

[REDACTED]

From: [REDACTED]
Sent: 10 September 2017 14:31
To: Flower, Tanya
Cc: Payne, Chris; Lewis, Rhys; Prestwood, Mike; Jenkins, Christopher; Athow, Jonathan
Subject: Re: Understanding the different approaches of measuring owner occupiers' housing costs release

While I remember: article on scanner data in 1/2017 Eurona. I have 2 spare copies near my desk if anybody wants one.

Thanks

[REDACTED]

Sent from my iPhone

On 6 Sep 2017, at 08:36, Flower, Tanya <tanya.flower@ons.gov.uk> wrote:

Eurostat are working towards producing a report by **December 2018** on the feasibility of incorporating OOH(NA) into the HICP, initial discussions will take place at the next price stats working group meeting in November. I think the issue is more that the OOH(NA) indices are not strictly comparable at the moment (e.g. some countries inc us can't separate out land and house prices)

The Jan article may also be able to provide some info on how the weights are derived:

<https://www.ons.gov.uk/economy/inflationandpriceindices/articles/understandingthedifferentapproachesofmeasuringowneroccupiershousingcostsooh/weightsanalysis>

Thanks

Tanya

From: [REDACTED]
Sent: 05 September 2017 21:16
To: Flower, Tanya <tanya.flower@ons.gov.uk>
Cc: Payne, Chris <chris.payne@ons.gov.uk>; Lewis, Rhys <rhys.lewis@ons.gov.uk>; Prestwood, Mike <mike.prestwood@ons.gov.uk>; Jenkins, Christopher <christopher.jenkins@ons.gov.uk>; Athow, Jonathan <jonathan.athow@ons.gov.uk>
Subject: Re: Understanding the different approaches of measuring owner occupiers' housing costs release

Many thanks for this that I read.

I flagged to [REDACTED] and [REDACTED] when we met that ONS produced all 3 'flavours' of CPIH, and [REDACTED] followed this up.

Just for interest have Eurostat got any closer to publishing CPIH (NA) ? since all member states now send OOH (NA) indices presumably one could be derived

I've had a bit of a blank on the weights between the 3 approaches and how NA is derived but I can follow up in the compendium

[REDACTED]

Sent from my iPhone

On 5 Sep 2017, at 15:05, Flower, Tanya <tanya.flower@ons.gov.uk> wrote:

All,

Please find attached the final draft of the Understanding the different approaches of measuring owner occupiers' housing costs (OOH), UK: Quarter 2 (Apr to Jun) 2017 release, for comments by **COP Wednesday 6th** (publishing on the 12th).

The spotlight section for this quarter provides some exploratory analysis of the impact of errors in the OOH stratum weights.

■■■■, Jonathan - copying you for reference, the data haven't changed much since the last quarter so the commentary has changed very little.

Following on from previous discussions, I will set up a meeting with the OSR team to discuss how best to proceed with this commentary going forward (i.e. whether we need to continue producing this additional full text article, or whether we can reduce the content to avoid the repetition each quarter).

Best wishes

Tanya

Tanya Flower | Economic Advisor

Prices Economic Analysis | Prices Division

■■■■ Office for National Statistics, Government Buildings, Cardiff Road, Newport, NP10 8XG

■■■■ | Email: tanya.flower@ons.gov.uk

I am a friend of Spectrum; ONS LGBT network group

Title	Difference	Diff between	Diff between	Difference	Difference	Differences between CPI and RPI - unrounded 2015=100						
CDID	DRA9	DRA5	DRA7	DRB2	DRA8	DRA3						
Source date	MM23	MM23	MM23	MM23	MM23	MM23						
PreUnit												
Unit	%	%	%	%	%	%						
Release date	18-07-2011	18-07-2011	18-07-2011	18-07-2011	18-07-2011	18-07-2011						
Next release	15 August 2017	15 August 2017	15 August 2017	15 August 2017	15 August 2017	15 August 2017						
Important	Formula	ef Mortgage	i House price	Other	Goods/ser Total							
2005 JAN	.49	1.11	.99	-.79	-.26	1.55	-.49	-1.11	-.99	.79	.26	-1.55
2005 FEB	.51	1.11	.97	-.82	-.26	1.50	-.51	-1.11	-.97	.82	.26	-1.50
2005 MAR	.53	.95	.90	-.82	-.24	1.32	-.53	-.95	-.90	.82	.24	-1.32
2005 APR	.52	.95	.80	-.84	-.22	1.22	-.52	-.95	-.80	.84	.22	-1.22
2005 MAY	.50	.94	.70	-.85	-.23	1.07	-.50	-.94	-.70	.85	.23	-1.07
2005 JUN	.52	.77	.64	-.84	-.23	.86	-.52	-.77	-.64	.84	.23	-.86
2005 JUL	.53	.59	.58	-.91	-.23	.57	-.53	-.59	-.58	.91	.23	-.57
2005 AUG	.49	.59	.53	-1.01	-.23	.37	-.49	-.59	-.53	1.01	.23	-.37
2005 SEP	.52	.29	.47	-.87	-.20	.20	-.52	-.29	-.47	.87	.20	-.20
2005 OCT	.52	.28	.40	-.84	-.19	.17	-.52	-.28	-.40	.84	.19	-.17
2005 NOV	.52	.27	.39	-.73	-.15	.29	-.52	-.27	-.39	.73	.15	-.29
2005 DEC	.51	.26	.35	-.68	-.15	.30	-.51	-.26	-.35	.68	.15	-.30
2006 JAN	.47	.27	.34	-.48	-.15	.45	-.47	-.27	-.34	.48	.15	-.45
2006 FEB	.51	.26	.37	-.58	-.17	.39	-.51	-.26	-.37	.58	.17	-.39
2006 MAR	.55	.26	.38	-.51	-.17	.51	-.55	-.26	-.38	.51	.17	-.51
2006 APR	.51	.26	.39	-.48	-.16	.52	-.51	-.26	-.39	.48	.16	-.52
2006 MAY	.54	.25	.44	-.37	-.14	.72	-.54	-.25	-.44	.37	.14	-.72
2006 JUN	.52	.25	.44	-.33	-.13	.75	-.52	-.25	-.44	.33	.13	-.75
2006 JUL	.54	.25	.44	-.25	-.12	.86	-.54	-.25	-.44	.25	.12	-.86
2006 AUG	.54	.25	.47	-.21	-.10	.95	-.54	-.25	-.47	.21	.10	-.95
2006 SEP	.57	.63	.49	-.37	-.10	1.22	-.57	-.63	-.49	.37	.10	-1.22
2006 OCT	.55	.65	.52	-.38	-.11	1.22	-.55	-.65	-.52	.38	.11	-1.22
2006 NOV	.55	.65	.53	-.42	-.12	1.20	-.55	-.65	-.53	.42	.12	-1.20
2006 DEC	.57	.86	.56	-.41	-.11	1.46	-.57	-.86	-.56	.41	.11	-1.46
2007 JAN	.59	.90	.59	-.43	-.12	1.53	-.59	-.90	-.59	.43	.12	-1.53
2007 FEB	.55	1.09	.62	-.37	-.10	1.78	-.55	-1.09	-.62	.37	.10	-1.78
2007 MAR	.57	1.09	.65	-.43	-.12	1.75	-.57	-1.09	-.65	.43	.12	-1.75
2007 APR	.60	1.09	.62	-.48	-.05	1.77	-.60	-1.09	-.62	.48	.05	-1.77
2007 MAY	.59	1.11	.62	-.48	-.04	1.79	-.59	-1.11	-.62	.48	.04	-1.79
2007 JUN	.64	1.29	.64	-.48	-.06	2.04	-.64	-1.29	-.64	.48	.06	-2.04
2007 JUL	.54	1.31	.67	-.44	-.07	2.00	-.54	-1.31	-.67	.44	.07	-2.00
2007 AUG	.57	1.51	.69	-.40	-.08	2.29	-.57	-1.51	-.69	.40	.08	-2.29
2007 SEP	.60	1.30	.68	-.29	-.08	2.21	-.60	-1.30	-.68	.29	.08	-2.21
2007 OCT	.60	1.28	.67	-.31	-.09	2.15	-.60	-1.28	-.67	.31	.09	-2.15
2007 NOV	.59	1.28	.67	-.26	-.08	2.20	-.59	-1.28	-.67	.26	.08	-2.20
2007 DEC	.55	1.07	.65	-.23	-.09	1.95	-.55	-1.07	-.65	.23	.09	-1.95
2008 JAN	.59	.86	.68	-.15	-.10	1.87	-.59	-.86	-.68	.15	.10	-1.87
2008 FEB	.59	.67	.60	-.13	-.12	1.61	-.59	-.67	-.60	.13	.12	-1.61
2008 MAR	.55	.46	.56	-.13	-.11	1.34	-.55	-.46	-.56	.13	.11	-1.34
2008 APR	.52	.45	.51	-.12	-.15	1.21	-.52	-.45	-.51	.12	.15	-1.21
2008 MAY	.52	.23	.48	-.11	-.17	.95	-.52	-.23	-.48	.11	.17	-.95
2008 JUN	.54	.05	.41	-.05	-.17	.78	-.54	-.05	-.41	.05	.17	-.78
2008 JUL	.53	.04	.30	-.09	-.18	.60	-.53	-.04	-.30	.09	.18	-.60
2008 AUG	.49	-.17	.23	-.28	-.21	.07	-.49	.17	-.23	.28	.21	-.07
2008 SEP	.46	-.18	.17	-.41	-.26	-.22	-.46	.18	-.17	.41	.26	-.22
2008 OCT	.47	-.17	.05	-.26	-.29	-.21	-.47	.17	-.05	.26	.29	-.21
2008 NOV	.46	-.62	-.07	-.49	-.34	-1.05	-.46	.62	.07	.49	.34	1.05
2008 DEC	.49	-1.69	-.24	-.39	-.30	-2.12	-.49	1.69	.24	.39	.30	2.12
2009 JAN	.46	-2.08	-.35	-.57	-.32	-2.86	-.46	2.08	.35	.57	.32	2.86
2009 FEB	.49	-2.40	-.35	-.57	-.31	-3.14	-.49	2.40	.35	.57	.31	3.14
2009 MAR	.48	-2.47	-.48	-.52	-.27	-3.26	-.48	2.47	.48	.52	.27	3.26
2009 APR	.54	-2.76	-.60	-.37	-.26	-3.44	-.54	2.76	.60	.37	.26	3.44
2009 MAY	.50	-2.57	-.61	-.36	-.20	-3.23	-.50	2.57	.61	.36	.20	3.23
2009 JUN	.43	-2.57	-.60	-.51	-.15	-3.39	-.43	2.57	.60	.51	.15	3.39
2009 JUL	.50	-2.59	-.53	-.48	-.09	-3.20	-.50	2.59	.53	.48	.09	3.20
2009 AUG	.55	-2.60	-.46	-.36	-.02	-2.89	-.55	2.60	.46	.36	.02	2.89
2009 SEP	.55	-2.61	-.44	-.09	.07	-2.52	-.55	2.61	.44	.09	-.07	2.52
2009 OCT	.55	-2.63	-.24	-.13	.13	-2.33	-.55	2.63	.24	.13	-.13	2.33
2009 NOV	.54	-2.24	-.15	.07	.15	-1.64	-.54	2.24	.15	-.07	-.15	1.64
2009 DEC	.54	-1.24	.04	.08	.10	-.48	-.54	1.24	-.04	-.08	-.10	.48
2010 JAN	.59	-.70	.14	.14	.09	.26	-.59	.70	-.14	-.14	-.09	-.26
2010 FEB	.67	-.41	.24	.13	.09	.73	-.67	.41	-.24	-.13	-.09	-.73
2010 MAR	.73	-.14	.37	.07	.06	1.09	-.73	.14	-.37	-.07	-.06	-1.09
2010 APR	.77	.15	.47	.13	.09	1.62	-.77	-.15	-.47	-.13	-.09	-1.62
2010 MAY	.80	.15	.50	.13	.09	1.68	-.80	-.15	-.50	-.13	-.09	-1.68
2010 JUN	.84	.15	.56	.18	.07	1.79	-.84	-.15	-.56	-.18	-.07	-1.79

2010 JUL	.86	.17	.57	.12	.00	1.72	-.86	-.17	-.57	-.12	.00	-1.72
2010 AUG	.86	.17	.54	.07	-.07	1.58	-.86	-.17	-.54	-.07	.07	-1.58
2010 SEP	.90	.18	.56	.06	-.13	1.56	-.90	-.18	-.56	-.06	.13	-1.56
2010 OCT	.91	.16	.42	.04	-.15	1.38	-.91	-.16	-.42	-.04	.15	-1.38
2010 NOV	.94	.17	.40	.09	-.15	1.43	-.94	-.17	-.40	-.09	.15	-1.43
2010 DEC	.86	.15	.32	-.15	-.14	1.05	-.86	-.15	-.32	.15	.14	-1.05
2011 JAN	.88	.15	.27	-.05	-.14	1.12	-.88	-.15	-.27	.05	.14	-1.12
2011 FEB	1.02	.16	.18	-.09	-.12	1.15	-1.02	-.16	-.18	.09	.12	-1.15
2011 MAR	1.03	.15	.14	.05	-.09	1.28	-1.03	-.15	-.14	-.05	.09	-1.28
2011 APR	1.01	.14	.01	-.32	-.11	.74	-1.01	-.14	-.01	.32	.11	-.74
2011 MAY	1.00	.13	-.04	-.19	-.16	.74	-1.00	-.13	.04	.19	.16	-.74
2011 JUN	.99	.13	-.08	-.06	-.21	.76	-.99	-.13	.08	.06	.21	-.76
2011 JUL	.94	.10	-.10	-.18	-.22	.54	-.94	-.10	.10	.18	.22	-.54
2011 AUG	.99	.07	-.12	-.06	-.21	.67	-.99	-.07	.12	.06	.21	-.67
2011 SEP	.97	.07	-.13	-.28	-.19	.44	-.97	-.07	.13	.28	.19	-.44
2011 OCT	1.00	.04	-.11	-.30	-.20	.43	-1.00	-.04	.11	.30	.20	-.43
2011 NOV	.99	.06	-.10	-.34	-.18	.42	-.99	-.06	.10	.34	.18	-.42
2011 DEC	1.02	.04	-.10	-.16	-.18	.62	-1.02	-.04	.10	.16	.18	-.62
2012 JAN	.94	.03	-.08	-.44	-.11	.34	-.94	-.03	.08	.44	.11	-.34
2012 FEB	.90	.03	-.07	-.46	-.12	.28	-.90	-.03	.07	.46	.12	-.28
2012 MAR	.93	.02	-.05	-.62	-.14	.13	-.93	-.02	.05	.62	.14	-.13
2012 APR	.92	.02	.01	-.36	-.21	.37	-.92	-.02	-.01	.36	.21	-.37
2012 MAY	.91	.03	.01	-.47	-.21	.28	-.91	-.03	-.01	.47	.21	-.28
2012 JUN	.93	.04	.04	-.53	-.15	.33	-.93	-.04	-.04	.53	.15	-.33
2012 JUL	.95	.06	.08	-.43	-.10	.57	-.95	-.06	-.08	.43	.10	-.57
2012 AUG	.88	.09	.06	-.52	-.06	.45	-.88	-.09	-.06	.52	.06	-.45
2012 SEP	.89	.09	.08	-.54	-.06	.44	-.89	-.09	-.08	.54	.06	-.44
2012 OCT	.89	.19	.07	-.53	-.08	.54	-.89	-.19	-.07	.53	.08	-.54
2012 NOV	.86	.09	.08	-.64	-.08	.30	-.86	-.09	-.08	.64	.08	-.30
2012 DEC	.85	.13	.12	-.63	-.06	.41	-.85	-.13	-.12	.63	.06	-.41
2013 JAN	.91	.13	.13	-.51	-.09	.57	-.91	-.13	-.13	.51	.09	-.57
2013 FEB	.89	.12	.11	-.59	-.09	.44	-.89	-.12	-.11	.59	.09	-.44
2013 MAR	.82	.13	.10	-.53	-.09	.44	-.82	-.13	-.10	.53	.09	-.44
2013 APR	.87	.13	.11	-.56	-.08	.47	-.87	-.13	-.11	.56	.08	-.47
2013 MAY	.91	.12	.14	-.69	-.08	.41	-.91	-.12	-.14	.69	.08	-.41
2013 JUN	.87	.09	.14	-.68	-.08	.35	-.87	-.09	-.14	.68	.08	-.35
2013 JUL	.90	.08	.14	-.62	-.10	.40	-.90	-.08	-.14	.62	.10	-.40
2013 AUG	.94	.07	.17	-.50	-.10	.59	-.94	-.07	-.17	.50	.10	-.59
2013 SEP	.93	.07	.18	-.60	-.10	.47	-.93	-.07	-.18	.60	.10	-.47
2013 OCT	.90	-.01	.20	-.67	-.06	.36	-.90	.01	-.20	.67	.06	-.36
2013 NOV	.94	.04	.25	-.61	-.06	.56	-.94	-.04	-.25	.61	.06	-.56
2013 DEC	.96	.02	.25	-.52	-.06	.65	-.96	-.02	-.25	.52	.06	-.65
2014 JAN	.97	.01	.28	-.33	-.08	.85	-.97	-.01	-.28	.33	.08	-.85
2014 FEB	1.01	.02	.32	-.33	-.08	.94	-1.01	-.02	-.32	.33	.08	-.94
2014 MAR	1.06	.00	.39	-.53	-.08	.85	-1.06	.00	-.39	.53	.08	-.85
2014 APR	1.01	.00	.40	-.63	-.06	.71	-1.01	.00	-.40	.63	.06	-.71
2014 MAY	1.01	-.02	.45	-.53	-.05	.87	-1.01	.02	-.45	.53	.05	-.87
2014 JUN	1.02	-.01	.51	-.70	-.05	.77	-1.02	.01	-.51	.70	.05	-.77
2014 JUL	.98	.00	.54	-.54	-.04	.93	-.98	.00	-.54	.54	.04	-.93
2014 AUG	.99	-.01	.59	-.68	-.04	.85	-.99	.01	-.59	.68	.04	-.85
2014 SEP	1.00	.00	.64	-.57	-.04	1.03	-1.00	.00	-.64	.57	.04	-1.03
2014 OCT	1.01	.00	.66	-.60	-.03	1.04	-1.01	.00	-.66	.60	.03	-1.04
2014 NOV	1.03	.00	.63	-.61	-.03	1.02	-1.03	.00	-.63	.61	.03	-1.02
2014 DEC	1.02	.00	.61	-.53	-.03	1.07	-1.02	.00	-.61	.53	.03	-1.07
2015 JAN	1.04	.01	.58	-.78	-.02	.84	-1.04	-.01	-.58	.78	.02	-.84
2015 FEB	1.02	.01	.58	-.65	-.02	.94	-1.02	-.01	-.58	.65	.02	-.94
2015 MAR	.99	.01	.52	-.57	-.02	.92	-.99	-.01	-.52	.57	.02	-.92
2015 APR	1.00	.01	.59	-.53	-.04	1.03	-1.00	-.01	-.59	.53	.04	-1.03
2015 MAY	.97	.01	.54	-.54	-.04	.93	-.97	-.01	-.54	.54	.04	-.93
2015 JUN	.99	.00	.48	-.38	-.04	1.05	-.99	.00	-.48	.38	.04	-1.05
2015 JUL	1.03	-.02	.46	-.56	-.04	.88	-1.03	.02	-.46	.56	.04	-.88
2015 AUG	1.00	-.03	.42	-.28	-.04	1.08	-1.00	.03	-.42	.28	.04	-1.08
2015 SEP	1.01	-.04	.42	-.44	-.04	.91	-1.01	.04	-.42	.44	.04	-.91
2015 OCT	1.04	-.04	.44	-.59	-.04	.81	-1.04	.04	-.44	.59	.04	-.81
2015 NOV	1.00	-.03	.49	-.51	-.04	.91	-1.00	.03	-.49	.51	.04	-.91
2015 DEC	1.01	-.05	.53	-.46	-.05	.99	-1.01	.05	-.53	.46	.05	-.99
2016 JAN	.94	-.05	.57	-.39	-.05	1.02	-.94	.05	-.57	.39	.05	-1.02
2016 FEB	.94	-.05	.58	-.41	-.05	1.01	-.94	.05	-.58	.41	.05	-1.01
2016 MAR	.94	-.05	.60	-.38	-.05	1.06	-.94	.05	-.60	.38	.05	-1.06
2016 APR	.93	-.05	.70	-.49	-.06	1.03	-.93	.05	-.70	.49	.06	-1.03
2016 MAY	.97	-.05	.72	-.50	-.06	1.09	-.97	.05	-.72	.50	.06	-1.09
2016 JUN	.94	-.05	.77	-.45	-.06	1.14	-.94	.05	-.77	.45	.06	-1.14
2016 JUL	.96	-.05	.81	-.40	-.05	1.26	-.96	.05	-.81	.40	.05	-1.26
2016 AUG	.97	-.15	.82	-.48	-.05	1.11	-.97	.15	-.82	.48	.05	-1.11

2016 SEP	.95	-.07	.79	-.53	-.06	1.08	-.95	.07	-.79	.53	.06	-1.08
2016 OCT	.89	-.14	.77	-.33	-.06	1.13	-.89	.14	-.77	.33	.06	-1.13
2016 NOV	.90	-.17	.73	-.35	-.06	1.05	-.90	.17	-.73	.35	.06	-1.05
2016 DEC	.92	-.17	.70	-.44	-.06	.95	-.92	.17	-.70	.44	.06	-.95
2017 JAN	.89	-.17	.67	-.54	-.05	.79	-.89	.17	-.67	.54	.05	-.79
2017 FEB	.95	-.17	.73	-.53	-.05	.93	-.95	.17	-.73	.53	.05	-.93
2017 MAR	.91	-.17	.69	-.54	-.05	.83	-.91	.17	-.69	.54	.05	-.83
2017 APR	.88	-.18	.57	-.42	-.04	.82	-.88	.18	-.57	.42	.04	-.82
2017 MAY	.91	-.16	.62	-.57	-.04	.75	-.91	.16	-.62	.57	.04	-.75
2017 JUN	.90	-.17	.57	-.41	-.04	.85	-.90	.17	-.57	.41	.04	-.85

[REDACTED]

From: Croydon, Luke
Sent: 09 August 2017 10:59
To: [REDACTED]
Subject: CPI/RPI
Attachments: RPI CPI wedge and components.xlsx

Hi [REDACTED]

Nice to speak with you again.

Attached is the graph Jonathan mentioned, highlighting the contributions to the CPI/RPI wedge. The 'other' category is mainly the weights element.

On the 1914 index, please see this excerpt below from an [ONS article](#), which talks about its limitations:

"In 1914, the Government first began a systematic, continuous check on the increase in the cost of living. The published figures initially covered only food but the index was expanded in 1916 to cover clothing, fuel and some other items. The index was designed as an aid towards protecting ordinary workers from price rises associated with the First World War. It continued throughout the 1920s and 1930s but was increasingly criticised particularly in relation to the weights used. These were based on data from a 1904 survey of urban working class households' expenditure and were influenced by subjective judgements of what constituted legitimate expenditure for a working class family. For example, beer was completely excluded. In 1936, the then Ministry of Labour announced its intention to update the weights using the results from a large-scale household expenditure survey carried out in 1937-38. However, by the time the results became available, war had broken out and further action was deferred."

Let me know if you need anymore info on any of this.

Cheers,

Luke Croydon
Senior Media Relations Officer | Uwch Swyddog Cyswllt â'r Cyfryngau
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[REDACTED]

From: Croydon, Luke
Sent: 09 August 2017 09:39
To: Athow, Jonathan
Subject: RE: RPI CPI wedge and components.xlsx

Great, thanks.

Have you sent this directly to [REDACTED] as well?

Cheers,

Luke Croydon
Senior Media Relations Officer | Uwch Swyddog Cyswllt â'r Cyfryngau
Office for National Statistics | Swyddfa Ystadegau Gwladol
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SW1V 2QQ
Telephone: [REDACTED] Ffôn: [REDACTED]
Telephone: [REDACTED] Ffôn: [REDACTED]

From: Athow, Jonathan
Sent: 09 August 2017 09:29
To: Croydon, Luke <luke.croydon@ons.gov.uk>
Subject: RPI CPI wedge and components.xlsx

As discussed, 'other' is weights.

All from public data (details in the spreadsheet).

J

<< File: RPI CPI wedge and components.xlsx >>

From: [REDACTED]
Sent: 31 July 2017 15:01
To: Athow, Jonathan
Cc: [REDACTED]
Subject: Ofwat consultation

See here, published 11 July: <http://www.ofwat.gov.uk/consultation/delivering-water2020-consulting-on-our-methodology-for-the-2019-price-review/>

Relevant sections:

"Companies should have an appropriate package of risk and return. The best outcomes are achieved where we align the interests of companies and investors with those of customers, so companies are incentivised to deliver the outcomes that matter to customers. We will set the allowed return based on the prevailing market evidence which points to a lower cost of capital at PR19. We set out early information on our approach to setting cost of equity in this consultation. We will publish an early view of the PR19 cost of capital alongside our final methodology in December. We will index new debt costs. We propose to move to using CPIH to index customer bills and transition towards CPIH indexation for the RCV"

"We propose that price controls should be indexed to CPIH, so that water bills better reflect the overall rate inflation faced by customers and discontinuing using the RPI index, which tends to overstate inflation."

"We propose to transition to the CPIH inflation index. We note the UKSA has not designated CPIH as a national statistic and so we will consider this issue further in the final methodology."

"In our May 2016 document, we outlined the uncertainty over whether CPIH would regain its status as a national statistic (conferred by the UK Statistics Authority, UKSA). We said that this assurance on the robustness of CPIH would be an important part of our decision on which index to use.

Since May 2016, there have been several developments which we have considered in reaching our decision on whether to transition price controls to CPI or CPIH.

- In November 2016, the National Statistician announced the intention of the ONS to make CPIH its preferred measure of inflation. As part of this he also committed the ONS to "continue to work towards redesignation [as a national statistic] as early as possible"
- In March 2017, the ONS began to report changes in CPIH as its headline measure of inflation for the UK. This reflects the ONS's view that CPIH is a preferable index in terms of how effectively it measures price changes.
- The ONS has made progress towards addressing the UKSA's concerns about the calculation of housing costs in CPIH. We also note the UKSA's expectation of seeing improvements in data assurance.

