

Darren Jones MP  
Chair, Business, Energy and Industrial Strategy Committee  
House of Commons  
London  
SW1A 0AA

22 September 2020

Dear Chair,

I write in response to the Committee's call for evidence for its inquiry on *Post-pandemic economic growth: Levelling up – local and regional structures and the delivery of economic growth*.

The Office for National Statistics (ONS) is the principal producer of regional economic statistics in the UK and it is our responsibility, in partnership with the National Records of Scotland and the Northern Ireland Statistics and Research Agency, and other interested parties, to provide the data that regional policy makers need to carry out their function. The ONS engages with devolved and regional policy makers at all levels of administrative geography to identify those needs and their relative priorities, and to respond with appropriate development programmes.

Over the past decade we have made significant improvements to the range and depth of regional economic statistics available but recognise that there is still more to be done. We are also aware that greater devolution to local administrative bodies is increasing the need for regional data on a range of topics.

The 2016 review of economic statistics<sup>1</sup> by Sir Charles Bean highlighted the need for better provision of regional statistics and made three main recommendations: for more timely regional economic data; for greater flexibility in the range of geographic areas covered; and for greater use of administrative data in the production of regional economic statistics. These priorities have guided our development programme.

In our evidence to the Committee, we have focused on describing the range of regional economic data that are currently available as an evidence base for regional policymaking, and what we know about gaps in the provision of regional data and our plans to address them. We have also provided evidence of the use of our statistics in informing regional and local industrial strategies from the engagement we have had with these stakeholders.

I hope this evidence is helpful to the Committee. Please do not hesitate to contact me if I can be of any further assistance.

Yours sincerely,



**Jonathan Athow**

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<sup>1</sup> [Bean Review: Independent review of UK economic statistics](#)

## **Office for National Statistics written evidence - Post-pandemic economic growth: Levelling up local and regional structures and the delivery of economic growth**

### **Executive Summary**

1. The ONS produces several measures of economic activity at a regional level. These are: annual regional gross value added, annual regional gross domestic product and quarterly regional gross domestic product. The ONS also works with experts who produce 'nowcasts' which provide early views of economic activity, produced soon after quarterly UK GDP figures are available.
2. The coronavirus (COVID-19) pandemic has highlighted the need for faster indicators of economic activity. Surveys launched in response to the pandemic have produced high frequency, detailed economic statistics at national and regional levels for use across the UK Government and devolved administrations, and by the media, academia, businesses and the public.
3. There is a wide range of labour market statistics produced by the ONS at both regional and sub-regional levels. Generally, headline measures of labour market status for regions are taken from the Labour Force Survey and published monthly on a rolling three-monthly basis, alongside the headline UK labour market measures. More detailed measures, for regions and below region level, are taken from the Annual Population Survey and published quarterly on a rolling twelve-monthly basis.
4. The ONS takes two approaches to measuring regional productivity: a whole-economy approach using regional gross value-added data and an approach based on examining firm-level productivities using ONS microdata derived from sources, such as the Annual Business Survey. It is important to be aware of the external factors associated with the location of the firm that impact productivity when taking the second approach.
5. We are aware of a need to calculate subnational estimates of international trade in services, and the first estimates of this were published in 2016. These estimates were at a country and regional level. Further estimates broken down further, to a county, district or unitary authority level, were published in 2020.
6. We produce experimental public sector revenue and expenditure statistics for each country and region of the UK. The purpose of these statistics is to provide users with information on what public sector spending has occurred and what public sector revenues have been raised.
7. The ONS provides a regional version of the household sector account, which measures the finances of all residents in a region. From this, the gross disposable house income can be ascertained, which is a measure of all sources of income into households, and provided at several regional levels, from countries and regions, to local authority districts and city regions. This measure is a reliable way to compare different areas on a consistent basis.
8. The ONS is aware of the gaps in regional economic data, such as a need for more flexible geographical statistics and for more information provided by supply and use tables. There is ongoing work in collaboration with external organisations to assess the practical and theoretical issues around expanding the data in these areas.

