

## PRODUCTIVITY: THE SEARCH FOR THE HOLY GRAIL CONTINUES

It is sometimes easy to forget that the Government is a major user of statistics, though those who remember the Rayner dictum (that official statistics in those days were primarily collected for Government) will need no reminder. It was therefore an enlivening experience to hear a lucid and succinct presentation from **Christopher Moir**, Director, Industry, Economics and

Statistics, DTI, on the essence of the DTI's current understanding of research-based comparative data on UK productivity compared to its equivalent for the US, France and Germany. Though measurement continues and demonstrates that there has been improvement, we still lag and are baffled in trying to fully explain its causes. One important strand appears to lie in

innovation; the UK is actually quite good at finding innovative ideas but is far less successful in exploiting them. Additionally, the US's lead appears to be largely dependent on better total factor productivity ie not labour or capital productivity separately but in combination.

The story was told and illustrated by a dozen or so telling charts. Productivity has five drivers: innovation, enterprise, skills, investment and competition. The conclusions of the analysis were:

Rapid productivity growth was vital to sustaining economic growth. The UK's productivity gap with other countries was a long-standing phenomenon, which could not be closed quickly. The UK's key weaknesses appeared to lie in investment, skills and parts of the innovation system. Effective microeconomic policy works with the grain of the market. There had been some progress but much remained to be done. The charts may be viewed on our website ([www.dtistats.net/bsug](http://www.dtistats.net/bsug)).

### EDITORIAL

#### DISASTER FOLLOWS UNBURDENING THE BURDENED

The clever-clogs in Brussels and Luxembourg decreed in 1993 that the creation of the single market implied that there were no longer 'imports' or 'exports' between member states. Consequently, the customs procedures for handling such movements of goods did not need traditional documentation associated with crossing frontiers. Quite so. However, there was an outcry about the consequent disappearance of intra-trade statistics on which traders relied for marketing information and governments relied for compiling balance of trade/payments figures. The net result was to substitute for the well-established and well-designed SAD (Single Administrative Document), which is still used for extra-trade with third countries and is the source of **monthly** trade statistics with these countries, a new system of returns which needed to be made by traders, related to the VAT system, to 'recreate' **quarterly** statistics of 'arrivals' and 'dispatches' – Eurospeak at its purest! – which then have to be added together to arrive at total trade.

One suspects that no suspicion entered the minds of the devisers of this bright new world that the absence of customs

documentation could be exploited by the unscrupulous to both evade payment of VAT and have the knock-on effect of concealing a significant and growing volume of trade, thereby causing errors in the balance of payments figures. A secondary effect was to destroy an effective **monthly** trade statistics system which published figures very soon after the end of each month and substitute a laboriously-produced data-set offering less accurate and delayed product detail available fully only at **quarterly** intervals and needing the summation of the two sets of figures to obtain global totals. What a fiasco!

Add now diverting the efforts of several UK statisticians to identify and calculate the extent of the fraud and hence statistical error in the UK (amounting to a so-far-estimated £22.7 billion for the years 1999-2002) resulting from this doctrine, has further revealed the compounded unwisdom of letting loose a band of enthusiasts for removing burdens from the burdened willy nilly. Now this is a second major statistical fraud investigation for Eurostat to deal with (see pages 3 and 4).

### BSUG WEBSITES

<http://home.btclick.com/bsug>  
[www.dtistats.net/bsug](http://www.dtistats.net/bsug)

The **http site** gives history, aims and objectives of the Group, Committee members' names and contact details, and information about forthcoming meetings, which can be booked on-line. The **www site** gives access to current and back copies of **BSUG NEWS** and, in addition, reports of meetings.

## THE STATISTICS COMMISSION ANNUAL REPORT 2002-03

With its Third Annual Report published on 17 July, the Statistics Commission got into its stride. Its main concerns during the year had been: the NS Code of Practice and Protocols; Network Rail accounting; NHS waiting lists and management reports; treatment of Household Tax Credits in the Treasury's Pre-Budget Report; aspects of confidentiality in the Census; targets in higher education. Reference was also made to several other topics. Work which has continued into the following (current) year included: some local authorities' concerns about Census figures for their areas; errors in National Statistics, eg on pensions and the use of statistical targets as measures of government performance. Other work foreshadowed for 2003-04 is: continuing the review of the need for statistics legislation; clarifying what constitutes a 'National Statistic' and giving further consideration to extending an understanding of users' needs.

