Ed Humpherson, Director General for Regulation

Jonathan Athow
Director General for Economic Statistics
Office for National Statistics
1 Drummond Gate
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16 November 2018

Dear Jonathan

BALANCED ESTIMATES OF REGIONAL GROSS VALUE ADDED IN THE UK

We have reviewed the actions that you and your team have taken in response to Phase 2 of our Assessment of Balanced Estimates of Regional Gross Value Added in the UK, as set out in our Assessment Report number 337[1]. On behalf of the Board of the Statistics Authority, I am pleased to confirm the designation of these as National Statistics. ONS's approach of being clear in publishing the outcomes of its work[2] to address enhancements we set out to meet the Code of Practice for Statistics is a good example of its commitment to improve these statistics.

I have been particularly impressed by you and your colleagues work both in developing new balanced estimates and in enhancing the statistics in response to our assessment. These are just a few of the highlights for me:

• the work ONS has been conducting to investigate producing consumer price inflation indices at regional levels[3] with a view to more accurate economic statistics in real-terms i.e. with the effects of inflation stripped out. This reflects user needs for both regional inflation indices and the capability to compare statistics across time

• the descriptions of the strengths and limitations of these statistics being more accessible to a non-technical audience

• the improvements that balanced GVA estimates at the industry and regional level bring to devolved economic statistics – going beyond measuring regional economic growth and developing our understanding of regional labour productivity, part of one of the most pressing economic issues in the UK – the productivity puzzle

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[1] https://www.statisticsauthority.gov.uk/publication/statistics-on-regional-gross-value-added-phase-2/
[2] https://www.ons.gov.uk/economy/grossvalueaddedgva/methodologies/planofproposedactionstoincreasethequalityandpublicvalueofregionalgrossvalueaddedstatistics
[3] https://www.ons.gov.uk/economy/inflationandpriceindices/methodologies/feasibilitystudyintoproducingcpihconsistentinflationratesforukregions

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.

I am copying this letter to Trevor Fenton ONS, Head of Regional Accounts.

Yours sincerely

Ed Humpherson
Director General for Regulation

Annex: Review of actions taken in response to Assessment Report 337 on Regional Gross Value Added (Balanced):UK from the Office for National Statistics (ONS)

Requirement	Actions taken by ONS to meet Requirements	Office for Statistics Regulation's evaluation of evidence in meeting Requirements
Requirement 1: ONS should investigate whether improvements in the quality of deflators by adopting regional price statistics could be achieved technically and cost-effectively taking account of expected use of the statistics and user need	ONS has recently been working with the University of Southampton to investigate the feasibility of producing regional Consumer Price Indices including owner occupiers' housing (CPIH). ONS published a feasibility report in November 2017, with further research being carried out in 2018 to take forward the recommendations made in the report. Whilst the focus of this research is consumer prices, ONS expects that many of the difficulties, such as small sample sizes at a sub-national level, will also be encountered for the Producer Price Indices. However, the work to date has provided ONS with a better understanding of the issues with producing regional price indices, and the 2018 follow-up will look at ways in which the quality of these indices can be improved. ONS expects the work done to date for CPIH could be used to consider the production of regional producer prices indices in due course. ONS suggests an investigation into alternative statistical methods to overcome the limitations of the smaller regional sample sizes. Such statistical methods, which may provide improved regional CPIH reliability, would be: • small area estimation methods • smoothing methods • finite population corrections • aggregating the available data in larger categories to provide more robust (but less sensitive) indices	The project established by ONS drawing upon its own knowledge and expertise and that of academics working in the field to develop regional consumer price measures is a positive step. This project recognises the difficulties in measuring prices regionally, and should provide some potential solutions towards developing regional producer price indices.

Requirement 2: ONS should review the best way of making quality metrics both more useable to a less expert audience and more accessible generally	ONS considered the presentation of the quality metrics for the income and production measures of regional gross value added (GVA) in terms of what information is useful to users of regional statistics to help them better understand the underlying quality of the estimates. ONS determined that the earlier presentation lacked clarity and, in particular, any distinction between metrics indicating "good", "medium" and "poor" quality. ONS has redesigned the presentation to show the quality metrics with a colour coding to indicate those categories, making it much easier to see at a glance which of the two measures, income or production, is generally of the better quality. ONS has further split up the quality metrics so that the areas corresponding to each NUTS1 country or region are presented in separate tables, with the income and production metrics for each area shown side-by-side. ONS's new presentation is shown in its metrics dataset.	We judge that ONS has met this Requirement through addressing the weaknesses of the initial approach: • capable of easily being misinterpretation: • not easily understandable by less expert audience; The strengths and limitations of the data have been considered in relation to the different uses and now more clearly explained. The extent of the uncertainty in the estimates is more accessible.