## **Measures of economic activity available as an evidence base for regional policy making**

### *Annual regional gross value added*

1. The standard measure of economic activity is gross domestic product (GDP). For regional purposes we have traditionally measured gross value added (GVA), which differs from GDP only in excluding taxes on products, such as VAT. This is because taxes on products are difficult to measure on a regional basis because they are often paid by consumers, rather than producers. In the short term, movements in GVA are generally considered a good proxy for movements in GDP. Paragraphs six and seven, however, sets out how we have also recently developed annual regional GDP estimates.
2. Turning first, though to GVA, the principal measure at a regional level is the balanced measure of regional GVA<sup>2</sup> produced by the ONS and published each December, denoted as GVA(B). This is an annual National Statistic, formed by combining two independent measures of regional GVA, known as the income and production approaches. It is provided as a time series from 1998 to the year prior to publication.
3. GVA(B) is provided in current prices, which include the effect of inflation, and in “real terms” as chained volume measures with inflation removed. Each of these is provided as a total for each region, and for a set of detailed industries (defined using the Standard Industrial Classification (SIC) 2007) and intermediate aggregates.
4. GVA(B) is provided for a range of different geographic areas. Some of these are defined by the EU Nomenclature of Units for Territorial Statistics (NUTS) classification, but others have been developed more recently in response to the needs of new bodies with devolved responsibility. To date we have only provided areas that can be constituted from whole local authority districts or Scottish Council areas. These include combined authorities with elected mayors, other city regions, growth deal areas, local enterprise partnerships, and other economic and enterprise regions of interest to users.
5. We need to safeguard the confidentiality of information relating to any individual person or company and therefore the industry detail we can provide diminishes as regional geography becomes smaller. Thus, we provide 81 industries at the NUTS1 level of countries and regions; 72 industries for NUTS2 sub-regions; 48 industries for NUTS3 local areas; and 34 industries for local authorities and any area built from them.

### *Annual regional gross domestic product*

6. Owing to developments in regional measures of public sector finances, we now have more data available to us to inform the regional allocation of taxes on products. In December 2019, we published the first annual estimates of regional GDP<sup>3</sup>, building on the established GVA(B) data and using, where available, the Country and Regional Public Sector Finances data to allocate taxes to NUTS1 level regions of the UK.
7. The GDP estimates are only provided as a total for each area, with no industry breakdown. They are provided in current prices, as a total and on a per-person basis, and as chained volume measures with inflation removed.

### *Quarterly regional gross domestic product*

8. Annual GVA(B) provides a lot of useful information for regional policy makers, but it cannot provide a view of what is going on right now in regional economies. To meet the need for more timely statistics

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<sup>2</sup> [ONS, 2019, Balanced measure of regional GVA](#)

<sup>3</sup> [ONS, 2019, Regional economic activity by GDP](#)

we have been developing a quarterly measure of regional GDP for the nine NUTS1 regions of England and for Wales. This new experimental statistic was published for the first time in September 2019 and is regularly updated as new data become available<sup>4</sup>. This release uses the VAT HMRC administrative dataset to reduce burden on business. Industries that are not covered by the VAT dataset are supplied by multiple external data sources from other government departments/other departments within the ONS.

9. Quarterly regional GDP is published in real terms, with an industry breakdown that matches the corresponding UK GDP publication. As the key administrative data sources have a slightly longer lag than monthly survey data; regular publication is around six months after the end of the quarter. We are investigating the feasibility of speeding up the publication.
10. The devolved administrations of Scotland and Northern Ireland already produce and publish quarterly measures for those countries. Our new development of regional GDP completes the coverage of the UK at the NUTS1 level. All three of the devolved administrations were involved in the development of the new statistics, to ensure that they are consistent and coherent with the other measures that are available, both nationally and regionally. The ONS has regular contact with the devolved administrations to share data sources and discuss methods.

### *Regional nowcasting*

11. The ONS has never produced economic forecasts; our focus is on measuring what has happened. However, we recognise the interest in this area. A recent project undertaken by a research team in the Economic Statistics Centre of Excellence (ESCoE)<sup>5</sup>, which was established by the ONS to harness academic research in the production of economic statistics, has developed a model-based approach to provide early views of regional economic activity<sup>6</sup>, known as “nowcasts”. These estimates are produced soon after the UK quarterly GDP figures are available and are currently published by ESCoE. They cover the NUTS1 countries and regions of the UK.
12. The ONS is working closely with ESCoE academics and plans to feed data from the new quarterly regional GDP measure into the ESCoE model, to improve the accuracy of its estimates. It is hoped that this work will provide a “flash” estimate similar to the UK’s early estimate of GDP.

