

20 November 2007

Dear Colin

Historic Sector National Accounts (HSNA)

Following my constructive meeting with the ONS in July to discuss the historic (pre-1987) sector national income and spending accounts, a stage has now been reached at which I believe it would be useful to summarise the state of play as I see it.

As you know, in June the Statistics Commission issued a report in response to my March memorandum that was critical of the quality of the HSNA, which you acknowledged were "not fit for purpose". The Commission recommended that corrupted HSNA data should be replaced where possible, or, if not, deleted and that a quality statement should be issued publicly to alert users.

I believe the subsequent corrective action by the ONS has taken things usefully forward. A quality statement has been added both to the website and to the UK Economic Accounts (UKEA) publication. In addition, many corrupted pre-1987 data series have been deleted from both the Blue Book and the UKEA datasets.

Against this, there remain several serious concerns that I believe require attention. These relate to the quality of the historic household disposable income data (QWND), the extent to which historic data have been deleted rather than repaired and the future maintenance of the HSNA.

Following investigations over the summer, the ONS has confirmed that it does not possess a detailed description of the pre-1987 QWND derivation and revision methodology, an omission highlighted in my memorandum. The position is that no one in the ONS knows in detail how the historic data were originally put together, and, more worryingly, how they have been revised in the light of historic revisions to factor incomes and transfers that should affect QWND. This lack of detailed knowledge raises a major question mark over the reliability of the pre-1987 household disposable income series, contrary to the reassurance given in the quality statement.

The second concern is that the deletion of data has extended to public sector series that could and should have been repaired. As you noted in your letter dated 11 June to Mr Ritchie at the Statistics Commission, the ONS undertook the culling exercise with a mind not to cull too much. Yet no attempt was made to align public sector data in the HSNA with the public finances dataset, as recommended in my memorandum.

I am informed that this has not been done for two reasons: lack of resources and the "different revisions policy adopted for the two datasets." The second reason is

puzzling since I have been provided each quarter with an ONS public sector dataset that *is* consistent with the national accounts. The resources required to utilise the public sector finances data should not be excessive: quarterly data would need seasonal adjustment and a few series would need translation into the UKEA format.

The third major concern is the intention of the ONS, subject to a review, to suspend maintenance of the HSNA from next year's Blue Book. This possibility was obliquely referred to in your letter to Mr Ritchie and subsequently confirmed at the July meeting. I was informed that it was unclear whether the cut-off date for the suspended data would be 1997 rather than 1987.

The impact of suspension would be to leave users with a frozen archive of ESA95 historic sector data that would become increasingly irrelevant. The introduction of new statistical concepts and revisions will inevitably lead to a re-write of history in the main GDP accounts that would not be reflected in the frozen HSNA. As my memorandum emphasised, this problem already affects the ESA79 1997 Blue Book data that the ONS might offer in lieu of a complete set of ESA95 accounts.

I believe users would be very seriously disadvantaged were the ONS to suspend proper maintenance of the HSNA.

A copy of this letter goes to Professor Rhind at the Statistics Commission.

Yours sincerely

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