Assessment of compliance with the Code of Practice for Official Statistics

Statistics on International Transactions
(produced by the Office for National Statistics)

Assessment Report 164
December 2011
About the UK Statistics Authority
The UK Statistics Authority is an independent body operating at arm’s length from government as a non-ministerial department, directly accountable to Parliament. It was established on 1 April 2008 by the Statistics and Registration Service Act 2007.

The Authority’s overall objective is to promote and safeguard the production and publication of official statistics that serve the public good. It is also required to promote and safeguard the quality and comprehensiveness of official statistics, and good practice in relation to official statistics.

The Statistics Authority has two main functions:
1. oversight of the Office for National Statistics (ONS) – the executive office of the Authority;
2. independent scrutiny (monitoring and assessment) of all official statistics produced in the UK.

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ASSESSMENT AND DESIGNATION

The Statistics and Registration Service Act 2007 gives the UK Statistics Authority a statutory power to assess sets of statistics against the Code of Practice for Official Statistics. Assessment will determine whether it is appropriate for the statistics to be designated as National Statistics.

Designation as National Statistics means that the statistics comply with the Code of Practice. The Code is wide-ranging. Designation can be interpreted to mean that the statistics: meet identified user needs; are produced, managed and disseminated to high standards; and are explained well.

Designation as National Statistics should not be interpreted to mean that the statistics are always correct. For example, whilst the Code requires statistics to be produced to a level of accuracy that meets users’ needs, it also recognises that errors can occur – in which case it requires them to be corrected and publicised.

Assessment reports will not normally comment further on a set of statistics, for example on their validity as social or economic measures. However, reports may point to such questions if the Authority believes that further research would be desirable.

Assessment reports typically provide an overview of any noteworthy features of the methods used to produce the statistics, and will highlight substantial concerns about quality. Assessment reports also describe aspects of the ways in which the producer addresses the ‘sound methods and assured quality’ principle of the Code, but do not themselves constitute a review of the methods used to produce the statistics. However the Code requires producers to “seek to achieve continuous improvement in statistical processes by, for example, undertaking regular reviews”.

The Authority may grant designation on condition that the producer body takes steps, within a stated timeframe, to fully meet the Code’s requirements. This is to avoid public confusion and does not reduce the obligation to comply with the Code.

The Authority grants designation on the basis of three main sources of information:

i. factual evidence and assurances by senior statisticians in the producer body;
ii. the views of users who we contact, or who contact us, and;
iii. our own review activity.

Should further information come to light subsequently which changes the Authority’s analysis, it may withdraw the Assessment report and revise it as necessary.

It is a statutory requirement on the producer body to ensure that it continues to produce the set of statistics designated as National Statistics in compliance with the Code of Practice.
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1 Summary of findings

1.1 Introduction

1.1.1 This is one of a series of reports\(^1\) prepared under the provisions of the Statistics and Registration Service Act 2007\(^2\). The Act requires all statistics currently designated as National Statistics to be assessed against the Code of Practice for Official Statistics\(^3\). The report covers the international transaction statistics reported in Business Monitor MA4: Foreign Direct Investment (FDI-BM)\(^4\) and the following statistical bulletins: Foreign Direct Investment (FDI-SB)\(^5\); International Trade in Services (ITIS-SB)\(^6\) and Mergers and Acquisitions involving UK Companies (M&A-SB)\(^7\), produced by the Office for National Statistics (ONS).

1.1.2 Section 3 adopts an 'exception reporting’ approach – it includes text only to support the Requirements made to strengthen compliance with the Code and Suggestions made to improve confidence in the production, management and dissemination of these statistics. This abbreviated style of report reflects the Head of Assessment’s consideration of aspects of risk and materiality\(^8\). The Assessment team nonetheless assessed compliance with all parts of the Code of Practice and has commented on all those in respect of which some remedial action is recommended.

1.1.3 This report was prepared by the Authority’s Assessment team, and approved by the Board of the Statistics Authority on the advice of the Head of Assessment.

1.2 Decision concerning designation as National Statistics

1.2.1 The Statistics Authority judges that the statistics covered by this report are readily accessible, produced according to sound methods and managed impartially and objectively in the public interest, subject to any points for action in this report. The Statistics Authority confirms that the statistics published in FDI-SB, FDI-BM, ITIS-SB and M&A-SB can be designated as National Statistics, subject to ONS implementing the enhancements listed in section 1.5 and reporting them to the Authority by March 2012.