### *Faster indicators*

13. The overall aim of faster indicators is to develop and co-ordinate a single, cross-government, publicly visible data hub for high frequency economic statistics used in policy making at multiple geographies, developed through regular and thorough consultation with other government departments and across society to proactively identify new data sources.
14. The publication has been developing over time to include more regional breakdowns of the different indicators, including NUTS1 breakdowns of online job adverts and Energy Performance Certificates. It contains traffic camera data for selected cities and regions, and shortly will also include regional footfall data at retail locations. In addition to these existing regional indicators, our aim is to expand the number and detail of regional faster indicators even further, to continue to meet the needs of local decision makers, the devolved administration and other government departments.
15. The fortnightly Business Impact into Coronavirus Survey (BICS) was set up to understand the impact of the pandemic on businesses. As of 1 September, it has been running for 12 return periods, known as ‘waves’, and currently has a sample size of 25,000 with an average response rate of 25%. Our

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<sup>4</sup> [ONS 2019, GDP, UK regions and countries](#)

<sup>5</sup> [Economic Statistics Centre of Excellence](#)

<sup>6</sup> [ESCOE: Early views of regional economic activity](#)

rapid approach to BICS development has allowed us to update questions and collect data on new and emerging issues, such as the take up of new government schemes and initiatives, and enabling insights into businesses' future, such as risk of insolvency and how quickly businesses can recover.

16. BICS outputs are used extensively across the devolved administration, all levels of government, media and academia. As part of our detailed set of outputs, we provide national and regional breakdowns for the different variables and industries. The ONS has continued to work closely with the devolved administration in understanding their needs and requirements. Our recent user consultation also highlighted the need for BICS to continue, particularly to help with regional analysis for localised impacts, over time we will consider how to reshape this survey to provide timely insight beyond the pandemic.

### **Labour market statistics**

17. The ONS provides a wide range of labour market statistics at both the regional and sub-regional levels. The Labour Force Survey and its derivative the Annual Population Survey are large household surveys that provide the main sources of statistics on people and their interactions with the labour market. The surveys look at the labour market status of individuals, that is whether employed, unemployed or economically inactive.
18. For those who are employed, information is collected on the nature of the employment; industry, occupation, sector, full-time/part-time, self-employed/employee, nature of contract, hours of work, earnings etc. For those who are unemployed, information collected includes the duration of unemployment. For those who are economically inactive, people are asked about their reasons for not working or looking for work.
19. In addition to information on their labour market situation, a wide range of personal characteristics are collected, including geographic information, sex, age, ethnicity, nationality, country of birth, religion, marital status, health, disabilities, and qualifications. This allows these concepts to be cross tabulated in numerous ways, with the main limitation on outputs being the size of the sample available. This means that while it is possible to produce statistics for small domains, the resulting quality is questionable due to high sampling variability.
20. Generally, headline measures of labour market status for regions are taken from the Labour Market Survey and published monthly on a rolling three-monthly basis, alongside the headline UK labour market measures. More detailed measures, for regions and below region level, are taken from the Annual Population Survey and published quarterly on a rolling twelve-monthly basis.
21. In addition to looking at the supply side of the labour market, business surveys look at the demand for labour. These surveys look at the number of jobs and vacancies that businesses have, along with rates of pay. Like the supply side, for many of these concepts there are short-term estimates that have less granularity available, while annual surveys provide more detail. For jobs the short-term output is Workforce Jobs, which provides estimates of the number of jobs that businesses have filled at a regional level by a broad industry breakdown. The annual equivalent, the Business Register and Employment Survey, supplies a more detailed breakdown of employment and employees at geographic and industry breakdowns.
22. Again, for earnings the short-term survey provides the Average Weekly Earnings estimates available each month. These are only available at a GB level and are broken down by broad industry and type of earnings.
23. More detailed earnings estimates come from the Annual Survey of Hours and Earnings. This larger survey collects information on the various earnings components and hours of work, along with information on the industry and occupations of employee jobs. This provides breakdowns for these

various concepts at regional and sub-regional levels. The survey is the basis for detailed information on the rates of pay and hours worked in various jobs, and also for estimating the gender pay gap and numbers paid below pay thresholds such as the National Living Wage.

24. The one notable exception to regional coverage of labour market statistics is vacancies. The ONS Vacancy Survey only provides estimates of the number of vacancies at UK level, split by industry and size of business. Work is ongoing to look at the possibility of producing estimates of vacancies with some geographic aspects, based on techniques such as web-scraping. Some initial results by country and region of the UK are being published as part of the ONS faster indicators suite.