We have carefully considered the merits of adopting either CPI or CPIH for the indexation of future price controls. We note that CPI has a longer track record and is more widely used. We also note that CPIH is not currently designated a national statistic. However, we consider CPIH to be a more legitimate index for customers, given its inclusion of housing costs (which are a significant expense for most household customers). We also note the ONS's view that CPIH is the preferred inflation index and the National Statistician's decision to work towards designating

CPIH as a national statistic as soon as possible. On balance, we propose to adopt CPIH, subject to the UKSA re-designating it as a national statistic, before we publish our final methodology. We outline further details of our decision in the risk and return appendix."

One of the consultation questions at the end: "Q3. Do you agree with our proposal to index price controls to CPIH (subject to its redesignation as a national statistic before we publish our final methodology)?"

Thanks

████████

████████████████

Head of User Insight and Engagement

Communication Division
Office for National Statistics
2nd floor, 1 Drummond Gate
London, SW1V 2QQ
Telephone: ████████████████████
Mobile: ████████████████████

[REDACTED]

From: [REDACTED] on behalf of National Statistician
Sent: 26 July 2017 14:58
To: [REDACTED]
Cc: National Statistician
Subject: RE: RPI is too high

Dear Andrew

Thank you for your email following the recent article by Chris Giles of the Financial Times to change RPI. As Jonathan Athow, Deputy National Statistician, explained to Chris Giles via the letters page of the Financial Times: RPI is not a good measure of inflation and does not realistically have the potential to become one. However, there is significant value to users in maintaining the continuity of the existing RPI's long time series without major change, so that it may continue to be used for long-term indexation and for index-linked gilts and bonds in accordance with user expectations.

Whilst discouraging its use, we do not have the authority to stop the use of the RPI or to tell particular users which index they should use in any given circumstance.

Yours sincerely,
John Pullinger, National Statistician

John Pullinger | National Statistician | UK Statistics Authority
1 Drummond Gate, London, SW1V 2QQ | Tel: [REDACTED]
Email: national.statistician@statistics.gov.uk | Web: www.statisticsauthority.gov.uk | Twitter: [@UKStatsAuth](https://twitter.com/UKStatsAuth)

From: [REDACTED]
Sent: 20 July 2017 19:28
To: National Statistician
Subject: RPI is too high

Dear Mr Pullinger,

As per the [recent article in the Financial Times](#) about the retail price index (RPI) being too high, I am writing to enquire as to the ONS and Government's next steps to remedy this issue.

As a student, I understand that the interest on my loan repayments has to be at least in line with inflation; it should not, however, be based on an *artificially high* rate of inflation. As a citizen and voter, I'm also concerned that failing to fix the RPI, or failure to switch to using the consumer price index (CPI), will unnecessarily cost the Government billions in debt costs every year.

I implore you to reform the RPI, or abolish it and use only the CPI (both for student loan repayments and any other possible uses).

I look forward to hearing from you,

Best,
[REDACTED]

[REDACTED]

From: [REDACTED] on behalf of National Statistician
Sent: 26 July 2017 15:01
To: [REDACTED]
Cc: National Statistician
Subject: RE: Student Loans

Dear [REDACTED]

Thank you for your email following the recent article by Chris Giles of the Financial Times to change RPI. As Jonathan Athow, Deputy National Statistician, explained to Chris Giles via the letters page of the Financial Times: RPI is not a good measure of inflation and does not realistically have the potential to become one. However, there is significant value to users in maintaining the continuity of the existing RPI's long time series without major change, so that it may continue to be used for long-term indexation and for index-linked gilts and bonds in accordance with user expectations.

Whilst discouraging its use, we do not have the authority to stop the use of the RPI or to tell particular users which index they should use in any given circumstance.

Yours sincerely,
John Pullinger, National Statistician

John Pullinger | National Statistician | UK Statistics Authority
1 Drummond Gate, London, SW1V 2QQ | Tel: [REDACTED]
Email: national.statistician@statistics.gov.uk | Web: www.statisticsauthority.gov.uk | Twitter: [@UKStatsAuth](https://twitter.com/UKStatsAuth)

-----Original Message-----

From: [REDACTED]
Sent: 20 July 2017 20:19
To: National Statistician
Subject: Student Loans

Good evening

Having just completed my degree at university, the worry that I may never pay off my debt that is quickly growing. I find it worrying that we may be getting ripped off, as I do not understand why the retail price index is measured in our country in the way it currently is.

I believe you know RPI is way higher than it should be, having published a letter (signed John Pullinger), stating that the RPI in the U.K. is not a true reflection of inflation. Having stated this yourselves I was just wondering whether there is a reason this has not been altered? Is it a government issue or something else?

Whilst I do not hold you personally to account, of course, I was wondering whether you personally think it is fair that I will be racking up £3,000 debt in interest a year. Does interest on a standard loan rise in this way? As you have a job which requires both extreme talent and intelligence, I have the utmost faith that you will try and do something in order to help out myself and the millions of other students across the country.

Thanks for taking the time to read this email, and I do hope to hear back from you in the future.

Kind regards
[REDACTED]

Sent from my iPhone

[REDACTED]

From: [REDACTED] on behalf of National Statistician
Sent: 26 July 2017 15:05
To: [REDACTED]
Cc: National Statistician
Subject: RE: Challenging RPI

Dear [REDACTED]

Thank you for your email following the recent article by Chris Giles of the Financial Times to change RPI. As Jonathan Athow, Deputy National Statistician, explained to Chris Giles via the letters page of the Financial Times: RPI is not a good measure of inflation and does not realistically have the potential to become one. However, there is significant value to users in maintaining the continuity of the existing RPI's long time series without major change, so that it may continue to be used for long-term indexation and for index-linked gilts and bonds in accordance with user expectations.

Whilst discouraging its use, we do not have the authority to stop the use of the RPI or to tell particular users which index they should use in any given circumstance.

Yours sincerely,
John Pullinger, National Statistician

John Pullinger | National Statistician | UK Statistics Authority
1 Drummond Gate, London, SW1V 2QQ | Tel: [REDACTED]
Email: national.statistician@statistics.gov.uk | Web: www.statisticsauthority.gov.uk | Twitter: [@UKStatsAuth](https://twitter.com/UKStatsAuth)

From: [REDACTED]
Sent: 20 July 2017 20:59
To: National Statistician
Subject: Challenging RPI

Dear John Pullinger

According to the article 'The Benefits of repairing Britain's broken retail prices index' published in the Financial Times Thursday 20 July, there is a serious accuracy problem with the RPI measurement for inflation.

As RPI is the measure used to decide the interest rate for student loans this is of huge concern to me as a parent with a child about to take out loans that will attract 6.1% in interest, a figure that has been called 'usurious' by many commentators.

The article suggests there may be many other benefits of repairing this measure, not least making money available to the treasury to abolish the 1% cap on public sector pay.

I urge you therefore to act to fix this issue without delay to protect the many hardworking public sector workers from the damaging pay restraints and to protect students from the eye watering levels of interest added to their loans.

Yours sincerely

A solid black rectangular box used to redact the sender's name and signature.

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[REDACTED]

From: [REDACTED] on behalf of National Statistician
Sent: 26 July 2017 15:06
To: [REDACTED]
Cc: National Statistician
Subject: RE: RPI

Dear John

Thank you for your email following the recent article by Chris Giles of the Financial Times to change RPI. As Jonathan Athow, Deputy National Statistician, explained to Chris Giles via the letters page of the Financial Times: RPI is not a good measure of inflation and does not realistically have the potential to become one. However, there is significant value to users in maintaining the continuity of the existing RPI's long time series without major change, so that it may continue to be used for long-term indexation and for index-linked gilts and bonds in accordance with user expectations.

Whilst discouraging its use, we do not have the authority to stop the use of the RPI or to tell particular users which index they should use in any given circumstance.

Yours sincerely,
John Pullinger, National Statistician

John Pullinger | National Statistician | UK Statistics Authority
1 Drummond Gate, London, SW1V 2QQ | Tel: [REDACTED]
Email: national.statistician@statistics.gov.uk | Web: www.statisticsauthority.gov.uk | Twitter: @UKStatsAuth

-----Original Message-----

From: [REDACTED]
Sent: 21 July 2017 08:24
To: National Statistician <national.statistician@statistics.gov.uk>
Subject: RPI

I note that there is a national lobbying campaign to change RPI in favour of the generally lower CPI to save the Treasury some money.

I, and I am sure many others, oppose these lobbyists, who have undisclosed backers.

RPI is and ought to remain the basis for many calculations of inflation.

CPI has some virtues but is an inadequate and misleading measure for most purposes.

Sincerely

[REDACTED]

Sent from [REDACTED]

[REDACTED]

From: [REDACTED] on behalf of National Statistician
Sent: 26 July 2017 15:07
To: [REDACTED]
Cc: National Statistician
Subject: RE: Please fix RPI.

Dear [REDACTED]

Thank you for your email following the recent article by Chris Giles of the Financial Times to change RPI. As Jonathan Athow, Deputy National Statistician, explained to Chris Giles via the letters page of the Financial Times: RPI is not a good measure of inflation and does not realistically have the potential to become one. However, there is significant value to users in maintaining the continuity of the existing RPI's long time series without major change, so that it may continue to be used for long-term indexation and for index-linked gilts and bonds in accordance with user expectations.

Whilst discouraging its use, we do not have the authority to stop the use of the RPI or to tell particular users which index they should use in any given circumstance.

Yours sincerely,
John Pullinger, National Statistician

John Pullinger | National Statistician | UK Statistics Authority
1 Drummond Gate, London, SW1V 2QQ | Tel: +44 (0)20 7592 8613
Email: national.statistician@statistics.gov.uk | Web: www.statisticsauthority.gov.uk | Twitter: [@UKStatsAuth](https://twitter.com/UKStatsAuth)

From: [REDACTED]
Sent: 21 July 2017 10:10
To: National Statistician
Subject: Please fix RPI.

Dear Mr Pullinger,

I was shocked to read in Chris Giles' Financial Times column that I was paying far more interest on my student debt than I need to due to a broken RPI measure – up to 1 percentage point more each year!

The UK now has the highest average student debt in the English speaking world. Students were initially promised that it would be some of the cheapest debt we could ever take on. With interest now standing at 6.5%, this is now demonstrably false. I can't blame the ONS for 3% + RPI decision, but I can blame the ONS for the broken RPI measure that regularly inflates this interest further.

This flaw in RPI also means the UK Treasury pays out £6 billion more in debt than it needs to. This is enough to remove the 1% cap on public sector pay rises. This flawed measure is not only detrimental to students, but to the UK government itself.

I understand the points your colleague, Jonathan Athow made in response to Chris Giles' column. I appreciate you do not have the authority to stop using RPI, and it is a statistic you are required by law to produce. But you do have the power to amend it. Your justification of not doing so because "changing it could have negatively affected people and organisations already using it in contracts in its current form" is weak. I agree the ONS should not make distributional decisions, but doing nothing to fix a faulty statistic that has distributional consequences is a political decision itself.

I believe this is especially the case in today's current political climate. The financial actors and pensions who benefit from this inflated RPI are some of the strongest demographics in the country. The "triple-lock" for pensioners and

universal winter fuel allowance have remained, while student grants have decreased in value and accessibility. Investors can diversify away from small drops in UK bond returns, but students cannot diversify away from their student debt. Unfortunately, in this context, the ONS' decision to not do anything about RPI is inherently political, whether you intend it that way or not.

Therefore, since the ONS cannot avoid having distributional effects, please at least make sure we get the statistic right. I know the ONS deems it just a "legacy measure" but it isn't "legacy" for graduates like me. It continues to have very real effects on the start of our adult lives. While it is broken, we're less able to afford mortgages, rent or any number of other vital things. Please do the right thing by us and fix it.

I eagerly await your response.

[REDACTED]

[REDACTED]

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[REDACTED]

From: [REDACTED] on behalf of National Statistician
Sent: 26 July 2017 15:08
To: [REDACTED]
Cc: National Statistician
Subject: RE: Student debt - broken RPI measure!

Dear [REDACTED]

Thank you for your email following the recent article by Chris Giles of the Financial Times to change RPI. As Jonathan Athow, Deputy National Statistician, explained to Chris Giles via the letters page of the Financial Times: RPI is not a good measure of inflation and does not realistically have the potential to become one. However, there is significant value to users in maintaining the continuity of the existing RPI's long time series without major change, so that it may continue to be used for long-term indexation and for index-linked gilts and bonds in accordance with user expectations.

Whilst discouraging its use, we do not have the authority to stop the use of the RPI or to tell particular users which index they should use in any given circumstance.

Yours sincerely,
John Pullinger, National Statistician

John Pullinger | National Statistician | UK Statistics Authority
1 Drummond Gate, London, SW1V 2QQ | Tel: [REDACTED]
Email: national.statistician@statistics.gov.uk | Web: www.statisticsauthority.gov.uk | Twitter: @UKStatsAuth

-----Original Message-----

From: [REDACTED]
Sent: 21 July 2017 11:02
To: National Statistician <national.statistician@statistics.gov.uk>
Subject: Student debt - broken RPI measure!

Dear Mr Pullinger,

I was shocked to read in Chris Giles' Financial Times column that I was paying far more interest on my student debt than I need to due to a broken RPI measure – up to 1 percentage point more each year!

The UK now has the highest average student debt in the English speaking world. Students were initially promised that it would be some of the cheapest debt we could ever take on. With interest now standing at 6.5%, this is now demonstrably false. I can't blame the ONS for 3% + RPI decision, but I can blame the ONS for the broken RPI measure that regularly inflates this interest further.

This flaw in RPI also means the UK Treasury pays out £6 billion more in debt than it needs to. This is enough to remove the 1% cap on public sector pay rises. This flawed measure is not only detrimental to students, but to the UK government itself.

I understand the points your colleague, Jonathan Athow made in response to Chris Giles' column. I appreciate you do not have the authority to stop using RPI, and it is a statistic you are required by law to produce. But you do have the power to amend it. Your justification of not doing so because "changing it could have negatively affected people and organisations already using it in contracts in its current form" is weak. I agree the ONS should not make

distributional decisions, but doing nothing to fix a faulty statistic that has distributional consequences is a political decision itself.

I believe this is especially the case in today's current political climate. The financial actors and pensions who benefit from this inflated RPI are some of the strongest demographics in the country. The "triple-lock" for pensioners and universal winter fuel allowance have remained, while student grants have decreased in value and accessibility. Investors can diversify away from small drops in UK bond returns, but students cannot diversify away from their student debt. Unfortunately, in this context, the ONS' decision to not do anything about RPI is inherently political, whether you intend it that way or not.

Therefore, since the ONS cannot avoid having distributional effects, please at least make sure we get the statistic right. I know the ONS deems it just a "legacy measure" but it isn't "legacy" for graduates like me. It continues to have very real effects on the start of our adult lives. While it is broken, we're less able to afford mortgages, rent or any number of other vital things. Please do the right thing by us and fix it.

I eagerly await your response,



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[REDACTED]

From: Cameron, Douglas on behalf of National Statistician
Sent: 21 July 2017 09:28
To: [REDACTED]; National Statistician
Cc: Bumpstead, Robert; Fletcher, Miles; Croydon, Luke; [REDACTED]; Athow, Jonathan; [REDACTED]
[REDACTED]; Holden, Vanessa
Subject: RE: Chris Giles - "complain to John Pullinger"

Thanks [REDACTED],

Will discuss with Jonathan the best approach here, and thanks for your offer of help. We are on 4 emails (3 against RPI, 1 for RPI) so far, so not yet inundated

Also copying in [REDACTED] and Vanessa in case any Official Correspondence comes in on the same topic.

Douglas

Douglas Cameron | Private Secretary to the National Statistician | UK Statistics Authority
1 Drummond Gate, London, SW1V 2QQ | Tel: [REDACTED], Mob: [REDACTED]
Email: douglas.cameron@ons.gsi.gov.uk | Web: www.statisticsauthority.gov.uk | Twitter: @UKStatsAuth

-----Original Message-----

From: [REDACTED]
Sent: 20 July 2017 18:36
To: National Statistician <national.statistician@statistics.gov.uk>
Cc: Bumpstead, Robert <robert.bumpstead@statistics.gov.uk>; Fletcher, Miles <miles.fletcher@ons.gov.uk>; Croydon, Luke <luke.croydon@ons.gov.uk>; [REDACTED] <[REDACTED]@ons.gov.uk>; Athow, Jonathan <jonathan.athow@ons.gov.uk>
Subject: Chris Giles - "complain to John Pullinger"

Doug

Advanced warning in case people take Chris' suggestion - think we may want a stock reply? Happy to help but out of office until Tuesday.

Regards

[REDACTED]

From: Humpherson, Ed
Sent: 25 May 2017 10:26
To: Athow, Jonathan
Subject: use versus decision

Jonathan

Yesterday we discussed how clear ONS can or should be on the uses of different inflation indices. I'm not sure if what I've got to say is very profound, or new, but here are my thoughts.

First, setting out the three use cases has clearly been an important intellectual and strategic exercise by you and John. This approach creates a clear structure within which to develop inflation indices, and in my view helps enormously with the public articulation of the role of CPIH and other measures. For two reasons, I'd continue to encourage you to make this narrative clear and to use it consistently:

- it helps explain so well why there are multiple measures, and why they differ
- it also is a core expectation we have of any statistical producer that the uses and users of statistics are understood. This is fundamental to the Value pillar of the Trustworthiness, Quality and Value model.

Second, there's also a lot of nuance in the inflation space. There are sensitivities around which index is used for gilt purposes; for uprating pensions and other types of payments to individuals; and for various price control reasons. It is clearly inappropriate for ONS to be giving concrete guidance on these specific uses.

The question is: Is there a reconciliation between these two differing perspectives - one which encourages bold use of a clear use-case narrative; and the other which countenances caution?

I think there may be. For me, the answer lies the notion of informing decision makers. Under both the Code and BSBD it is essential that the decision-maker's needs are identified and well served. As noted above, this is at the heart of the Value pillar in the new Code. If the provider of statistics doesn't understand this, and retreats to "we just provide the numbers", then there's a risk that a gap emerges, and grows, between what decision makers need information on and the statistics provided to them. But the essence of good statistical work is to say "you are wanting to make a decision on X. To make that decision, you need to understand key aspects of the world/society/economy etc. We will provide quality information on these key aspects to help inform the decision".

So being clear on what decisions the statistics inform, what aspects of society are being illuminated by the statistics, is a core and non-negotiable part of what we expect of producers.

But under BSBD and the Code, it is NOT the statistician's role to actually make the decisions. And in the context of prices, this means it is not the statistician's role to say "in deciding how to uprate pensions, or wages, you should use this index". But the statistician can legitimately *inform* that decision - to explain what aspect of activity, society or economic activity the index is estimating. And that's what the three use cases do.

Does that help thinkg about this? Does it help provide a way of thinking that enables you to use your excellent stuff on use cases without crossing over into a direct decision making role?

Ed

[REDACTED]

From: Tucker, James
Sent: 09 March 2017 16:19
To: Athow, Jonathan; [REDACTED]
Subject: RE: Short update on CPIH

Thanks, I've let [REDACTED] know that we'll be putting out a statement shortly after and I gave him the gist of it.

James.

From: Athow, Jonathan
Sent: 09 March 2017 15:07
To: [REDACTED]; Tucker, James
Subject: FW: Short update on CPIH

To see.

Jonathan Athow | Deputy National Statistician and Director General, Economic Statistics | Office for National Statistics

'phone: [REDACTED] | mobile: [REDACTED] | Drummond Gate, London, SW1V 2QQ

Assistant Private Secretary: [REDACTED] 'phone: [REDACTED] [REDACTED] [@ons.gov.uk](mailto:[REDACTED]@ons.gov.uk)

From: Humpherson, Ed
Sent: 09 March 2017 15:00
To: Athow, Jonathan <jonathan.athow@ons.gov.uk>
Subject: FW: Short update on CPIH

Jonathan

FYI, my exchange with [REDACTED]

Ed

From: [REDACTED] [[mailto:\[REDACTED\]@dmo.gsi.gov.uk](mailto:[REDACTED]@dmo.gsi.gov.uk)]
Sent: 09 March 2017 14:59
To: Humpherson, Ed <ed.humpherson@statistics.gov.uk>
Subject: RE: Short update on CPIH

Many thanks Ed.

From: Humpherson, Ed [<mailto:ed.humpherson@statistics.gov.uk>]
Sent: 09 March 2017 14:57
To: [REDACTED]; [REDACTED]
Cc: [REDACTED]
Subject: RE: Short update on CPIH

[REDACTED]

Thanks. We'll let you know if we do get any significant interest.

Ed

From: [REDACTED] [mailto:[REDACTED]@dmo.gsi.gov.uk]
Sent: 09 March 2017 14:00
To: Humpherson, Ed <ed.humpherson@statistics.gov.uk>; [REDACTED] Juffs@dmo.gsi.gov.uk>
Cc: [REDACTED]@dmo.gsi.gov.uk>
Subject: RE: Short update on CPIH

Dear Ed,

Very good to hear from you.

Thank you very much indeed for mentioning this to us. You are probably right as regards media interest but I would have thought it quite likely that some gilt market participants may note your announcement as they follow this sort of thing very closely. There was even some speculation over the last week that the Chancellor might announce something in relation to CPIH in the Budget, although that suggests that they may not have fully appreciated the present lack of National Statistic status. In the event of course nothing happened.

Thank you nonetheless – it is very much appreciated.

Best wishes,

[REDACTED]

From: Humpherson, Ed [mailto:ed.humpherson@statistics.gov.uk]
Sent: 09 March 2017 12:10
To: [REDACTED]; [REDACTED]
Cc: [REDACTED]
Subject: Short update on CPIH

[REDACTED]

It was good to see you again in December, when you talked me and a few colleagues through the auction process. At that meeting, Robert and I touched very briefly on CPIH, which I know is a topic of interest to the Debt Management Office; in particular, I mentioned the lack of National Statistics status for CPIH.

It is my role at the UK Statistics Authority's Office for Statistics Regulation to lead on decisions on whether or not a particular statistic should have the status of National Statistics.

Given your interest, I thought you'd like a quick heads-up to let you know that we will be placing a short update on the Authority website about CPIH tomorrow morning (approximately 1030). We'll confirm that we will not be conferring the National Statistics status imminently, and therefore the CPIH figure in the March inflation release will not have National Statistics status.

We're not actively promoting this update, and don't expect any media interest, but given the salience of the topic, we thought you should know in advance.

Happy to discuss - and maybe we should catch up soon

Ed

Ed Humpherson
Director General for Regulation

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From: [REDACTED]/NEWPORT/ONS
To: DG@ONS,
Date: 07/01/2015 12:13
Subject: Fw: Use of the RPI in setting rail fares

fyi - I couldn't see your office on the distribution list for this

[REDACTED]

[REDACTED]
Director of Communication | Cyfarwyddwr Cyfathrebu
Communication Division | Is-adran Gyfathrebu

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NP10 8XG
Telephone | Ffôn: [REDACTED]

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From: [REDACTED]/NEWPORT/ONS
To: Luke Croydon/LONDON/ONS@ONS, [REDACTED]/LONDON/ONS@ONS, Richard
Campbell/NEWPORT/ONS@ONS, [REDACTED]/NEWPORT/ONS@ONS,
Cc: Eric Crane/NEWPORT/ONS@ONS
Date: 07/01/2015 10:24
Subject: Fw: Use of the RPI in setting rail fares

You will be interested to see the lines that DfT will be using in response to any media interest in the use of RPI for rail fares' indexation after the Johnson report is published tomorrow.

[REDACTED]

[REDACTED] | Deputy Director | Head of Prices Division | Office for National Statistics | Cardiff Road | Newport | Wales | NP10 8XG |

Phone: [REDACTED] | Internal Extension: [REDACTED] | Email: [REDACTED]@ons.gsi.gov.uk |
<http://www.statistics.gov.uk/>

----- Forwarded by [REDACTED]/NEWPORT/ONS on 07/01/2015 10:22 -----

From: [REDACTED]@railexecutive.gsi.gov.uk
To: [REDACTED]rd/NEWPORT/ONS@ONS,
Cc: [REDACTED]@dft.gsi.gov.uk, [REDACTED]@dft.gsi.gov.uk, Eric
Crane/NEWPORT/ONS@ONS
Date: 07/01/2015 09:13
Subject: Use of the RPI in setting rail fares

[REDACTED]

I said I'd send through some of our general background lines on the use of RPI.

 [@railexecutive.gsi.gov.uk](mailto:railexecutive.gsi.gov.uk)

Leading a world-class railway that creates opportunity for people and businesses

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Purpose

ONS / HMT Strategic Meeting

Agenda

1. [REDACTED]
2. [REDACTED]
3. The Johnson Review
4. CPIH
5. [REDACTED]
6. [REDACTED]
7. [REDACTED]

Briefing

Briefing is provided on the following topics:

[REDACTED]

B. The Johnson Review

C. CPIH

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

B. The Johnson Review

Prices Division

Key points to make

- Publication of the Johnson Review went well. Media coverage of the findings was good overall and the events put on for stakeholders have generally been well received.
- ONS is working with the UK Statistics Authority to develop the consultation on the review's findings, planned for summer 2015. Not all the review recommendations will require consultation at this point, and ONS has already begun to consider how these can be taken forward.
- On 30 January ONS published an article on its analysis of the private rents data used to calculate owner occupiers' housing costs in CPIH. This was an important piece of work for the review, given it proposes CPIH be eventually adopted as the main measure of inflation. The article was welcomed by Paul Johnson and has been well received generally, as was the follow-up event for users on 20 February. It would be useful to get Dave's views on the article.
-

Issues that may be raised

- The Treasury has previously queried recommendation 5, which says that "governments and regulators should work towards ending the use of the RPI as soon as practicable", as they were unsure whether this recommendation should in fact be directed at the UK Statistics Authority. It was intentionally worded to be directed at users of the statistic.
- Recommendation 8 of the review proposes that improvements made to CPI and CPIH should not be carried over to RPI, in order to prevent further changes to the formula effect. If accepted, this implies that ONS may need to run separate processes for RPI and CPI. There is potential for this to have significant resource implications - for example, if price collectors are required to collect different data for RPI and CPI. HMT has not made its position clear on this issue yet.
- HMT may ask about whether ONS intends to consult on the proposed stance towards the RPI, set out in recommendations 4 to 9. The scope of the consultation is still under discussion.

