Highlands and Islands Enterprise (HIE)

HIE is the Scottish Government's economic and community development agency for the north and west of Scotland. Our purpose is to generate sustainable economic growth across the Highlands and Islands, ensuring that it is a highly successful and competitive region in which increasing numbers of people choose to live, work, study and invest.

Introduction

Highlands and Islands Enterprise (HIE) welcome the opportunity to contribute to this important inquiry into the accuracy, utility and comprehensibility of Scottish economic statistics.

Background

HIE is the Scottish Government's economic and community development agency for the north and west of Scotland, an area which covers half of the Scottish landmass, including over 90 inhabited islands, but home to under 10% of the Scottish population. The region is a diverse area, extending from Shetland to Argyll, and from the Outer Hebrides to Moray. In the UK context, it covers 1/6th of the landmass but is home to less than 0.7% of the population, making it by far the most sparsely populated region in the UK.

The make-up of the Highlands and Islands economy is quite different from the rest of the country, making analysis and interpretation of statistics more challenging. In particular:

- The economy is dominated by SME’s, and self-employment rates are higher than elsewhere in the country;
- Average earnings for the self-employed in the region tend to be lower than average earnings for employees, due to the reliance on agriculture and other primary industries, the predominance of tourism to rural areas and the tendency for people to have a number of part-time occupations in areas where economic opportunities are scarce;
- The region has a less high-value added manufacturing sector and a less developed business and financial services sector

In the Highlands and Islands some 81.5% of the workforce is economically active. Unemployment rates (claimant count) in this region have been lower than Scottish figures for the past seven years and the current rate at 1.9% remains well below the Scottish figure of 2.4%. However, these positive factors need to be balanced against the challenge of stemming the out-migration of young people – particularly from the more fragile parts of the region - and providing employment opportunities available in other parts of the country and help raise household incomes up towards the national average.
Accuracy

How reliable is the economic data currently available at the Scottish level?

There is good coverage of the main economic indicators at the Scottish level with adequate sample sizes for key UK surveys, providing reliable data with which to compare Scotland alongside other national economies.

Robust coverage allows for detailed interpretation of economic performance across GDP output, productivity, export activity, innovation and the functioning of the labour market over time.

What are the strengths and weaknesses of provision within Scotland and at UK levels?

Economic data meets all international standards at the UK level and is robust at the Scottish level but reliability and representativeness diminishes at smaller geographies.

Due to the economic make-up of the area, national statistics are unable to accurately reflect the conditions experienced in the region, making analysis and interpretation of statistics a more challenging task. Reliance on returns from large employers, and the lack of regular information on the self-employed introduces a complexity to the interpretation. In addition, some of the national surveys undertaken in the region lack value from a policy making perspective, as the samples are so small and provide only limited coverage of the region (sampling is often undertaken at the UK level).

While (claimant count) unemployment data is very timely and informative, the Economic Output (GVA) data at regional level is two years old before it is published, reducing its value as a tool to inform policy interventions.

What could be done by Scottish Government and/or others to improve the quality of data? How would this be funded?

Data needs to be robust, timely, coherent and accessible in order to inform local evidence-based policy. Continued dialogue between statistical providers and public sector organisations will allow for an improvement in the accuracy and robustness of statistics across all geographies.

The Scottish Economic Statistics Consultancy Group (SESCG) and Scotstat are useful vehicles for discussing the accuracy and comprehensibility of Scottish economic statistics. The creation of a new data Analytical Unit as proposed by the Enterprise and Skills Review could help identify data quality issues at the sub-Scotland level to improve the quality of data produced, considering how best to augment national statistics with information from internal records, big data and minimising methodological differences and anomalies in key datasets.

Do you have any views on how data is collected, specifically the role of businesses and households in providing economic data?
Augmenting national statistics with information gathered for other purposes, particularly utilising HMRC data on pay for the Annual Survey of Hours and Earnings (ASHE) analysis, would be beneficial. The use of ‘big’ and ‘open’ data is a useful way to inform our understanding of issues, challenges and progress made in small geographies.

Utility

How are economic statistics used by local, regional and national policy makers to deliver and scrutinise policy?

