

Submission from the FAI to Inquiry into Economic Statistics

September 2017

Introduction

We welcome the Scottish Parliament Economy, Jobs and Fair Work Committee's inquiry into economic statistics in Scotland.

Significant progress has been made since devolution to improve the coverage and quality of economic statistics in Scotland. Scotland is much better served than the other devolved nations (and English regions) in terms of economic statistics.

However, there is work still to be done. In particular –

- There are a number of gaps – for example, we lack robust statistics on things like Gross National Income, capital investment, inter-regional trade and prices that independent governments would routinely collect.
- Some of the data that underpin core elements of Scottish economic statistics rely upon apportionment of UK figures rather than bottom-up Scottish-specific data. Whilst this is understandable given resource constraints, more be-spoke estimates would be beneficial.
- Like the UK as a whole, there remain ongoing challenges in sampling and response rates to surveys. Some response rates – e.g. the Labour Force – are falling whilst for others – e.g. the Living Cost and Food Survey – the sample size for Scotland is small.

The Scottish Government should be commended for investing in a distinctly 'Scottish' economic statistics unit in government. Further investment would be welcome however, particularly in the light of the new economic and fiscal powers coming to Holyrood.

New investment on its own will not deliver the step-change that many people would like to see. For this, other reforms – for example around how UK businesses report their activities – would be needed. At the same time, as ONS continue to make better use of administrative data it is important that data sharing and access arrangements are established to enable the Scottish Government to also benefit from these reforms.

Coverage of economic statistics in Scotland

For the purposes of this submission, we focus upon what we would describe as the core macroeconomic and microeconomic indicators of economic performance.

Between the Office for National Statistics and the Scottish Government data include –

- Gross Domestic Product – including by industry and sector
- National Accounts
- Input-Output tables
- Export statistics
- Labour market statistics – including unemployment, employment and earnings
- Public sector finances (GERS)
- Statistics on the number of businesses in Scotland, key sectors and R&D expenditure
- Statistics on ‘hot topics’ – innovation, access to finance
- Statistics on household incomes

This is a comprehensive set of statistics. It provides a broad coverage of the key issues that businesses and policymakers are most interested in.

It also meets the needs of many key users.

In the FAI, we use all these statistics in our commentary and analysis of the Scottish economy. More generally, the statistics produced are vital for academic research. For example, the Input-Output tables underpin the core macroeconomic and forecasting models in Scotland. Much of our own academic research over the past 20 years has centred upon using the Scottish economy as a case-study of how ‘regional’ economies operate and the risks and opportunities that follow.

The coverage is well-ahead of any other part of the UK. For example, Scotland is the only part of the UK to produce a regular quarterly GDP release. The Scottish Government has invested time and effort in recent years to develop new economic statistical products, via in the main the Scottish National Accounts Project.

The Scottish Government also boosts key datasets by paying for additional samples allowing greater analysis to be conducted. This includes the Annual Population Survey, the Family Resource Survey, the Annual Business Survey, the Business Register and Employment Survey and, more recently the Living Costs and Food Survey.

That being said, there are a number of important gaps.

- *Gross National Income (GNI)* – is arguably a preferable measure of economic prosperity than GDP. This has only been produced once – on an experimental basis – for Scotland. GNI is particularly difficult to measure and will require a much better understanding of how income is produced and distributed across the Scottish economy. Data on financial flows in and out of Scotland are largely unknown. We have for example, despite its importance in the policy landscape, very little in the way of robust data on international investment (FDI) to Scotland.
- *Prices* – there are no separate price indices for Scotland. This is a limitation in compiling real-terms series such as trends in earnings, poverty or changes in government budgets.
- *Imports* – there are only limited official estimates of imports to Scotland from overseas or the UK. In the National Accounts, rather than being measured directly they are estimated as a balancing (residual) item.
- *Capital investment* – there is little in the way of data on investment for Scotland either in the aggregate or by sector.
- *Treatment of the North Sea* – the Scottish Government has invested significantly to improve its coverage of the North Sea. This has included more robust estimates of the share of revenues raised from the profits of offshore oil and gas operators, output, investment and exports. However, much less is known about the linkages between the *onshore* and *offshore* Scottish economies.
- *Longitudinal data* – there is very limited data on a longitudinal basis of Scottish households – particularly in terms of issues like income, wealth and spending.

A further challenge is that in certain instances, the underlying samples that are used to compile the statistics for Scotland are relatively small so that, although aggregate data are available, it is not possible to drill down to some of the core policy issues.

For example, whilst the quarterly LFS sample for Scotland contains over 7,000 individual responses once the data are cut by age, sex, region, occupation, reason for inactivity etc. the number of individuals being surveyed for each cell falls dramatically.

Regional data in Scotland are available – for example, the Scottish Government publishes the Annual Business Survey at a local level (supported by a Scottish Government boost).

Robustness is understandably more limited than for Scotland as a whole and much of the data on the labour market that do exist are a mixture of actual and modelled data.

Areas of focus

Quite often, debates on Scottish economic statistics can often centre on changes in headline figures – e.g. has GDP grown faster or slower than the UK as a whole? – or how the figures can be interpreted as informing – in one way or the other – the constitutional debate.

