

# Assessment of compliance with the Code of Practice for Official Statistics

## Statistics on Consumer Price Inflation

*(produced by the Office for National Statistics)*

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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.

### **Contact us**

Tel: 0845 604 1857

Email: [authority.enquiries@statistics.gsi.gov.uk](mailto:authority.enquiries@statistics.gsi.gov.uk)

Website: [www.statisticsauthority.gov.uk](http://www.statisticsauthority.gov.uk)

UK Statistics Authority  
1 Drummond Gate  
London  
SW1V 2QQ

# **Assessment of compliance with the Code of Practice for Official Statistics**

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## ASSESSMENT AND DESIGNATION

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

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

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

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

Assessment reports typically provide an overview of any noteworthy features of the methods used to produce the statistics, and will highlight substantial concerns about quality.

Assessment reports also describe aspects of the ways in which the producer addresses the 'sound methods and assured quality' principle of the *Code*, but do not themselves constitute a review of the methods used to produce the statistics. However the *Code* requires producers to "seek to achieve continuous improvement in statistical processes by, for example, undertaking regular reviews".

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

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

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

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

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

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# 1 Summary of findings

## 1.1 Introduction

- 1.1.1 This is one of a series of reports<sup>1</sup> prepared under the provisions of the *Statistics and Registration Service Act 2007*<sup>2</sup>. The Act gives the Statistics Authority power to re-assess whether the *Code of Practice for Official Statistics*<sup>3</sup> continues to be complied with in relation to official statistics already designated as National Statistics. The report covers the set of statistics reported in *Consumer Price Inflation*<sup>4</sup>, produced by the Office for National Statistics with the exception of the Retail Prices Index and its sub-indices. The report discusses this further in annex 5.
- 1.1.2 The previous assessment of these statistics was reported in Assessment Report 79<sup>5</sup>. They have been re-assessed because new indices have been introduced which are shown in the table at 1.1.4. This is discussed further in annex 4.
- 1.1.3 Following a public consultation on the issue, ONS announced on 2 November 2012<sup>6</sup> that a new additional measure of consumer price inflation would be launched which would include owner-occupiers' housing costs (OOH) and would initially be known as CPIH. In a statement made on 10 January 2013<sup>7</sup>, the Statistics Authority announced that the National Statistician had recommended the creation of a further new index to be known as RPIJ<sup>8</sup>, which would be calculated using formulae that meet international standards. The statement acknowledged that, as with all National and prospective National Statistics, the new suite of inflation statistics would be subject to independent assessment by the Authority under the supervision of the Authority's Head of Assessment. This statutory assessment is in response to the Authority's request to assess the suite of inflation statistics.
- 1.1.4 The following table gives a summary of the statistics presented in *Consumer Price Inflation* which are in the scope for this assessment, and those which are not.

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

<sup>2</sup> [http://www.opsi.gov.uk/Acts/acts2007/pdf/ukpga\\_20070018\\_en.pdf](http://www.opsi.gov.uk/Acts/acts2007/pdf/ukpga_20070018_en.pdf)

<sup>3</sup> <http://www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html>

<sup>4</sup> <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Price+Indices+and+Inflation>

<sup>5</sup> <http://www.statisticsauthority.gov.uk/assessment/assessment/assessment-reports/assessment-report-79---consumer-price-indices.pdf>

<sup>6</sup> <http://www.ons.gov.uk/ons/rel/mro/news-release/ooh-announcement/ooh-news-release.html>

<sup>7</sup> <http://www.statisticsauthority.gov.uk/news/statement-consultation-on-the-retail-prices-index-10012013.pdf>

<sup>8</sup> RPIJ is a variant of the RPI using a geometric formulation (Jevons) to replace the arithmetic aggregation using a Carli formula; its production is subject to the same processes as for the RPI

| Subject of this report  | Indices not in scope for this assessment   |
|---|--|
| <ul style="list-style-type: none"> <li>• Consumer Price Index (CPI) and sub-indices:               <ul style="list-style-type: none"> <li>• CPIY (CPI excluding indirect taxes)</li> <li>• CPI-CT (CPI at constant tax rates)</li> <li>• CPI (special aggregates)</li> </ul> </li> <li>• CPIH* and sub-index:               <ul style="list-style-type: none"> <li>• CPIHY*</li> </ul> </li> <li>• RPIJ*</li> </ul> | <ul style="list-style-type: none"> <li>• Retail Price Index (RPI) and sub-indices:               <ul style="list-style-type: none"> <li>• RPIX (All items RPI excluding mortgage interest payments)</li> <li>• RPIY (All items RPI excluding mortgage interest payments and indirect taxes)</li> </ul> </li> <li>• Tax and Price Index</li> <li>• Rossi Index</li> <li>• Pensioners Price Index</li> </ul> |

\* Indices which were first presented in the March 2013 edition of *Consumer Price Inflation*.

