



Scottish Council for
Development and Industry

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Dear Neil

Assessment of Scottish macro-economic statistics produced by the Scottish Government

The Scottish Council for Development and Industry (SCDI) is an independent membership network that strengthens Scotland's competitiveness by influencing Government policies to encourage sustainable economic prosperity. SCDI's membership includes businesses, trades unions, local authorities, educational institutions, the voluntary sector and faith groups. SCDI has published independent annual surveys of Scotland's exports since the 1960s, and, in partnership with Scottish Enterprise, it currently produces the Annual Survey of International Activity in the Oil and Gas Sector.

Thank you for the opportunity to comment on this assessment of Scottish macro-economic statistics. The importance of reliable, timely, accessible economic statistics for SCDI and our wide membership cannot be over-stated. If SCDI is to play a leading role in informed debate about the issues affecting Scotland's economy and policies which would encourage sustainable economic prosperity, it must be able to rely on quality information from the Scottish Government and the Office of National Statistics (ONS). Reliable, timely and accessible economic statistics are also essential for many of our members, informing, for example, business decisions and policies for economic recovery.

Of the macro-economic statistics produced by the Scottish Government, SCDI's principal interest is in the following five publications: Government Expenditure & Revenue Scotland; Scottish Quarterly GDP at Basic Prices; Scottish Quarterly Retail Sales Index; Scottish Index of Manufactured Exports; and the Scottish Global Connections Survey. As the main indicator as to how the Scottish economy is performing, the quarterly GDP series is tracked particularly closely and facilitates comparisons with the UK as a whole. As a result of SCDI's role in supporting Scottish exports in international trade visits, it closely follows the Index of Manufactured



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Exports and the annual Global Connections Survey, which contain information about trading performance with the rest of the world.

The current Quarterly GDP series at Basic Prices has a number of drawbacks. Firstly, it appears too long after the period it is describing. Scottish GDP for the first three months of 2010 appeared in July. We will not see the figures for the second quarter of 2010 until October 20th. That is three months behind the publication of the overall UK GDP figures. The two data sets are also not strictly comparable because Scotland's basic prices series excludes taxes less subsidies, while these are included in the UK series at market prices. Both these drawbacks make rapid and effective policy responses to changing economic conditions more difficult, and make it harder to compare the impact of Scottish and UK Government policies, and thus learn from the effectiveness of respective interventions. The Scottish GDP series includes only index data, rather than values. Sectors are therefore unable to derive their contribution to Scottish GDP, as they can for the UK.

There are other longstanding problems with the Scottish series. While regular revisions (as and when better primary data becomes available) are part and parcel of any attempt to measure economic output, some of the segments of Scottish economic activity have long looked semi-detached from economic reality. For instance, if we are to believe the Scottish GDP series, the hotels and catering sector in Scotland has been broadly flat since 2002 while in the UK as a whole growth has been very significant (well above 30% in cumulative terms). That is not easily reconciled with regular surveys of visitor numbers in Scotland and UK in the same period or less empirical evidence such as the investment in new restaurant openings in urban and rural Scotland and the growth of hotel beds.

There are also UK-wide issues in measuring the output from public services, but arguably this is more significant in Scotland where they are a larger share of economic activity.

Distribution of robust export statistics enables businesses to identify market opportunities and inform the export and trade promote strategy and support from the wider public sector. However, SCDI continues to be concerned that the Global Connections survey lacks detail, profile among existing and potential exporters, and credibility with key export sectors. Until 2001, SCDI received support to produce Regional Manufacturing Export Analysis for Ayrshire, the Borders, Dumfries and Galloway, Dunbartonshire, Forth Valley, Glasgow, Grampian, Highlands and Islands, Lanarkshire, Lothian, Renfrewshire and Tayside which highlighted local trends. Since 2007, local authorities have assumed an enhanced role in local economic development and deliver Business Gateway advice to new start and local businesses, but Global Connections no longer includes these local breakdowns. Feedback from SCDI members suggests that Global Connections is not made widely available in a way which is meaningful for businesses. Judging overall performance can also be confused because statistics in Global Connections can



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significantly differ from industry-wide returns published by HM Revenue & Customs e.g. for whisky. This regional data deficit needs to be addressed.

While recognising the significant challenges with the collection process and in identifying the ‘origin’ of value added, ideally quarterly export statistics would include services, particularly - given its importance to the Scottish economy - financial services.