As a Scottish Government agency, HIE’s role is to lead regional growth and development across the Highlands and Islands, supporting the rural economy and improving competitiveness to help build a fairer, more prosperous and inclusive society.

In the course of its work, HIE utilise a range of national statistics to help understand the workings of the regional economy and constituent sub-economies.

ONS and Scottish Government data underpin the majority of this analysis and is integral to making important decisions on resource allocation and implementing Scotland’s Economic Strategy.

HIE utilise economic data for relevant geographies beneath the Scotland geography, at the Highlands and Islands level as a whole; at HIE’s eight area office geographies; at settlement and locality level and at individual community level.

Data is used to examine socio-economic trends over time across these geographies, with a focus predominately on demographics, economic activity and unemployment. These data outputs are analysed regularly in economic briefings, area and sectoral profiles and general economic context to inform strategic thinking and decisions on resource allocation.

Given the remote and sparsely populated characteristics of the Highlands and Islands, HIE looks for robustness in data sources to identify, interpret and respond to changes in local labour markets and other socio-economic issues. Small area data analysis helps HIE identify the communities most in need of development support from public sector agencies to tackle their distinct challenges.

Where are the gaps in provision?

The following points address some of the gaps in provision for the region and identify mitigating actions to help improve the accuracy of statistics for smaller geographies-

- The geographic nature of the Highlands and Islands means that the economy does not operate as a single cohesive unit and therefore data at the NUTS III or even more local level would be extremely useful for monitoring intra-regional differences. The development of other indicators to provide a better picture of local economic conditions is an idea we would be keen to support.
• HIE utilise BRES data to monitor changes in employment across sectors and sub-regional geographies. This is vital to the work that HIE is tasked with, in terms of supporting inclusive growth across many sparsely populated areas and fragile economies. While BRES is currently the best data source available for monitoring employment changes, coverage does need to be rebalanced to accurately reflect the changing nature of employment across the country. It would be beneficial if sample stratification was undertaken at a more granular geographic level to facilitate more detailed analysis at regional and sub-regional level to ensure robust data is available for areas with an economic make-up significantly different from the national picture. The fact that BRES does not cover all sectors of the economy is a fundamental weakness. This probably has a more significant impact on the Highlands and Islands than any other region of the UK, considering the relative importance of small-scale agricultural units to the local economy. Augmenting with data from other sources (i.e. agriculture census) would greatly strengthen data output.

• The SIC coding system does not offer the flexibility to capture data on emerging sectors which may not have a specific code (such as renewable energy) but may have higher growth potential and therefore require specific monitoring and support from regional development agencies.

• HIE utilise BERD statistics to understand R&D spend by Local Authority region. Innovation is an important driver of economic growth and is identified as one of the four priorities in Scotland’s Economic Strategy. However, few data sources exist to measure the scale of R&D and innovation activities in the region, so efforts to address this through the BERD Survey are particularly important. Sample sizes in the BERD Survey are low in the more sparsely populated areas of the UK, such as the Highlands and Islands, which means that survey findings are often not published due to the disclosive nature of the data.

• It is not practicable to undertake any time series analysis of the ASHE survey findings at sub-regional level, with annual fluctuations in the data being impossible to explain. Earnings are a proxy for productivity and improved data, and utilising HMRC data on pay would be hugely beneficial in providing a clearer indication of the productivity challenges experienced in different parts of the region. Income data is used to inform policy development to tackle income inequalities and deprivation across the region, and is an important indicator to understand progress against key priorities within Scotland’s Economic Strategy.

• Export Statistics Scotland provides detailed activity at the Scottish level but the samples used mean that data for the Highlands and Islands cannot be disclosed for analysis.

• Underemployment is a particular challenge for the region, particularly in more rural areas where pluri-activity is prominent, and people are often self-employed through necessity rather than through choice. Families in many
parts of the region have adopted a multi-occupational way of life, which enables the family unit to remain viable and sustains local services employing part-time, seasonal or casual staff who also have other jobs. It is not a new phenomenon in the Highlands and Islands and has been a feature of the regional economy for many years but little evidence exists to quantify fully the magnitude of underemployment in the region.