## **Productivity**

25. In economic terms, productivity is the level of output per unit of input. Labour productivity, therefore, is defined as the quantity of goods and services produced per unit of labour input, for example, per hour worked or per filled job. Productivity matters because increasing productivity is critical to increasing the standard of living in an economy. A more productive economy can produce more goods and services, not by increasing inputs such as labour hours, but by making production more efficient.
26. The preferred measure of labour productivity is GVA per hour worked, because GVA and hours are measured on a workplace basis and is the best metric for assessing the economic performance of workplaces in a region or subregion. GVA per job filled can also be used, although it is not quite as good a measure as it doesn't account for different working patterns across areas.
27. It should be noted that we do not recommend using GVA per head as a measure of productivity. The reason for this is that the productivity measures (GVA per hour worked or GVA per job filled) provide a direct comparison between the level of economic output and the direct labour input of those who produced that output. This is not the case, however, for GVA per head, as the GVA per head measure includes people not in the workforce (including children, pensioners and others not economically active) in the calculation and can also be very heavily biased by commuting flows. This is because if an area has a large number of in-commuters, the output these commuters produce is captured in the estimate of GVA, but the commuters are not captured in the estimate of residential population. In this situation, a GVA per head measure would be artificially high if used as a proxy for economic performance or welfare of a region.
28. There are two different approaches adopted by the ONS for examining regional labour productivity. The first approach provides a whole economy approach utilising the published regional gross value added (GVA) data. These economic output data are compared with labour input data to produce GVA per hour worked and GVA per filled jobs estimates for a range of different subnational geographies.
29. A second approach is based on examining firm-level productivities using ONS microdata such as the Annual Business Survey. This approach excludes the public sector and the agriculture and financial sectors of the economy. However, for the rest of the business economy this approach can provide a rich source of information on distributions of firm-level productivity and the opportunity to analyse sources and drivers of productivity.
30. Using micro-data firm-level analysis we have explored the reasons behind productivity differences between areas<sup>7</sup>. We have found that differences in firm-level productivity within industries are a bigger determinant of the geographical differences in productivity than the different industry structures of the areas.
31. External factors associated with the location of a firm, such as differing local labour markets, existence of agglomeration benefits, and levels of local consumer spending and factors internal to

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<sup>7</sup> [ONS 2019, Understanding spatial labour productivity in the UK](#)

firms, such as whether a firm-trades internationally, its management practices, and its ownership; age and size of a firm can all have an influence on firm productivity.

## **Trade statistics**

32. Following engagement with sub-national government organisations and users, the ONS Centre for Subnational Analysis identified a need to calculate subnational estimates of international trade in services. This directly contributed toward delivery of the UK trade development plan<sup>8</sup>, meeting needs of other government departments including the Department for International Trade and HM Treasury, and meeting the data needs of regional and local bodies for understanding their local economies.
33. The first publication of estimates of exports of services at NUTS1 geographic level were published in 2016. With funding as part of the ONS Devolution programme<sup>9</sup>, further developments have been undertaken to create geographic breakdowns to the NUTS3 level<sup>10</sup> and “joint authority” geographies across Britain, and exploratory analysis of destination countries receiving British exports<sup>11</sup> from each NUTS1 area. In September 2019, we published further developments including alignment with national-level statistics, and an improved allocation of exports split by industry.
34. The first publication of estimates of exports and imports of services and trade in services balances at geographic breakdowns to the NUTS3 level and “joint authority” geographies across Britain were published in September 2020, providing a picture of international trade in services by subnational areas together for the first time. The ONS has worked with HMRC in development of these statistics, which in part led to changes in the production of HMRC’s statistics on subnational trade in goods.
35. Information on imports and exports of goods at the subnational level can be found in Her Majesty’s Revenue and Customs’ Regional Trade Statistics<sup>12</sup>.

