

## **Royal Statistical Society (RSS) response to Treasury Select Committee: Regional Imbalances in the UK Economy inquiry**

### **Preface**

1.0 The [Royal Statistical Society](#) (RSS) is a learned society and professional body for statisticians and data analysts, and a charity which promotes statistics for the public good. We have around 10,000 members in the UK and around the world, and our key strategic goals involve supporting the use of statistics and data in the public interest, education for statistical literacy, strengthening the discipline of statistics, and developing the skills of statistical professions. The RSS has an Official Statistics Section and also supports several User Groups of official statistics, while many of our members are active in the relevant umbrella body - the Statistics User Forum.

### **Summary**

2.0 A good understanding of regional economies, including the strengths and weaknesses of particular parts of a country, can be fundamental to improving the prosperity of the nation as a whole. Focussing government effort and initiatives that are appropriate to particular regions will maximise the benefits of investment and help to realise the potential of each region, and such decisions need to be underpinned by sound statistical data.

2.1 Over the last few decades, government policies have been targeted at various geographies at sub-national levels, and demands for data have reflected the often-changing boundaries of the areas of interest. In the mid-1990s, the local government structure was reformed across much of the UK, moving from the old two-tier district and county structure to the new and mixed structure, where some areas continue to have two tiers of local government, while others became unitary authorities. At the regional level in England, the old Standard Statistical Regions (based on the Economic Planning Regions of the past) were replaced by nine new Government Office Regions. At the end of the 1990s, the Labour government introduced very local policies, the most significant being the Neighbourhood Renewal Strategy, and also strengthened the role of English regions through Regional Development Agencies (RDAs). After 2010, the coalition government disbanded the RDAs and has supported the creation of Mayoral Combined Authorities, City Regions and City Growth Deal areas. Throughout this period, there have been parallel policies targeted at urban and rural areas, as well as other geographies such as seaside towns.

2.2 The repeated changes in geographies of interest to policymakers have been accompanied by frequent changes to the resources made available for sub-national statistics being produced by the Office for National Statistics (ONS) and other parts of the Government Statistical Service (GSS). In 2001, the Social Exclusion Unit's Policy Action Team 18 (PAT18) produced its report "[National Strategy for Neighbourhood Renewal: Report of Policy Action Team 18: better](#)

[information](#)”, which emphasised the need for comprehensive statistical information at the local level, to support Neighbourhood Renewal. This led to a huge investment in the establishment of Neighbourhood Statistics, and a small area statistical geography that could be used as building blocks for any higher-level geographies such as those mentioned above. In 2004, the need for better economic statistics at the regional level was emphasised by the [Allsopp Report](#), which led to the establishment of teams of ONS Regional Statisticians in each of the nine English regions, working alongside the RDAs. They gave invaluable statistical support to policymakers in the regions, as well as providing knowledge of regions to the ONS to help improve the quality of regional statistics. The [Allsopp Report](#) also led to the production of experimental Short-Term Output Indicators for the English regions in 2010. These showed how the economic downturn had hit some regions much earlier than others, and such knowledge could have been extremely useful if known at an earlier stage.

2.3 Since 2010, both Neighbourhood Statistics and some of the initiatives prompted by Allsopp seemed to have fallen out of favour. The Neighbourhood Statistics website saw little investment in its IT infrastructure, and the number of datasets available declined over the years, leading to ONS withdrawing the service in 2018 without putting any satisfactory alternative in its place. As the coalition government disbanded the English Government Office Regions and RDAs, the ONS Regional Statistician teams were also disbanded, and work on the experimental Regional Short-Term Output Indicators was stopped. The Greater London Authority continues to fund a team based in ONS’s London office, the only one remaining out of the original nine teams of ONS regional statisticians.

2.4 There has also been the ongoing devolution of powers to the devolved governments/administrations in Scotland, Wales and Northern Ireland. This has included increased statistical activities carried out by statisticians in these countries, who continue to work closely with ONS and the rest of the Government Statistical Service, while also having the ability to prioritise their work according to the needs of the devolved governments. Statisticians in these administrations play a vital role in quality assuring the Regional Accounts produced by ONS and in providing inputs to other statistics produced on a UK-wide basis.