Background

1. HMT was provided with a near-final draft of the review summary in December 2014, and was aware of the recommendations made in the review.
2. Paul Johnson met with the Bank of England on 19 January to discuss the findings of the review, which was attended by a Treasury representative. The feedback was positive.
3. The President of the Royal Statistical Society has written publicly to the National Statistician outlining some criticisms of the findings of the review. These are mainly based around the review not recommending a specific index for uprating wages and benefits (the 'household' index), objections to the rental equivalence method used in CPIH, and the stance taken towards RPI. These objections do not seem to have been picked up more widely. John Pullinger has written a short response to the letter.
4. Paul Johnson presented his findings at a session in London arranged by the RPI CPI User Group on 25 February. Attendees re-stated their preferences for a household uprating index.

C. CPIH

, Prices Division; ext

Key points to make

- ONS published improved private rental inflation estimates on 30 January 2015 in the experimental Index of Private Housing Rental Prices (IPHRP).
- Follows recent work by ONS and VOA to improve the methodology used to calculate price indices using VOA rental price data (which feeds into IPHRP and Owner Occupiers' Housing (OOH) component of CPIH).
- The new methodology has led to an average upward revision to the **OOH component** of CPIH by 0.6 percentage points to 1.5% (for the period 2005 to 2014). Note that OOH and IPHRP based on same source data so similar effect on IPHRP.
- Improvements to OOH will be introduced to CPIH as part of the 2015 annual update of consumer price indices on 24 March 2015.
- Impact on CPIH is up to 0.2 points on the growth rate.
- Will also take opportunity to revise weights for OOH to align with National Accounts (and anticipate methodology change for imputed rentals to be implemented in BB 2016).
- Revision to both the OOH series and weight results in revisions of up to 0.5 percentage points on CPIH, but more often 0.2 or 0.1 percentage points.
- ONS will introduce revisions to CPIH when publish February data on 24 March.

Issues that may be raised

- How can we be confident the new methodology is correct?
ONS and VOA have put a great deal of effort into the quality assurance of the new process. This will culminate with the production process being assured by an external ISO accredited assessor. Additionally, ONS held rental event on Friday 20 February to assure the data with key stakeholders and industry experts (additional meetings already taken place with industry experts, where the new data was well received). Widespread support from users from across the spectrum for the new data.
- When will CPIH be reassessed as National Statistic?
This process will begin as soon as possible; however it is likely to be after the forthcoming election.

Background

1. ONS launched CPIH in 2013, a measure of CPI including OOH. For this purpose, OOH is calculated using rental equivalence measure.
2. IPHRP also published in 2013 as a stand alone private rental price index in response to user needs (using same source of data).
3. Users questioned the price evolution of the new series in comparison to other measures.
4. ONS/VOA initiated work to understand differences and identified a number of areas of methodology where improvements could be made.
5. An exchange of letters followed between John Pullinger and Sir Andrew Dilnot resulting in the suspension of National Statistics status for CPIH whilst improvements were made.

----- Forwarded by [REDACTED]/NEWPORT/ONS on 12/01/2015 14:37 -----

From: [REDACTED]/NEWPORT/ONS
To: DG@ONS,
Cc: [REDACTED] NEWPORT/ONS@ONS, Eric Crane/NEWPORT/ONS@ONS
Date: 12/01/2015 14:26
Subject: Fw: Request for briefing: [REDACTED] at BoE 19 January

Briefing on Johnson Review (with thanks to Eric Crane) follows:

Key points to make

- Johnson Review was published on 8 January. Paul presented to the media and stakeholders and this seems to have gone well.
- Media has initially focused on the recommendations to make CPIH the main measure, and that users should be encouraged to move away from the RPI.
- The UK Statistics Authority planning to undertake a consultation in summer 2015 (post general election) and to make its final response later in 2015.
-

Issues that may be raised

- The Johnson Review recommends that CPIH should become the main measure of inflation, subject to concerns around private rents data being addressed. This is in part fixing the shortcomings identified with the processing of the VOA data. But it is also about explaining the differences between price indices made from VOA data, such as the OOH component of CPI. At a working level at least, officials at the Bank take a similar view that the different growth rates derived from the different approaches should be explained.
- This puts additional emphasis on the forthcoming article by ONS on owner occupiers' housing costs, due to be published by ONS on 30 January. Bank staff will be providing quality assurance of drafts of the article and have been involved in the inter-departmental working group taking forward improvements to the VOA data.
- The Bank may also want to discuss the position on the RPI. The review recommended that the use of the RPI be ended as soon as practicable, and that ONS and the Authority should give clearer guidance not to use the RPI. The Review also recommended that the method for RPI be kept constant, and that RPI should be allowed to diverge further from CPI and CPIH if that is the result of making incremental improvements to CPIH and CPI.

Background

- Press notice put out by the UK Statistics Authority is here:
<http://www.statisticsauthority.gov.uk/news/news-release---uk-consumer-price-statistics--a-review.pdf>
- Most stakeholders seem to be taking time to digest the report, although the Royal Statistical Society have followed the RPI / CPI User Group in saying we should have recommended a 'household' index.
- [REDACTED] has previously called CPIH "a conceptually and practically more useful measure of a typical consumption basket" and implied the Bank should move to targeting it in the future. Original story is here (the Telegraph repeated the quote in their article on the Review):
<http://www.telegraph.co.uk/finance/economics/10799758/Treasury-may-change-inflation-target-to-include-housing-costs.html>
- In correspondence around the emerging recommendations from the Johnson Review officials at the Bank indicated they were not yet convinced that council tax should be included in CPIH.
- Paul Johnson is meeting with officials at the Bank on 19 January to discuss his findings.

[REDACTED] has seen the executive summary of the Johnson review and has been involved in discussions on its progress at Authority Board meetings.

Please contact me if you require more detail/extra topics covering.

Thanks



Dear XXX (bcc Jonathan Athow and MRO)

Thank you for your email following the recent article by Chris Giles of the Financial Times to change RPI. As Jonathan Athow, Deputy National Statistician, explained to Chris Giles via the letters page of the Financial Times: RPI is not a good measure of inflation and does not realistically have the potential to become one. However, there is significant value to users in maintaining the continuity of the existing RPI's long time series without major change, so that it may continue to be used for long-term indexation and for index-linked gilts and bonds in accordance with user expectations.

Whilst discouraging its use, we do not have the authority to stop the use of the RPI or to tell particular users which index they should use in any given circumstance.

Yours sincerely,
John Pullinger, National Statistician

From: [REDACTED]
Sent: 20 July 2017 19:28
To: National Statistician <national.statistician@statistics.gov.uk>
Subject: RPI is too high

Dear Mr Pullinger,

As per the [recent article in the Financial Times](#) about the retail price index (RPI) being too high, I am writing to enquire as to the ONS and Government's next steps to remedy this issue.

As a student, I understand that the interest on my loan repayments has to be at least in line with inflation; it should not, however, be based on an *artificially high* rate of inflation. As a citizen and voter, I'm also concerned that failing to fix the RPI, or failure to switch to using the consumer price index (CPI), will unnecessarily cost the Government billions in debt costs every year.

I implore you to reform the RPI, or abolish it and use only the CPI (both for student loan repayments and any other possible uses).

I look forward to hearing from you,

Best,

[REDACTED]

From: [REDACTED]
Sent: 20 July 2017 20:19
To: National Statistician <national.statistician@statistics.gov.uk>
Subject: Student Loans

Good evening

From: [REDACTED]
Sent: 21 July 2017 08:24
To: National Statistician <national.statistician@statistics.gov.uk>
Subject: RPI

I note that there is a national lobbying campaign to change RPI in favour of the generally lower CPI to save the Treasury some money.

I, and I am sure many others, oppose these lobbyists, who have undisclosed backers.

RPI is and ought to remain the basis for many calculations of inflation.

CPI has some virtues but is an inadequate and misleading measure for most purposes.

Sincerely

[REDACTED]

Sent from [REDACTED] iPad

From: [REDACTED]
Sent: 21 July 2017 10:10
To: National Statistician <national.statistician@statistics.gov.uk>
Subject: Please fix RPI.

Dear Mr Pullinger,

I was shocked to read in Chris Giles' Financial Times column that I was paying far more interest on my student debt than I need to due to a broken RPI measure – up to 1 percentage point more each year!

The UK now has the highest average student debt in the English speaking world. Students were initially promised that it would be some of the cheapest debt we could ever take on. With interest now standing at 6.5%, this is now demonstrably false. I can't blame the ONS for 3% + RPI decision, but I can blame the ONS for the broken RPI measure that regularly inflates this interest further.

This flaw in RPI also means the UK Treasury pays out £6 billion more in debt than it needs to. This is enough to remove the 1% cap on public sector pay rises. This flawed measure is not only detrimental to students, but to the UK government itself.

I understand the points your colleague, Jonathan Athow made in response to Chris Gile's column. I appreciate you do not have the authority to stop using RPI, and it is a statistic you are required by law to produce. But you do have the power to amend it. Your justification of not doing so because "changing it could have negatively affected people and organisations already using it in contracts in its current form" is weak. I agree the ONS should not make distributional decisions, but doing nothing to fix a faulty statistic that has distributional consequences is a political decision itself.

I believe this is especially the case in today's current political climate. The financial actors and pensions who benefit from this inflated RPI are some of the strongest demographics in the country. The "triple-lock" for pensioners and universal winter fuel allowance have remained, while student grants have decreased in value and accessibility. Investors can diversify away from small drops in UK bond returns, but students cannot diversify away from their student debt. Unfortunately, in this context, the ONS' decision to not do anything about RPI is inherently political, whether you intend it that way or not.

Therefore, since the ONS cannot avoid having distributional effects, please at least make sure we get the statistic right. I know the ONS deems it just a "legacy measure" but it isn't "legacy" for graduates like me. It continues to have very real effects on the start of our adult lives. While it is broken, we're less able to afford mortgages, rent or any number of other vital things. Please do the right thing by us and fix it.

I eagerly await your response.

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

From: [REDACTED]
Sent: 21 July 2017 11:02
To: National Statistician <national.statistician@statistics.gov.uk>
Subject: Student debt - broken RPI measure!

Dear Mr Pullinger,

I was shocked to read in Chris Giles' Financial Times column that I was paying far more interest on my student debt than I need to due to a broken RPI measure – up to 1 percentage point more each year!

The UK now has the highest average student debt in the English speaking world. Students were initially promised that it would be some of the cheapest debt we could ever take on. With interest now standing

at 6.5%, this is now demonstrably false. I can't blame the ONS for 3% + RPI decision, but I can blame the ONS for the broken RPI measure that regularly inflates this interest further.

This flaw in RPI also means the UK Treasury pays out £6 billion more in debt than it needs to. This is enough to remove the 1% cap on public sector pay rises. This flawed measure is not only detrimental to students, but to the UK government itself.

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Therefore, since the ONS cannot avoid having distributional effects, please at least make sure we get the statistic right. I know the ONS deems it just a "legacy measure" but it isn't "legacy" for graduates like me. It continues to have very real effects on the start of our adult lives. While it is broken, we're less able to afford mortgages, rent or any number of other vital things. Please do the right thing by us and fix it.

I eagerly await your response,

██████████

----- Forwarded by [REDACTED]/NEWPORT/ONS on 15/01/2016 15:16 -----

From: rpicpiusergroup@gmail.com
To: National Statistician@ONS,
Date: 15/01/2016 14:26
Subject: Comments on responses to 'Measuring Consumer Prices: the Options for Change' <RB>

Dear John Pullinger,

The publication of the responses to the consultation on, 'Measuring Consumer Prices: the Options for Change' and the minutes of the inaugural meeting of the two advisory panels are most helpful. I would like to comment further on some of the points respondents have made, in the hope that that these might assist in your further considerations.

1. A legitimate concern has been raised about the practice of 'index shopping'. However, there are legitimate reasons for different types of price index being designed for different purposes. The best solution to this problem is to be clear about the purpose for which specific indices are built. Users would be free to select the index they considered most appropriate for their purpose but, because the premise on which the index was established would be clear, this would lead to greater transparency than is currently the case.
2. It is apparent that that there is considerable support for a new Household Inflation Index. This could, in time, be a replacement for at least some of the uses which the RPI currently meets.
3. It seems clear that there is a need for at least two indices designed from the ground up. The CPI based, as it is, on a common European approach is ideal for comparing inflation rates across Europe and for other macro-economic purposes. Using variants of this to answer the other important need for a householder index, as the Johnson Review proposed, will not be satisfactory for the majority of users. The RPI continues to be considered by many to be the best available index for measuring the household experience of changing prices, but the development of a Household Inflation Index would be the best way of meeting this need in the future.
4. There is strong support to maintain the RPI as a fully operational index. This, in part at least, is because it fulfils the needs that are not met by the CPI and its variants.
5. A full explanation of the formula effect would be welcomed. However, it will be important that this is a balanced explanation which takes account of the strengths and weaknesses of all formula and does not simply criticise a single formula.

For the avoidance of doubt, the observations above have been put together without comment from the three members of the two advisory panels who are also members of the User Group [REDACTED].

Yours,

[REDACTED] Chair, RPI CPI User Group

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From: [REDACTED]

Sent: 16 May 2017 15:02

To: DL_CPS <DL_CPS@ons.gov.uk>; DL_Monitoring and Assessment Team
<DL_Monitoring.and.Assessment.Team@ons.gov.uk>; DL_SCS <DL_SCS@ons.gov.uk>

Cc: Patterson, Helen <helen.patterson@ons.gov.uk>; Fletcher, Miles <miles.fletcher@ons.gov.uk>

Subject: FOR INFO: Labour Party Manifesto Analysis



Labour Manifesto Analysis Summary 16-05-17.pdf

Dear colleagues,

As mentioned in TMC's last week, the Parliamentary Unit is preparing analysis of each of the major UK political parties manifestos. Please see attached our summary of the Labour Party's manifesto, launched today. Key points of interest include a commitment to remove international students from migration figures and a switch from RPI to CPI for business rates.

Please let me know if any questions.

Many thanks,

[REDACTED]

[REDACTED] | Parliamentary and Public Affairs Officer | UK Statistics Authority | Cardiff Road, Newport, NP10 8XG

Tel: [REDACTED] | Email: [REDACTED]@ons.gov.uk | Web:

www.statisticsauthority.gov.uk | Twitter: @UKStatsAuth

30 October 2014

[REDACTED]
Head of Structural Economic Analysis Division
Monetary Analysis, Division 2
Bank of England
Threadneedle Street
London
EC2R 8AH

Dear [REDACTED]

CPI, CPIH, RPI AND RPIJ: PLANNED CHANGES AT THE TIME OF THE ANNUAL RE-WEIGHTING AND UPDATING OF THE BASKETS

Issue

The UK Statistics Authority (the Authority) has endorsed a proposed change to the coverage or basic calculation of the Retail Prices Index (RPI) put forward by the Office for National Statistics (ONS). The proposal is to implement improvements to the methodology used to calculate private rents in the February 2015 index published on 24 March 2015.

Action

For consultation as required under Section 21 of the Statistics and Registration Service Act 2007. This letter initiates the Authority's consultation with the Bank over whether proposed improvements to the measurement of private rents within the RPI would constitute a fundamental change in the index that would be materially detrimental to the interests of holders of relevant index-linked gilts, and hence trigger the redemption clause.

Timing

For response by 9 January 2015.

Background

On 14 August 2014 the UK Statistics Authority suspended the National Statistics designation of CPIH pending work on the methodology for calculating owner occupiers' housing costs (OOH) which uses private rents data collected by Valuations Office Agency. Since then ONS and VOA have completed work looking at aspects of the current methodology that might be improved and the impact these would have on the annual rate of growth. It shows that the rate of growth of CPIH could be 0.2 percentage points higher were changes introduced, though the work indicates that this is an upper bound and in most periods the impact would be 0.1 percentage points or less.

Four aspects of the methodology have been assessed;

- I. The matching process for replacement properties, which can be improved so all viable matches are identified and used;
- II. The imputation approach for properties where a matching replacement property cannot be found, which can be improved by introducing a better imputation approach also used for other components of consumer price indices;
- III. The sample size of properties can be improved to allow a better balance between a robust initial sample and the maintenance of the sample over the year;

- IV. The assumed contract length which can be improved by using a shorter period while balancing this against operational limitations.

Given these findings, ONS will recalculate the OOH component of CPIH back to 2005, which is when VOA data were first used as the source for the estimates. The improvements will be introduced as part of the 2015 annual update of consumer price indices to be published in March 2015. This allows time for the work to be quality assured, system documentation to be prepared and an explanatory article explaining the proposed changes to be published.

The same data are used to measure private rental prices in the suite of consumer price inflation statistics. However, the lower weighting applied to this component means that the findings set out above would not have an appreciable impact on CPI, RPI or RPIJ. Consequently, ONS will not revise the private rents index in any aggregate, though improvements in the methodology will feed through as part of the annual update. At the same time these changes are introduced, ONS will align strata weights for the private rents index with those used for the Index of private Housing Rental Prices (IPHRP), which uses a slightly improved method where property type weights are defined for each region, rather than applying the same property type weight across all regions.

Price Collection Contract

A new contract for the field collection begins on 1 February 2015, and the term is three years with options to extend of one year plus one year. Although the incumbent has been awarded the contract, a new and proven technology will be used to drive improvements in collection quality and communications over the lifetime of the contract. The devices chosen meet Government Buying Standards, and are readily available. The device is the Samsung Galaxy Note III, and an app has been developed that operates on the Android system. This enables the contractor (TNS) to guarantee capacity to support the devices or purchase new ones for at least the duration of the contract. Collectors will be able to transmit data more frequently with immediate transfer to TNS head office from the point of data collection, increasing their capacity to receive and process the data in a timely manner.

Smartphones have larger touchscreens (than the current device) that enable collectors to enter data either by typing the information on the screen or by using a stylus. Functionality is improved as information can be displayed more clearly. The new collection program that has been developed is based on the current one but expanded to include new features e.g. information currently provided in paper form can be displayed to assist in the selection of items. Collectors will be familiar with the look and flow of the program which focuses their learning on new features.

A new facility has also been developed to improve the efficiency of Quality Assurance in the field (backchecks), i.e. now conducted without a need to carry paperwork.

Piloting of the new device has taken place in September (30 collectors), and October (90 collectors). Testing has taken place on both TNS and ONS systems to ensure that the price quotes meet rigorous quality checks before entering the index. Roll-out of the devices will complete in December 2014.

Annual Basket Update

The annual update of the suite of consumer price inflation statistics will take effect with the February 2015 indices, which will be published on 24 March 2015. An accompanying article describing the changes to the baskets will be published on the ONS website about a week earlier. A fuller description of the reweighting and updating process can be found in the basket article for 2014, which is available on line¹.

The standard procedures for the annual updating of the baskets are well rehearsed. Although fixed within each year, the contents of the baskets of goods and services and their associated expenditure weights are updated

¹ <http://www.ons.gov.uk/ons/rel/cpi/cpi-rpi-basket/2014/index.html>

annually to ensure they are representative of household spending patterns. The updating mitigates potential biases that might otherwise occur from not allowing for consumers switching purchases away from goods and services that have increased in relative price to those whose prices have reduced relative to other goods and services. Each year ONS conducts research into expenditure patterns to help inform decisions on which goods and services are under-represented and on which areas of the basket there is scope for removing items. Criteria for choosing a set of items to represent particular categories of expenditure, such as clothing and footwear or food, include the size of expenditure and the diversity of the market based on information from the Living Costs and Food (LCF) survey, observed price variations based on historic data plus market research from a variety of sources on latest consumer trends. Information principally from the latest LCF and UK national accounts is used to update the expenditure weights.

The Authority considers that, the changes in the contents of the CPI, CPIH, RPI and RPIJ baskets and the associated weights are not significant beyond their primary aim of ensuring the continuous and proper representation of consumer expenditure habits.

Reviews

In February this year the Smith review on the governance of prices statistics reported to the Board of the Authority². The review report recommended the creation of two advisory panels on consumer prices; a stakeholder panel to advise the National Statistician on the uses and application of price indices, and a technical panel to provide advice on the technical aspects of the statistics. Once established these two new panels will form part of the governance arrangements going forward and future proposals for change will need to reflect the views of these panels as well as obligations under the relevant legislation.

The Authority's review of the range of consumer price statistics, being led by Paul Johnson, has been continuing its work. The timetable for publication has been put back and it is now due for publication by the end of 2014.

Please let me know if you have any queries or would like to discuss further.

A copy of this letter goes to [REDACTED] at the Bank of England, to [REDACTED] and [REDACTED] at the Treasury and to [REDACTED], [REDACTED] and [REDACTED] here at ONS.

Yours sincerely



[REDACTED]

² <http://www.statisticsauthority.gov.uk/news/statement---review-of-the-governance-of-prices-statistics.pdf>



BANK OF ENGLAND

Office for National Statistics
Government Buildings
Cardiff Road
Newport
NP10 8XG

Deputy Governor, Monetary Policy
T 020 7601 5189

9 January 2015

Dear

RPI: Planned changes at the time of the annual re-weighting and updating of the baskets

I refer to your letter of 30 October 2014 addressed to . In that letter, you seek the Bank's view as to whether proposed improvements to the measurement of private rents, within the RPI, would constitute a fundamental change in the index that would be materially detrimental to the interests of holders of relevant index-linked gilts. This pertains to your obligations under Section 21 of the Statistics and Registration Services Act 2007 to consult the Bank before making any change to the coverage or basic calculation of the index.

A senior committee at the Bank under my chairmanship has considered this matter. The Committee concluded that changing the measurement of private rents in the manner proposed did not constitute a fundamental change to the index and that, furthermore, it was consistent with previous judgements relating to improvements in the measurements used to compile sub-components of the Index. Moreover, nor would the proposed change be likely to be materially detrimental to the holders of index-linked gilts. The Committee therefore judged that the proposed change can proceed without triggering the redemption clause on relevant index-linked gilts.

A copy of this letter goes to and at HM Treasury, to , and at the ONS, and to and at the Bank.

Yours sincerely



Assessment of compliance with the Code of Practice for Official Statistics

Statistics on Consumer Prices

*(produced by the Office for National
Statistics)*

Assessment Report [x]

September 2010

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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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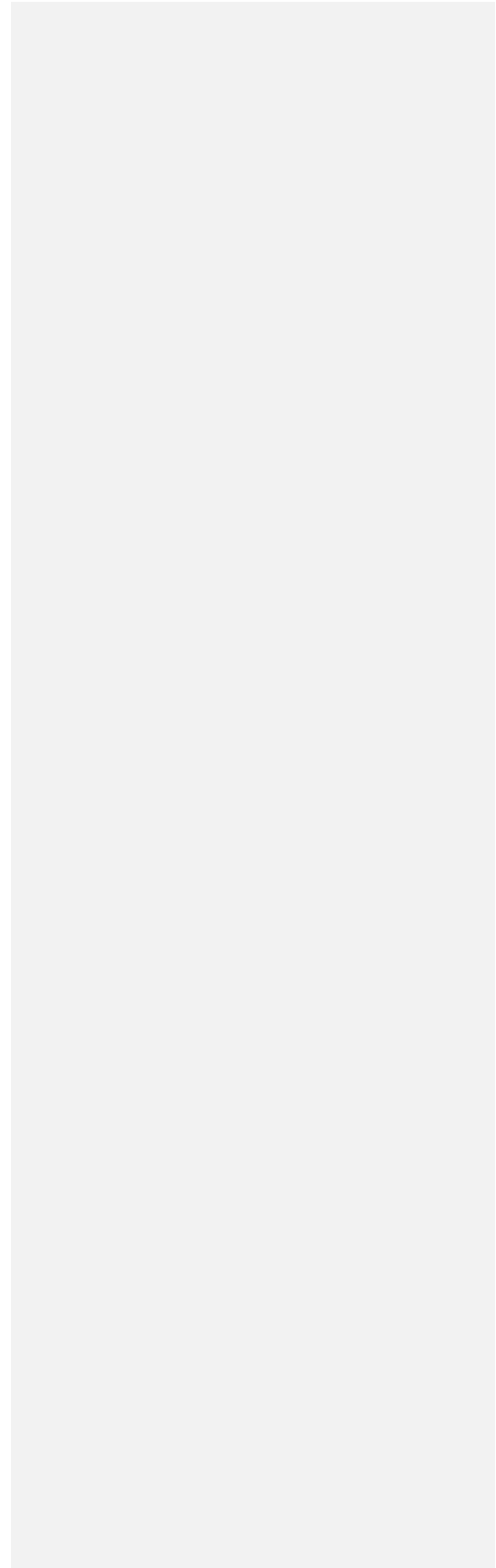
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Assessment of compliance with the Code of Practice for Official Statistics

Statistics on Consumer Prices

(produced by the Office for National Statistics)



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 reports¹ prepared under the provisions of the *Statistics and Registration Service Act 2007*². The report covers *Consumer Price Indices Statistical Bulletin*³, *Focus on Consumer Price Indices*⁴ and *Consumer Price Indices Briefing Note*⁵ produced by the Office for National Statistics (ONS). These publications present statistics on consumer price inflation for the UK.

1.1.2 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 Authority confirms that the statistics published in *Consumer Price Indices Statistical Bulletin*, *Focus on Consumer Price Indices* and *Consumer Price Indices Briefing Note* are designated as National Statistics, subject to the Office for National Statistics implementing the enhancements listed in section 1.5 and reporting requirement 11 to the Authority by Jan 2011 and requirements 1 to 10 to the Authority by March 2011.

1.3 Summary of strengths and weaknesses

1.3.1 ONS has recently redesigned *Consumer Price Indices*. The new version is clearer and better presented than the previous version and provides links to other useful documents. It includes information about the main purpose and the uses of the different measures of inflation. *The Consumer Price Indices Technical Manual*⁶ is a useful reference document that provides extensive technical documentation. ONS has regular contact with HMT and the Bank regarding the development of these statistics. There is less evidence of regular engagement with a wider range of users.

1.3.2 The commentary in *Consumer Price Indices* focuses on the uses of these statistics as macroeconomic indicators of inflation, but provides less information on the uses of these statistics as compensation indices. It is not always clear whether the methods that have been developed in the past to produce the RPI remain the most appropriate methods today. The CPI's exclusion of most elements of owner-occupied housing costs lessens its relevance for many users.