## **Public sector finances**

36. From May 2017, in response to a user consultation, we began producing experimental public sector revenue and expenditure statistics for each NUTS1 country and region of the UK – known as the *Country and regional public sector finances*. The aim of the statistics is to provide users with information on what public sector expenditure has occurred, for the benefit of residents or enterprises, in each country or region of the UK; and what public sector revenues have been raised in each country or region – including the balance between them.
37. Public sector expenditure is the total capital and current expenditure (mainly wages and salaries, goods and services, expenditure on fixed capital, but also subsidies, social benefits, and other transfers) of central and local government bodies, as well as public corporations. Public sector revenue is the total current receipts (mainly taxes, but also social contributions, interest, dividends, gross operating surplus and transfers) received by central and local government as well as public corporations.
38. Net fiscal balance is the gap between total spending, which is current expenditure plus net capital expenditure, and revenue raised, which at the UK level is equivalent to public sector net borrowing.
39. Under the current constitutional arrangements, most aspects of fiscal policy are controlled by the UK Government. More recently, however, certain fiscal powers have been delegated to the devolved

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<sup>8</sup> [ONS, 2017, UK trade development plan](#)

<sup>9</sup> [ONS, 2016, Devolution programme](#)

<sup>10</sup> [ONS, 2019, Geographic breakdowns to the NUTS3 level](#)

<sup>11</sup> [ONS, 2017, Analysis of destination countries receiving British exports](#)

<sup>12</sup> [UK Trade Info](#)



administrations. The statistics presented in the country and regional public sector finances are neither reflective of the annual devolved budget settlements nor are these data used when calculating devolved budget settlements. Furthermore, they do not provide information on the spending and revenue of individual country or regional bodies such as the Greater London Authority.

40. The most recently available statistics present data for the period from the financial year ending (FYE) 2000, up to and including FYE 2019<sup>13</sup>. Three main aggregates are presented in the statistics – public sector revenue, public sector expenditure and net fiscal balance. These aggregates are presented in absolute terms for each country and region as well as on a per head basis to account for population differences.
41. Net fiscal balance does not represent borrowing powers of any country or region in the UK. A negative fiscal balance figure represents a surplus; and a positive net fiscal balance represents a deficit.

### **Household income and expenditure**

42. The ONS provides a regional version of the household sector account, which measures the finances of all people resident in a region, whether they live in conventional households or in communal establishments. The principal National Statistic from this account is gross disposable household income (GDHI)<sup>14</sup>, which is the amount of money people in an area have available for spending or saving.
43. The compilation of GDHI involves measuring all the sources of income that come into households, such as wages and salaries, income from self-employment, rental and investment income, social security benefits and pensions. From these are subtracted money going out, such as taxes on income and wealth, social and pension contributions, and mortgage interest payments. All these components are also published alongside GDHI, giving users a wide range of information about households' finances.
44. GDHI and its components are provided for the same geographic areas for which we provide GVA(B): NUTS1 countries and regions; NUTS2 sub-regions; NUTS3 local areas; local authority districts (and Scottish Councils); combined authorities; city regions; growth deal areas; local enterprise partnerships; and other economic and enterprise regions of interest to users.
45. GVA is a workplace measure, and so per head can be distorted by commuting and demographic variation. GDHI relates to the resident population of an area. This means GDHI per head is a reliable way to compare different areas on a consistent basis to give a measure of relative prosperity. GDHI is only available in current prices, including the effect of inflation, and is only available as an annual time series with a considerable time lag (around 16 to 17 months after the latest year). GDHI also doesn't consider variation in the cost of living between different parts of the UK. For that we have developed an experimental measure of regional household final consumption expenditure (HFCE), often called household expenditure.
46. Regional HFCE can be measured in two ways, known as the domestic concept and the national concept. The domestic concept provides a measure of how much is spent in a region, regardless of where the people spending have come from. The national concept provides a measure of how much all the people resident in an area have spent, regardless of where they are when they are spending. Both concepts provide spending on a range of goods and services, classified according to the UN Classification of Individual Consumption According to Purpose (COICOP).

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<sup>13</sup> [ONS, 2019, Country and regional public sector finances](#)

<sup>14</sup> [ONS, 2020, Gross disposable household income 1997-2018](#)



47. The national concept can also be provided on a per head basis for direct comparison across different regions. Furthermore, when used in conjunction with regional GDHI, the national concept allows us to complete the story of household finances and derive a measure of gross saving and the households' saving ratio: the proportion of total resources left over for saving.
48. In our first publication in September 2018 we provided HFCE for the NUTS1 countries and regions of the UK, in annual time series going back to 2009. In July 2020 we published an update including both NUTS1 and NUTS2 sub-regions, which also covers several other contiguous areas such as some of the mayoral combined authorities and local enterprise partnerships<sup>15</sup>. In time we plan to develop other areas, at least down to local authority level, but for this we will need to obtain additional administrative or commercial data not currently available to us.
49. It should be noted that these household expenditure figures are experimental and should therefore be interpreted with a degree of caution.