1.2.2 ONS has informed the Assessment team that it has started to implement the Requirements listed in section 1.5. The Statistics Authority welcomes this.

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\(^1\) http://www.statisticsauthority.gov.uk/assessment/assessment-reports/index.html
\(^5\) Ibid 4
\(^7\) http://www.ons.gov.uk/ons/rel/international-transactions/mergers-and-acquisitions-involving-uk-companies/q2-2011/stb-ma-q2-2011.html
1.3 **Summary of strengths and weaknesses**

1.3.1 ONS has regular contact with the main users of the international transaction statistics through the Balance of Payments user group and through quarterly review meetings. It is improving the timeliness of *ITIS-SB* in response to user needs, by bringing forward the publication of the release by 3 months.

1.3.2 ONS is reviewing the format of its statistical releases on international transactions, taking into account users’ needs. It provides some commentary within the releases but does not provide sufficient explanation of noteworthy features of the statistics or of longer term trends.

1.3.3 ONS provides users with helpful information about the quality of the statistics within the releases and separate Summary Quality Reports (SQRs). However, this does not include information about the extent to which the statistics meet users’ needs or the extent to which non-response introduces bias to the statistics.

1.4 **Detailed recommendations**

1.4.1 The Assessment team identified some areas where it felt that ONS could strengthen its compliance with the *Code*. Those which the Assessment team considers essential to enable designation as National Statistics are listed in section 1.5. Other suggestions, which would improve the statistics and the service provided to users but which are not formally required for their designation, are listed at annex 1.

1.5 **Requirements for designation as National Statistics**

- **Requirement 1**: Confirm that future changes to methods or classifications will be announced in advance, to ensure that users are aware of planned changes (para 3.2).

- **Requirement 2**: Improve the published information about the quality of the statistics on international transactions (para 3.3).

- **Requirement 3**: Improve the commentary in *FDI-SB*, *FDI-BM* and *ITIS-SB* so that it aids user interpretation of the statistics (para 3.6).


2 Subject of the assessment

2.1 ONS collects data about Foreign Direct Investment (FDI) through statutory annual and quarterly business surveys. They cover investment in UK businesses from abroad (inwards) and by UK companies into foreign companies (outwards). ONS provides respondents with the option of submitting their response either via an Excel spreadsheet-based questionnaire, which they can transmit to ONS using a Secure Electronic File Transfer (SEFT), or via a paper questionnaire which ONS converts into electronic records. The aggregated quarterly statistics are published in the Balance of Payments (BoP) Statistical Bulletin. ONS publishes the preliminary country-level statistics annually in FDI-SB. It publishes more detailed statistics, including breakdowns by industry sector, three months later in the annual FDI-BM.

2.2 ONS administers a quarterly and an annual survey into International Trade in Services (ITIS). The surveys started in their current form in 1996 and are statutory. These surveys share a common questionnaire and provide data on the exports and imports of services. ITIS-SB provides a detailed breakdown of annual trade in services estimates analysing data by product, by industry and by country. In addition, data from the ITIS survey form a key component of the UK’s overall trade in services estimates (reported in BoP). From 2007, data from the Annual Business Survey have been used to improve coverage of the ITIS survey and reduce the burden on businesses. From the 2008 reference year, the ITIS survey has incorporated questions from the Film and Television survey (FTVS), following the discontinuation of the FTVS.

2.3 The Mergers and Acquisitions (M&A) survey covers: cross border acquisitions – where a company in one country acquires, either directly or indirectly, a controlling interest in a company in another country; and domestic acquisitions – where a UK company group acquires a controlling interest in another UK company. ONS initially identifies mergers and acquisitions mainly via a wide variety of print and electronic media sources. It aims to send the questionnaire to all companies which have undergone a merger or an acquisition, and collect information about the form, value and timing of each transaction. The questionnaires cover acquisitions abroad by UK companies (outward), acquisitions in the UK by foreign companies (inward), and acquisitions in the UK by UK companies (domestic). Information on cross-border mergers and acquisitions was originally collected using the FDI survey but, since 1986, a separate cross-border M&A survey was created due to an increase in the level of cross-border merger activity. In 1994, it was combined with the Domestic M&A survey. Along with the FDI and ITIS surveys, the M&A survey is a statutory survey under the Statistics of Trade Act (1947). Statistics from the survey are published quarterly in M&A-SB and are also used to prepare the FDI statistics.