¹ <http://www.statisticsauthority.gov.uk/assessment/assessment-reports/index.html>

² http://www.opsi.gov.uk/Acts/acts2007/pdf/ukpga_20070018_en.pdf

³ <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=868>

⁴ <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=867>

⁵ <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=868>

⁶ <http://www.statistics.gov.uk/statbase/product.asp?vlnk=2328>

1.4 Detailed recommendations

1.4.1 The Assessment team identified some areas where it felt that the Office for National Statistics 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	Take steps to develop a more complete understanding of the use made of the statistics; publish the relevant information and assumptions and use them to better support the beneficial use of the statistics (para 3.4)
Requirement 2	Publish a consultation document on ONS's future plans for disseminating the CPI and RPI (para 3.6)
Requirement 3	Write to the Authority to seek an exemption from Principle 2 Practice 7 of the Code for the practice never to revise published RPI figures (para 3.10)
Requirement 4	Write to the Authority to seek an exemption from Principle 3 Practice 3 of the Code for the Chancellor's statutory responsibility to approve certain changes to the coverage and basic calculation of the RPI (para 3.13)
Requirement 5	Prepare a report that explains the rationale for the particular ways in which the RPI continues to be constructed, that contrast with the ways in which the CPI is constructed (para 3.20)
Requirement 6	Publish quality guidelines for these statistics (para 3.21)
Requirement 7	Complete and publish proposals to include owner-occupied housing costs in the CPI (para 3.22)
Requirement 8	Include further detail on the methods used to compile the pensioner indices and details of how they should be used (para 3.34)
Requirement 9	Make summary information on the full range of documents and datasets relating to these statistics more widely available to users (para 3.36)

Requirement 10

Review the list of those with pre-release access to these statistics with the aim of reducing the number of those granted access (para 3.41)

Requirement 11

Ensure all releases are issued at 9.30am on the day of release (para 3.42)

2 Subject of the assessment

- 2.1 Consumer price indices measure the change in the general level of prices of goods and services in the UK economy over time. They are important indicators of how the UK economy is performing and are widely used by the government, business and society in general. They also show the impact of inflation on family budgets which is of considerable interest to the general public.

History of Consumer Price Indices

- 2.2 ONS produces two main measures of consumer price inflation, the Consumer Prices Index (CPI) and the Retail Prices Index (RPI). Both are published for the UK as a whole; neither is available at a sub-national level. The RPI dates from 1947, though earlier continuous measures of consumer price inflation began in 1914. It was set up as a result of a report from a Cost of Living Advisory Committee. In 1956, major changes included introducing a firm definition of the RPI for the first time and extending the scope from expenditure by working classes to all wage earners excluding very high and low-earning households. After relatively minor changes in the 1960s and 1970s, an advisory committee was convened in the early 1980s whose recommendations largely form the basis of the current RPI including definition, scope and coverage. More recent changes include the addition of foreign holidays in 1993, UK holidays in 1994 and house depreciation in 1995.
- 2.3 The CPI was developed as a comparable measure of inflation across European Union (EU) Member States. Internationally, it is known as the Harmonised Index of Consumer Prices (HICP). It was created by an initial EU Council Regulation⁷ passed in October 1995. ~~Initially, the~~ HICP was ~~and still is~~ used to assess which EU Member States passed the inflation convergence criterion for membership of Economic and Monetary Union (EMU). The HICP is now used by the European Central Bank to assess price stability in the euro area.
- 2.4 The UK HICP was first published in 1997 and was extended to cover health, education and insurance in 2000, 2001 and 2002 respectively. In December 2003, the Chancellor announced that the UK inflation target would be based on the HICP. ~~On the same day~~~~Later that month,~~ the National Statistician announced that the UK HICP would be known as the CPI⁸.

Users and uses of consumer price indices

- 2.5 ONS identifies the following main uses of consumer price indices:
- As a measures of inflation

⁷ Council Regulation (EC) No 2494/95 of 23 October 1995 concerning harmonized indices of consumer prices, *Official Journal L 257*, 27/10/1995 P. 0001 - 0004

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31995R2494:EN:HTML>

⁸ <http://www.statistics.gov.uk/pdfdir/pbr1203.pdf>

Since 1992 UK governments have based their economic policies around targeting specific rates of inflation. Since 2003 the Chancellor has used the CPI as the basis for the Government's target for inflation. The Bank's Monetary Policy Committee (MPC) uses the CPI to assess inflationary pressures and takes this into account in setting interest rates to achieve the inflation target. Parliament and the public use CPI to judge the success of monetary policy in achieving the inflation target.

- To deflate expenditure measures
For many purposes, comparisons of economic series are more useful when the effect of price changes is eliminated. ONS uses the RPI, the CPI and their components to adjust current levels of economic series, for example, household final consumption expenditure, to produce a constant price series. This is typically done by deflating (dividing) estimates of expenditure at current prices by appropriate consumer price indices derived from the RPI or the CPI.
- Income and price adjustment
Since 1977, unless the Chancellor decides otherwise, tax allowances and thresholds ~~have been~~ ~~are~~ revised annually in line with changes in the RPI. The Department of Work and Pensions (DWP) ~~has~~ ~~increased~~ pensions and various benefits each year in line with the RPI and a derivative, the Rossi⁹ index. In the June 2010 Budget, the Chancellor announced his intention to use the CPI rather than the RPI for the indexation of benefits, tax credits and public service pensions, from April 2011¹⁰.

The CPI and RPI are frequently taken into account in wage bargaining. Some pay agreements explicitly link pay rises to these indices. The Debt Management Office uses the RPI to uprate the values of the index-linked gilt-edged securities that it issues. Consumer price indices are used by the ONS and government departments to adjust other sets of statistics to take account of inflation.

Many private contracts link payments due, such as rent, to the change in the RPI or the CPI. Certain regulated privatised utilities have their prices constrained to rise by no more than a rate dependent on the RPI. Many pieces of legislation refer to the RPI as a way of adjusting prices, and there are a number of statutory instruments which refer to the RPI or its variants.

Governance Arrangements

- 2.6 In 1989, responsibility for the production of the RPI moved from the Employment Department to the Central Statistical Office (now ONS). In 1995, ONS started to contract out the collection of prices data for the RPI. Research International is currently the main contractor for the collection of price data for the CPI and RPI on behalf of ONS.

⁹ The Rossi index is the all items RPI excluding mortgage interest payments, rent, council tax and housing depreciation.

¹⁰ See Press Notice 1: Main Budget Announcements:
http://www.hm-treasury.gov.uk/d/junebudget_press_notice1.pdf

2.7 Unusually for an official statistic, some aspects of the production and dissemination of the RPI are prescribed by legislation. Section 21(1) of the *Statistics and Registration Service Act 2007* requires the UK Statistics Authority to “compile and maintain the retail prices index, and publish it every month”. Section 21(2) says that “Before making any change to the coverage or the basic calculation of the retail prices index, the Board [Statistics Authority] must consult the Bank of England as to whether the change constitutes a fundamental change in the index which would be materially detrimental to the interests of the holders of relevant index-linked gilt-edged securities”. Section 21(3) says that if the Bank does consider that such a change would be detrimental, the Authority “may not make the change without the consent of the Chancellor of the Exchequer”.

2.8 The rules underlying the construction of the CPI are governed by the EU with changes determined by a qualified majority vote of the Member States.

2.9 ~~To facilitate change and advise on methodology, the UK Statistics Authority has established the Consumer Prices Advisory Committee (CPAC). Its terms of reference are to advise the Authority on improvements to the RPI and CPI recommended by the ONS, and to advise it on RPI methodological issues, to advise it on changes to the arrangements for producing and presenting statistics on consumer prices.~~

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Methods for compiling consumer price indices

2.92.10 A simple analogy for a consumer price index is that of a ‘shopping basket’ full of goods and services on which people typically spend their money: from bread to ready-made meals, from the cost of a cinema seat to the price of a pint at the local pub. The content of the basket is fixed but, as prices of individual products vary, so does the total cost of the basket. A consumer price index measures how the total cost of that basket changes over time.

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2.102.11 The consumer price indices are based on information that is collected on the prices of over 650 items - specified goods and services. Price collectors visit 20,000 shops each month, in around 150 places throughout the UK, and record about 110,000 prices. A further 780,000 prices are collected, mostly via the internet by ONS, although some are collected by external organisations or market research companies. Weights are attached to the different items to reflect their importance in the typical household budget. Weights are based on information on spending taken mainly from the Living Costs and Food Survey and from the National Accounts. These weights are combined with monthly price information to produce the consumer price indices.

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2.112.12 The CPI and RPI adopt the same basic approach to the measurement of inflation. They both track the changing cost of a fixed basket of goods and services over time and both use exactly the same underlying price data. However, there are some important differences in the ways in which the two indices are constructed. These concern which consumers or households each index is designed to represent and the range of goods and services included. A particularly significant difference is that many owner-occupiers’ housing costs

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are included in the RPI but are excluded from the CPI. There are also differences in the way in which two indices combine price data, known as the formula effect. ONS has estimated that, historically, the formula effect has caused the annual inflation rate measured by the CPI to be around ½ a percentage point lower than the RPI¹¹.

Consumer Price Indices Products and related outputs

2.122.13 This assessment covers the following three National Statistics Products:

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- *Consumer Price Indices Statistical Bulletin*
This is a monthly statistical release that presents the latest headline estimates of consumer price inflation ~~for the previous 12 months~~. It presents estimates for the CPI and RPI for the most recent three years. It also presents other inflation estimates based on these two indices, including the all items Retail Prices Index excluding mortgage interest payments (RPIX), the all items Retail Prices Index excluding mortgage interest payments and indirect taxes (RPIY) and the Consumer Prices Index excluding indirect taxes (CPIY). The release includes some analysis of the main price changes that have contributed to the headline estimates. It also contains tables on price indices, percentage changes and weights for ~~the CPI, the RPI and for~~ the groups of goods and services that make up these ~~indices~~ CPI.
- *Focus on Consumer Price Indices*
This is a monthly statistical release that is published a week after the *Consumer Price Indices Statistical Bulletin*. It provides more detailed information on the CPI and RPI than the *Statistical Bulletin* and presents longer time series. It also presents some additional statistics, including the purchasing power of the pound, the RPI pensioner indices and a composite price index that extends back to 1800.
- *Consumer Price Indices Briefing Note*¹²
This is a monthly note that is published at the same time as the *Consumer Price Indices Statistical Bulletin*. It presents background briefing material on the statistics that lie behind the headline results published in the *Statistical Bulletin*. It is mainly aimed at journalists and presents information on the contribution that the components of the consumer price indices have made to the change in the annual rate ~~of change~~ in the CPI and RPI.

2.132.14 ONS publishes some additional reports that provide further information about the statistics that are released through the two National Statistics Products. These include four publications that ONS publishes on a regular basis, discussed below. The Assessment team reviewed the material presented in these additional reports as part of the current assessment, although these reports are not, themselves, National Statistics products.

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¹¹ *The New Inflation Target: The Statistical Effect*, ONS, 2003, <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=10913>

¹² <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=868>

- *CPI and RPI Basket of Goods and Services*¹³
This is an annual article that provides information about the shopping basket that ~~is being~~~~has been~~ used to compile the CPI and RPI for that year. The shopping basket items are reviewed each year to ensure that they are representative of consumer spending patterns. This article describes the review process and explains how and why the various items in the CPI and RPI baskets are chosen.
- *Consumer Prices Index and Retail Prices Index: Updating Weights*¹⁴
This is an annual article that provides information about the weights used to compile the CPI and RPI for that year. At the beginning of each year the weights used to compile both the CPI and RPI are updated using the latest available information on household spending. This article describes the sources for these weights, explains why the weights are important and provides a brief explanation of the main changes to these weights between the two most recent years.
- *Estimated Effect of the Budget on the CPI and the RPI*¹⁵
This is an article that ONS publishes shortly after each Budget. It presents estimates of the percentage change in the CPI and RPI that are expected from the duty and taxation changes announced in the Budget.

2-142.15 ONS also produce the Personal Inflation Calculator¹⁶. This is an online tool that enables users to input their personal spending patterns to obtain an estimate of how their experience of inflation differs from the national estimates.

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2-152.16 Time series for the different sets of consumer price indices can be downloaded from the Time Series Data¹⁷ area of ONS's Website. There are additional documents linked from the main *Statistical Bulletin* and *Focus on Consumer Price Indices* pages, including a "nugget" of information, from a link entitled *Latest on CPI & RPI*¹⁸ giving commentary about the latest changes in the CPI and RPI. The inflation nugget received over 590,000 website hits in 2009.

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¹³ <http://www.statistics.gov.uk/cci/article.asp?ID=2372>

¹⁴ <http://www.statistics.gov.uk/CCI/article.asp?ID=2402>

¹⁵ <http://www.statistics.gov.uk/cci/article.asp?ID=2462>

¹⁶ <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=14762>

¹⁷ <http://www.statistics.gov.uk/statbase/TSDtables1.asp>

¹⁸ <http://www.statistics.gov.uk/CCI/nugget.asp?ID=19>

Assessment findings

Principle 1: Meeting user needs

The production, management and dissemination of official statistics should meet the requirements of informed decision-making by government, public services, business, researchers and the public.

- 3.1 A tripartite group of ONS, the Bank and HMT meets regularly to discuss consumer prices issues at a working level. Proposals for changes to the index are considered by the Consumer Prices Advisory Committee (CPAC).
- 3.2 CPAC was established in 2009 by the UK Statistics Authority to advise it on proposals for methodological changes to the CPI and RPI, as recommended by ONS. CPAC has a broad membership that includes users from the Bank, HMT, the press, the Trades Union Congress, and the National Institute of Economic and Social Research. The Committee is chaired by the National Statistician. Issues discussed at CPAC are made public through the publication of papers submitted to the UK Statistics Authority Board¹⁹. We suggest that ONS publish additional information on the issues considered by CPAC to increase the transparency of the way in which priorities are set for developing these statistics.
- 3.3 A report on the triennial review²⁰ of the CPI and RPI²¹ was published in November 2009. This presented the results of a user survey which was sent to HMT, The Bank and the Department for Business, Innovation and Skills (BIS). The report summarises the main uses of these statistics.
- 3.4 In the past ONS has held regular user group meetings although these have now stopped. Some users who responded to us as part of this assessment commented that they did not feel that they were regularly consulted with, or informed, about forthcoming changes to the statistics. The Assessment team would have expected to have seen evidence of regular engagement with more users from outside government. As part of the designation as National Statistics, ONS should take steps to develop a more complete understanding of the use made of the statistics; publish the relevant information and assumptions and use them to better support the beneficial use of the statistics²² (Requirement 1).
- 3.5 ONS carried out a public consultation about changes to the methods used in constructing mortgage interest payments series in the RPI. Responses are summarised in *ONS Response to Public Consultation on the Measurement of Mortgage Interest Payments*²³ published in October 2009. This paper states the background, changes to be made and when, and views expressed in the consultation.

¹⁹ <http://www.statisticsauthority.gov.uk/about-the-authority/board-and-committees-documentation/minutes-and-papers/index.html>

²⁰ A review conducted by ONS on a voluntary basis

²¹ http://www.statistics.gov.uk/downloads/theme_economy/CPI_Triennial_Review.pdf

²² In relation to Principle 1 Practice 2 of the Code of Practice

²³ <http://www.ons.gov.uk/about/consultations/measurement-of-mortgage-interest-payments-within-the-retail-prices-index--2009/ons-response-to-public-consultation-on-the-measurement-of-mortgage-interest-payments.pdf>

- 3.6 ONS redesigned *Consumer Price Indices Statistical Bulletin* for the June 2010 estimates, published in July. This was the first significant redesign of the release for over 10 years. The new release focuses on one measure of inflation, the CPI. The background notes to the release explain that the changes were introduced to reduce confusion for users and to ensure that key messages are conveyed clearly. One user expressed concern to us that ONS had made these changes without having consulted widely on the changes beforehand. ONS invited comments on draft versions of the redesigned release from CPAC and from some media representatives. By focusing the new release on the CPI, ONS appears to be downgrading the RPI as a measure of consumer price inflation. The Assessment Team considers this a significant development that would benefit from wider consultation. Some users prefer the RPI as a measure of inflation because it includes many housing costs that are excluded from the CPI. As part of the designation as National Statistics, ONS should publish a consultation document on its future plans for disseminating the CPI and RPI²⁴ (Requirement 2).
- 3.7 Some users told us that they wanted separate price indices for different geographical areas. The Technical Manual provides information on a report by the RPI Advisory Committee in 1971 that found the compilation of regional price indices would be feasible although costly and expressed some reservations about their desirability. The Department of Employment, which at that time was responsible for the RPI, did not proceed.
- 3.8 In the 2003 Budget, the Chancellor announced plans to produce regional price indices for the UK. ONS published its plans for addressing this need later that year in *Developing estimates of relative regional consumer price levels*²⁵ It also published the results of surveys that compared consumer price levels between different UK regions in 2003²⁶ and 2004²⁷. The *Allsopp Review of Statistics for Economic Policy Making*²⁸ supported the approach taken by ONS to regional price surveys, although ONS has not carried out any further regional price survey since 2004. We suggest that ONS publish information on its current approach to developing relative regional consumer price levels and regional price indices to update the approach published in 2003.

²⁴ In relation to Principle 1 Practice 1 and Protocol 1 Practice 7 of the Code of Practice

²⁵ <http://www.statistics.gov.uk/CCI/article.asp?ID=481>

²⁶ <http://www.statistics.gov.uk/CCI/article.asp?ID=743>

²⁷ <http://www.statistics.gov.uk/cci/article.asp?id=1016>

²⁸ <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=14718>

Principle 2: Impartiality and objectivity

Official statistics, and information about statistical processes, should be managed impartially and objectively.

- 3.9 ONS publishes statistics on consumer price indices in an orderly and timely manner on its website, free of charge to users. Pre-release access to these statistics are publicised on the ONS website²⁹.
- 3.10 Once the RPI figures are published they are never revised. This is because of the problems revisions would cause to users, particularly in relation to the use of RPI for index-linking. When errors have occurred, an announcement has been made of the size of the error and by how much the correct value differed from the published value. Although the index is not revised for the month or months in error, it is set to the correct level going forwards at the earliest opportunity so that the error is not continued into the future. As part of the designation as National Statistics, ONS should write to the Authority to seek an exemption from Principle 2 Practice 7 of the Code for the practice never to revise published RPI figures³⁰ (Requirement 3).
- 3.11 CPI indices are subject to revisions. In February 2006 ONS changed the reference period for the CPI from 1996=100 to 2005=100. At the same time, it changed its rounding procedure for the CPI which resulted in around one-third of the monthly and annual rates of change being revised. An ONS News Release³¹ in December 2005 preannounced the rebasing of the CPI and drew attention to expected revisions to historical rates of change. The *Consumer Price Indices Statistical Bulletin* includes only a brief summary of the revisions policy for these statistics. We suggest that ONS provide signposting to further details of the re-referencing in the *Statistical Bulletin*.
- 3.12 An error was made in adjusting for the change in Value Added Tax (VAT) in the December 2008⁹ CPI/RPI figures which were published on 20 January 2010⁹. The error did not affect the headline statistics or the standard lower level aggregates although three supplementary series were affected. A revised release was issued on 26 January 2010⁹ which explained the error³².

²⁹ <http://www.ons.gov.uk/about-statistics/ns-standard/cop/compliance/monthly/cpi.html>

³⁰ In relation to Principle 2 Practice 7 of the Code

³¹ <http://www.statistics.gov.uk/pdfdir/cpirebasing1205.pdf>

³² <http://statistics.gov.uk/pdfdir/cpinr0109.pdf>

Principle 3: Integrity

At all stages in the production, management and dissemination of official statistics, the public interest should prevail over organisational, political or personal interests.

- 3.13 The *Statistics and Registration Service Act 2007* requires the Chancellor rather than ONS's Head of Profession to approve fundamental changes to the coverage and basic calculation of the RPI in certain circumstances. ONS told us that it has not sought the Chancellor's approval for any such changes since the Act came into force. As part of the designation as National Statistics, ONS should write to the Authority to seek an exemption from Principle 3 Practice 3 of the Code for the Chancellor's statutory responsibility to approve certain changes to the coverage and basic calculation of the RPI³³ (Requirement 4).
- 3.14 In December 2003 the National Statistician announced that the HICP would be renamed the CPI on the same day that the Chancellor announced that the HICP would become the government's new operational measure for inflation. The two announcements were coordinated. One user expressed concern to us that the National Statistician's decision to rename the HICP the CPI in 2003 was politically inspired. The same user expressed a similar concern relating to the redesigned *Consumer Price Indices Statistical Bulletin* published in July 2010, which was just a month after the Chancellor announced his intention to use the CPI rather than the RPI to index benefits and pensions. She was concerned that this could create the impression that the change to the bulletin was politically inspired. ONS told us that it had planned to redesign the bulletin before the Chancellor's announcement and that the decision to publish the redesigned bulletin in July was taken independently from the Chancellor's announcement.
- 3.15 ONS has published some articles in response to criticism in the media about the reliability of these statistics. One example of this occurred in 2008 when the public perception was that **inflation was higher than the official statistics** **CPI was higher than RPI**. ONS published an article³⁴ which reviewed evidence on the perception that inflation is higher than suggested by official estimates.
- 3.16 ONS statisticians are involved in press briefing at the time of statistical releases. This provides ONS statistical experts with an opportunity to comment publicly on these statistics.

³³ In relation to Principle 3 Practice 3 of the Code

³⁴ http://www.statistics.gov.uk/elmr/09_08/downloads/ELMR_Sep08_Marks.pdf

Principle 4: Sound methods and assured quality

Statistical methods should be consistent with scientific principles and internationally recognised best practices, and be fully documented. Quality should be monitored and assured taking account of internationally agreed practices.

- 3.17 ONS publishes two documents that explain how it compiles the CPI and RPI. *Consumer Price Indices – A Brief Guide*³⁵, is a short document that is written in plain English and is aimed at a non-specialist audience. *Consumer Price Indices Technical Manual*³⁶ provides extensive technical documentation, covering the concepts underpinning the indices, the methods used, the collection and validation of prices, the calculation of weights, and the publication and usage of the different indices.
- 3.18 The ONS website³⁷ provides links to information about the methods used in the compilation of the CPI and RPI. This includes the technical manual, changes to the basket of goods and a guide to measuring inflation. ONS also published *Summary Quality Report for Consumer Price Indices*³⁸ in 2006 which pulls together information on the six Eurostat dimensions of quality. This provides useful information on data quality. We suggest that ONS update this report to include more recent changes.
- 3.19 The statistical methods used to produce the CPI are, in the main, consistent with recommended international best practice as set out by Eurostat in its Compendium of HICP reference documents³⁹. The main area of non-compliance with European Council Regulation No. 701/2006⁴⁰ is in relation to the time coverage of price collection. The Regulation, which came into force in 2008, stipulates that price collection must take place over the period of at least one working week around the centre of the month. The reason for the deviation of the UK figures from the standard is that the same data are collected for both CPI and RPI, and the RPI represents a day in the middle of the month. ONS is carrying out additional pilot data collection to address the issue. The pilot collects fruit and vegetable prices over three days each month instead of the current one day in the middle of the month. We suggest that ONS publish the results of the pilot work once it is complete.
- 3.20 The Consumer Price Indices Technical Manual provides very detailed information about the different ways in which the CPI and RPI have been constructed. However, it is not always clear whether the different approaches that have been adopted in the past for the RPI remain appropriate today. For example:
- The use of the arithmetic mean to combine individual prices rather than the geometric mean;

³⁵ <http://www.statistics.gov.uk/statbase/product.asp?vlnk=62>

³⁶ <http://www.statistics.gov.uk/statbase/product.asp?vlnk=2328>

³⁷ <http://www.statistics.gov.uk/cci/nugget.asp?ID=1709>

³⁸ <http://www.ons.gov.uk/about-statistics/methodology-and-quality/quality/qual-info-economic-social-and-bus-stats/quality-reports-for-economic-statistics/summary-quality-report-for-cpi.pdf>

³⁹ http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-AO-01-005/EN/KS-AO-01-005-EN.PDF

⁴⁰ <http://eur-lex.europa.eu/lex/LexUriServ/LexUriServ.do?uri=OJ:L:2006:122:0003:0004:EN:PDF>

- A classification system specified and developed by earlier RPI Advisory Committees, rather than a system founded on National Accounts principles and based on the international classification system for household consumption expenditure; and
- The use of a population base that excludes the top four per cent of households by income and pensioner households mainly dependent on state benefits.

As part of the designation as National Statistics, ONS should prepare a report that explains the rationale for the particular ways in which the RPI continues to be constructed, that contrast with the ways in which the CPI is constructed⁴¹ (Requirement 5).

- 3.21 Quality assurance of the data is carried out using a range of field checks, audits and validation checks. A description of these processes is included in the *Technical Manual*. ONS also produces a quality manual that documents the quality processes used in the production of the statistics. This is used for audit purposes and is not published. As part of the designation as National Statistics, ONS should publish quality guidelines for these statistics⁴² (Requirement 6).
- 3.22 The CPI's exclusion of most elements of owner-occupied housing costs lessens its relevance for many users. The Bank and HMT would both like to see these costs included in the CPI. There is no international agreement on the appropriate method for measuring these costs. This is Eurostat's highest development priority for HICP and ONS participates in a Eurostat HICP Steering Group which is considering the measurement of owner occupied housing costs. ONS told us that it is developing plans to include new measures of owner-occupied housing costs in the CPI, suitable for release in the first half of 2011, initially as *experimental statistics*⁴³. As part of the designation as National Statistics, ONS should complete and publish its proposals to include owner-occupied housing costs in the CPI⁴⁴ (Requirement 7).

⁴¹ In relation to Principle 4 Practices 1 and 5 of the Code of Practice

⁴² In relation to Principle 4 Practice 4 of the Code of Practice

⁴³ Experimental statistics are new official statistics undergoing evaluation. They are published in order to involve users and stakeholders in their development and as a means to build in quality at an early stage.

⁴⁴ In relation to Principle 4 Practices 2 and 5 of the Code of Practice

Principle 5: Confidentiality

Private information about individual persons (including bodies corporate) compiled in the production of official statistics is confidential, and should be used for statistical purposes only.

- 3.23 Data collected from shelf prices in retail outlets and taken from the internet is not confidential. ONS collects some price data directly from retailers that have national pricing policies. Although these data are not confidential, ONS treats them as being confidential. ONS does not publish or pass on any data relating to individual businesses or retailers. Ad hoc requests for detailed data are checked for disclosure based on the number of price quotes included within the aggregate.

Principle 6: Proportionate burden

The cost burden on data suppliers should not be excessive and should be assessed relative to the benefits arising from the use of the statistics.

- 3.24 It costs ONS around £2.3million a year to produce these statistics.
- 3.25 Most data are collected by contractors recording shelf prices on handheld computers in shops and by ONS staff collecting prices from the internet. Since the prices are simply observed, their collection does not impose a burden on retailers. As a courtesy, introduction letters are sent to retailers which request permission for collectors to enter and collect prices from outlets. These letters also explain why the prices are collected and what the data are used for.
- 3.26 ONS collects some price data from central sources, for example, from larger chain stores that have national pricing policies. ONS estimate the burden that this imposes on its suppliers is xxx.
- 3.27 The *Office for National Statistics Simplification Plan 2009*⁴⁵ describes how ONS is reducing the administrative burden from its data collection.