Whilst this is understandable, from a policy perspective improving the coverage of microeconomic data in Scotland should be a key area of focus. For example, we have little information on what drives businesses to invest, export, etc. A number of organisations in Scotland – for example, Scottish Enterprise, Skills Development Scotland, HMRC etc. – collect information and data that can be useful here. Most of this is not official statistics. But in terms of improving our understanding of the key opportunities and barriers it is useful. Examining how Scotland can make full use not just of official statistics but data held by public bodies and – in the future – administrative data offers an opportunity. As part of this, a commitment to data sharing is a must.

Accuracy

We have no doubt that the quality and integrity of the economic statistics produced for Scotland – both by the ONS and the Scottish Government – is of a high standard.

The Scottish Government works hard to ensure that its statistical publications meet all the requirements for Official Statistics, with most being classified as National Statistics¹.

It should be borne in mind however, that all statistical estimates come with a degree of uncertainty and variability. For example, the confidence interval around the headline unemployment rate for Scotland is 0.8 percentage points.

In the main, Scottish economic statistics draw upon a mix of UK data apportioned to Scotland – e.g. by employment share etc, disaggregated company or household data from UK datasets (sometimes boosted by the Scottish Government) or surveys undertaken of Scottish companies.

Where Scottish specific data can be used then this will be preferable. However, the Scottish Government faces three challenges:

1. Be-spoke Scottish survey data are costly – both for government, firms and households

¹ www.statisticsauthority.gov.uk/osr/code-of-practice/

2. Unlike the ONS, the Scottish Government is not empowered to insist on a response to requests for data or information²;
3. Companies are not required to provide separate reporting units for Scottish activities vis-à-vis the rest of GB.

There is precedent for alternative arrangements in a devolved context. The Northern Ireland Executive has statutory powers – via the Statistics of Trade and Employment (Northern Ireland) Order 1988 – to enforce participation in its Annual Business Inquiry.

Giving the Scottish Government greater authority to access unique data for Scotland on business activity would be a major step forward. To do this, the first hurdle to overcome would be the need to establish separate reporting units for business activities in Scotland and the rest of GB. For most small businesses in Scotland, this would have no impact. But for large companies, this would require a change in how they measure and report their activities. Care would be needed to not overburden businesses. Some form of approximation could be used.

The second hurdle would be actually collecting the data. Running a separate business survey – like in Northern Ireland – would be a major undertaking. As we move toward greater use of administrative data – particularly replacing traditional surveys with real data that companies report for example to HMRC on a regular basis – finding a way for Scottish Government statisticians to access this information through data sharing agreements would be preferable.

In an ideal world, this could be topped up by powers to successfully carry out focussed surveys on the likes of exports and investment.

Other issues

There are a number of particular issues that are worth highlighting –

- As emphasised above, we believe that an important area of focus should be on understanding the links between the onshore and offshore Scottish economies. Currently activity between the onshore Scottish economy and the UK continental shelf is classified as an ‘export’ to the rest of the UK. This strikes us as odd. It also means that measuring how shocks to the offshore economy – e.g. the recent collapse in the oil price – feed through to the Scottish economy is extremely difficult.

² At the moment most ONS business surveys – which underpin key macroeconomic and microeconomic data – are conducted under Section 1 of the Statistics of Trade Act 1947. This requires businesses by law to provide the information requested.

- Scottish trade statistics are the subject of much scrutiny – some of it unfair. But there are issues around understanding the flow of goods and services and the operation of the UK supply chain – some of which may be onward exported – which need to be studied in greater detail.
- The Scottish Government not only produces economic statistics, but Scottish Ministers also comment, interpret and make policy based upon them. The statistics are without question prepared and published to the highest standards and are free from political interference. However, it is a requirement for membership of the EU to have a statistical agency separate from the government. As Scotland continues to grow and develop its economic and fiscal institutions, this is something that they may wish to be reflected upon in time.
- Any review of Scottish economic statistics needs to take account of the wider debate about the relevance and timeliness of economic statistics internationally. In recent years, there have been criticisms of whether the methods used to compile statistics are fit for purpose for a modern and dynamic economy in the 21st century. A number of issues arise from this, including whether survey-based reporting fully captures all economic activity, especially in a more digital world, and whether better use can be made of administrative and other data. Developments like the new Economic Statistical Centre of Excellence should help.

Conclusions

We very much support the Scottish Government's efforts to improve the coverage of economic statistics in Scotland. Our understanding of how the Scottish economy operates is greatly improved by their work. Debates over policy are also much better informed than they would otherwise be.

That being said, there are areas for improvement.

Coverage is lacking in a number of important areas, particularly prices and inter-regional trade. Sample sizes can often make analysis underneath the headline figures challenging.

The solution to this is not just more resource. Looking at how economic data are collected and reported in Scotland (and the UK) is arguably more important. The Digital Economy Act is giving ONS much better access to a wide range of data from government and business. Building on this presents an opportunity to transform the quality of economic statistics in Scotland.