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9 The ONS excludes the banking sector from its surveys; the Bank of England collects data on the banking sector and provides it to ONS so that it can also be included in FDI-SB and FDI-BM.

2.4 The statistics on international transactions are used in central government within the UK and internationally, as well as in the business sector, for example:

- ONS primarily uses data on international transactions as components of UK’s BoP and national economic and financial accounts.
- Central government departments, such as the Department for Business, Innovation and Skills (BIS) and HM Treasury, use statistics on international transactions for ministerial briefing and trade policy development. The Department for Culture, Media and Sport publishes estimates of the value of exports of services from the creative industries from ITIS-SB as part of its official statistics release Creative Industries Economic Estimates\textsuperscript{11}. The Foreign and Commonwealth Office uses M&A-SB, FDI-SB and FDI-BM to monitor flows of trade in services between the UK and overseas.
- Eurostat uses FDI-SB and FDI-BM for bilateral and regional trade negotiations and to investigate differences between the European national statistical institutes. The Council of Europe compares the UK film industry estimates in ITIS-SB with similar statistics for other European countries. It publishes reports on the film industry in each member state through the European Audiovisual Observatory\textsuperscript{12}.
- Analysts within financial institutions and economic consultancies use the statistics on mergers and acquisitions to provide clients with information about corporate structures and to help them to find investment opportunities.
- Investors use FDI-SB and FDI-BM to consider the attractiveness of different economies for inward investment, by looking both at the value and type of flows, as well as the rate of return on FDI investments.
- The British Film Institute uses ITIS-SB to assess the performance of the UK film industry and for providing advice to government and the industry.

2.5 ONS has estimated the costs of producing statistics on international transactions as follows:

- running the FDI surveys and producing FDI-SB and FDI-BM – £757,000 per year;
- running the ITIS surveys and producing ITIS-SB – £518,000 per year;
- running the M&A survey and producing M&A-SB – £393,000 per year.

2.6 The international transactions statistics are produced to international standards. They conform to the IMF Balance of Payments Manual, the European System of Accounts, the OECD Benchmark Definition of Foreign Direct Investment (M&A-SB, FDI-SB and FDI-BM) and the UN Trade in Services Statistics Manual (ITIS-SB).

\textsuperscript{11} http://www.culture.gov.uk/what_we_do/research_and_statistics/4848.aspx
\textsuperscript{12} http://www.obs.coe.int/oea_publ/eurocine/
3 Assessment findings

3.1 ONS engages with central government users of the statistics through quarterly review meetings. It also meets with users via the BoP user group and holds bilateral meetings with main users such as BIS and the Bank of England. ONS maintains a database of user feedback and the requests it receives. It is currently reviewing the format of its outputs so that they better meet users’ needs. For example, in response to user feedback it is investigating the feasibility of increasing the level of detail at which the statistics are published within FDI-SB and ITIS-SB. It has also changed the format of M&A-SB so that it is more focused on annual statistics. ONS published the results of a user consultation about ITIS-SB it carried out in 2010, in which it asked users about their experience of the statistical service. It also plans to publish the feedback it received at user consultation meetings held in relation to the triennial reviews of the international transactions statistics. It has not published any recent user feedback on FDI-SB, FDI-BM or M&A-SB. We suggest that ONS update the published information about users’ views of the statistics presented in FDI-SB, FDI-BM and M&A-SB.

3.2 In 2006, there were substantial differences between the provisional quarterly FDI statistics and the annual FDI statistics. ONS reviewed the differences in the methods and made some improvements, including changes to the sampling and estimation methods it used for producing FDI statistics. ONS told us that it explained the changes when they were applied but that it did not preannounce them. As part of the designation as National Statistics, ONS should confirm that future changes to methods or classifications will be announced in advance, to ensure that users are aware of planned changes (Requirement 1).

3.3 ONS publishes some useful background and quality information to accompany the statistics, both in the releases and in separate Summary Quality Reports (SQRs). However, the SQRs do not provide information about the relevance of the statistics – the extent to which the statistics meet users’ needs – or give information about the extent to which non-response introduces bias to the statistics. ONS also does not make clear how it deals with non-responders. ONS publishes details of revisions to M&A statistics but does not highlight where trends have been affected by large-scale revisions. The SQR relating to ITIS-SB uses unexplained technical language in places, for example in the section on how the statistics are used. The internal review of FDI methods was not published and ONS has not provided sufficient information on the limitations of the FDI surveys. As part of the designation as National Statistics, ONS should improve the published information about quality of the statistics on international transactions (Requirement 2).