At the open meeting launching the report Chairman David Rhind said that one of new Chief Executive Richard Aldritt's early tasks would be to look at users' needs and interests, including how the Commission coped with them.

The Report and an account of the 17 July launch meeting, at which a variety of other questions were raised and answered by Commissioners, may be found on the Commission's website:

[www.statscom.org.uk](http://www.statscom.org.uk)

### FUTURE SUC EVENT

Statistics Users' Council Annual Conference

Thursday November 13th 2003

#### MEASURING GOVERNMENT PERFORMANCE

at The Royal Society, 6 Carlton House Terrace, London SW1

Details from IMAC Research, Lancaster House, More Lane, Esher KT10 8AP

Tel: 01372 463121 Fax: 01372 469847 Email: [info@worldtradestats.com](mailto:info@worldtradestats.com)

### SBE MEETINGS

CIPFA, 3 Robert Street, London WC2 (6 pm)

Wednesday 15 October 2003

#### THINKING THE UNTHINKABLE

STEPHEN KING, MD Economics & Strategy, HSBC

Wednesday 12 November 2003

#### CHALLENGES FACING THE AIRLINE INDUSTRY

ANDREW SENTANCE, British Airways

All enquiries about attendance or membership: Society of Business Economists 01923 237287

## SMOKE SCREEN ON ALLEGED FRAUD AT EUROSTAT

Eurostat-watchers have been agog since the announcement in May of the suspension of three senior directors (Yves Franchet, Director-General, Daniel Byk and Photis Nanopoulos) on grounds of alleged fraud; six other directors were moved from their posts to advisory roles. The matters at issue are secret bank accounts, and contracts with four companies: Planistat (which manages the Eurostat Data Shops in Brussels, Luxembourg and Madrid), CESD-Communitaire (which was set up to help statistical services in developing countries), 2SDA (Statistical Studies and Data Analysis) and TES (Training for European Statisticians), which have been cancelled. So far, M.Franchet, who was within a few months of retiring, has denied the charges, issuing a statement in September insisting that he never hid information on the financial management of Eurostat from the Commission. And Planistat has also complained about the way it has been treated.

The outcomes in three interim reports of the Commission's investigations of this matter (by a task force of officials, the internal audit service and Olaf, the anti-fraud office) were revealed under wraps to senior MEPs on 24 Sep, which "for legal" reasons are not to be published. M Prodi, the Commission's President, answered questions from the leaders of the Parliament's political groups on the following day in camera. Leaked details indicate double accounting and falsified contracts resulting in the disappearance of £3 million of public money. **The Times** has reported a widening of the Olaf investigation to OPOCE (the Commission's official publication agency), and there is talk of implications of the problem being much larger. Speculation on the fallout (Draconian action - resignations, involvement of other contracts) is rife.

## YET ANOTHER HOUSE PRICE INDEX

No sooner had the ODPM announced a new, improved House Price Index (see **BSUG NEWS 21**, page 4) likely to be called the National Statistics HPI, than along comes the **Financial Times** with a further development, the FT House Price Index, (first published on 6 September). This has been developed for the FT by a Cambridge University team at consultancy Acadametrics. Derived from Halifax, Nationwide and ODPM data, it will be published monthly around the day on whichever the later of the first two providers' indices appear (usually the Halifax). A current average transaction completion price, derived from the latest revised quarterly HM Land Registry "Average Residential Property Prices for England and Wales" report, will be projected to yield a '% growth' figure. The FT's Index provides a single combined-index to minimise uncertainty as to house price movements. It is derived from indices, not the underlying data.

Of the three sample-based indices, the Halifax and Nationwide are calculated from mortgages offered, the ODPM from completions. Sales for cash are not covered. The Land Registry figures include all sales completed, reported by conveyancing solicitors.

Further details are available from [www.acadametrics.co.uk](http://www.acadametrics.co.uk).