⁴⁵ http://statistics.gov.uk/downloads/theme_other/SimplificationPlan2009.pdf

Principle 7: Resources

The resources made available for statistical activities should be sufficient to meet the requirements of this Code and should be used efficiently and effectively.

- 3.28 ONS has taken steps to develop its approach to data collection. Insurance indices were previously based on a small number of price quotes collected from websites. ONS identified a market research company which collects a much wider range and larger sample of insurance data. ONS agreed a contract with the company to supply a subset of this disaggregated information. In deciding to proceed with this approach, ONS told us that it considered the cost of the contract against the increased quality from the wider coverage.
- 3.29 ONS has been planning to redevelop its computer systems for the CPI and RPI to allow the data to be processed more efficiently. These plans are currently being reviewed by the Cabinet Office.
- 3.30 The estimated cost to ONS of producing these statistics was reduced significantly between 2005/06 to 2008/09. This was mainly due to replacing data collection over the phone with internet-based collection from websites.
- 3.31 The production of CPI and RPI statistics was successfully relocated from London to Newport during 2007 with minimal transfer of staff. ONS told us that the quality of CPI and RPI statistics was maintained during the period of this relocation.

Principle 8: Frankness and accessibility

Official statistics, accompanied by full and frank commentary, should be readily accessible to all users.

- 3.32 ONS produces a wide range of material relating to consumer price indices to cater for different types of users. The redesigned *Consumer Price Indices Statistical Bulletin* for June 2010 (see para 3.6) is clearer and better presented than the old release. It includes new graphs and data tables which are presented alongside written commentary in a helpful way. Many of the data tables in the old release have been removed, but are still published by ONS on its website and a link is included in the release. The release no longer presents any international comparisons. ONS plan to review the new *Statistical Bulletin* in October 2010. We suggest that ONS consider reinstating some international comparisons in the *Statistical Bulletin* as part of that review.
- 3.33 The *Consumer Price Indices Statistical Bulletin* and the *Focus on Consumer Prices* contain detailed information on price changes for goods and services accompanied by commentary and by information on methods, procedures and classifications.
- 3.34 The *Focus on Consumer Prices* contains RPI pensioner indices and one and two person pensioner household weights. No additional information is provided in the publication to explain how to use the indices or how they are compiled. As part of the designation as National Statistics, ONS should include further detail on the methods used to compile the pensioner indices and how they should be used⁴⁶ (Requirement 8). The pensioner indices are the only example of consumer price indices produced for a specific population group. One user told us that he wanted separate price indices for a range of different household types. We suggest that ONS publish information on the feasibility and desirability of producing separate price indices for a range of different household types.
- 3.35 The ONS produce a *Personal Inflation Calculator* which allows individuals to find out their personal inflation rate using RPI. Users input their own spending habits to find out how their rate differs from the national one over the last year. This is a straightforward way for the public to make use of official statistics that are applicable to their own lives. The *Personal Inflation Calculator* is in an easy to access section of the ONS website.
- 3.36 The *Focus on Consumer Prices* contains a useful page summarising the documents available on CPI/RPI and how to find these on the NS website. This includes links to available datasets which are not clearly signposted on the website. This signposting information would aid navigation. As part of the designation as National Statistics, ONS should make summary information on the full range of documents and datasets relating to these statistics more widely available to users⁴⁷ (Requirement 9).

⁴⁶ In relation to Principle 8 Practice 2 of the Code of Practice

⁴⁷ In relation to Principle 8 Practice 4 of the Code of Practice

Protocol 1: User engagement

Effective user engagement is fundamental both to trust in statistics and securing maximum public value. This Protocol draws together the relevant practices set out elsewhere in the Code and expands on the requirements in relation to consultation.

3.37 The requirements for this Protocol are covered elsewhere in this report.

Protocol 2: Release practices

Statistical reports should be released into the public domain in an orderly manner that promotes public confidence and gives equal access to all, subject to relevant legislation.

- 3.38 All ONS releases are accessible through the National Statistics Publication Hub. ONS publishes a full timetable of releases and the publication timetable for the CPI and RPI for the following six months is included in the background notes of the *Consumer Price Indices Statistical Bulletin*.
- 3.39 The National Statistician has granted certain exceptions to the restriction in the Pre-release Access to Official Statistics Order 2008⁴⁸ which limits pre-release access to a maximum of 24 hours. These exceptions are provided for under Principle 5 of the Order. The following two exceptions for consumer price indices were announced in December 2008⁴⁹:
- The Monetary Policy Committee, the Chancellor and two HMT officials are granted up to 3.5 days pre-release access when the Monetary Policy Committee meeting falls three (working) days prior to release; and
 - [The Governor of the Bank of England](#). Ministers and their close briefing officials are informed at 5pm on the Friday before CPI publication in months when the CPI figure triggers an Open letter from the Governor ~~of the Bank~~ to the Chancellor.
- 3.40 The National Statistician announced ~~a~~ further exceptions in April 2009⁵⁰ [and March 2010](#) to grant Ministers and their close briefing officials extended pre release access to the March 2009 [and February 2010](#) CPI and RPI figures. This was to enable the statistics to be used in the preparation of the Budget Statements. The National Statistician wrote to the Chair of the UK Statistics Authority at the time of these announcements, explaining the reasons for the decisions.
- 3.41 The current list of those with pre-release access to these statistics covers almost 40 recipients. ONS is undertaking a corporate review of pre-release access lists, but we understand that this is taking a long time to complete. As part of the designation as National Statistics, ONS should review the list of those with pre-release access to these statistics with the aim of reducing the number of those granted access⁵¹ (Requirement 10).
- 3.42 The Code requires National Statistics releases to be issued at 9.30am on the day of publication. ONS's website systems do not enable releases to be published simultaneously, which means there is sometimes a delay beyond 9.30am. One user told us that he is never able to access the data at 9.30am and that this is of very serious concern to him. ONS informed us that this matter is being reviewed as part of the web development programme, which is due to

⁴⁸ http://www.opsi.gov.uk/si/si2008/uksi_20082998_en_1

⁴⁹ <http://www.ons.gov.uk/about/newsroom/statements/announcement-by-the-national-statistician-15-12.html>

⁵⁰ <http://www.ons.gov.uk/about/newsroom/statements/announcement-by-the-national-statistician-17-4.html>

⁵¹ In relation to Protocol 2 Practice 7 of the Code of Practice.

be completed in early 2011. As part of the designation as National Statistics, ONS should ensure that all releases are issued at 9.30am on the day of release by January 2011⁵² (Requirement 11). The same Requirement has been made in the assessment reports for ONS labour market statistics⁵³, balance of payments statistics⁵⁴ and overseas travel and tourism statistics⁵⁵.

⁵² In relation to Protocol 2 Practice 4 of the Code of Practice

⁵³ Assessment Report 34, Requirement 5, para 3.51

⁵⁴ Assessment Report 45, Requirement 12, para 3.35

⁵⁵ Assessment Report 47, Requirement 7, para 3.32

Protocol 3: The use of administrative sources for statistical purposes

Administrative sources should be fully exploited for statistical purposes, subject to adherence to appropriate safeguards.

3.43 ONS has a published statement of administrative sources⁵⁶.

⁵⁶ <http://www.ons.gov.uk/about-statistics/ns-standard/cop/statement-of-administrative-sources/index.html>

Annex 1: Suggestions for improvement

A1.1 This annex includes some suggestions for improvement to the ONS' consumer price indices, 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 | Publish additional information on the issues considered by CPAC to increase the transparency of the way in which priorities are set for developing these statistics (para 3.2). |
| Suggestion 2 | Publish information on ONS's current approach to developing relative regional consumer price levels and regional price indices to update the approach published in 2003 (para 3.8). |
| Suggestion 3 | Provide signposting to further details of re-referencing in <i>Consumer Price Indices Statistical Bulletin</i> (para 3.11). |
| Suggestion 4 | Update the <i>Summary Quality Report for Consumer Price Indices</i> to include more recent changes (para 3.18). |
| Suggestion 5 | Publish the results of pilot work to collect prices data over three days each month once it is complete (para 3.19). |
| Suggestion 6 | Consider reinstating some international comparisons in <i>Consumer Price Indices Statistical Bulletin</i> as part of the planned review of the redesigned <i>Statistical Bulletin</i> (para 3.32). |
| Suggestion 7 | Publish information on the feasibility and desirability of producing separate price indices for a range of different household types (para 3.34). |

Annex 2: Summary of assessment process and users' views

A2.1 This assessment was conducted from April to August 2010.

A2.2 The Assessment team – Neil Jackson, Catherine Barham and Kim Reimann – agreed the scope of and timetable for this assessment with representatives of ONS in April 2010. The Written Evidence for Assessment was provided on 21 June. The Assessment team subsequently met with ONS during July 2010 to review compliance with the Code of Practice, taking account of the written evidence provided and other relevant sources of evidence.

Summary of users contacted, and issues raised

A2.3 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.

A2.4 The Assessment team received 22 responses from the user consultation. The respondents were grouped as follows:

Government departments	7
Insurance companies	7
Suppliers	2
Journalists	1
Others	5

A2.5 Most users we approached expressed general approval of the detail and commentary provided in the three publications. They also conveyed satisfaction with the prompt and informative service received upon contacting ONS with queries or data requests. Some commented that there is little or no user consultation and engagement and that they would like to be contacted by the ONS more frequently. Some complained about the accessibility of data on ONS's website and would like ONS to make it easier to find relevant data. A number of users would like to see owner-occupied housing costs included in the CPI. Some users wanted separate price indices for different household types and for different geographical areas.

Key documents/links provided

Written Evidence for Assessment document

Consumer Price Indices Statistical Bulletin

<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=868>

Focus on Consumer Price Indices

<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=867>

Consumer Price Indices Briefing Note

<http://www.statistics.gov.uk/statbase/product.asp?vlnk=868>

Title: Draft response to assessment

Categorisation

CPI Production Branches\Statistics Authority
Assessment

Originator: Philip Gooding on 08/09/2010

Editors: Philip Gooding; Andy King; Darren Morgan;
Pam Davies; Richard CampbellStatus: **Default**

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Document Currently being edited by

Overall we have some concerns about the factual content and about some of the requirements and views expressed in the report. In particular we wonder about the weight put on individual user comments and about the negative tone of the report. This could adversely affect public perception of the inflation figures even though there is little criticism of the actual headline statistics. We also wondered about the scope of the assessment and in particular whether all of the proposals are relevant. We have included suggestions for factual changes using tracking in the Word version of your draft report below and our other views follow in the order of the document.

Para 1.1.1 - We are still concerned about whether the assessment relates to the CPI and RPI dataset or individual products. Would you perhaps clarify this for us and explain how the boundary is drawn between the three products covered and, for example, the Time Series dataset?

Para 1.3.1 - The end of this paragraph says that "There is less evidence of regular engagement with a wider range of users." The Consumer Prices Advisory Committee (CPAC) includes a wide range of users representing academia, consumer groups, economic analysts, journalists and trades unions and this should be reflected here. There are also monthly briefings with journalists and a great deal of contact with users via phone and email: the team received over 3200 calls in 2009 and the Publications team alone received around 600 emails.

Para 1.3.2 - The text states that commentary focuses on the macroeconomic indicators of inflation but provides less information on the use as compensation indices. We are not sure of the point being made in this first sentence. Background note 12 of the Statistical Bulletin includes a summary of compensation uses compared with background note 3's description of macroeconomic uses: there appears to be equal treatment here. If the point being made is that there is less detailed commentary on the RPI figures in comparison with the CPI figures, then the Briefing Note provides full detail of the RPI.

Para 1.3.2 - The paragraph also states that the exclusion of owner-occupied housing costs lessens the relevance of the CPI. However, there has been considerable demand historically from users for specific series like RPIX and Rossi which exclude housing costs.

Para 1.5 - We will comment on the requirements against the relevant paragraphs of section 3. It is clearly important though that any changes to that section are carried back to paragraph 1.5.

Para 3.2 & suggestion 1 - CPAC has recently decided to publish information on the issues it considers following each meeting.

Paras 3.4, 3.5 & requirement 1 - The text comments on the lack of regular engagement with more users from outside government. This is already in place, beginning with the consultation on mortgage interest

payments last year which you mention. It is our intention to consult each year on relevant issues, for example, over the next few months on the treatment of seasonal items in the index. There is also substantial contact with external users via phone and email: over 3200 calls in 2009 to the production teams and around 600 emails just to the Publications team. There is already a sizeable amount of text on the uses made of the indices in the technical manual (for example, sections 1.4.1 to 1.4.3, 8.7 and chapter 10). Further work on the uses made of the index will be covered in the next triennial review which we will publicise to non-government users via our outputs, compendia and website. If the requirement stays in its current form, would you remove "and assumptions" which doesn't add to the point?

Para 3.6 & requirement 2 - The text should mention that ONS is already consulting users on the changes to the bulletin (which will be concluded in October) and has asked for feedback in each Statistical bulletin since the changes were made. Records of comments made and the number of hits on relevant web pages are being kept for use in that review. This approach to consultation was approved by CPAC which includes the National Statistician and other members of the UK Statistics Authority. ONS has no further plans for changing the dissemination arrangements so has nothing further to consult on. In view of this, is requirement 2 needed since we would hope to complete the review before the assessment report is made public? It's also a little disappointing that so much weight is given to one user when we are asking for feedback from all users of the Statistics Bulletin.

Para 3.8 & suggestion 2 - Shouldn't the development of relative regional consumer price levels be out of scope of this assessment which relates to the quality of the CPI/RPI? Certainly, if regional price indices are to be considered then a new computer system would be needed to support it and priorities across ONS would have to be addressed widely, particularly in view of the current financial climate.

Para 3.10 & requirement 3 - The practice not to revise published RPI figures is long established and based on clear user need and public interest. RPI is used extensively for indexation of financial instruments and uprating benefits: changes to published figures would cause severe disruption and havoc to financial markets. We consider our practice to be in line with the Code of Practice: errors are corrected promptly in a way that meets the public interest, and stakeholders are informed promptly. This accords with Preamble point 'x' of the Code. We do not consider that we require an exemption from the Code.

Para 3.11 & suggestion 3 - It is quite straightforward to signpost in the Bulletin further details on re-referencing which are in the Technical Manual (in sections 2.6 and 9.1.3) but this is quite historical and there have been no queries since the work relocated to Newport. As a result, we question whether the additional referencing adds value to the Bulletin.

Para 3.12 - In the draft, we have corrected the years but we also wondered about this paragraph in total. Having made the error, was the approach taken correct or should we have dealt with it differently?

Para 3.13 & requirement 4 - We consider that no exemption is required. The legislation establishing the requirement for a Code of Practice also established the arrangements for making changes to the RPI. It is necessary for the UKSA to ensure that these operate in a consistent manner. Arguably the Code should have made specific reference to the different arrangements for the RPI but we would argue that this is implicit through the SRSA 2007 though if this is not the case then we consider that the Code should be revised to clarify the position. If however it is considered that an Exemption is specifically required it is for the UKSA to seek the exemption as the restrictions in the Act apply to them not to ONS.

Para 3.14 - Is the action to rename the HICP to CPI in 2003 that relevant to this report? Regarding the more recent redesign of the Bulletin, proposals for change were discussed by CPAC in March, before the general election was even called. These explained the thinking of concentrating on one inflation measure, the CPI. We appreciate that the Assessment Team will not have seen that paper but the current drafting leaves ONS open to suspicion and criticism. Is it possible to say "Initial plans to change the emphasis of the Bulletin towards the CPI were discussed much earlier, in particular in a March meeting of the Consumer Prices Advisory Committee, and all decisions were taken independently from the Chancellor's announcement."

Para 3.18 & suggestion 4 - The summary quality report was updated in November 2009 but one of the

links on the website is to an old version. We will update the link immediately. The web address in the relevant footnote (number 38) of the draft assessment is correct.

Para 3.19 & suggestion 5 - Our intention is to publish the results of the pilot on temporal sampling. This is one example of work which will be put out on a developments page currently being created on the website. Would you change the wording of the suggestion in annex 1 since it could currently be misinterpreted? Although the pilot collects on three days a month, the outcome could be to collect on, for example, two days per month. Perhaps say "Publish the results of pilot work to collect prices data over a longer period each month once it is complete."

Para 3.20 & requirement 5 - The different approaches for the RPI are historical and we are limited by some of the uses made of it to produce the statistics on a consistent basis each month. Our current approach is to try to develop the RPI in step with the CPI, for example basket updates make the same changes to RPI as CPI. We are however currently further analysing the relationship between the CPI and RPI with the aim of publishing at the end of the year. It would be better to recommend that CPAC includes a review of these differences in its future work programme.

Para 3.21 & requirement 6 - The ONS already publishes a great deal of quality information on CPI/RPI in a combination of the Technical Manual and the Summary Quality Report. We have concerns about making more information available and we doubt the value to users of doing so.

Para 3.22 & requirement 7 - The paragraph needs redrafting to clarify the work being carried out on owner-occupied housing costs. The work is being done by CPAC who will report to UKSA. It is for UKSA to decide whether to publish the report. In practice that decision is likely to have been taken before this Assessment is signed off so this requirement should no longer be necessary. The final two sentences of the paragraph beginning "ONS told us...." should be redrafted to "The Consumer Prices Advisory Committee is currently investigating how owner-occupied costs could best be included in the CPI. It is expected to report its findings to the UK Statistics Authority shortly. As part of the designation as National Statistics, UKSA should publish this report." If the requirement remains in the report, then it needs to be rewritten as "UKSA to publish....".

Para 3.26 - The compliance cost is £17k from the latest Simplification Plan.

Para 3.30 - This begins "The estimated cost to ONS..." but then discusses compliance cost. The paragraph should perhaps be moved to the section on principle 6.

Para 3.31 - Could the second sentence about the quality of CPI and RPI statistics during relocation be rewritten as:

In its annual assessment of ONS performance, the Bank of England said 'The relocation of the labour market and prices teams to Newport does not appear to have had any adverse impact on their statistical outputs.'

This provides external evidence of our statement about quality being maintained and would hopefully remove any possible suspicion of the ONS view.

Para 3.32 & suggestion 6 - We will consider all of the tables when we review the Statistical Bulletin in October but how many users of the international statistics requested to you that the table be reinstated? One of the reasons for removing this table was the potential for confusion since it mostly includes data for a month behind the CPI/RPI dataset. Over the last few years, we have also not had one query in relation to the international position and for any interested users, the data are still published in the Focus on Consumer Prices and in the Time Series database.

Para 3.34 & requirement 8 - The pensioner indices compilation is described in the Technical Manual and it would be possible to mention their inclusion in that document in the Focus. The ONS intentionally does not provide any additional information detailing how the indices should be used, outside that contained in the Technical Manual section 8.7 (which gives general guidelines to consider when using the indices). The ONS would not wish to contradict policy employed by other Government departments or private companies in contracts or legal agreements. By doing so we could be considered liable for any loss of

income resulting from our advice.

Para 3.34 & suggestion 7 - The suggestion of producing separate indices for a range of different household types can be considered in the work programme but was a justification provided for this work and why has so much weight been given to one user?

Para 3.36 & requirement 9 - The vast majority of the summary information linked in the Focus is available on the website, on our page of archived CPI and RPI articles - http://www.statistics.gov.uk/about/methodology_by_theme/CPI/. This is available from our methodology page - <http://www.statistics.gov.uk/cci/nugget.asp?ID=1709>. The items that are not on the articles page are more recent and can be accessed directly from our methodology or guide to finding CPI/RPI pages. Would you give us more detail on what is required here?

Para 3.41 & requirement 10 - The minimisation of pre-release access lists is now complete with the exception of two Departments: HM Treasury and Home Office, which are still under discussion with the National Statistician. The new pre-release lists have been applied from 1 September.

Para 3.42 & requirement 11 - A number of short-term improvements have already been made to the ONS website. Given the timing of the releases of the new website from the Web Development Programme in the first half of next year, it has been agreed that no additional resources will be invested in short-term improvements to the current website which would be lost once the new website is launched. In addition, a moratorium on the changes to the 'static' pages comes into effect at the end of September while all content is migrated to the new website.



Factual corrections highlighted using tracking - Assessment_report_cpi draft to producers & N.

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Issue

There is growing interest in CPIH and private housing rental prices because of comments on policy raised by the leader of the Opposition and the potential for the Bank Of England's inflation target to be switched, an issue identified by the Bank's new chief economist in an appearance before a parliamentary select committee. This document provides briefing on the CPIH measure of consumer price inflation and the index of private housing rental prices (IPHRP).

Background

What is CPIH?

CPIH is a measure of UK consumer price inflation that includes owner occupiers' housing costs (OOH).

What is OOH and how is it measured?

These are the costs of housing services associated with owning, maintaining and living in one's own home. OOH does not include costs such as utility bills, minor repairs and maintenance, which are already included in consumer price indices, nor does it include house prices. CPIH uses an approach called rental equivalence to measure OOH. Rental equivalence uses the rent paid for an equivalent house as a proxy for the costs faced by an owner occupier. In other words this answers the question "how much would I have to pay in rent to live in a home like mine?" for an owner occupier. OOH does not seek to capture increases in house prices. Although, this may be inconsistent with some users' expectations of measures of OOH, the inclusion of an asset price and therefore capital gains makes the measure less suitable for a measure of consumption. OOH currently accounts for just over 15% of the expenditure weight of

CPIH. This has increased notably from a weight of 10% in 2005.

There are a number of internationally recognised ways to estimate OOH. The choice to use rental equivalence was made by the UK Statistics Authority following a public consultation on the two main options and on the advice of the Consumer Prices Advisory Committee (CPAC). The other options considered were.

Net acquisitions, which treats a house as the purchase of a good that is part asset (the land) and part consumable (the house), plus costs associated with buying and maintaining a house, for example major repairs, transfer costs and dwellings insurance. This method was not recommended by CPAC as it includes the price of an asset (eg the value of land which is included in the house price). CPIH under the net acquisitions method would therefore be influenced by capital gains or losses associated with a house purchase, rather than the costs associated with owner occupation of the house.

Narrow User Cost, which treats a dwelling as a capital good that provides a flow of services that are consumed each month. This includes the opportunity cost to the owner occupier of having money tied up in the dwelling rather than being available for some other purpose. This method was not suitable due to the subjectivity involved in determining the real rate of interest used to infer those opportunity costs.

Payments Approach, which includes expenditure on mortgage interest payments. This method was not suitable as mortgage interest payments are directly influenced by official interest rates, which would make the new index less suitable for use as an inflation target measure, were the Government to decide to do so at some point in the future.

How does CPI relate to other consumer price statistics?

Currently, the method of calculation, the population coverage and the basket of goods and services for CPIH are the same as the CPI, with the exception of OOH. The method of deriving the weights for CPIH and the data used for these are also the same as for CPI, with the exception of OOH. This can result in some differences between the two measures.

While the production of CPI is governed by European regulations, CPIH is not. This means that it will be possible for CPIH to be developed in line with the needs of the UK should these

deviate from those of the European Union (EU). To date, the use of rental equivalence as opposed to the EU's preferred net acquisitions approach to measure OOH is the only time where this has happened.

The RPI and RPIJ measure OOH using a mixture of mortgage interest payments, house depreciation and fees associated with the purchase of a house. The potential use of mortgage interest payments for CPIH was ruled out at an early stage as they are directly influenced by official interest rates, which would make the new index less suitable for use as an inflation target measure, were the Government to decide to do so at some point in the future.

The CPI does not currently include a measure of OOH. European regulations have been passed that will require Member States to produce a stand-alone OOH index using the net acquisitions approach. This approach treats a house as the purchase of a good that is part asset (the land) and part consumable (the house), plus costs associated with buying and maintaining a house, for example major repairs, transfer costs and dwellings insurance. This method was not recommended for use in CPIH as it includes the price of an asset (eg the value of land which is included in the house price). Were it to use the net acquisitions method CPIH would be influenced by capital gains or losses associated with a house purchase, rather than the costs associated with owner occupation of the house.

C - Concerns

Why the current interest in CPIH?

There are four main reasons for this.

1 - The Bank. In his pre-appointment evidence to the Treasury Select Committee on 30 April, Andy Haldane (the new chief economist at the Bank of England) mentioned that the Bank had been holding technical discussions with HM Treasury to assess whether the inflation target could be switched from CPI to CPIH. Details can be found in [this](#) article.

What is ONS doing? The choice of the measure used in the government's inflation target is a matter for HM Treasury and the Bank. ONS will provide advice and support on technical questions relating to the composition of its measures as it would with any user.

2 - Comparability with house prices. There has been a growing divergence between house

price inflation and growth in the OOH component of CPIH. This has raised concern among some commentators about the validity of the rental equivalence method. In some cases, this stems from a lack of understanding about what OOH measures. A vocal minority believe that a consumer price index should include house prices and that the failure to do so was one of the main factors leading up to the financial crisis of 2008. This goes against the basic, internationally agreed, principle that a consumer price index should measure consumption, not the acquisition of assets.

What is ONS doing? ONS has been addressing these concerns and informing users through engagement and education. This has included an [infographic](#), which explains how different housing costs are captured in inflation statistics, and direct engagement with commentators via StatsUserNet.

3 - Comparability with other private rents data. The OOH component of CPIH, the private rental prices components of CPI, CPIH, RPI and RPIJ and the new Index of Private Housing Rental Prices (IPHRP) are largely based on VOA data (other data sources are used for Wales, Scotland and Northern Ireland). These measures have shown slower rates of growth than other, non-ONS, measures of prices in the private rental market and are at odds with estimates of growth derived from data published by VOA.

What is ONS doing? ONS conducted investigations into the different sources of private rental data as part of its development of the rental equivalence measure. This identified the VOA data as the most suitable source for a number of reasons, including coverage and sample size. ONS continues to monitor available data sources. Perhaps the key difference between the ONS measures and other measures of rental prices is down to a misconception about what they are actually measuring. The ONS measures look across the whole stock of rental properties. Most tenants are fixed into agreements with landlords (average agreement is 18 months (but median tenancy around 5 years)), and the rent they pay will be fixed during this period. Other measures of rents often focus on the flow of rental properties - ie those coming on to the market. In discussions with representatives from the Residential Landlords Association they noted that the growth in rental prices shown by IPHRP matches their expectations.

The question of whether the stock or flow of private rental properties should be used in the measurement of rental equivalence has arisen recently in the context of the Johnson review. ONS is considering this, including obtaining the views of other countries. The views received


so far suggest that the stock of properties (ie what we currently do) should be used.

