

## Construction Steering Group

BIS Conference Centre

Monday 9<sup>th</sup> November 2015, 13:30-15:30

### Attendees

Barbour ABI

Bank of England (BoE)

Brickconomics

Construction Products Association (CPA)

Department for Business, Innovation & Skills (BIS)

E C Harris

Experian

HM Treasury (HMT)

Infrastructure UK

Office of Budget Responsibility (OBR)

Office for National Statistics (ONS)

University College London (UCL)

### Welcome and Introductions

ONS welcomed all to the meeting and began by explaining recent changes to the Construction team at ONS. As of Monday, ONS have formed a new Construction Development team, which has been given 18 months to address the ongoing Construction issues. This means that this steering group will now have a wider remit, and not only relate to Construction Prices; hence the head of Expenditure, Households and Economic Indicators at ONS will now chair the meeting. The terms of reference will need to be updated, and confidentiality agreements will be necessary for all attendees.

**Action:** ONS to draft terms of reference and circulate them.

**Action:** ONS to circulate confidentiality agreement, for those to sign who haven't done so already.

### Last meeting's actions

Action Number	Description	Owner	Status
1	Invite Experian to join steering group.	ONS	Done
2	Prepare copies of a confidentiality agreement (if required for future	Secretariat (ONS)	Done

	meetings).		
3	Amendments to ToR to reflect members' comments, and re-circulate to the group.	ONS	Done
4	Provide 'must have' criteria for long term solution.	All to send to ONS (who will collate and circulate to the group)	Ongoing
5	Confirm date, time and location of next meeting.	ONS	Done

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All actions have been dealt with except Action 4, which is discussed later in the meeting.

### Discussion on nominal data

ONS provided an overview of ONS' work comparing nominal source of data, for those who did not attend the CCCIS meeting earlier in the day. The administrative data source of VAT returns from HMRC has been looked at, although this could lead to an issue of only being able to publish by SIC and not Type of Work. Other administrative data sources, such as Barbour ABI and Glenigan, will be investigated. A diffusion index has been created to replicate the Markit/CIPS PMI index. This work highlighted an issue relating to Q1 figures, and it may be that outlier treatment has been too strong for that period. An article will be released on December 11<sup>th</sup> to cover all of this work, and will also contain a work plan for the new Construction Development team.

The ONS are reviewing the questionnaire used to collect construction output data. Currently it asks for the value of work for 11 components, and there may be a way to reduce this burden. These components have not changed for a number of years, and may no longer meet user needs. There are also concerns over companies' understanding of value of work, and a feasibility study has been launched to discover if changing the questionnaire could lead to improvements.

The method of data collection was raised. Currently the Construction survey is collected in paper form only. ONS is starting to move some surveys to electronic data collection (EDC) but Construction will be one of the last business surveys to make this switch. Experian said that it can be a struggle to get small and medium sized enterprises (SMEs) to fill in online, and BIS noted that large companies will find it easier to use than smaller. ONS explained that pilots of EDC have shown that data is being returned sooner. Construction generally publishes with a forms response rate of 75%, which is below the 80-85% achieved by the rest of the Monthly Business Survey despite respondents having a longer period in which to return completed questionnaires. It is possible that a more flexible system would benefit smaller companies.

Infrastructure UK asked if smaller sectors could be looked at, such as rail in infrastructure, to trial certain outputs. ONS are aware that other industries outside of construction can work on construction projects and it was noted that not all construction is infrastructure, just as not all infrastructure is construction, and there are potential classification issues. Infrastructure UK has created a matrix of main areas of work in the Infrastructure sector, which contains a construction share, which could be useful if shared with ONS.

**Action:** Infrastructure UK to share information on this matrix with ONS.

BoE asked about what progress had been made on reaching out to construction firms since the last meeting. ONS informed that 200 construction companies had been contacted, leading to a positive response from 5, with meetings set up with 4 of them to discuss their structure and pricing methods. This work is progressing slower than hoped.

OBR asked what the current plans are relating to VAT data. ONS confirmed that there are plans to use it over the next few years to replace some of the smaller companies in the monthly business survey (MBS) sample, but Construction is not currently high on the list for that. A problem is that while most of the MBS has a similar question to VAT, Construction is measuring a different concept. There are also financial institutions contained within division 41 on the business register, which are not related to Construction. ONS emphasised that the investigations on nominal data are not simply to search for a replacement source, but also are being used to examine the historic series.

Brickconomics raised the measurement issue which is caused by the lag of money going into accounts, which means a like for like measurement is not being made. Larger firms may say how much work is done in a period, while smaller firms will report how much they were paid in the period. CPA agreed that the lag is not consistent over a business cycle. Brickconomics asked if it is possible to narrow down what is asked of companies, but ONS noted that currently the focus is on making it easier for companies to report, such as allowing for different reporting cycles. UCL stated that work has been done at UCL relating to the proportion of accruals of different sizes of firms. He is happy to provide ONS with information from this study.