The benefits to government and agencies of improved regional statistics in this part of the country would be significant. While we appreciate that the associated cost could be an additional bureaucratic burden on businesses, the potential for utilising information gathered for other purposes to augment national statistics is worthy of detailed investigation. In particular, information from the agricultural sector and the self-employed is already gathered by government in a format that could be adapted to support the other work undertaken by ONS.

Can you identify examples of international good practice and case studies?

OECD and Eurostat provide comprehensive publications utilising national economic datasets which help to compare performance across a range of indicators over time. This serves to provide a robust comparable picture in which to set the performance of the Highlands and Islands economy.

Scottish Government has an open-data platform hosted on www.statistics.gov.scot which helps to disseminate economic data to a wide audience.

The introduction of the new ONS Business Index will include data from four sources not currently included in the IDBR – the Insolvency register; Corporation Tax register; FCA register and the new self-assessment forms, which all businesses will be required to complete. This will produce data on unregistered enterprises, including small sole traders or partnerships with no employees and an annual turnover of less than the VAT threshold, which will improve the relevance and accuracy of statistics at the regional and sub-regional geographies.

Are there barriers preventing the Scottish or UK Governments from improving statistical provision?

Statistical collection activities tend to focus on gathering and presenting data that meet international comparability standards. While the UK (and Scotland) produces high quality national statistics, focusing more on the needs of policy makers and the way in which evidence can help inform priorities and resource allocation in local areas could change the way in which data is collected and lead to more impactful and informed policy choices. Cross-agency collaboration and creative thinking could overcome many perceived barriers, including the cost of improving statistical provision.

Interpretation

What are the key issues in making sense of the data?

Providing appropriate context to economic statistics is key to delivering accurate and informed economic intelligence to support strategic policy decisions. Continued
regular liaison, both formal and informal, across statistical departments and wider agencies should be supported and encouraged to ensure key data providers are kept up-to-date with the changing requirement of its customers.

What are the barriers to better understanding and how they might be overcome?

It is imperative that most of the statutory economic datasets produced by ONS, Scottish Government and other data providers continue to be produced frequently and that any proposal to change methodological approaches or timing or publication does not impact on the quality and robustness of data outputs, a particular concern at small-area level.

In addition, any detailed thematic or policy focussed analysis would help in interpreting and understanding the pertinent issues to the national economy and relevance for smaller geographies. Allied to this, a clear overview of the statistical methods employed in producing the data would allow an accurate interpretation of results.

HIE would welcome the opportunity to scrutinise IDBR data from within our region to determine its accuracy and representation of the local business base, ensuring data is plausible given HIE’s knowledge of the economic conditions in the area. Data cleansing are much easier to undertake with the benefit of local knowledge.

**Scrutiny**

What are we measuring and what should we be measuring?

Reporting at a national level is accurate and detailed but the real challenge is in capturing robust data at smaller geographies to underpin understanding of the key issues and drivers facing the regional economy.

Are the current National Performance Framework indicators the best way of measuring innovation, internationalisation, investment and inclusive growth in the Scottish economy?

The National Performance Framework provides a clear vision for Scotland with broad measures of national wellbeing covering a range of economic, health, social and environmental indicators and targets. Its vision for a successful Scotland is described and measured in five parts which support and reinforce each other.

- **The Scottish Government’s Purpose** sets out the direction and ambition for Scotland.
- **Purpose Targets** are high level targets that show progress towards the Purpose.
- **Strategic Objectives** describe where we will focus our actions.
- **National Outcomes** describe what the Scottish Government wants to achieve and the kind of Scotland we want to see.
- **National Indicators** enable us to track progress towards the Purpose and National Outcomes.

The priorities within the strategy describe the types of intervention or the best approach to be taken to inform interventions taken forward by government and
agencies. However, it is Scotland Performs which conveys the progress being made at a national level towards our shared objectives.

**Conclusion**

Timely, accurate and comprehensive data contribute greatly to our understanding of what is happening in the economy and how resource allocation can best be targeted to increase impact in line with shared strategic objectives. While data quality at the Scottish level is very high, it is less so when broken down to the functional economic areas at which policy development is most impactful. HIE is keen to work with Government and partner agencies to explore ways in which data collection and dissemination methods can be developed and improved in the future.