2.5 In 2015-16, Professor Sir Charles Bean was asked to conduct an [“Independent Review of UK Economic Statistics”](#), which again highlighted the need for better regional statistics. ONS has responded to this by developing its “Devolution programme” aimed specifically at producing a lower geographical breakdown of economic statistics. Projects within this programme have included Regional Accounts, Public Sector Finances, Sub Regional Productivity and Exports of Services. ONS has also established a Centre for Subnational Analysis which has been aiming to meet the needs of Mayoral Combined Authorities, City Regions and local authority partnerships. The Economic Statistics Centre of Excellence provides ONS with research that addresses the challenges of measuring the modern economy, implementing another of Professor Bean’s recommendations, and this Centre should also have a greater interest in measuring sub-national economies.



2.6 However, much of this work is being conducted without significant additional resources and seems to have been at the expense of successful initiatives such as Neighbourhood Statistics and the Regional Statisticians. The impression given over the last three decades is that the priority given to subnational statistics rises and falls regularly and is one of the first areas to suffer when public expenditure cuts are made. A long-term commitment to a policy of producing statistics at the lowest geography possible would enable many geographies to be supported, using the smallest areas as “building blocks” for the various larger areas of interest. A sustainable solution is required rather than one that serves current purposes only.

### **How are national and local policymakers using the available regional and local economic data to inform their decisions?**

3.0 The ONS has been active in promoting good use of the available data at various levels of sub-national breakdowns. The [ONS Devolution Programme](#) has included improving the range and quality of such data, going beyond the legal requirements of the European System of Accounts. In particular, ONS has either already developed or is developing statistics on regional finances, more detailed productivity analysis and short-term economic indicators. The work on short term indicators has been revived nearly ten years after the first experimental estimates were published in 2010, and now use different data sources. ONS is also proactively supporting the needs of cities and towns. As the government has devolved more powers to Local Economic Partnerships and City Regions, ONS has increased stakeholder activity to meet the specific needs of such areas. A good example is that of Manchester, where the “[Local Industrial Strategy](#)” and the “[Greater Manchester Prosperity Review](#)” were supported by evidence documents with significant input from ONS. Other regions are probably using consultants and have fewer resources overall, and ONS is not currently resourced to be able to support all regions that may want such support. Statisticians in DEFRA take the lead on the statistical needs of rural areas, in cooperation with ONS.

3.1 The RSS suggests that ONS should consider re-establishing a presence in England other than in their London and Titchfield offices - perhaps an office in the Midlands and another in the North. The Regional Statistician teams that were based in the RDAs, while they existed, provided a valuable role and were a success story in both supporting local users and providing knowledge of the regions to ONS. If anything, greater support of such is now needed, with greater devolution to smaller areas such as City Regions.

### **Quality of regional economic data**

4.0 The quality of regional economic data produced by ONS can be described as “mixed”. Recent years have seen improvements in the overall quality of estimates of Regional Gross Value Added, but timeliness remains a big issue. New research into “nowcasting” may lead to earlier estimates but this is probably not going to be available for some time. Estimates of Gross Disposable Household Income are now available at local authority level, and this is to be



welcomed, although timeliness is again an issue. Estimates of Regional and Country Public Finances are also welcome.

4.1 With ONS increasingly exploiting administrative data and developing new techniques for using big data through its Data Science Campus, there are opportunities to better integrate the production of national and regional accounts. Historically, Regional Accounts have been produced using a “top-down” approach, breaking down the national totals into regions with the best available indicators. New sources and methods should make it easier to apply more “bottom-up” methods, whereby national totals are entirely consistent with regional and local estimates, using the same data sources.

### **Which regional economic data should Government focus on?**

5.0 First and foremost, it is important to stress which regional economic data should not be used, due to serious limitations, and that is Regional GVA (Gross Value Added) per head. At the regional level, the numerator is based on where production takes place, and the denominator is based on where people live. This causes huge distortions when there is significant commuting between regions, such as London and its neighbouring counties and regions. GVA per head for London is inflated, and that of surrounding areas is depressed.