**Action:** UCL to provide information to ONS from this work.

Experian raised his suspicion that many companies are only using invoices raised, as it is the easiest option. He asked if there could be a way to get an average lag between work done and invoices raised. UCL brought up the issue of financial institutions in sic 41, and establishing the amount that it relates to construction. He supervised a student over the summer who did some work involving the PFI project samples list, and would be happy to contribute towards further work in this area.

ONS summarised that there are clearly many aspects to look at regarding nominal data, some of which can be included in the planned feasibility study which will be speaking to small businesses.

### **Discussion on Construction prices**

Picking up on action 4 from the previous meeting, ONS want to find out what the absolute minimum level is that would be accepted in terms of factors such as classification, timeliness, frequency and detail of the breakdown.

E C Harris raised the question of whether the public and private split is necessary, and whether output statistics could only publish a total housing level, with alternative sources such as housing starts being used to indicate on the public and private split instead. The pricing mechanisms of companies should be considered. CPA agreed that there is not always a clear distinction between public and private companies. BIS noted that there used to be a theory that construction worked differently for public and private sector clients, and also raised the point that users regularly ask about the public and private splits. ONS explained that they rely on the respondent to provide the public and private split, and Experian recognised that there could be an argument for combining the two, given that it is such a grey area. However Brickconomics believed that it is still worth the split being there, even if it is not as relevant as it used to be. A problem is that users may use the data without understanding it, as ONS pointed out that public housing is a very small part of construction. BIS stated that she would prefer misunderstanding based on ONS data, than no data at all.

ONS confirmed that members do have an opportunity to look at sub-sectors, and say which ones they need the most. However it will be necessary to balance the wishes of macro-economists, industry experts, and what users want, with a solution that would benefit ONS. HMT suggested that

if members are to provide a list of which breakdowns they prefer, this should be done in a prioritised format. ONS suggested that providing evidence for why a particular breakdown is required would be beneficial.

For ONS, the minimum requirement for the Quarterly GDP release is only the all work series, however other areas are required for other sources, such as Eurostat. ONS clarified that what they are interested in as a list of what members need, prioritised, and with an explanation behind the priority. ONS will send out an email in the next two days to clarify the request, allowing two weeks for responses.

**Action:** ONS to circulate template for members to provide ONS with a list of must haves for the development of prices statistics.

**Action:** All to submit a response to this template, by the deadline given.

**Action:** ONS to compile a priority list based on these submissions, and will circulate this for discussion prior to the next meeting.

ONS pointed out that the breakdown splits are not the only criteria of interest. There is also the timeliness and how often to publish, with price statistics currently being released on a quarterly basis. BIS noted that we should be aware of revisions in this instance – balancing speed with quality.

HMT asked whether there is anything being done internationally that can be looked at. ONS said that she was aware the Australians have done something on price indices which will be published in January but, regarding Eurostat, ONS noted that for short-term statistics there is an A method (value of work), B method (turnover/invoices) and a C method. The UK is the only European country using the A method, which means other countries will be using different pricing methods. Infrastructure UK noted that the challenge with fragmentation is unique to the UK as well.

ONS asked the group if there were any feelings regarding the use of modelling, such as using administrative data in a hedonic model, using characteristics to predict prices. HMT would be open to this, and OBR felt that reservations in previous steering groups regarding models were related to a specific model, not modelling in general.

HMT asked about the timescales for this work and reiterated the importance of a speedy resolution. ONS said that the Construction Development team have been given 18 months, and the aim is to work towards what can be implemented into the 2017 Blue Book. ONS is aware that quicker is better, as the assumptions used for the interim solution will get weaker over time. Experian asked if some of the assumptions could be looked at, following a discussion from the CCCIS meeting earlier in the day. This will be looked at, but ONS specified that the focus is mainly on the long term solution.

CPA asked when the group would need to sign off for Blue Book 2017. ONS said that this would be around 12 months, and that a work plan will be published as part of the article being released on 11<sup>th</sup> December, with the article looking to contain as much information as possible.

**Action:** ONS to send this article to agreed members prior to 11<sup>th</sup> December, for quality assurance.

#### **Date of next meeting**

It was agreed that the next meeting should take place in January.

**Action:** ONS to confirm date, time and location of next meeting.

## Summary of Actions

Action Number	Description	Owner
1	Draft terms of reference and circulate them.	ONS
2	Circulate confidentiality agreement, for those to sign who haven't done so already.	ONS, and those who need to sign the agreement
3	Share information on Infrastructure matrix with ONS.	Infrastructure UK
4	Provide information to ONS from proportion of accruals work.	UCL
5	Circulate template for members to provide ONS with a list of must haves for the development of prices statistics.	ONS
6	Submit a response to this template, by the deadline given.	All
7	Compile a priority list based on these submissions, and circulate this for discussion prior to the next meeting. Construction article to be circulated.	ONS
8	for quality assurance to agreed members, prior to release.	ONS
9	Confirm date, time and location of next meeting.	ONS