4 - Comparability with other VOA releases. VOA is beginning to extend the amount of statistics that it publishes from the administrative data it collects. The rental index produced by ONS differs to estimates of growth implied by VOA's private rental market statistics, despite them being produced from the same source. VOA's estimates of growth are based on estimates of the average level of rents, which are not mix adjusted or weighted and, as VOA notes alongside its publications, are not suitable for estimating growth. However, users, including at HMT, argue that the divergence between ONS and VOA data is large enough to merit further investigation, and this has been agreed as a priority at an inter-departmental steering group on housing price statistics.

What is ONS doing? ONS is working with VOA to understand these differences.

Legislative restrictions mean that VOA cannot share its microdata with ONS. To overcome this challenge, two ONS analysts experienced in dealing with these data have been seconded to VOA to work alongside one of their own analysts. This 'task force' will report on progress on a weekly basis.

Are there any other criticisms of CPIH or ONS private rental data?

An article by Neil Collins in the Financial Times () criticises the rental equivalence approach to measuring OOH, claiming that the measure will be skewed towards the price movements of smaller flats.

This is not the case however, as the sample of properties used in the CPIH OOH measure has been 'mix adjusted'. This means the composition of the sample reflects the composition of housing stock in the owner occupiers' market rather than the composition of the rental market. To achieve this, the data are stratified by property type (detached, semi-detached, terraced, flat/maisonette). Strata weights are calculated from owner occupied stock data produced by the Department for Communities and Local Government (DCLG), combined with average rental price information calculated from the VOA private rental data. The sample for the CPIH OOH measure contains in excess of 400,000 properties.

D - Lines to Take

Overall (for inclusion in the current media lines doc)

CPIH AND MEASUREMENT OF OWNER OCCUPIERS' HOUSING COSTS

There has been criticism from a few commentators and sectors of the media of the validity of the approach used to measuring owner occupiers' housing costs (OOH) in the new CPIH* measure of consumer inflation. Comments made by [REDACTED] [REDACTED] [REDACTED] suggesting that CPIH could replace the Consumer Prices Index for inflation targeting purposes mean that the focus on CPIH is likely to continue. The criticism stems from the use of private rental price data to measure these costs using an internationally recognised method known as rental equivalence. Critics of CPIH cite the divergence between house prices and rental prices, noting that this makes rental equivalence an unsuitable method for measuring OOH. This criticism stems in part from a misconception that OOH is attempting to measure house prices rather than the costs of housing services associated with owning, maintaining and living in one's own home.

CPIH was developed in line with internationally recognised methodology for measuring owner occupiers' housing costs. A comparable approach is used in many developed countries including Germany and the United States. The views of UK experts and users of consumer price statistics were taken on board in reaching this decision and consideration was given to the full range of possible methodologies. The data sources used to measure the owner occupiers' housing costs component of CPIH are comprehensive and robust. The sample for the CPIH OOH measure contains in excess of 400,000 properties and reflects the composition of the owner occupiers' housing market.

ONS has been addressing misconceptions of OOH through user engagement and education of users. This has included an [infographic](#), which explains how different housing costs are captured in inflation statistics, and direct engagement with commentators via StatsUserNet.

**CPIH is the name of the measure rather than an acronym. Please do not describe the measure as 'CPI plus housing'.*

Additional Detailed Lines

Confidence in CPIH. CPIH was developed in line with internationally recognised methodology for measuring owner occupiers' housing costs. A comparable approach is used in many developed countries including Germany and the United States. The views of UK experts and users of consumer price statistics were taken on board in reaching this decision and

consideration was given to the full range of possible options. The data sources used to measure the owner occupiers' housing costs component of CPIH are comprehensive and robust.

Working with the VOA. The VOA private rental market data provides a robust and comprehensive source of information on the private rental market. ONS analysts are working with VOA to understand how to best exploit the data to improve understanding of the evolution of price change throughout the private rental sector.

Comparability of private rental data sources . ONS has conducted investigations into the differences in rental market prices suggested by different data sources. These investigations have shown that the VOA private rental market data provides the most robust and comprehensive source of information on the private rental market. The VOA data looks at actual (not advertised) prices across the private rental sector - covering both long term rentals and those new to market.

Response to the Neil Collins FT piece . CPIH provides a comprehensive picture of inflation faced by UK households. In addition to covering the range of goods and services included in the Consumer Prices Index, CPIH takes into account the costs people face in owning, maintaining and living in their own homes. The method used to measure these owner occupiers' housing costs - known as rental equivalence - is based on internationally recognised methodology and is measured using comprehensive and robust data. The sample contains in excess of 400,000 properties and reflects the composition of the owner occupiers' housing market.

**Prices Division, ONS
May 2014**

Last Modified : 13/04/2015 18:38:51 by Richard Campbell

Consumer prices

Date	Topic	Activity	Audience	Lead	Feedback	Next steps
22.1.16	General	Technical and Stakeholder Advisory Panel meetings	Advisory panels	R. Campbell	[R. Campbell to advise]	
4.2.16	General	Discussion at RPI/CPI User Group	RPI/CPI User Group	R. Campbell	[R. Campbell to advise]	
26.2.16	OOH in CPIH	Dedicated Economic Forum event to explain the underlying rents data	General	J. Athow	c.50 attendees. Mostly positive, some questions about why we are not using net acquisitions or payments	Future article will address reasons for use of RE rather than NA or payments
3.3.16	CPIH	Publication of UKSA assessment report	General	UKSA	Stakeholders picked up on a number of criticisms, most notably suggestion that ONS needs to do more to make case for rental equivalence	Plans put in place for further engagement work throughout 2016
9.3.16	Future of consumer prices	Letter from J. Pullinger to A. Dilnot published on UKSA website. Email sent to over 500 stakeholders. Key journalists briefed. Notification places on SUN.	General	Various		
14.7.16	CPIH	Slot on CPIH at London Economic Forum	Informed users	J. Tucker		
14.7.16	CPIH	Article on OOH methodology published. Circulated to stakeholders and posted on SUN.	General	A.Woods		
TBC		Publication of final consultation outcome. Emails sent to stakeholders. Key journalists briefed.	General	Various		
TBC		Article setting out methodology in layman's terms published	Public	J.Athow		

Consumer prices communications and engagement log

Key

CPIH – Consumer Price Index including Owner Occupied Housing Costs

SUN – StatsUserNet

NA – Net Acquisitions

RE – Rental Equivalence

OOH – Owner Occupied Housing Costs

RPI – Retail Price Index

CPI – Consumer Price Index

UKSA – United Kingdom Statistics Authority

ONS – Office for National Statistics

Changes Roadmap for CPIH Becoming the ONS Preferred Measure and Cessation of Publication of RPI and RPIJ Data

	Branches Involved (L = lead, S = support)					
	Scale (3=big, 2=medium, 1=small)	CPI Production & User Engagement	CPI Production & Commodity Analysis	Purchasing Power Parities (resp for CPI and CPIH high level weights)	Prices Systems & Pretium	Prices Development
Nat stats assessment						
ADD EACH REQUIREMENT AND SUB REQUIREMENT AND NOTE ACTIONS	3	S	S		S	L
Inclusion of Council Tax & Revised OOH Weights						
Weights						
Get council tax expenditure info	2		S	L		S
Get NI rates expenditure info	2		S	L		S
Get revised OOH component weights info	2		S	L		S
Re-run class weights	2		S	L		S
Re-run item weights (if added to existing class)/ Calc class weights (if new class)	2		L	S		S
Re-run CPIHY class weights	2	L	S			
Classification						
Decide which class it goes in or whether a new class	1	S	L			S
Indices						
Get Series from RPI	1				S	L
Unchain data	1					L
Systems						
Sort new classification structure (eg input of new class)	2		S		L	S
Run through system	2		S		L	S
Analysis						
Off system estimates of differences	1					L
On system comparison of differences	2				L	S
Analysis of differences	1		S			L
Communication						
Draft paper demonstrating impact on indices and explaining differences	1	S	S		S	L
Re-take to APCP??	1	S				L
Discuss with Tripartite Group	1					L
Bulletin Re Design						
Workflow						
Review processes using existing process maps to ID any necessary changes to workflow - ie switch from CPI leading process to CPIH. Opportunity to consider removal of any existing RPI based processes	3	L	S	S	S	
Implement any changes	3	L	S	S	S	
Update STA G	2	L	S	S	S	
Publication process						
Switch collection team briefing from CPI to CPIH	2	S	L			
Switch initial contribution sheets from CPI to CPIH	1	S	L			
Modify 'reconciling diffs' file to remove RPIY and RPIX and include CPIHY	2	L	S			
Switch CPIY briefing to CPIHY or consider a joint briefing on the two. Aim is to save resource by dropping RPIY	2	L	S			
Review of all analytical files used by <u>production</u> team in publication process. Update any necessary from CPI to CPIH basis	3	L	S			
Review of all analytical files used by <u>publication</u> team in publication process. Update any necessary from CPI to CPIH basis	3	L			S	
Consider how RPI will be handled in future releases	1	L	S			S
Review other existing feedback (eg expert panel advice, user lab testing) to consider improvement to the bulletin format	1	L				
Ensure other initiatives (eg new website, Darren Morgan review of economic stats outputs) are taken into account in devising new format	1	L				
Produce a mock up of new bulletin format to share with users in advance of publication. Possible feedback round?	2	L				
Produce comms plan for engaging with users on the changes	2	L				
Produce 'final' new bulletin	1	L	S			
Reconciliation						
Decision on breakdown of a CPIH/ CPI reconciliation. How handle OOH? Ray H has done a lot of work on this.	1	L	S		S	S
Switch reconciliation with RPI from CPI to CPIH basis. Ray Harris has done a lot of work on this	2	L	S		S	S

Devise and implement improved 'bottom up' method for calculating reconciliation	3	S	S	S	L
Decision on whether improved reconciliation method can be implemented before CPIH becomes focal point	1	L	S	S	S
Detailed Briefing Note					
Consider future content and format of the note. Should CPI be replaced with CPIH? Could whole doc be replaced with an Excel file? May want to speak with some key users of this doc (eg City users and Defra)	2	L	S	S	S
Make necessary technical changes to input files.	2	S	L	S	S
Communicate changes with users	1	L	S	S	S
Launch new format briefing note.	1	L	S	S	S
Detailed Reference Tables					
Review which tables will have to go once production of RPI/ RPIJ related data ceases and production of remaining RPI data moves to a separate doc	1	L	S	S	S
Review which tables duplicate information and could be removed/ combined	1	L	S	S	S
Review extent to which Excel tables fit in with new website approach to publishing	1	L	S	S	S
Add a CPIH excluding OOH series	2	L	S	S	S
Produce new, smaller set of tables with focus on CPIH	2	L	S	S	S
Communicate changes with users. Including a read over between new and old tables	1	L	S	S	S
Publish an example set of tables in new format in advance of bulletin re-launch	1	L	S	S	S
Publish tables in new format in advance of bulletin re-launch	1	L	S	S	S
Time series Dataset					
Identify which series will no longer be required and work how best to store historic data on website	1	L	S	S	S
Sort storage of historic data	2	L	S	S	S
Re focus output to CPIH	1	L	S	S	S
Produce 1-month change CPIH series	1	S	L	S	S
Add a CPIH excluding OOH series	1	L	S	S	S
Personal Inflation Calculator					
Inform users of intention to cease production of the PIC	1	L	S	S	S
Inform digital publishing of intention to cease production of the PIC	1	L	S	S	S
Communication					
Include mentions in the bulletin	1	L	S	S	S
Consider mentioning at a RPI/ CPI User Group meeting	1	L	S	S	S
Discuss with Tripartite Group	1	L	S	S	S
Comms plan for wider engagement (eg StatsUserNet and Twitter)	1	L	S	S	S
Building confidence in CPIH					
User Engagement					
Work with ONS Visual team on specifying and designing products to accompany release of CPIH with council tax and bulletin re-launch	2	L	S	S	S
Consider a seminar(s) on CPIH as follow ups to London special Economic Forum	2	S	L	S	S
Identify key users working with external stakeholder team (Danny Langley) to meet with	2	L	S	S	S
Meet with key users	2	L	S	S	S
Work with ONS Media Relations Team (Luke Croydon) re identifying opportunities to engage with the media (eg journalist briefings, Moneybox)	2	L	S	S	S
Identify what internal comms are required with internal comms partner (Jackie Byard)	2	L	S	S	S
Data Provision					
Promotion of estimated CPIH back series to 1988	1	L	S	S	S
Work with Methodology to devise a modelled back series to c.1950	3	S	L	S	S
Linkage of Composite Price Index (Back to 1750) to CPIH based series	2	L	S	S	S
Development of average price series based on CPIH data and EU Detailed Average Prices methodology	3	L	S	S	S
Ceasing publication of RPI and RPIJ data					
General					
Identify all RPI based data that will cease to be produced	2	L	S	S	S
Check whether removal of the series will have any onward impact on processing of remaining indices	2	L	S	S	S

Confirm with Monitoring & Assessment on rules for ceasing production of the series	1	L
Internal comms plan to check impact on any other ONS outputs. Find alternate data they can use.	2	L
Devise comms plan for informing users. To include contacting all those who receive RPI special aggregate data.	1	L

RPI aggregation tool

Build pilot tool in Excel	2
Test pilot with a few users	2
National Statistics Work	2
Work with digital publishing (Darren Barnes) on specifying and building a main tool	2

Title: Next steps to CPIH becoming the preferred measure of inflation

Categorisation

Prices\Shaping the future of consumer price statistics

Originator: James Tucker on 30/03/2016

Status: **Default**


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This note is intended to frame discussion on the next steps to landing CPIH as our preferred measure of inflation, in follow-up to John Pullinger's letter of 9 March. The note focuses on the user/stakeholder engagement activities needed to build confidence in CPIH, and also outlines the main strands of work needed to ensure a smooth transition. Danny Langley's [Storify page](#) details the reaction to the 9 March announcement. [This document](#) produced by Richard Campbell summarises the engagement leading up to John's letter.

Stakeholder management plan

	Engagement strategy (manage closely; keep satisfied; keep informed)	Engagement plan	Comments
Advisory Panels	Manage closely	<ul style="list-style-type: none"> • Quarterly meetings • Ensure the panels have an opportunity to provide input to the work on meeting UKSA assessment requirements (e.g. article on choice of method for OOH) 	
Bank of England / HMT	Manage closely	<ul style="list-style-type: none"> • Regular engagement at tripartite meetings • Bilats between senior staff • Explore whether they can be encouraged to be more publically supportive of the move. 	It will be important to BoE and HMT on council tax in CPIH
OGDs	Keep satisfied	<ul style="list-style-type: none"> • 1:1s with departments that receive special aggregates of RPI 	Prices Development DWP on a custom Households Below publication

		<ul style="list-style-type: none"> ● Assist in move away from RPI where appropriate (e.g. as we are currently doing with DWP) and publicise successes 	
Markets	Keep satisfied	<ul style="list-style-type: none"> ● Regular engagement with DMO ● Clarify what will/won't be published on RPI 	Although there was might be discontinued we shouldn't publish next announcements
VOA	Manage closely	<ul style="list-style-type: none"> ● Ensure we join up with their consultation on Private Rental Market Statistics, and make sure our users are aware of these developments ● Should we respond to the consultation? 	Consultation running includes questions
Media	Keep informed	<ul style="list-style-type: none"> ● Explainer piece/visual on CPIH/method for OOH ● Advance briefing on changes to bulletin/briefing material ● Ring-around immediately following major announcements ● Social media 	Advice from MRO is media engagement John's update is pu
Other expert users	Keep informed	<ul style="list-style-type: none"> ● Present at Economic Forum in July ● Consider additional regional Economic Fora ● Engage with those receiving RPI special aggregates 	There was some pe London-centric app Economic Forum
Regulators	Keep informed	<ul style="list-style-type: none"> ● Engage early with the UK Regulator's Network on use of inflation measures by regulators ● Follow up on 	It's clear that regula about moving away http://www.ukrn.org 14/05/UKRN-Inflati

		previous discussions with Ofwat	
RPI/CPI User Group / StatsUserNet	Keep satisfied	<ul style="list-style-type: none"> • Monthly meetings with chair of user group • Encourage user group to develop a consensus and summarise views • Regular updates / engagement on StatsUserNet • Attend user group meetings 	<p>The StatsUserNet consists of a small number of independent members (who have accounted for 10% of the total in the last month). There is a representative of these members in the group as a whole, and a quote from a member of the committee (Richard Campbell) favourably of the a</p> <p>Monitoring and Assessment that we need to prepare for StatsUserNet</p>
Monitoring and Assessment	Manage closely	<ul style="list-style-type: none"> • Document user engagement work • Produce a user engagement strategy / statement • Present draft evidence in July for feedback 	<p>Trade statistics are under assessment, and an early draft to M&A.</p> <p>Some of the requirements for additional analysis. build user confidence progress in quality</p> <p>Danny has begun an engagement work.</p>  <p>Communications and Engage</p>

Workstreams

In addition to the engagement work, there are four main areas of work that will need to be completed to ensure a smooth transition to CPIH becoming the focus. The first two of these are covered in more detail in the roadmap below, produced by Richard Campbell:



Change roadmap.xlsx

In summary:

Refocusing of bulletin and production processes (See Excel file above for further detail)

Superficially, this involves refocusing the commentary of the bulletin on CPIH. Practically, this involves a range of changes to production processes, briefing material, website structure and provision of new series/analysis (e.g. a modelled CPIH back series). Decisions will also be needed on what RPI-related material to retain. This work will need to be appropriately resourced, and a workshop for the production teams is scheduled for April.

Inclusion of council tax in CPIH (See Excel file above for further detail)

This will also require a range of changes to production processes. A thorough impact analysis will be needed, along with work to build stakeholder confidence.

Household Inflation Index

Although out of scope of this note, work on HII is closely related to landing CPIH. If it does not meet expectations, stakeholder confidence will be damaged. Some of the praise we received for the recent announcement was related to development of an HII.

Meeting UKSA assessment requirements

Good progress is being made so far. There is some uncertainty among users as to what the following point means in terms of the timing of National Statistics designation, and how this is handled may impact on the timing transition and stakeholder confidence.

“Following these improvements, the Authority expects that there will be a prolonged period of time where ONS monitors CPIH closely, to fully understand the trends in the index over time compared to other sources, before it can present robust assurance to users about its credibility as a measure of inflation. Requirement 6 of this assessment report reflects this need”.

Related to this, there is a need to plan what articles we will produce in the next year. The definites are:

- 1) Explanation of our choice of method for OOH (May panel meeting, July publication)
- 2) Update of the existing 'Users and uses of consumer price inflation statistics' document (May panel meeting, July publication)

Do we need anything else such as:

- 3) Something that addresses Mark Courtney's paper / issues with RPI
- 4) Analysis of CPIH behaviour over time

Last Modified : 31/03/2016 14:52:51 by James Tucker

The RPI CPI User Group's submission to the Public Administration Select Committee Inquiry into Statistics for the Economy and Public Finances.

EXECUTIVE SUMMARY

1. This submission makes four recommendations:
 - That the ONS be required to produce a Household Inflation Index (HII) that is based on the actual expenditure of Households to meet their needs as identified by their actual [spending expenditure](#) on goods and services.
 - That when a price index is used, by government, as the basis for price or benefit changes then the index that is being used should be clearly identified and the rationale for its selection stated.
 - That the Smith recommendations on Price Index governance be implemented without delay.
 - That PASC discuss with the ONS the desirability of a statutory requirement on retail firms to provide [data required for price indices data](#).

INTRODUCTION

2. The RPI CPI User Group is one of a number of statistical user groups that are part of the Statistics User Forum, which is independently hosted by the Royal Statistical Society (RSS) ~~),~~ [and supported by a secondment from the UK Statistics Authority. A grant from the Economic and Social Research Council helped establish and develop the Forum.](#) It is open to those who use or have an interest in the UK's consumer price indices, providing a forum for discussion, debate and interaction with official statisticians.

HOUSEHOLD INFLATION INDEX

3. There is a need for a UK price index that is purpose designed to measure the general change in prices experienced by households. Such an index would measure the effect that changing prices are having on typical UK households and make it suitable for applications that seek to compensate users for such changes. Such an index is also frequently referred to as an uprating index.
4. Since 2010 the Retail Price Index (RPI), originally designed for this purpose, has been the subject of considerable criticism and in 2013 had its designation as a "National Statistic" removed. The proper status of the RPI continues to be debated ~~but~~ [and](#) it remains in widespread use, not least by the Government itself.
5. In 2010 the government decided to start using the Consumer Price Index (CPI) rather than the RPI for the uprating purposes described in the Social Security Administration Act 1992 (*section 150 (2)*), i.e. for public sector pensions and benefits when not otherwise constrained. However, the CPI was not designed for

the purpose of uprating, but primarily as a tool to compare inflation rates across Europe. Significantly it does not take any account of changes in Owner Occupied Housing (OOH) costs, which are a large component of household expenditure in the UK and there are a number of other ways in which it does not reflect inflation as experienced by households

6. The Johnson Review (*UK Consumer Price Statistics: A Review, Paul Johnson published by the UKSA on 8 January 2015*), has recommended that the CPIH should be adopted as the single headline measure of inflation in the UK, once issues with the data collection methodology are resolved and it can be reinstated as a “National Statistic”. However, doing so would not deal with the fact that this index, which is the CPI plus an allowance for owner occupied housing based on imputed rents, was also not designed with uprating purposes and the needs of the 1992 Act in mind. This was made explicit by the ONS in its consultation into the design of the CPIH when the ONS made it clear that macro-economic considerations took precedence over any other use (*Page 8, Para.9 c.i “Consultation on: the recommended method of reflecting owner occupiers’ housing costs in a new additional measure of consumer price inflation; and the strategy for Consumer Price statistics” published by the ONS in June 2012*). Using imputed rents as a proxy for owner occupier housing costs is highly questionable in the view of the User Group since the rental and owner occupier markets are very different.
7. In the view of the User Group a Household Inflation Index, suitable for uprating purposes and which could legitimately replace the ~~use of the~~ RPI in both public and private use, would differ from an index such as the CPI or CPIH in a number of ways. It would focus on actual payments made by households to meet their needs, as identified by typical household expenditure patterns. The index would also be a “democratically-weighted” rather than a plutocratic index, ie it would be based on indices compiled for different population groups weighted together by population rather than implicitly by value of spending. It is of note that the ONS has recently produced data that shows that over the 2003-2014 period the CPI significantly underestimates the level of CPI inflation experienced by the majority of households, (*“Variations in the inflation experience of UK households: 2003-2014” by Tanya Flower and Philip Wales, published by the ONS, 15 December 2014*).
8. The User Group supports the Johnson Review recommendation that Household Inflation Indices for different population groups including different income groups ~~in~~ should be produced, but believes that the recommendation fell short of the requirement to produce an overall index on this basis and on the same schedule as existing price indices i.e. monthly.
9. RECOMMENDATION: That the ONS be required to produce a Household Inflation Index (HII) that is based on the actual expenditure of Households to meet their needs as identified by their actual ~~spending~~ expenditure on goods and services.

INFLATION INDEX ARBITRAGE

10. The User Group is concerned that Government uses different price indices for different purposes, without explanation or justification. In particular the Government currently switches between use of the RPI and CPI ~~for the most part~~ depending on whether it is collecting or spending money. For example, it uses the CPI when uprating pensions and benefits (when not otherwise capped), but the RPI for raising

revenue. For example the RPI is used in setting business rates, student loan repayments and certain regulated prices such as train fares. This inflation index arbitrage reduces trust in the Government's use of statistics.

11. As a first step to tackle this behaviour and increase transparency the User Group recommends that when a price index is used, by government, as the basis for price or benefit changes, then the index that is being used should be clearly identified and the rationale for its selection stated. Once a proper Household Inflation index has been produced then this would ~~be the obvious~~ offer a purpose designed choice for uprating purposes.
12. RECOMMENDATION: That when a price index is used, by government, as the basis for price or benefit changes then the index that is being used should be clearly identified and the rationale for its selection stated.

TRANSPARENCY AND GOVERNANCE

13. The User Group broadly supports the recommendations of the Smith Review (*"UKSA: Review of the governance of Price Statistics"* by Adrian Smith published by the UKSA on 12 February 2014) into governance and the establishment of Stakeholder and Technical Advisory Panels. With the conclusion of the Johnson Review we believe these panels should be established as soon as possible.
14. It is the User Group's view that under previous governance regimes there was too little emphasis on empirical data and seeking that data even when difficult. This has been coupled with an over reliance on economic theory that brings with it the real danger that price indices lose touch with what is happening in the real world of households and how they actually behave, rather than how economic theory says they should behave.
15. Some of the problems ~~with~~ in the past have been compounded by a lack of 'end user' representation, but an over representation of government users, in ~~governing~~ governance bodies.
16. We expect the new governance structure to address these issues.
17. RECOMMENDATION: That the Smith recommendations on Price Index governance be implemented without delay.

OBLIGATIONS ON THE RETAIL INDUSTRY TO SUPPLY DATA TO THE ONS

18. The User Group supports the Johnson Review recommendation that the ONS should continue to explore the use of scanner data in its efforts to improve methods of price collection. In this regard we understand that obligations on retailers and other organisations to make such data available, subject to appropriate confidentiality requirements, is not always clear as they are not covered by the Statistics of Trade Act 1947. We invite PASC to discuss, with the ONS, the need to place an obligation to provide such data on a statutory basis.
19. RECOMMENDATION: That PASC discuss with the ONS the desirability of a statutory requirement on retail firms to provide data required for the compilation of price indices data.

Title: RPI CPI User Group - PASC response lines on issues

Categorisation: Prices\External Contacts\RPI CPI User Group
 Originator: Richard Campbell on 26/01/2015
 Editors: Richard Campbell; Eric Crane
 Status: **Default**
 Last Modified: 27/01/2015 11:14:55 by Eric Crane

Currently based on version including [redacted] and [redacted] comments circulated 25.01.15.



201501_PASC_Submission_Draft_2 AB +jl.doc

Note: these positions reflect my personal views and are not necessarily the views of ONS or the UK Statistics Authority.