There are also discrepancies in the retail sector where Scottish sales have been revised way down compared with the UK as a whole, in stark contrast to the findings of trade surveys, such as the Scottish Retail Consortium Sales Monitor (SRSM) over equivalent periods. It is recognised that there is debate over the differing results from the Scottish Quarterly Retail Sales Index and the SRSM. It would be helpful if this could be resolved. Publication by the Scottish Government of unadjusted data could help with comparisons.

The Scottish Quarterly Retail Sales Index is published 5 weeks after the end of the quarter. More up-to-date, monthly data, including values and average weekly sales, as the ONS provides for the UK, would, again, generate a real-time picture of the economy.

Government Expenditure & Revenue Scotland data has been much refined down the years. However, it still struggles on the revenue side to allocate tax shares, like VAT and Corporation Tax, at the Scottish level. It is important to recognise the highly contested nature of the data currently produced. In SCDI members’ Statement of Findings on our discussion paper *Scotland’s Economy – The Fiscal Debate*, they were clear that the absence of a data-set acceptable to all parties provides a significant obstacle to informed debate. SCDI concluded that an independent exercise is required to review and improve upon the existing data and to establish a consensus around a coherent set of baseline data.

SCDI understands that the Scottish National Accounts Project was launched in 2008 as a long term project to improve the scope, consistency and quality of Scottish economic data. However, progress appears to be slow. At the outset it promised a monthly bulletin but it has only managed four in total so far, the latest - covering quarter one - this month. This includes some quarterly consumer spending by sector data which could be useful, but it is rather hidden. This should be included in the Scottish Quarterly GDP series when its accuracy can be reasonably assured and, in the meantime, a link might be provided.

With all parties committed to further fiscal devolution to the Scottish Parliament, there is much that needs to be done to generate the information necessary for informed decisions on the options. Whatever the eventual shape of this transfer of fiscal powers, the need will increase for a statistical framework producing timely, accurate and clear signals of economic activity in Scotland for immediate and longer-term policy-making. This should be focused mainly around



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the Scottish National Accounts Project and key economic aims e.g. rebalance the economy to higher exports and develop the low carbon energy sector.

SCDI recognises that there is a cost to the collection and collation of statistics, and expense and level of usage should be transparent. In the short-term, it may be too costly for the Scottish Government to produce Scottish macro-economic statistics which match ONS data in coverage, detail and timeliness. It will be important to prioritise the statistics which are most required for policy purposes and make improvements where feasible. SCDI recommends that cost-benefits should be assessed by an independent panel comprising a cross-section of suppliers, collators and users of Scottish economic data.

Priority might be given to mining existing data blocks held by the ONS. This could include disaggregated price data. There is an absence of any meaningful Scottish inflation data which makes it difficult to judge whether monetary policy and interest rates decisions at any one time, which are predicated on the Bank of England keeping inflation within a headline target range, are appropriate for Scotland's economic circumstances.

In SCDI's view, the Scottish Government, and, indeed Government at all levels, should, therefore, be more pro-active in commissioning, enabling and contributing to the production of external and independent economic data and forecasting which draw on business, sectoral, economic development, and higher education networks and resources. Government should look to work with them to clarify and improve variables adopted. The Scottish Government should also ensure access to its economic models for external organisations to support independent policy-making and assessment of Government policies, in the same way that the ITEM Club has legal access to the Treasury's model.

SCDI has been in discussion with the Centre for Public Policy for Regions about its proposal to model the Scottish economy using the Fraser of Allander model supplemented with a tax-benefits expenditure and labour supply model. SCDI regards this as potentially an extremely powerful tool for assessing the impact of various economic and fiscal policies by providing a more in-depth and rigorous understanding of the consequences of the policy choices that Scotland is likely to face in the near future. SCDI was advised that an Institute of Fiscal Studies-type tax-benefits model has recently been developed within the Scottish Government which would have been very helpful. Unfortunately, SCDI was unable to obtain detailed information its construction and data sources, and was disappointed by the lack of a response to its request for access.

In SCDI's experience of producing export statistics, this reflects a general unwillingness to share information and data with independent providers, and an internal focus that does not prioritise making both widely available to end users. This is ultimately to the detriment of businesses and



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wider policy debate in Scotland. Financial constraints, prioritisation and economic and fiscal policies represent an opportunity to change this culture and, if this results from the assessment, SCDI is ready to work in partnership to support the production of reliable, timely and accessible economic statistics for Scotland.

I hope that you find this feedback useful. SCDI would be happy for you share our comments with the Scottish Government and to discuss them further both with the Scottish Government and with the UK Statistics Authority. Should you wish to arrange this, please contact Gareth Williams, Head of Policy, at gareth.williams@scdi.org.uk .

Yours sincerely

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