3.4 ONS has reviewed the publication schedule for ITIS-SB, FDI-SB and FDI-BM in response to user feedback on the timeliness of the statistics. It has told us that it is working towards bringing forward the release of ITIS-SB by 3 months.

14 In relation to Principle 2, Practice 4 of the Code of Practice
16 In relation to Principle 4, Practice 2 and Principle 8, Practice 1 of the Code of Practice
through improvements in its data processing methods and efficiencies created by merging FTVS with the ITIS survey. However, ONS told us that it is unable to reduce the lag between the end of the reference period and the release of FDI-SB and FDI-BM, because it does not open the survey until after the end of the financial year and some companies are unable or unwilling to provide data until they have published their own accounts. ONS still produces its statistics about FDI more quickly than many other European countries. We consider that the proposed improvement of the timeliness of ITIS-SB to be good practice. We suggest that ONS communicates to users how the improved timeliness of ITIS-SB is going to be achieved, and the reasons why it is not possible to achieve this for FDI-SB and FDI-BM.

3.5 ONS provides respondents with the option of completing the FDI questionnaire electronically. It is working to improve the usability of its electronic data collection systems and has told us that it would like to provide an electronic or online response option for the ITIS survey in the future. We suggest that ONS investigate further the extent to which such a response option for the ITIS survey would reduce the burden on respondents, and communicate the findings of this work to suppliers and users.

3.6 FDI-SB, FDI-MB and ITIS-SB include commentary which makes comparisons against the previous year’s statistics and is accompanied by charts and summary tables. However the text does not provide explanations for key features of the statistics. ONS also makes little comment on longer term trends within these releases. As part of the designation as National Statistics, ONS should improve the commentary in FDI-SB, FDI-MB and ITIS-SB so that it aids user interpretation of the statistics17 (Requirement 3). We suggest that in meeting this requirement ONS consider the points detailed in annex 2.

17 In relation to Principle 8, Practice 2 of the Code of Practice
Annex 1: Suggestions for improvement

A1.1 This annex includes some suggestions for improvement to ONS’s international transactions statistics, in the interest of the public good. These are not formally required for designation, but the Assessment team considers that their implementation will improve public confidence in the production, management and dissemination of official statistics.

**Suggestion 1**
Update the published information about users’ views of the statistics presented in FDI-SB, FDI-BM and M&A (para 3.1).

**Suggestion 2**
Communicate to users how the improved timeliness of ITIS-SB is going to be achieved, and the reasons why it is not possible to achieve this for FDI-SB and FDI-BM (para 3.4).

**Suggestion 3**
Investigate further the extent to which an online response option for the ITIS survey would reduce the burden on respondents, and communicate the findings of this work to suppliers and users (para 3.5).

**Suggestion 4**
Consider the points detailed in annex 2, in seeking to improve the statistical releases (para 3.6).
Annex 2: Compliance with Standards for Statistical Releases

A2.1 In October 2010, the Statistics Authority issued a statement on Standards for Statistical Releases18. Whilst this is not part of the Code of Practice for Official Statistics, the Authority regards it as advice that will promote both understanding and compliance with the Code. In relation to the statistical releases associated with International Transactions Statistics, this annex comments on compliance with the statement on standards.

A2.2 In implementing any Requirements of this report (at paragraph 1.5) which relate to the content of statistical releases, we encourage the producer body to apply the standards as fully as possible.

Appropriate identification of the statistics being released

A2.3 The titles for FDI-SB, FDI-BM and ITIS-SB do not describe the coverage of the release. The title of ITIS-SB does not include the period to which the statistics relate. ONS has not published a statement about the frequency of ITIS-SB nor about the frequency with which the data are compiled or updated. The releases use standard formatting and include the name of originating department and the responsible statistician.

A2.4 All releases apart from FDI-SB include a brief account of what is included in the release.

Include commentary that is helpful to the non-expert and presents the main messages in plain English

A2.5 M&A-SB and FDI-BM include a summary of the main messages. Although FDI-SB includes a summary, but the main messages are not laid out clearly as summary points. ITIS-SB does not include a summary of the main messages in the release.