Richard Campbell

Recommendation	Draft Response
<p>That the ONS be required to produce a Household Inflation Index (HII) that is based on the actual expenditure of Households to meet their needs as identified by their actual spending on goods and services.</p>	<p>The subject of the requirement for a HII was considered in depth by the recent independent review of consumer price statistics conducted by Paul Johnson of the Institute of Fiscal Studies - known as the Johnson review. In reaching his view, Paul took advice from a range of experts in price statistics and considered the view of a range of stakeholders, including the Royal Statistical Society and the RPI CPI User Group.</p> <p>The review concluded that there is not a case for publishing a single monthly household index alongside the CPIH measure of consumer inflation.</p> <p>Specifically, the review noted that a separate household index, covering all households:</p> <ul style="list-style-type: none"> ● would not be appropriate for uprating wages, benefits and pensions. ● It would be no better than CPIH as a measure of prices faced by any individual group of households and could be misleading for some if taken as the "households costs measure" ● could create confusion and lead to "index rate shopping" (users may seek the rate of inflation that gives the right number rather than selecting the appropriate measure"). <p>The review noted that, to the best of their knowledge, no country produces an index on the form of the HII as set out by its UK proponents.</p>

	<p>The review did acknowledge that different households have different experiences of inflation, depending on what they buy, and that ONS should develop an analytical publication showing inflation as experienced by a range of different household types.</p> <p>The National Statistician will now consider these and all findings of the review and make recommendations to the Board of the UK Statistics Authority. The Authority expects to launch a formal public consultation in the summer of 2015 and to make a final response later in 2015.</p>
<p>That when a price index is used, by government, as the basis for price or benefit changes then the index that is being used should be clearly identified and the rationale for its selection stated.</p>	<p>The Johnson review recommended:</p> <ul style="list-style-type: none"> ● That government and regulators should work towards ending the use of the Retail Prices Index (RPI) as soon as is practicable. Where they decide to continue to use it the UK Statistics Authority should ask them to set out clearly and publically their reasons for doing so. Where the Authority judges the continued use of the RPI to be inappropriate, it should say so. On related matters, ● That the UK Statistics Authority should consult on discontinuing the RPIJ measure of inflation ● That producing CPI and CPIH to the best possible statistical standard should be the first priority for consumer price statistics. <p>The National Statistician will now consider these and all findings of the review and make recommendations to the Board of the UK Statistics Authority. The Authority expects to launch a formal public consultation in the summer of 2015 and to make a final response later in 2015.</p>
<p>That the Johnson review did not adequately reflect the full range of user needs</p>	<p>The Johnson review consulted with a range of stakeholders, including the Royal Statistical Society, and held stakeholder events both during the review and afterwards.</p> <p>The review was commissioned shortly after two consultations, one on the treatment of owner occupiers' housing costs and the other on the formula used to aggregate price quotes in the RPI. The UK Statistics Authority will be launching a formal public consultation on the findings of the review in summer 2015.</p> <p>(There are a couple of other angles we could take - eg Paul's limited availability, or to emphasise the groups that were present on the RPI CPI User Group Committee, but at the moment I'm proposing leaving this out).</p>

That the Smith recommendations on Price Index governance be implemented without delay.	The UK Statistics Authority is looking to implement improved governance for consumer price statistics, taking into account the findings of the Johnson review.
That PASC discuss with the ONS the desirability of a statutory requirement on retail firms to provide data required for price indices.	This is a topic on which ONS and the UK Statistics Authority would welcome a discussion.

Last Modified : 27/01/2015 11:14:55 by Eric Crane

Title: QMS Annual Review 2012: Quality Policy Statement**Originator:** [REDACTED] on 06/06/2013**Response****ISO 9001: 2008 Standard
4.2.1 and 5.3****4.2.1 Documentation requirements: General**

The QMS documentation shall include

- a) documented statements of a quality policy and quality objectives

5.3 Quality policy

Top management shall ensure that the quality policy

- a) is appropriate to the purpose of the organisation,
- b) includes a commitment to comply with requirements and continually improve the effectiveness of the QMS,
- c) provides a framework for establishing and reviewing quality objectives,
- d) is communicated and understood within the organisation, and
- e) is reviewed for continuing suitability.

Quality Policy Statement

Prices Division as a whole has an overall commitment to providing high quality, world class outputs where quality is defined as:

'A process of continuous improvement, systematically evaluated against customer requirements.'

Prices outputs are:

- Consumer Prices Index (CPI) - also known as the Harmonised Index of Consumer Prices (HICP)
- Retail Prices Index (RPI)
- Producer Price Index (PPI)
- Services Producer Price Index (SPPI)
- Purchasing Power Parities (PPPs)
- House Price Index (HPI)

Prices teams also have a commitment to meeting the needs of users. To achieve this we:

- strive for excellence by ensuring that each member of staff understands and is fully committed to the need for quality;
- define customer needs clearly by systematically evaluating and reviewing their requirements, and by providing guidance on how the indices should be interpreted;
- provide value for money through increased efficiency and relevance;

- ensure that all staff are provided with the training and support they need to do the job to a required standard;
- seek constant improvements in our services and operations through regular examination of our working practices and procedures.

In addition, all those involved in producing the CPI/RPI outputs

- operate within a defined Quality Management System (certified to ISO 9001:2008), ensuring that we meet without fail our own standards through effective decision-making, communication and engagement.

All those involved in producing the Prices outputs accept this commitment to the quality of each one.


Deputy Director
Head of Prices Division

Last reviewed - 25 April 2012

Last Modified : 06/06/2013 08:56:22

Title: Johnson review implementation planning DRAFT

Categorisation
Prices Development\Management\Business
Plans

Originator: [REDACTED] on 16/03/2015
Editors: ; Chris Payne
Status: **Default**
Last Modified: 17/07/2015 10:28:01 by Ainslie Woods

NOTE: The implementation of many of these recommendation is dependent on the outcome of the National Statisticians consultation (which will be launched after the election). Where the recommendation is dependent on the outcome of the consultation I have made a note of this and for the purposes of planning future work I have assumed that the recommendation will be implemented.

Report recommendations

	Recommendation	Team Responsible	Progress	Future work*
1	ONS should move towards making CPIH its main measure of inflation. In the meantime the CPI should continue to be the main measure of inflation.	Prices Production and Prices System / Pretium Development	Wait for consultation - implementation depends on the outcome of the consultation and the re-assessment of CPIH as a National Statistic. In the interim, some planning work can start.	<u>Review and update published material</u> Review and update the consumer price inflation bulletin material (and associated material) to make CPIH the main measure of inflation. Will also require systems work to implement recommendation. Possible start date: Sep 2015 Time needed: 2 months
2	ONS should develop an annual analytical publication that produces inflation indices as experienced by a range of different household types, along with appropriate advice on what income measures these analytical indices can be compared to.	Prices Development and Macro Reporting and Analysis (OCEA). Prices Development takes the lead on updating/develo ping/systemising the inflation	OCEA published the initial report on inflation measures for different household types in December 2014. OCEA is currently working on developing income measures for different household types with a publication planned	<u>Inflation by household type</u> User feedback on the need/use of inflation by household types, and frequency, will be gathered in responses to the public consultation. In the interim

		<p>the inflation indices for different household types.</p> <p>OCEA takes the lead on the income measures for different household types (this relates very closely to work stemming from the Monitoring Review of Income & Earnings recommendation).</p> <p>INPIM will be consulted on methodological issues.</p>	<p>for June.</p>	<p>material can be handed over to Prices Development and progress can be made with updating/developing/systemising the indices.</p> <p>Initially plan for a report published annually including indices for a range of income groups and other groups such as beneficiaries and pensioners.</p> <p>Start date: Now</p> <p>Publication: Autumn 2015</p> <p><u>Income by household type</u></p> <p>OCEA is currently working on developing income measures for different household types with a publication planned for June. These need to be comparable to the inflation measure by household type.</p> <p><u>Bring the publications together</u></p> <p>Publication of inflation and income by household types made in parallel/conjunction .</p> <p>Inflation measures using superlative indices could also be included in publication (Link to recommendation 10)</p>
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3	The Authority should consider making the case for legislation governing the production of CPIH, guaranteeing its production and setting out the process for making major methodological changes.	The Authority and Prices Division	Wait for consultation	<u>Create Legislation</u> Establish CPIH in law and set out process for making changes to it
4	ONS and the UK Statistics Authority should re-state its position that the RPI is a flawed statistical measure of inflation which should not be used for new purposes and whose use should be discontinued for all purposes unless there are contractual commitments.	The Authority and Prices Division	Wait for consultation	To Be Confirmed
5	Government and regulators should work towards ending the use of RPI as soon as practicable. Where they decide to keep using it the UK Statistics Authority should ask them to set out clearly and publicly their reasons for doing so. Where the Authority judges the continued use of the RPI to be inappropriate, it should say so.	The Authority and Prices Division	Wait for consultation	To Be Confirmed
6	ONS should consult users on discontinuing the analytical series it publishes that are based on the RPI, such as the pensioner indices and the Tax and Price Index. Where there is a strong user need for such analyses to continue, the series should be recreated using the CPIH framework.	Prices Division (Development, Production and Systems)	Wait for consultation. In the interim some planning work can start.	<u>Stop production of indices no longer needed.</u> Review and update the consumer price inflation bulletin material (and associated material) to remove indices not needed. Possible start date: Sep 2015 Time needed: 2 months <u>Develop CPIH versions of indices which are needed.</u> Pending the outcome of the consultation on recommendation 1, develop and systematise analytical series

				<p>based on the CPIH</p> <p>Possible start date: Sep 2015</p> <p>Time needed: 4 months</p>
7	<p>We have noted that producing the CPI and CPIH to the best possible statistical standard is the first priority. The UK Statistics Authority should ensure that this priority is reflected in a work programme for the CPI and CPIH that allows each to be improved with the best statistical practice.</p>	<p>The Authority and Prices Division</p>	<p>Wait for consultation.</p>	<p><u>Work programme</u></p> <p>Set out strategy (including work programme and development priorities) for consumer price inflation statistics. Some of this might come in the National Statisticians response to the consultation.</p> <p>Follow up with a separate published work programme which will be updated/reviewed each year in line with emerging priorities.</p> <p>Stakeholder panel asked to review/comment on/endorse work programme before publication.</p> <p>Possible start date: Early 2016 (once the the Authority has responded to the consultation and the Panel have had an opportunity to contribute)</p> <p>Time needed: 2 months</p>
8	<p>The logic of the National Statistician's recent decisions is that the RPI should be considered a legacy measure to be used only where contractually required. No further changes should be made</p>	<p>The Authority and Prices Division. INPIM consulted on methodological issues.</p>	<p>Wait for consultation.</p>	<p><u>Routine changes to RPI</u></p> <p>Technical Panel asked to advise what constitutes a routine change to the RPI and Prices</p>

	to the RPI. If a change is made to the CPI and the CPIH that would affect the RPI, the production of the indices should be split to retain the best practice of CPI and CPIH and the constancy of the RPI. Over the long term the Authority should look to phase out production of the RPI in consultation with users, amending the law (the Statistics and Registration Service Act 2007) as necessary.			sets this out in a published document.
9	ONS should consult on discontinuing RPIJ. ONS should continue to publish an estimate of the “formula effect” between the RPI and the main measure of inflation.	Prices Division (Development, Production and Systems)	Wait for consultation but preparation for possible changes can start.	<u>Discontinue RPIJ</u> Stop the production of RPIJ Possible start date: Sep 2015 Time needed: 2 months <u>Reconciliation</u> Revisit the reconciliation, including the order of the reconciliation and the indices the reconciliation is made between. Possible start date: Now Time needed: 6 months
10	ONS should continue its research on producing an experimental superlative index for the UK and should aim to publish such an index annually in arrears once that work is complete and has been fully quality assured.	INPIM while development work continues. Hand over to Prices Development and/or Prices Production in a few years once the release is embedded.	Wait for consultation but continue work to improve the existing publication in preparation for the next release.	<u>Superlative CPIH</u> Extend current research to publish a full estimate of CPIH using a superlative formula. The coverage needs to include centrally collected items which are currently excluded.
11	ONS should set out a transparent, regular and frequent process for reviewing which individual items in the basket are collected by local	Prices Division - (Development and/or Production)	Start now.	<u>Local versus central collection</u> Set out process with appropriate

	price collectors and which are collected from websites, catalogues and brochures, to ensure this reflects how different items are purchased in practice.			(and transparent) procedures / governance. Need to consider how this fits in with the new panels. Rhys
1 2	ONS should review and publish its criteria for choosing how to combine price quotes at the lowest stage of aggregation.	Prices Division - (Development and/or Production). Possibly INPIM	Start now.	<u>Set out guidelines for elementary aggregates</u> Review and publish criteria for choosing how to combine price quotes at the lowest stage of aggregation. Need to consider how this fits in with the new panels. Rhys
1 3	ONS should give priority to developing the use of point of sale scanner data and web scraping techniques. ONS should set out a detailed plan for working towards greater use of these techniques in its consumer price statistics over the coming years.	Prices Development and INPIM involved in assessing methodological issues.	Existing project investigating the use of scanner data and web scraped data in consumer price inflation statistics.	<u>Alternative data sources project</u> Possibly expand the scope of the current project. Set out project and proposal for using the data.
1 4	ONS should review the Living Costs and Food Survey (LCF) in light of the need to have good consumption data at a household level both to inform the National Accounts and to help with the creation of reliable estimates of the inflation experience of different population groups. External experts should be involved. More resource should be devoted to the LCF if ONS deems that necessary for the provision of high quality, reliable data on household spending.	LCF and Prices Division. IMPIM involved on methodological issues.	Wait for NSQR.	To Be Confirmed
1 5	ONS should use more than one year of National Accounts data in cases where the weights are particularly volatile, or reflect particular circumstances in the latest year available (such as	Prices Development and IMPIM (or relevant area in methodology) involved on methodological	Start now	<u>Smooth Volatile weights</u> Determine how to measure volatility (time series question), provide

	the weight for gas spending).	issues.		recommendations on which items/classes/divisions should be smoothed and how.
1 6	ONS should improve its commentary on the weights tables that accompany the RPI and CPIH, so that it explains why weights differ and/or move in different directions in the RPI and CPIH. ONS should aim to publish the annual article on the updated weights at the same time the weights change.	Prices Development	Article published on 24 March 2015 to address recommendation.	<u>Expand article</u> Develop article to include analysis of the weights changes over a longer time period.
1 7	ONS should review the stratification of consumer price statistics by shop type. The aim should be to introduce an appropriate stratification where weights for the different types of shops are available and can be updated.	Prices Development and IMPIM (or relevant area in methodology) involved on methodological issues.	Project initiated.	<u>Stratification</u> Determine where stratification is needed (consider online sales as a stratification variable) and identify data sources to update the weights on a regular basis. Links to 18
1 8	ONS should assess the impact of outlet substitution on price indices and, in light of that work, should consider whether substitutions between different outlets (for example, from shops to the internet) should be reflected in any of its statistics.	Prices Development and IMPIM involved on methodological issues	Start now.	<u>Outlet substitution</u> Determine whether the effect can be measured and how large it is. Links to 17 Rhys (added 17/07/15)
1 9	ONS should introduce regular monitoring of the impact of quality adjustment on its consumer price statistics. This includes monitoring how often non-comparable replacements occur for each item in the basket of goods and services, and investigating those items where this is frequent. ONS should particularly seek to understand cases where the relevant price index deviates substantially from	Prices Division (Prices Production and Development) and IMPIM involved on methodological issues	Start now.	<u>Monitoring of non-comparable markers</u> Prices production sets up a process to monitor the use of replacements - including comparable and non-comparable replacements <u>Understand</u>

	the average price collected.			<u>how/why indices deviate from average price</u> Prices Development and INPIM to initiate a project identifying where items indices and average prices deviate and to understand why this is happening. Rhys
20	ONS should continue to produce CPIH using 'rental equivalence' as the method for calculating owner occupiers' housing.		No action needed	
21	ONS should produce a full explanation of the difference between the rise in the owner occupiers' housing costs component and the larger rise in private rents measured by the VOA and other sources.	Prices Development	Work complete and published on 30 January 2015.	<u>Address BoE concerns</u> BoE has remaining concerns regarding rental price index (used in the OOH component of CPIH), which rises much less quickly than the growth in average rents. Deviation of average prices and indices links to 19
22	The UK Statistics Authority should consult on including council tax in CPIH.	Prices Development and Price Production	Wait for consultation but preparation for possible changes can start.	<u>Council Tax in CPIH</u> Systemise introduction of Council Tax in CPIH. Needs to be introduced as part of the annual re-weight.
23	ONS needs to continue to examine the range and scale of different types of discounting and the extent to which this has been changing over time. It should publish estimates of the likely effects of CPIH of different ways of dealing with these discounts.	Prices Development and IMPIM involved on methodological issues	Start now.	<u>Discounting</u> Initiate project (with detailed plan) to investigate collecting additional information on discounting and how this could be reflected in

				consumer price inflation statistics
2 4	ONS should seek to reflect a wider range of discounts such as multi-buy discounts, in its consumer price statistics, based on the outcome of its studies.	Prices Development and IMPIM involved on methodological issues	Somewhat dependent on 23.	

*Many of these are dependent on the outcome of the consultation. Assuming that the recommendation is implemented for the purposes of this document.

Hidden recommendations in the Report

	Recommendation	Team Responsible	Progress	Future work
1	Section 4.4, page 60 - ONS could usefully undertake further work on the formula effect to understand why different approaches to estimating the formula effect yield different answers	Prices Development	Start now	Rhys (possibly)
	Section 9.14, Page 131 - investigate the using 'flow' measure of rents, rather than 'stock' measure of rents, for OOH(RE)	Prices Development	Start now with research but really need VOA micro data carry out research.	
	Section 11.11, page 164 - Items for ONS to review in the near future: Air fares (review initiated) Clothing Mobile phone charges Package holidays (review initiated)	Prices Development	Start now (some are already in progress)	

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Last updated: January 8, 2015 11:04 am

Review calls time on 'flawed' retail price index

Chris Giles, Economics Editor

The Treasury, Debt Management Office and other public bodies should stop using the Retail Price Index as a way of adjusting for inflation, a review commissioned by the UK Statistics Authority said on Thursday.

Recognising that the RPI was "flawed" and gave an estimate of inflation that was too high, the review led by Paul Johnson, director of the Institute for Fiscal Studies, said government bodies should stop using the index "as soon as practicable".

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The review will now go out to consultation but is unlikely significantly to affect prices in the government bond market, which is linked to the RPI, because it stopped short of recommending a change to its calculation.

The consequences of the government abolishing links to the RPI are uncertain at present.

Social security benefits will be unaffected as they were linked to the CPI in 2010 and have been pegged at 1 per cent since. Rail fares and other regulatory links to RPI will depend on the regimes the authorities decide to replace RPI with. They can also maintain the RPI link if the proposals are adopted and they explain their actions.

By far the most important connection is to index-linked government bonds, a market worth £470bn in which taxpayers pay about £2bn a year excess compensation to investors for the overstating of RPI compared with CPI. Holders of the bonds had a huge windfall gain in early 2013.

The review will be an embarrassment to the Office for National Statistics and the UK Statistics Authority, its governing body, because it acknowledges that the efforts in 2013 to downgrade the RPI and replace it with new measures have failed to reduce its use in practice.

Mr Johnson's review said the CPI measure, which the Bank of England uses in monetary policy, is "a well constructed measure of inflation" but the ONS should move towards making the headline measure of inflation the CPIH, which includes the costs of owner-occupied housing.

"It is time for the UK government to take the next, logical step and stop using RPI in any element of the tax, benefit and regulatory systems," Mr Johnson said.

He did not suggest the ONS should revisit its decision not to improve the RPI.

The Johnson review rejected calls for a "household index" measure of inflation, which attempted to measure the out-of-pocket costs of changing insurance premiums and house prices, on the grounds that any measure would not be relevant to most people.

Instead, it urged the ONS to publish an annual report on the rates of inflation faced by different groups. In recent years lower income households have been hit by sharper rises in the cost of living because they spend more of their incomes on food and energy, which until recently had risen rapidly in price.

Michael Saunders, economist at Citi, said it was a "well-known and longstanding" issue that RPI was an inferior index to CPI, but that any decision to change the basis on which gilts were sold was a matter for the chancellor rather than the statistics authority and unlikely to happen quickly.

The Johnson review may "at the margins" raise the likelihood of bonds linked to a different inflation measure he said, but added: "Any such change probably would, at least, wait for the resolution of the CPIH measurement issues and a shift to using CPIH as the inflation

target measure — ie at least a year or two.”

Sir Andrew Dilnot, chair of the UK Statistics Authority, said he welcomed the “landmark” review, “which should be seen as an authoritative and comprehensive review of a complex statistical landscape”.

The body would make its final response later this year, he added.

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Britain should abandon current inflation measure, says IFS director

There is a “strong case” for the UK to replace its headline consumer price index to take better account of homeowner costs, according to a review of inflation data



Consumer prices, among "most important official economic statistic", could face an overhaul after Paul Johnson's review Photo: Reuters

By Mehreen Khan

8:00AM GMT 08 Jan 2015

Britain's main measure of inflation should be amended to take better account of the pressures faced by the country's householders, according to a review of the country's official statistics.

There is a “strong case” for abandoning the current official measure of price rises, the Consumer Prices Index (CPI), with a gauge which includes a form of owner-occupied housing costs (CPIH), according to Paul Johnson, director of the Institute of Fiscal Studies.

CPI attempts to measure the speed at which the prices of goods and services bought by households rise or fall.

Although consumers had “confidence” in the index, Mr Johnson supported a move for CPIH to

become the UK's official inflation benchmark.

The CPIH index was **first introduced in March 2013** had been previously touted as a future price stability benchmark for the Bank of England. However, it was downgraded to a non-official statistic last year after a review of the data found price rises using this measure were too low.

There has been little difference between the CPI and CPIH measures in recent years. But an improvement in the methodology used to measure CPIH means that it could look significantly different in the long-term, said Mr Johnson. CPIH should also be price level targeted by the Bank of England, added Mr Johnson.

Andy Haldane, the Bank of England's chief economist, said last year that CPIH was "a conceptually and practically more useful measure of a typical consumption basket".

A collapse in oil and falling food prices have helped CPI fall to its lowest level in 12 years. It currently stands at 1pc, and has been below the Bank of England's 2pc target rate for 11 months.

"There is no prospect of an imminent change to the MPC's inflation target, although in due course this appears to be a natural consequence of CPIH becoming the main measure of inflation in the UK" said Sam Hill, Senior UK Economist at RBC Capital Markets.

Alongside official inflation data, Mr Johnson also called for the ONS to publish a "household index" breaking down the cost and income pressures faced by different households in order to better understand changes in the standards of living for different parts of the population.

Research has shown that poorer households experience significantly higher rates of inflation than richer ones as they spend more money on food and energy. The fall in oil prices should then see lower-income households experience less inflation in the months to come.

"Different population groups – the young and the old, families and individuals, home-owners and renters – have different spending patterns and hence face different rates of inflation", said Mr Johnson.

The review also recommended the ONS finally scrap the defective Retail Prices Index (RPI), the UK's oldest measure of inflation, which was deemed as not being up to international standards two years ago.

Despite this, the gauge is still linked to rises in pensions, rail fares, and £470bn worth of index-

linked government bonds. The existence of gilt contracts running to 2068 means it will be "very difficult to get rid of it all-together" admitted Mr Johnson.


The basket of weights for the Retail Price Index measures price elements such as food, housing, transport and services.

"No taxes, benefits or regulated prices should be linked to the RPI", said the review.

There is £2bn cost to the taxpayer of continuing to index bonds to the "flawed" retail index which has been consistently higher than CPI, calculated the ONS.

Britain currently has four measures of inflation - CPI, CPIH, RPI, and RPIJ - and the sheer number of indices was "causing confusion", said the review. Mr Johnson also advocated scrapping RPIJ - an amended measure of the retail index introduced two years ago.

The UK Statistical Authority (UKSA) will carry out a consultation and respond to the findings in the summer.



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Scrap 'flawed' RPI, urges Institute for Fiscal Studies

Retail price index should be replaced with the CPI measure but IFS boss issues call to find even more accurate ways to gauge inflation

Phillip Inman, economics correspondent
The Guardian, Thursday 8 January 2015 08.59 GMT



The RPI should be replaced with the CPI measure of inflation, says the IFS boss Paul Johnson.
Photograph: Rosemary Roberts /Alamy

A measure of inflation used both in pay bargaining and to maintain the value of many state benefits should be scrapped in favour of an index that rises more slowly, according to a report for the UK's statistics regulator.

The retail prices index (RPI) is a flawed measure of rising prices that fails to judge the costs of goods and services in the economy, said Paul Johnson, the boss of the Institute for Fiscal Studies in [a report for the UK Statistics Authority](#).

Johnson said RPI should be phased out and replaced with the consumer prices index (CPI).

The report will come as a blow to trade unions that continue to use the RPI as the basis for their bargaining in annual pay talks. Apart from a brief period in the financial crisis when it dropped below the CPI measure, RPI has averaged around 0.5% to 1% higher than CPI.

However, Johnson said the Office for National Statistics, which publishes the monthly inflation figures, should calculate the effect of rising prices on different age and income groups after his research found that poorer and older households suffer higher price rises on the goods and services they buy.

In 2013, the UK Statistics Authority stripped RPI of its official status but continued to publish its data each month. The ONS replaced it with the CPI after taking on board criticism that it failed to include owner occupier housing costs.

Johnson said: "In my view, it is time for the UK government to take the next, logical step and stop using RPI in any element of the tax, benefit and regulatory systems.

"I would also like to invite the authority to consider how it might support better statistical measures of household inflation. Different population groups – the young and the old, families and individuals, homeowners and renters – have different spending patterns and hence face different rates of inflation. An annual publication showing how inflation measures differ between these groups would be most welcome."

The CPI dropped to 1% in November from 1.3% in October, while RPI was 2%, down from 2.3%.

The move to RPI will cause a huge headache for the government's Debt Management Office, which handles the sale of bonds issued by the Treasury. Around a quarter of the government's debt is index linked to the RPI measure of inflation.

Bloomberg

Britain Should End Use of RPI in the Sale of Gilts, Review Says

By Lucy Meakin and Scott Hamilton - Jan 8, 2015

The British government should end the use of the [Retail Price Index \(UKRPCJYR\)](#) measure of inflation for adjusting taxes, social benefits and bonds as it's flawed, according to a review commissioned by the U.K. Statistics Authority.

Officials should work toward ending use of RPI "as soon as practicable," [Paul Johnson](#), director of the [Institute for Fiscal Studies](#) and the review's author, said in today's [report](#). The study favors the use of CPIH, a consumer-price index that includes housing costs, as the main inflation measure.

The report was commissioned in response to long-running concerns about the U.K.'s inflation data and the proliferation of measures of price growth. The U.K. Debt Management Office said in response to the review that future cash flows on existing index-linked gilts will continue to be tied to RPI.