## NEWS FROM ONS

### CHAINLINKING OF ECONOMIC STATISTICS

Shortage of space here restricts the amount of explanation of work at ONS which has been proceeding for some time on testing the effects of changing economic series, which have historically had successive base years, the latest being 1995, to continuous annual chainlinking. A major example, the UK National Accounts is moving to annually weighted and chained estimates of volume measures, as recommended in the System of National Accounts 1993, with effect from the Quarterly National Accounts First Release and the **United Kingdom Economic Accounts** (UKEA) dataset published on 30 September 2003. The data released on 30 September 2003 will be consistent with the 2003 edition of **United Kingdom National Accounts: The Blue Book** is to be published on 24 October 2003. An article explaining the effects of the move to annual chain-linking on the National Accounts dataset published in **Blue Book 2002** was published in the April 2003 edition of **Economic Trends**. In order to further help users the ONS issued an early release of a limited National Accounts dataset on 29 August 2003. This dataset is broadly equivalent to the level of detail published in the Output, Expenditure and Income First Release and showed near final data for years up to 2001, consistent with the dataset published on 30 September 2003. The dataset therefore incorporates both the impact of annual chainlinking and the effects of non-chainlinking revisions to be published in **Blue Book 2003**. These data will be made available in spreadsheet format only.

### BSUG CONTACT ADDRESSES

**CHAIRMAN** : Ian Maclean  
Lancaster House, More Lane  
Esher, Surrey KT10 8AP

Tel: 01372 463121 Fax: 01372 469847  
Email: [ian@worldtradestats.com](mailto:ian@worldtradestats.com)

**SECRETARY** : Geoff Noon  
MTA, 62 Bayswater Road,  
London W2 3PS

Tel: 020 7298 6400 Fax: 020 7298 6430  
Email: [gnoon@mta.org.uk](mailto:gnoon@mta.org.uk)

**HON. TREASURER and GROUP PUBLISHER** : John Cunningham  
69 Warwick Park, Tunbridge Wells,  
Kent TN2 5EJ

Tel: 01892 534 599 Fax: 01892 514 955  
Email: [jacunningham@iscali.co.uk](mailto:jacunningham@iscali.co.uk)

**BSUG NEWS EDITOR** : Ulrich Spencer  
Silchester Hall, Silchester, Reading,  
Berks RG7 2LX

Tel: 0118 970 0219 Fax: 0118 970 0751  
Email: [uspencer@silch.fsnet.co.uk](mailto:uspencer@silch.fsnet.co.uk)

**FINANCIAL SERVICES** : David Fleming  
Applied Business Statistics Limited  
Chalice House, Brook Lane, Barton St. David,  
Somerton TA11 6DH

Tel: 01458 851 441 Fax: 01458 851 442  
Email: [david.fleming@business-statistics.co.uk](mailto:david.fleming@business-statistics.co.uk)

# VAT Missing Trader Inter-Community Fraud

A recent article in **Economic Trends** (August 2003), 'VAT Missing-Trader Intra-Community Fraud: The Effect on Balance of Payments Statistics and UK National Accounts' by David Ruffles, Geoff Tily, David Caplan and Sandra Tudor, describes an investigation jointly by these ONS and HM Customs & Excise statisticians. The fraud was described in the HM Treasury/HMCE paper 'Tackling Indirect Tax Fraud' published in the 2001 Pre-Budget Report.

In the 'carousel' version of the fraud, imported goods are sold through a series of transactions before being re-exported to another EU Member State. They may then be re-imported into the UK. Because intra-EU trade statistics are collected via the VAT system, such fraudulently imported goods do not get included in import data, which are therefore under-recorded. Studies of EU 'mirror' trade statistics have revealed widening asymmetries. As a result, balance of trade deficits are understated and this affects the UK National Accounts. The investigations so far, which largely concern mobile phones and computer components, have estimated the need to increase import figures by £1.7 billion for 1999, £2.8 billion for 2000, £7.1 billion for 2001 and £11.1 billion for 2002.

The article is available on the National Statistics website, [www.statistics.gov.uk](http://www.statistics.gov.uk) and David Ruffles will speak on the subject at the next ITSUG meeting on 15 October (see notice of meeting below).