A2.6 The releases use technical terms which are explained within ‘Notes to tables’ or ‘Background notes’ sections at the back of the releases.

A2.7 FDI-SB, FDI-BM and ITIS-SB do not provide explanations for noteworthy features of the statistics – for example, FDI-SB does not explain reasons for changes in the level of investments of UK businesses in other countries and of foreign businesses in the UK. M&A-SB reports on merger and acquisition occurrences that have led to changes in the statistics but, in conjunction with the information it provides about revisions, it does not explain the impact which large scale revisions have had on overall trends. All releases make some comparisons, such as over time or between countries, but these are limited to certain aspects of the statistics – for example, in ITIS-SB the text makes some comparisons with the previous year's data but this is not displayed in the graphs; only the first table in the release makes an overall comparison between 2008 and 2009 of exports and imports. ITIS-SB also makes comparisons between world areas and mentions specific countries in the text, but this

information is not presented in graphs. The data are presented by country within the related detailed data tables.

**Use language that is impartial, objective and professionally sound**

A2.8 The text used in the releases is impartial and descriptive statements are consistent with the statistics. Descriptions of changes, trends and patterns are professionally sound. Sampling and non-sampling variability are not discussed in the text, but ONS reports standard errors for *ITIS-SB* and *FDI-SB*.

**Include information about the context and likely uses**

A2.9 The SQRs include information about the policy and operational context in which the statistics are collected and used. However, this information could be explained more clearly and fully, particularly in the SQR relating to *ITIS-SB*, which uses technical language.

A2.10 The SQRs provide information about the quality of the statistics but the sections on relevance do not cover the extent to which the statistics meet users’ needs. The SQR relating to *FDI-SB* states that response rates may impact on accuracy but does not provide an indication of the extent to which non-response affects the accuracy of the statistics. *ITIS-SB* and *M&A-SB* do not provide information about the impact of non-response on accuracy either.

**Include, or link to, appropriate metadata**

A2.11 ONS has published methods information for these statistics within SQRs and Triennial Reviews. *ITIS-SB* includes some information about methods and how they relate to EU classifications.

A2.12 ONS has published information about comparability of these statistics with other similar data within the SQRs. *ITIS-SB* also provides information about comparability within the release.

A2.13 The coverage of *ITIS-SB* has recently changed so that it now incorporates the Film and Television Survey. ONS published information to show the impact of this change on the statistics in *ITIS-SB*, by including a new table, A0, which showed the imports/exports with and without the data for these industries. For the M&A survey, there was a change to the deal identification threshold but ONS has not published information about the impact of this change on the M&A statistics. The data used in the *ITIS-SB* are not subject to scheduled revisions.
Annex 3: Summary of assessment process and users’ views

A3.1 This assessment was conducted from July to November 2011.

A3.2 The Assessment team – Emma Bowditch and Penny Babb – agreed the scope of and timetable for this assessment with representatives of the ONS in July. The Written Evidence for Assessment was provided on 18 July 2011. The Assessment team subsequently reviewed compliance with the Code of Practice by correspondence with ONS during September, taking account of the written evidence provided and other relevant sources of evidence.

Summary of users contacted, and issues raised

A3.3 Part of the assessment process involves our consideration of the views of users. We approach some known and potential users of the set of statistics, and we invite comments via an open note on the Authority’s website. This process is not a statistical survey, but it enables us to gain some insights about the extent to which the statistics meet users’ needs and the extent to which users feel that the producers of those statistics engage with them. We are aware that responses from users may not be representative of wider views, and we take account of this in the way that we prepare assessment reports.

A3.4 The Assessment team received 10 responses from the user consultation. The respondents were grouped as follows:

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<tr>
<th>Group</th>
<th>Number</th>
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<tbody>
<tr>
<td>ONS</td>
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</tr>
<tr>
<td>Central government</td>
<td>3</td>
</tr>
<tr>
<td>Devolved administration</td>
<td>2</td>
</tr>
<tr>
<td>International</td>
<td>1</td>
</tr>
<tr>
<td>Commercial</td>
<td>1</td>
</tr>
</tbody>
</table>

A3.5 Users said that the statistics largely meet their needs. However, users had several concerns. Some users would like more timely statistics, published more frequently. Several users said that they would like additional detailed information, for example, statistics by country or by Standard Industrial Classification. Users were satisfied with their engagement with the producers.

Key documents/links provided

Written Evidence for Assessment document