5.1 A basket of indicators needs to be used to look at regional economic performance, and this can include GVA per hour worked (a measure of productivity) and Gross Disposable Household Income per head (as an indicator of the welfare of those living in the region). These can be supplemented by several regional and local indicators including those tracking relative levels and changes in wellbeing, employment, unemployment and activity rates, public finances, research and development, investment, business registrations and regional trade.

### **Should regional data produced by ONS be given a higher profile?**

6.0 The RSS believes that regional economic data should be given a higher profile and more visibility, including in the Government’s Budget and Spring Statement, and by the Office for Budget Responsibility (OBR) in its Economic and Fiscal Outlook. The timeliness of Regional Accounts at the moment means that the data available may be considered too far out of date for these purposes; the development of regional short-term output indicators should overcome this issue. It is important to be able to look with a regional lens at the differential impact of national downturns and upturns on regions, as some areas are affected earlier or later than others and require different types of government intervention.

6.1 ONS and the GSS could do more to support policymakers involved in managing a region’s economic performance. In 2009, the ONS published a [“National Statistician’s article: measuring regional economic performance”](#) in the Economic & Labour Market Review. This article provided guidance on how the full range of sub-national indicators should be used to understand regions, instead of there being excessive reliance on just one or two indicators. In particular, it highlighted the limitations of using GVA per head at the regional level. Such guidance should be updated



regularly and would be particularly useful now, with the new statistics mentioned above becoming available, together with a greater focus on indicators such as wellbeing.

### **How useful is it for ONS to produce data at the different geographical levels that it does?**

7.0 We have mentioned above the range of sub-national geographies that are relevant for various policy purposes, for national and local government and for the devolved administrations. These include the Mayoral Combined Authorities, City Regions, counties, local authority districts, urban and rural areas. The most practical way of supporting the various geographies is to create statistics for small areas that can be used as “building blocks” to aggregate to any of these geographies. As part of the Neighbourhood Statistics programme of work, following the 2001 Census, statistical geography was created based on Census Output Areas (OAs). These were aggregated to Lower Layer Super Output Areas (LSOAs) and Middle Layer Super Output Areas (MSOAs). MSOAs nest within the lowest levels of local government in any area, namely districts and unitary authorities. The Super Output Area geography was updated with the 2011 Census, to allow for areas where there had been large scale increases or decreases in population. Consistency with the previous areas was maintained by only allowing previous areas to be combined with neighbouring ones or splitting individual areas and boundaries were not redrawn more widely.

7.1 The RSS proposes that ONS takes a similar approach to updating the Super Output Area geography after the 2021 Census. We also suggest that use of these statistical boundaries should be extended to a wider range of statistics, so that they can then be aggregated to different types of larger areas. This approach of aggregation from small building blocks also avoids any problem with disclosure of information on individuals.

### **What are the main gaps in regional economic data?**

8.0 The UK is relatively well placed in terms of the availability and quality of sub-national economic data, compared with other European Union and OECD countries. The main gaps that exist - which, if filled, would help to improve the understanding of regional economic performance - are as follows:

- Regional prices, and deflators to help improve Real Estimates of Regional GVA. ONS produced Real Estimates of Regional GVA with National Statistics status for the first time in December 2018, which is welcomed.
- Regional Input-Output Tables and inter-regional trade, which would also be useful to support regional economic forecasting and simulation models. Input-Output Tables are already produced for Scotland and Northern Ireland.
- Timelier Annual and Quarterly data, which might be improved through developing “nowcasting” techniques.
- Greater use of administrative data for the 2021 Population Census that might lead to other opportunities opening up for local economic data.



8.1 Increasing levels of devolution in recent years have increased the demand for more regional and local data in all spheres, including economic, social and environmental. It is a long time since ONS and the GSS have conducted a comprehensive “Gaps” exercise in respect of sub-national data, and the time may be right to conduct one over the coming year or so, to inform how better use can be made of the new sources and methods now becoming available. A wide-ranging consultation with stakeholders would be needed for this purpose. Both the RSS and the Statistics User Forum would be supportive of such an exercise.

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