Mark Pont, Assessment Programme Lead

Darren Morgan
Director of Economic Statistics Production & Analysis
Office for National Statistics
(by email)

2 February 2022

Dear Darren

Inclusion of VAT data in Short-Term Economic Outputs

I am writing to you following our recent review of ONS's use of VAT data in producing Short-Term Economic Outputs. We carried out this compliance check to assess progress following ONS's latest plans announced in 2018 to implement VAT data into a variety of outputs.

These economic indicators are vital statistics for assessing the state of the economy and provide high public value. By using a data source as large as VAT data, the near-census of businesses attained provides potential for more-accurate statistics. This data source also has potential to increase granularity, for example industry or regional breakdowns, to meet users' needs. The use of administrative data sources such as VAT, PAYE and Corporation Tax data demonstrates some progress towards addressing recommendations in the Bean review, which noted that progress had been slow up to that point.

We found that there has been some positive progress to achieve these plans including:

- VAT data are currently being used as one of the inputs into the index of services, index of production, and construction output in GB, which in total form represent 94% of Gross Domestic Product (GDP). It is also the main data set used to estimate quarterly regional GDP, demonstrating the ability of VAT data to help produce more-disaggregated statistics
- ONS is currently improving the automated pipeline that processes the VAT data that feed into quarterly regional GDP statistics. These improvements will make the system able to deal with any methodological changes as well as increasing efficiency, which will improve the timeliness of outputs
- The use of VAT data as a real-time indicator shows the potential that VAT data have as a fast measure of economic performance. These indicators provide high public value as a timely measure to help decision making and we commend ONS's move to publishing these indicators every fortnight.
- Research into automated methods of cleaning VAT data and removing reporting errors is being undertaken to ensure the vast VAT dataset is of assured quality to feed into key statistics. It is a good example of transparency that this research has been explained to users in an accessible way through the use of a blog.
- Research by the Economic Statistics Centre of Excellence (ESCOE) into the use of VAT data may help ONS change business coverage by including VAT data for smaller

businesses in outputs. We look forward to the results of the current follow up research, due at the start of 2022, helping ONS assess feasibility of further overcoming barriers to using VAT data, especially that of timeliness.

- ONS has put together a multi-disciplinary group to draft priorities and a roadmap for continuing the work to include more VAT data in ONS's statistics. This roadmap will help to target resources and investment to ensure progress continues in the areas that will generate the most public value.

We also identified some actions relating to user engagement and transparency that ONS should take as it continues to develop the use of these data:

- It is good that ONS has run internal workshops to discuss the views of colleagues, but stakeholders outside of ONS have been less involved. Engaging with a wide range of users would provide good input for ONS to consider how it can maximise public value from the use of VAT data.
- Since the announcements in 2018 regarding ONS's plans to integrate VAT data into these statistics, ONS has shared little information publicly with users regarding progress against existing plans, future intentions and its priorities. We appreciate the challenges that ONS is facing combining VAT and survey data and understand that the methodology team has been working on overcoming these issues. Regular releases explaining ONS's progress in developing new methodology, as well as plans for including more VAT data into its statistics (including plans for VAT data to produce faster estimates and new statistics for industries that are not currently covered by current survey-based statistics), will improve transparency for users and may generate further useful insights from them.

Thank you to your team for its positive engagement during this review. We welcome the team's commitment to produce and publish a workplan for use of VAT data within the coming months. Please do get in touch if you would like to discuss any aspects of this letter further or if we can offer further help as these statistics continues to develop.

I am copying this email to Heather Bovill, Head of Surveys and Economic Indicators, Roger Smith, Assistant Deputy Director of Surveys and Economic Indicators, and Gemma Rabaiotti, Head of VAT data at ONS.

Yours sincerely

Mark Pont
Assessment Programme Lead