devolved Economic Statistics Coordination group.</p> | |
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