### **Other data sources**

#### *Consumer and producer prices*

50. The ONS publishes regional inflation estimates for the housing market, however, there is currently no regional breakdown for the suite of headline consumer price indices.
51. Both the UK House Price Index (HPI)<sup>16</sup> and the Index of Private Housing Rental Prices (IPHRP)<sup>17</sup> are published at a regional level. In the case of the HPI, consistent sub-regional data are published each month supplemented by quarterly estimates at a Lower Super Output Area level<sup>18</sup>. The IPHRP is currently only published at a regional level, although plans are in place to develop this output over the next 12-18 months to produce comparable estimates at a sub-regional level.
52. The development of regional Consumer Price Indices (CPI) has been considered previously. However, the suitability of the existing price sample, which is designed for national estimates, for regional price indices has been questioned due to several concerns such as the difference between national and regional baskets.
53. In 2017, at the request of the ONS, Southampton University carried out research to assess the suitability of using current price data in the calculation of regional consumer price indices, to quantify the limitations of using this current CPI data and identify the ongoing requirements to allow for the production of regular regional CPI. The research report, along with a rudimentary set of regional indices was published in November 2017<sup>19</sup>.
54. This was followed by with a further period of research in 2018/19<sup>20</sup>, again led by Southampton University, to look at modelling approaches that could potentially stabilise some of the volatility, particularly in the regional weights, seen in the regional indices published in the initial Southampton Report. This work will be followed up in 2019/20 by further research that considers how the CPI price sample can be improved, either through modelling or by utilising alternative data sources, to improve the estimates of regional CPI that can be produced. This research is expected to be published by the end of 2020.

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<sup>15</sup> [ONS, 2020, Development of regional household expenditure](#)

<sup>16</sup> [UK House Price Index \(HPI\)](#)

<sup>17</sup> [ONS, 2019, Index of Private Housing Rental Prices \(IPHRP\)](#)

<sup>18</sup> [ONS, 2019, House price statistics for small areas England and Wales](#)

<sup>19</sup> [ONS, 2017, Feasibility study: CPIH for UK regions](#)

<sup>20</sup> [ONS, 2019, Development of regional CPIH](#)

## *Towns*

55. In July 2019, we published the first in a series of outputs which will provide new data and analysis on towns in England and Wales, alongside existing data for cities and rural areas<sup>21</sup>. The data on towns will allow for more understanding of the similarities and differences between city, town and rural areas as well as providing much needed evidence on which towns are growing and which towns are struggling. The next outputs in the series are scheduled for the final calendar quarter of 2020, with further outputs to follow in 2021.
56. Overall, our initial analysis does not suggest that towns are more deprived than the rest of the country or performing worse economically. However, the analysis does show very different outcomes across different towns, with some growing very strongly in terms of employment and population growth and some declining on these same metrics. For example, between 2009 and 2017, employment declined in 26% of towns, most commonly in towns with existing higher levels of income deprivation, but employment increased by over double the England/Wales average in 32% of towns.

## *High Streets*

57. In addition to publishing new data and outputs on towns, the ONS has also produced new data and analysis on the topic of high streets. To do this, we worked collaboratively with Ordnance Survey (OS) to help digitally identify the physical geography of high streets in Great Britain and then to use these geographic extents to produce two experimental analysis articles using a range of ONS and OS data. This innovative project was used as a case study by the Geospatial Commission in its recently published UK Geospatial Strategy, and further developments to the project are planned by the ONS and OS to further enhance the identification of retail geographies and the production of associated data and analysis.

## **Data gaps and our plans to address them**

### *Flexible geography*

58. One of the priorities identified by the Bean Review was to provide more flexible geographic statistics to meet the needs of new and emerging regional bodies with responsibility for non-standard geographic areas. In response to this we set up a Flexible Geography project, which aims to develop economic statistics for any user-defined area of interest.
59. To date the project has delivered expansions to the range of areas for which we provide GVA and GDHI statistics, providing estimates for local authority districts and a range of other areas that can be constructed from whole local authorities.
60. In the future we aim to provide these statistics for even smaller areas, drawing upon the wealth of data becoming available to us from administrative sources within government. For GVA, we plan to use VAT administrative data to break the data down to very small areas; most likely lower and middle super output areas, the former as a single GVA total and the latter with a broad industry sector breakdown.
61. For GDHI, we will need to utilise more sources of administrative data, including PAYE and self-assessment data from HMRC, and benefits data from the Department for Work and Pensions. Our ultimate aim is to break the data down to output areas, the smallest geographic area for which household statistics can be provided without the disclosure of confidential information.