## NEWS FROM FSUG

### ELECTRONIC ACCESS TO OFFICIAL FINANCIAL STATISTICS

#### Meeting at the Association of British Insurers, 2 July 2003

Three speakers gave presentations to mark the inauguration of a new interactive database (IADB) at the Bank of England. But first, **David Pullinger**, ONS described improvements to time series on National Statistics online. Then **Anne Smith**, Head of Business Support Unit, Monetary and Financial Statistics, BoE addressed two questions: why interactive? – to meet different demands, provide data quickly and facilitate searching; why now? – because there was a new in-house computer system, too many datasets, to be up with or ahead of the game, and to build for the future. Objectives were to provide long runs, make more data readily available, provide timely daily data, to replace the **Annual Abstract** and to link metadata to data more readily. **Simon Anderson**, BankSearch Consultancy, gave technical details of the work done to instal the IADB and **Karen Westley**, Outputs Manager, Business Support Unit, Monetary and Financial Statistics, BoE outlined the IADB's features.

## NEWS FROM HMCE

### HM Customs and Excise are developing a new 'Web Alert Service' for UK Importers/Exporters and Trade Statistics Users

by Gavin Inglis

Have you ever spent time, fruitlessly rummaging around in government web sites, searching for information?

Perhaps you'd heard about a new procedure, but simply can't find anything about it and you don't know who to contact

Because Customs and Excise want to ensure traders have the most up to date information as soon as it's available, we're developing a web-based alert service to 'push' multi-departmental messages to interested parties, improving Government-wide customer service.

#### What's the aim of the alert service?

Simply to 'alert' customers to information or events by transmitting e-mail advice directly to them. This will normally consist of a brief description of the information plus a link to a web page containing detailed data. Whoever posted the information will provide contact details in case further information is required.

#### Multi-departmental?

The service will be run in conjunction with the Department for the Environment, Food and Rural Affairs (DEFRA) to begin with because we already have common interests. The aim is to make the service available to any government department (which has information relevant to traders) as soon as possible.

#### How will the service work?

The alert service will consist of a series of sectors covering various areas of Customs and Excise and DEFRA. Some of the sectors will be general, e.g. 'Customs' or 'VAT', however there will be specialised sectors such as 'Trade Statistics', 'Intrastat' or 'Anti Dumping Duty'. You'll be able to register and choose to receive information from any or all of the sectors available. It is hoped that the service will evolve in accordance with identified customers' needs.

#### What are the benefits?

The alert service is intended to be a single gateway to a large amount of government information in summary form with links to the 'detail' on other web sites. This should remove reliance on 'indirect' communication (e.g. mailshots) and the need to trawl through web sites

to find particular information (which may or may not be there!).

Information will be sent direct to you, the customer.

#### What cost savings will there be?

A cost benefit analysis carried out at the start of the alert service project indicated that by pushing information to businesses, they would make considerable cost savings, particularly in staff time spent searching for information but also in other communication costs, e.g. printing, mailing and stationery. As the alert service grows, this cost saving will increase.

#### How do I register?

When the system is ready, advice will be posted on [www.uktradeinfo.com](http://www.uktradeinfo.com) and you'll be able to register to receive the information you want by completing a simple on-line form. Oh...and if you decide you don't want to receive the information any more there'll be a simple 'unsubscribe' procedure.

#### How much will it cost to register?

Perhaps the most important question for some, given the high cost of running a business today. The answer is:

#### Nothing!

The alert service has been made possible due to a successful bid for funding from the Treasury. This will allow us to set up the necessary database and other associated software and run the system completely free of charge to customers.

The system will be run through [www.uktradeinfo.com](http://www.uktradeinfo.com) and will be available to all.

We plan to have the alert service available towards the end of 2003.

Contact [uktradeinfo@hmce.gsi.gov.uk](mailto:uktradeinfo@hmce.gsi.gov.uk) if you have any further questions

## FUTURE ITSUG EVENT

Wednesday, 15 October at 2.0pm  
at CIPFA, 3 Robert Street, London WC2

VAT MISSING-TRADER INTRA-COMMUNITY FRAUD  
David Ruffles, ONS

TRADE STATISTICS AND NEW EC MEMBER STATES  
James Durnford and  
Roberto Terrazano, HMCE

## NEWS FROM ONS

# Progress Report on the INDEX OF SERVICES

### INTRODUCTION

The experimental monthly Index of Services (IoS) was first published in December 2000. Since then progress has been made in speeding up the publication of the index and in improving the data sources that make up the index. The target of dropping the experimental label from the IoS by 2006 remains on track. This article explains why a monthly IoS is being developed, it gives an overview of the progress so far, and flags up the challenges that lie ahead. The article also shows that the UK is a leading country in the international field of service sector output measurement.