Johnson said the Statistics Authority and the [Office for National Statistics](#) "should make it clear to users that the RPI is not a credible measure." The government "should move away from selling gilts linked to the RPI," he said.

The government has previously consulted on the possibility of selling debt linked to consumer prices in 2011 and judged it would not be cost efficient in the near term, the DMO said. It will keep the matter under review. Johnson said the choice of index is a "policy decision for government" and any change should be subject to public consultation.

Flawed Inflation

The flaws in RPI are well understood and "many market participants remain comfortable with its ongoing usage," Henry Skeoch, a strategist at Barclays Plc in [London](#), wrote in an e-mailed note. "There is clear potential demand from the pensions community for CPI/CPIH-linked gilt issuance, but it would be impractical and in our view unfeasible to simply cease RPI-linked issuance."

U.K. index-linked bonds surged after Britain's National Statistician Jil Matheson said in January 2013 that the U.K. would maintain its formula for calculating the the index, easing investor

concern about changes to the measure that may have impaired payments. The yield on 10-year inflation-linked gilts was little changed today at minus 0.931 percent.

“The Johnson Review may, at the margin, raise the likelihood that the DMO start issuing CPIH-linked bonds at some point,” Michael Saunders, an economist at Citigroup Inc. in London, wrote in a note. “Any such change probably would, at least, wait for the resolution of the CPIH measurement issues and a shift to using CPIH as the inflation target measure.”

Today’s report called for the ONS to expand the way it collects prices to include website scraping. The current method, which involves agents visiting shops and recording prices, haven’t really changed since the 1940s, Johnson said.

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Subject : [Use of the RPI in setting rail fares](#)

[REDACTED]

I said I'd send through some of our general background lines on the use of RPI.

Our topline for use with the media tomorrow will be to welcome the report and (depending on its recommendations) to indicate that we will review the use of RPI and consider whether the CPI could be used in future rail fares setting rounds.

Q: Why do we use RPI in Rail?

- RPI is the basis of pricing across rail:
 - o Use of RPI is consistent with the general indexation approach adopted across the rail industry. Franchise payments, Network Grants, Franchise Financial Models, - all are indexed at RPI.
 - o ORR uses RPI as the index for Network Rail's revenues e.g. Access Charges.
- RPI is the basis of price regulation of other networks:
 - o Ofgem uses RPI as the basis for regulating energy markets and OFWAT in water rate regulation.
- RPI is used by the Government for the uprating of pensions and benefits and index-linked gilts.

Q: Why are you still using RPI when the ONS has removed its designation as a national statistic?

- Early in 2013 the National Statistician concluded that the formula used to produce the RPI does not meet international standards. The ONS is continuing to maintain the RPI long time series given its links to long-term indexation and index-linked gilts.
- RPI is still used widely across Government, including for index linked bonds, vehicle exercise duty, alcohol and tobacco duties, air passenger duty and climate change levies.
- The Government decided to keep the use of RPI for indexation purposes under evaluation until after the UK Statistics Authority concluded its review around the governance arrangements and structures supporting the production of price indices and how best to ensure that these statistics best meet the needs of users in future. This will allow sufficient time for new ONS price indices, Consumer Prices Index including Housing and Retail Prices Index Jevons, to become established.

Please let me know if I can provide any more information.

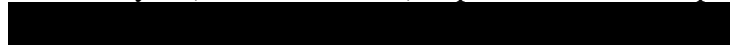
Best wishes



[IMAGE]



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Title: Prices Division OverviewCategorisation
Prices\Prices WorkstreamsOriginator: [REDACTED] on 16/02/2015
Status: **Default**
Last Modified: 21/06/2016 07:59:10 by [REDACTED]**History of Consumer Prices Index (CPI)**

In 1996, the UK introduced the Consumer Price Index as an official statistic. CPI is the UK term for the Harmonised Indices of Consumer Prices, a Europe-wide measure that is governed by Eurostat and that each EU country has a legal obligation to produce. Since 2003 CPI has been the target inflation indicator for the Bank of England and is also used for up-rating state pensions. Many other payments are often revised in line with this index.

The official HICP series started in January 1996 and is constructed according to rules specified in European legislation agreed after discussion between Eurostat, the European Central Bank and Member States. These rules cover a range of aspects relating to the construction of price indices, including the basic formula used to combine raw prices together; the population and item coverage of the index; the basis for constructing weights; and procedures for the introduction of new items into the index.

The HICP is constructed from the same basic price data which is collected for the RPI but with some important differences in coverage and methodology.

History of Retail Prices Index (RPI)

RPI was first calculated in 1947. It was once the principal official measure of inflation. RPI index values are available continuously from June 1947.

The RPI is still used by the government as a base for various purposes, such as the amounts payable on index-linked securities including [index-linked gilts](#), and social housing rent increases. Many employers also use it as a starting point in [wage](#) negotiation.

Prices Division

Prices Division produces a range of price indices, including the Consumer Prices Index (the target inflation indicator for the Bank of England since 2003: also used for up-rating state pensions – NB many other payments are often revised in line with this index) and the CPIH which includes owner occupier's housing costs; the Retail Prices Index (used for the indexation of some wages, benefits, pensions, and government bonds) and RPIJ (a variant of RPI which uses internationally approved formulae); the Producer Prices Index (PPI) and the Services Producer Prices Indices (SPPIs) - both of which are key deflators used in the national accounts and are widely used in contract escalation; Purchasing Power Parities, which are part of the European Comparison Programme, and, since March 2012, the House Price Index (HPI).

Most outputs are produced on a monthly basis, although the SPPIs are quarterly and PPPs less frequently.

For the UK, the CPI is also the Harmonised Index of Consumer Prices (HICP), which is produced under European regulation across all member states.

Housing Market Indices Branch

- Producing the House Price Index, a monthly release that publishes figures for mix-adjusted average house prices and house price indices for the UK & its component countries and regions.
- Producing the experimental Index of Private Housing Rental Prices: which measures the change in price of renting residential property from private landlords. The index is published as a series of price indices covering Great Britain, its constituent countries and the English regions.
- Leading on the re-weighting of consumer price indices (CPI, RPI, HPI and IPHRP)
- Developing a new definitive House Price Index, an official measure of house prices that provides comprehensive coverage of UK residential property.
- Developing supplementary analysis, papers and infographics to inform and improve understanding of the UK housing market.

Purchasing Power Parities Branch

- * Production of Purchasing Power Parities.
- * Provision of data needed for PPP calculations.
- * Provision of data required for ART64/65 calculations.
- * Calculation and updating of weights used in the CPI/RPI

The Purchasing Power Parities Branch is located within Prices Division and its main role is in meeting the United Kingdom's commitments of the Eurostat-OECD PPP Programme.

The Eurostat-OECD PPP Programme is run jointly by Eurostat and Office for Economic Co-operation and Development (OECD). The purpose of the Programme is to compare the GDPs of three groups of countries, EU Member States, OECD Member Countries and associate non-members countries. More specifically, the Programme's objective is to compare the price and volume levels of GDP and its component expenditures across the three groups of countries

This is an important European statistic, which allows for the comparison of all members of the Eurostat-OECD PPP Programme. These estimates are used to inform the distribution of funds available from the European Union budget.

Business Prices Branch

The Producer Price Index (PPI) is a monthly survey that monitors price movements of UK manufactured products and the cost of materials and fuel purchased by the UK manufacturing industry. This involves statutory monthly collection of manufacturers output (or factory gate) prices with around 6,750 price quotations from some 4,000 contributors. Key survey information is provided by the Department for Energy and Climate Change (DECC) for energy prices and the Department for Environment, Food and Rural Affairs (DEFRA) for prices of food inputs.

The Services Producer Price Index (SPPI) provides a measure of inflation for the UK service sector. It is constructed from a statutory quarterly survey which measures changes in the price received for selected services provided by UK businesses to other UK businesses and government. Individual SPPIs are available which provide information on price change for a selection of service industries. These individual price indices are also aggregated together to create a service industry SPPI with limited coverage (it does not provide full coverage of the 'service sector').

The Branch supports the C&P Vision and the ONS strategy by providing Treasury, Bank of England,

Eurostat and external forecasters with indicators of inflation in the UK manufacturing and service sector. Data at disaggregate level are used to deflate current price data for various National Accounts datasets, and also widely used by industry for the indexation of contracts.

The SPPI are primarily a suite of individual price indices that provide information on price change for a limited range of service industries. Each SPPI captures quarterly changes in the price received for services provided by UK businesses to other UK businesses, central and local government, and the wider public sector e.g. the NHS. These individual price indices are also aggregated together to create an 'aggregate' SPPI with limited coverage. This aggregate SPPI is not representative of the whole service industry.

The PPI survey is a monthly survey that monitors price movements of UK manufactured products and the cost of materials and fuel purchased by the UK manufacturing industry. This involves statutory monthly collection of manufacturers output (or factory gate) prices with around 6,750 price quotations from some 4,000 contributors. Key survey information is provided by the Department for Energy and Climate Change (DECC) for energy prices and the Department for Environment, Food and Rural Affairs (DEFRA) for prices of food inputs.

The EPI and IPI are monthly surveys, and some IPIs are also collected from published sources such as the Public Ledger and Metal Bulletin, as well as other government departments.

The Branch supports the C&P Vision and the ONS strategy by improving and developing the indicators of inflation in the UK service and manufacturing sector which are provided to the Treasury, Bank of England, Eurostat and external forecasters; as well as the price data at disaggregate level which are used to deflate current price data for various National Accounts datasets, and also the price data widely used by industry for the indexation of contracts.

CPI Production + User Engagement Branch

CPI Production and User Engagement Branch's core business, alongside CPI Production and Commodity Analysis Branch, is to produce and publish the suite of consumer price indices including CPI, CPIH, RPI and RPIJ.

The **Consumer Prices Index (CPI)** is a measure of consumer price inflation produced to international standards and in line with European regulations. First published in 1997 as the Harmonised Index of Consumer Prices (HICP), the CPI is the inflation measure used in the Government's target for inflation. The CPI is also used for purposes such as uprating pensions, wages and benefits and can aid in the understanding of inflation on family budgets.

CPIH is a measure of UK consumer price inflation that includes owner occupiers' housing costs (OOH). These are the costs of housing services associated with owning, maintaining and living in one's own home. OOH does not include costs such as utility bills, minor repairs and maintenance which are already included in the index. CPIH uses an approach called rental equivalence to measure OOH. Rental equivalence uses the rent paid for an equivalent house as a proxy for the costs faced by an owner occupier. In other words this answers the question "how much would I have to pay in rent to live in a home like mine?" for an owner occupier.

The **Retail Prices Index (RPI)** is a long-standing measure of UK inflation that has historically been used for a wide range of purposes such as the indexation of pensions and rents and index-linked gilts.

RPIJ is an improved variant of the Retail Prices Index (RPI) which is calculated using formulae that meet international standards. The primary purpose of RPIJ is to enable users of the RPI to understand the impact the use of the Carli formula (which does not meet international standards) has on the RPI inflation rate.

CPI Production and User Engagement Branch aims to provide reliable and representative statistics for price indices for durable goods, motoring, food, fares and other travel; to share in consumer price inflation production tasks; to continue supporting the development of the new computer system (Pretium); to improve quality and resilience in producing consumer price inflation outputs. The branch is also the 'public face' of consumer price statistics. This involves managing and improving the dissemination of the statistics and leading work to improve our relationships with stakeholders and users including Eurostat.

CPI Production + Commodity Analysis Branch

CPI Production and Commodity Analysis Branch's core business, alongside CPI Production and User Engagement Branch, is to produce and publish the family of consumer price inflation indices data.

The **Consumer Prices Index (CPI)** is the main UK domestic measure of consumer price inflation. It forms the basis of the Government's inflation target and from April 2011 it has also been used in the uprating of benefits, tax credits and public service pensions. Internationally the CPI is known as the Harmonised Index of Consumer Prices (HICP) and it has to be produced under EU legislation. HICPs from the EU Member States are used to compare inflation rates across the European Union and since January 1999, they have been used as the basis for monitoring price inflation by the ECB for the Monetary Union area.

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CPI Production and Commodity Analysis Branch aims to provide reliable and representative statistics for price indices of housing, utilities, and household, personal and leisure services; to share in the family of consumer price inflation indices production tasks; to coordinate the annual review of the CPI/RPI basket and weights, and the rolling commodity programme.

Prices Systems + Pretium Development Branch

Prices Systems and Pretium Development Branch's core business is to manage the current computer systems that produce the CPI, RPI and all of the supplementary indices.

As well as on-going system support the branch is also responsible for the Pretium system development project which is currently in its final stages. The Pretium Project is due to close at the end of the Financial Year 2014/15

In addition to the business support and Pretium workstreams, the PSPD Team will be responsible for

the future Prices systems development programme, currently in its infancy but commencing with a Discovery Phase in January 2015 which will investigate the next highest priority piece of development work to be undertaken.

The **Consumer Prices Index (CPI)** is the main UK domestic measure of consumer price inflation. It forms the basis of the Government's inflation target and from April 2011 it has also been used in the uprating of benefits, tax credits and public service pensions. Internationally the CPI is known as the Harmonised Index of Consumer Prices (HICP) and it has to be produced under EU legislation. HICPs from the EU Member States are used to compare inflation rates across the European Union and since January 1999, they have been used as the basis for monitoring price inflation by the ECB for the Monetary Union area.

The **Retail Prices Index (RPI)** is produced alongside the CPI and, indeed, the data used for RPI are essentially the same as those used for the CPI. It is still widely used for the monitoring of inflation on a domestic basis and its specific uses include the indexation of items such as gilts. It's also used by wage negotiators as a basis for pay claims, by businesses to set prices in contracts and by academics to model pricing behaviour and trends.

Prices Systems and Pretium Development Branch aims to support the provision of reliable and representative statistics for price indices through management and maintenance of our existing systems whilst championing the development of new technology to improve quality and resilience of Prices outputs.

Quality + Contract Management Branch

The functions of the branch are broadly split into three: Contract Management; Quality Management and Business Support (for Prices Division). In addition, a project was initiated in January 2013 to re-tender the contract for the local price collection for consumer prices.

Contract / Service Delivery Management: effective management and negotiation of the contracts with data suppliers for Prices outputs. Primarily the management of the contract for outsourced provision of local price collection services for the monthly outputs: Consumer Prices Index (CPI); CPI including housing costs (CPIH); the Retail Prices Index (RPI); and a new variant of the RPI that uses the Jevons formula RPIJ. QCM Branch aims to ensure the contract for local price collection operates efficiently and effectively, and delivers value for money to the agreed levels of performance. This includes managing day-to-day operational issues with the contractor; monitoring performance against agreed Service Level Agreement measures; quality assurance of price collection in the field; and managing the sampling of locations for local price collection. The new contract covers a three year period, beginning 1 February 2015, with options to extend by up to two years (one year plus one year). The project to undertake a competitive tender of the collection service began in January 2013, and contract award was announced in March 2014.

The Contract Manager is responsible for managing the working relationship with the external contractor; and provides line management for the field audit team (based across the 12 Regions of the UK). The Assistant Contract Managers are responsible for monitoring service delivery against contractual performance measures. The Field Auditors and Assistant Contract Managers are responsible for Quality Assuring the price collection in the field to ensure that the high level of quality is maintained. The team provides a crucial link between the CPI Production teams and the outsourced field collection service. The team also works closely with colleagues in Prices Development Branch to implement change, and conduct pilot studies relating to the local price collection.

The contract re-tender project has been run in two phases: procurement tender until contract award in March 2014; and a transition phase until February 2015 when the new contract comes into effect. The Head of QCM branch has project-managed this work supported by a temporary Project Support Officer role, a temporary Exit & Transition Manager role, and existing team members. The Project

Implementation Review will be conducted in September 2015.

The contract team will also provide advice and support to the work around the proposed move of the Construction Price Indices contract from Department of Business Innovation and Skills (BIS) to ONS (due for transfer in March 2015). This work impacts on the teams working on House Prices, Deflators Improvement, National Accounts (Construction Outputs) and Commercial Services.

Quality Management: embedding a process of continuous measurable improvement in producing the Divisional outputs, and supporting the development of all staff within Prices Division. This work includes: maintaining effective Quality Management Systems (QMS) for the consumer prices outputs (CPI etc), including internal audits and ISO 9001:2008 certification; promoting and maintaining effective quality standards across Prices Division, for example use of STaG for desk instructions, and organising the Division's monthly 'Quality Time' event. NB: a new standard (ISO 9001:2015) will be introduced over the next year.

The Business & Quality Manager is responsible for maintaining the QMS, coordinating the internal audit processes and promoting quality standards across Prices Division. Work is underway to review the quality strategy for the House Price index and Business Prices outputs. An important element of the QMS is ensuring that those working on Prices outputs undertake appropriate learning and development activity (to support skills development).

The Training Liaison Officer (TLO) provides support on learning & development activity (across the Division). The branch conducts 'Divisional Induction' training for new staff; coordinates all Learning & Development (L&D) activities; and manages L&D queries from staff.

Commitment to skills training and development of staff, and continuous improvement of processes, are fundamental to meeting the ISO standard. The 'Prices' approach actively supports the ONS Vision.

The Head of QCM Branch represents Prices Division interests as a member of the Quality Champion network; and as divisional champion for Continuous Improvement (Lean Six Sigma). The Quality Manager deputises for these roles.

Business Support - the team provide provides day-to-day business support function to all staff across Prices Division. Responsibilities include: Divisional Induction training for new staff; coordinating Learning & Development (L&D) activities; dealing with L&D queries from staff; raising and monitoring Atlas requisitions; liaison with IT service providers; coordinating business continuity planning; Risk coordinator etc.

The Business & Quality Manager is also responsible for strategic reporting, monitoring progress against performance indicators, business planning and stewardship reporting across Prices Division.

The branch represents Prices Division's interests as a member of the National Accounts & Economic Statistics (NAES) Resource Group; and co-ordinates Prices staffing and vacancies.

Prices Development Branch

Prices Development Branch provides statistical and methodological support to maintain and improve prices indices within the Prices Division. The Branch does this by developing improvements to prices statistics and ensuring ONS prices statistics comply with international best practice. The main driver of the work programme is to build trust in consumer prices statistics. Work includes:

- Implementation of actions resulting from the Johnson review of consumer price statistics
- Supporting the setting up/running of the new advisory panels for consumer price statistics
- Monitor improvements to the measurement of OOH and private housing rental prices and implement requirements from the National Statistics assessment of CPIH

- Take the necessary action to understand, develop and plan for the required implementation of changes to the HICP to address Eurostat compliance issues avoiding pre-infraction proceedings.
- Continue investigations into alternative data sources for consumer price statistics including web scraped data and scanner data
- Develop a new sampling frame + location boundaries for the local price collection for the consumer price inflation and PPP statistics
- Investigate the prevalence of discounting (especially multi buy) and the potential impact on measures of consumer price inflation
- Assist with the implementation of recommendations from the weights review (both process and methodology)
- Review the package holidays collection and methodology and implement improvements in line with Eurostat guidelines
- Provide analytical advice and support to the Big data project
- Carry out additional analysis as required to maintain and improve prices indices within the Prices Division

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Categorisation
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CPI, RPI, PPI, HPI... ONS produces a lot of price indices. But what is a price index; why are they important and why do we have so many?

What is inflation and why do we measure it?

Being able to measure inflation is important as it tells us how much of something we can get for our money. An easy way of thinking about it is in terms of changes in the price of a fixed shopping basket. For example, supposed you went to the shops today and spent £100 on a basket of items. Then, the next time you went back to the shops you bought the exact same basket of items and this time it cost you £110. The percentage increase in cost is the price inflation.

Inflation indices are used in lots of ways, such as in contracts, when up-rating pensions, calculating student loans and deciding interest rates. In other words, inflation indices are a part of our everyday life.

The **Producer Prices Indices (PPIs)** measure the prices of goods bought and sold by UK manufacturers. The headline measure, known as factory gate inflation, measures the price of the goods UK manufacturers charge other UK businesses for their products. There are two headline measures: the input price index and the output price index.

The input price index captures changes in the cost of materials and fuels purchased for use in manufacturing.

The output price index captures changes in the price of items that leave the factory gate, i.e. that have been manufactured (note, this could be a bolt, nail, washer etc as well as finished products: washing machines, cars etc).

The primary use of the PPI is as a deflator in the National Accounts, though it is also important for use in business contracts and for monitoring and modelling trends in the economy.

The Service Producer Price Indices (SPPIS) do a similar job for the service industry

sector, and have similar types of use to PPIs, but from a service sector perspective.

The SPPI is compiled using the results of a mandatory survey (Quarterly Survey for Services Producer Price Indices) and some external data sources including Investment Property Databank (IPD), Bank of England (BoE), Office of water Services (Ofwat), Office of rail Regulation (ORR) and Parcelforce.

The primary use of SPPI data is as deflators in the UK National Accounts. However, it is also important as an inflationary measure to inform monetary policy and to account for inflation in long-term service procurement contracts.

For private households, there are the **Consumer Prices Index (CPI)** and **Retail Prices Index (RPI)**.

The CPI is a measure of consumer price inflation produced to international standards and in line with European regulations. First published in 1997 as the Harmonised Index of Consumer Prices (HICP), the CPI is the inflation measure used in the Government's target for inflation.

The CPI is also used for purposes such as uprating pensions, wages and benefits and can aid in the understanding of inflation on family budgets.

Since March 2013, ONS has published a new measure, **CPIH**, which is a measure of UK consumer price inflation that includes owner occupiers' housing costs (OOH). CPIH uses an approach called rental equivalence to measure OOH. Rental equivalence uses the rent paid for an equivalent house as a proxy for the costs faced by an owner occupier. In other words this answers the question "how much would I have to pay in rent to live in a home like mine?" for an owner occupier. OOH does not seek to capture increases in house prices.

The RPI is a long-standing measure of UK inflation that has historically been used for a wide range of purposes such as the indexation of pensions and rents and index-linked gilts.

RPIJ is an improved variant of the Retail Prices Index (RPI) which is calculated using formulae that meet international standards. The primary purpose of RPIJ is to enable users of the RPI to understand the impact the use of the Carli formula (which does not meet international standards) has on the RPI inflation rate.

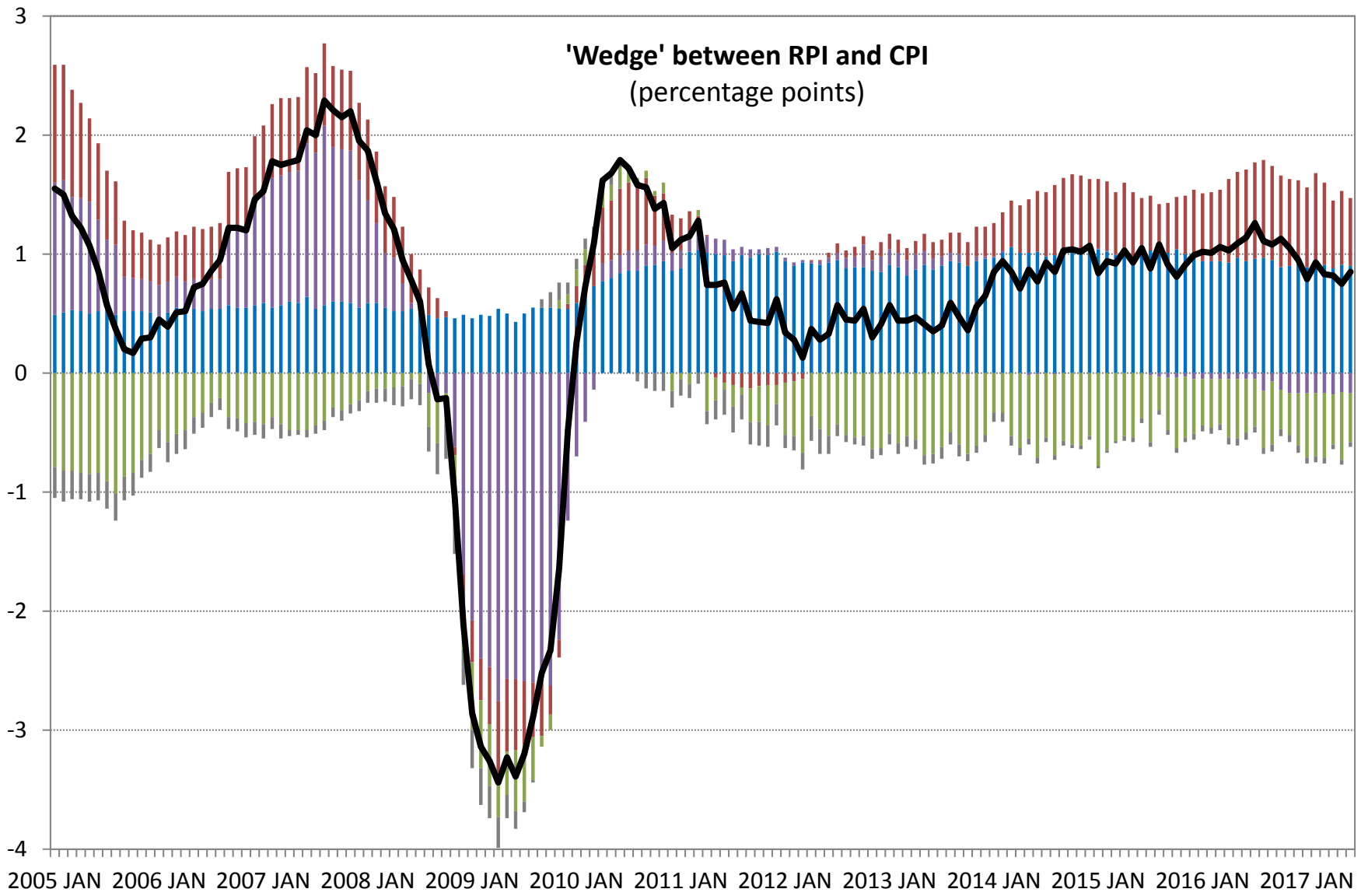
There's also the **House Price Index (HPI)**: a monthly release that publishes figures for mix-adjusted average house prices and house price indices for the UK & its component countries and regions.

We also produce the experimental **Index of Private Housing Rental Prices (IPHRP)** : which measures the change in price of renting residential property from private

landlords. The index is published as a series of price indices covering Great Britain, its constituent countries and the English regions.

The Housing market branch also leads on the re-weighting of consumer price indices (CPI, RPI, HPI and IPHRP) and is developing a new definitive House Price Index, an official measure of house prices that provides comprehensive coverage of UK residential property.

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- Goods/services coverage
 - House prices & other housing costs
 - Formula effect
- Other
 - Mortgage interest
 - Total