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<sup>21</sup> [ONS, 2019, Understanding towns in England and Wales](#)

62. In both cases we aim to produce the smallest possible building blocks, from which we can construct any area of interest to users. Full implementation of this project will take a few years and will involve the development of a dissemination tool capable of handling the enormous amount of data and constructing the outputs wanted by users.

#### *Regional supply and use tables*

63. In our discussions with users, particularly those with devolved responsibility, it has become clear that there is a growing demand for the information provided by regional supply and use tables. Regional supply and use enable a rich picture to be created of all the goods and services produced or imported in an area and their ultimate use, and provide the building blocks for the modelling of the economic effects of various interventions or other changes in supply and demand.
64. We already have many of the pieces needed to populate regional supply and use tables, but there are some important pieces missing. Many of these relate to expenditure measures, which are less well developed on a regional basis. We also currently lack regional prices information. However, the most challenging gap is the need to measure trade flows between regions, something that doesn't exist at a national level but without which regional supply and use is simply impossible.
65. We have set out a programme of work needed to achieve regional supply and use tables, which involves several streams to develop the parts needed to complete the framework. We do not yet have the resources or funding to carry out this work, but we have plans ready to begin as soon as appropriate funding can be secured.
66. In preparation we have commissioned a project by ESCoE to carry out research into the practical and theoretical issues around regional supply and use, with the aim of developing guidance we can use to ensure we are able to produce good quality tables at a regional level.

#### *Gross fixed capital formation*

67. We already produce regional estimates of gross fixed capital formation<sup>22</sup>, otherwise known as capital expenditure. We compile estimates on an annual basis for NUTS1 and NUTS2 level regions and sub-regions.
68. However, we are aware the quality of these regional statistics is not very high. The principal data source for regional capital expenditure is the ONS Annual Business Survey, which provides regional estimates through an apportionment model. While this model works well for most economic variables, it is not a good way to allocate capital expenditure, which tends to contain very large expenses linked to specific sites, such as new building construction.
69. We are investigating utilising Corporation Tax records held by HMRC, which contain a lot of information on companies' expenditure, both operating and capital. We hope that this administrative source will provide better coverage of capital expenditure, enabling an improvement to the quality of our regional gross fixed capital formation statistics. If successful this will be followed by full domestic publication, and quite possibly the development of additional geographic areas.

#### *Ongoing stakeholder engagement*

70. In addition to our well established and comprehensive user engagement, with additional funding secured during the 2015 Spending Review, and in support of recommendations from the Bean Review, we created a new Centre for Subnational Analysis. This includes both existing priorities around subnational economic analysis and spatial analysis, as well as an expansion of our ability to engage directly with stakeholders and to deliver additional analysis at lower geographic levels.

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<sup>22</sup> [ONS, 2019, Gross fixed capital formation](#)

Through 2018 and 2019, we conducted workshops with the new Combined Authorities, as well as engagement with other City Region stakeholders, membership organisations, and individual local authorities. These activities aimed to introduce the data the ONS has available, to gather feedback and requirements those authorities had of statistical outputs, and to build working relationships with analysts across the country. It has also enabled closer engagement on projects such as the Local Industrial Strategies, developments with data science, and work in support of the Stronger Towns Fund.

### **The ONS and Local Industrial Strategies**

71. The development of the UK Industrial Strategy in 2018 has been followed by development of individual Local Industrial Strategies for Combined Authorities and Local Enterprise Partnerships, to promote the coordination of local economic policy and national funding streams and establish new ways of working between national and local government, and the public and private sectors.
72. While the strategies are high-level policy documents, the evidence bases feeding into them draw on many of the sources mentioned in previous sections of this document. Even when the evidence bases are developed by intermediaries or consultancies, they will usually draw upon ONS data as the primary source for much of the evidence provided.
73. Key datasets for the industrial strategies tend to include Regional GDP and GVA (balanced measure), the Labour Force Survey or Annual Population Survey, the Annual Survey of Hours and Earnings and the Business Register Employment Survey, among others. Analysis produced by both the ONS and consultancies from our micro-datasets on topics such as sub-regional productivity have also helped inform the Local Industrial Strategies.

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