A presentation on the Index was given by **Rob Pike** at the Royal Statistical Society on 18 April 2001, a report on which was published in **BSUG NEWS 16**, April 2001.

### BACKGROUND

#### Service Sector v Production Sector

The evolution of the UK economy has seen the importance of the service sector steadily increase over time. Just after the Second World War, the production sector accounted for 41 per cent of the economy and services 46 per cent. Now the production sector output represents 23 per cent of the economy, whilst the service sector has increased to over 70 per cent. Historically however, statistical offices around the world had focused on the measurement of the manufacturing sector. In the UK, the Index of Production has been published monthly since 1948.

#### Bridging the 'Gap'

The Office for National Statistics (ONS) started, in the early nineties, two initiatives in the service sector to bridge the gap between the measurement of the service and manufacturing sectors. The first was the collection of short-term turnover data and the second was the development of Corporate Services Prices (which measure the price

movements of services sold by businesses to other businesses and government).

Capitalising on this investment, the IoS project was initiated in 1999 to meet demands from key users for a monthly output indicator for services that matched the existing Index of Production and to improve the quality of the service sector component of the quarterly output measure of GDP (GDP(O)). IoS and GDP(O) use the same data sources.

### PROGRESS-TO-DATE

#### Launch & Timeliness

- In December 1999 an experimental Index of Distribution (IoD) (covering the Motor Trades, Wholesale and Retail industries) was published.
- In December 2000 the experimental IoS (covering the whole service sector) was published.
- The timeliness of the IoD and IoS publications have improved since their launch from 13½ weeks to 8 weeks

#### Dropping the experimental label

- The IoD dropped 'it's' experimental label in May 2001 and is now a National Statistics First Release.

#### Understanding the Data

The IoS team has developed a close working relationship with the team that provides the short-term turnover data; this has helped to improve the understanding of the dataset and the ability to provide briefing to users.

#### Industry reviews

The progress of the IoS/GDP(O) industry review project has been a significant achievement. This project improves IoS and GDP(O)'s data sources and methods on an industry-by-industry basis as well as sourcing more monthly data.

- The data sources and methods of seven industries (covering around 40 per cent of the IoS) have already been improved. The improvements to sources and methods from the latest reviews (Retail, Post and Telecommunications, Hotels and Restaurants and Business Services) were introduced on 30 September when the National Accounts **Blue Book** dataset was published. Reviews of recreation, government, sewage and refuse disposal, real estate and land transport are currently in progress. Types of improvements include more appropriate deflation methods and moving to more appropriate output indicators e.g. deflated turnover. Specific details of these improvements can be found at <http://www.statistics.gov.uk/iosmethodology>. The aim is to complete the development of the remaining industries by 2005.
- The proportion of monthly data used within the IoS has increased to 51 per cent (from 38 per cent); it is expected that by mid 2005 this will increase to over 60 per cent.

#### Documentation

One other key area of progress in the IoS project has been the publishing of detailed documentation on the National Statistics website (see weblink as above). This explains in full the data sources and methodology used (including the time series methods used).

### FUTURE PLANS

As explained above, the industry reviews will continue through the next two years. The IoS also faces a number of other important issues. These include:

- improving the level of detail that is published (five components are currently published)
- speeding up the publication further

These issues will begin to be tackled over the next 12 months.

### INTERNATIONAL CONTEXT

The UK is one of the leading countries in measuring both service sector output and prices. Only a few other countries (e.g. Canada, Japan and Korea) currently publish a monthly output indicator that includes the entire service sector. The UK is also contributing to an OECD international task force which is looking at recommending best practice in measuring the short-term service sector output.

## ONLINE INFORMATION 2003

2-4 December 2003, Olympia, London

Every year 'Online' gets bigger and better. This year free exhibition tickets are available to all Statistics User Group members. See insert or check the BSUG website <http://www.dtistats.net/bsug>. There is also a 15% reduced fee for the conference. To book your place online visit <http://www.online-information.co.uk/o103/conference-registration.html> remembering to select 'association delegate' and state that you are a SUC member to benefit from the discount! View the full conference programme online at [http://www.online-information.co.uk/o103/conf/conf\\_prog.html](http://www.online-information.co.uk/o103/conf/conf_prog.html).

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