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

## 1.2 Decision concerning designation as National Statistics

1.2.1 The Statistics Authority judges that the statistics covered by this report are readily accessible, produced according to sound methods and managed impartially and objectively in the public interest, subject to any points for action in this report. The Statistics Authority confirms that the CPI, CPIY, CPI-CT and CPI (special aggregates) statistics published in *Consumer Price Inflation* are designated as National Statistics, and has determined that CPIH, CPIHY and RPIJ also published in *Consumer Price Inflation* can be designated as new National Statistics products, subject to ONS implementing the enhancements listed in section 1.5 and reporting them to the Authority by October 2013 for Requirements 1 and 3-9 and by December 2013 for Requirement 2.

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

## 1.3 Summary of strengths and weaknesses

1.3.1 ONS pro-actively engages with representatives of users from government and beyond, including actively engaging with the independent user group for these statistics. Users told us that they appreciate this engagement. ONS has worked with experts and has consulted users in the development of the new indices set out in paragraph 1.1.3 to address known limitations in the statistics and has quickly and effectively assimilated the production of these indices into its monthly schedule.

1.3.2 The development of the new indices, however, has further highlighted existing concerns about whether the suite of inflation measures, in their totality, are meeting users’ needs. This also raises issues around the strategic governance

of inflation measures, and the mechanisms for involving users at this strategic level.

## **1.4 Detailed recommendations**

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

## **1.5 Requirements for designation as National Statistics**

|                      |   |
|----------------------|---|
| <b>Requirement 1</b> | Update the information published about the users and uses of the consumer price inflation statistics, and user experiences of those statistics, to include information about CPIH and RPIJ (para 3.3).  |
| <b>Requirement 2</b> | Publish a response to the findings of the Review of Governance of Prices Statistics once that Review has been published, advising users about any changes to the governance arrangements for these statistics (para 3.4).   |
| <b>Requirement 3</b> | Publish current information about the status of its strategy for consumer price inflation statistics and development priorities for them (para 3.5).  |
| <b>Requirement 4</b> | Publish a revisions policy for consumer price inflation statistics, including CPIH and RPIJ (para 3.7).   |
| <b>Requirement 5</b> | Update the published methodology and quality information to reflect the latest developments in consumer price inflation statistics, including information about CPIH and RPIJ and quality audit arrangements for administrative data sources (para 3.9).                                      |
| <b>Requirement 6</b> | Provide users with current advice about the characteristics, including the relative strengths and limitations of the different measures of inflation, in relation to potential use (para 3.10).   |
| <b>Requirement 7</b> | (a) Confirm that it will seek to achieve continuous improvement in statistical processes related to RPIJ; and (b) develop plans about how and when the experimental status of CPIH and RPIJ will be reviewed, and how users will be involved in the evaluation of the statistics (para 3.11). |



**Requirement 8**

Publish the plan for completing and presenting to Eurostat its analysis relating to UK compliance with the EC regulation *No 701/2006* on the temporal coverage of price collection as soon as it is finalised (para 3.12).

**Requirement 9**

Improve the commentary in relation to RPIJ in *Consumer Price Inflation* so that it aids user interpretation of the statistics (para 3.18).

## 2 Subject of the assessment

2.1 Consumer price indices seek to measure the change in the general level of the prices of goods and services purchased by households and other consumers in the UK on a monthly basis 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 influence interest rates, tax allowances, wages, state benefits, pensions, contracts and many other payments. They also show the impact of inflation on family budgets, which is of considerable interest to the general public.

2.2 The subject of this report is:

- the assessment of new price indices included since March 2013 – consumer price inflation including owner-occupiers’ housing costs (CPIH) and its sub-index CPIHY and a variant of the retail prices index calculated using the Jevons formula<sup>9</sup> (RPIJ); and
- the re-assessment of the remaining sets of statistics except the Retail Prices Index (RPI) and its sub-indices.

### *Measures of Consumer Price Inflation*

2.3 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 ticket to the price of a pint at the pub. The content of the basket is fixed on an annual basis, but as prices of individual products vary, so can the total cost of the basket. A consumer price index measures how the total cost of that basket changes over time. *Consumer Price Inflation* presents a suite of price indices:

- *CPI and sub-indices CPIY, CPI-CT and CPI (special aggregates)*  
The CPI functions as a comparable measure of inflation across EU Member States. Internationally, this index is commonly referred to as the Harmonised Index of Consumer Prices<sup>10</sup> (HICP). Since December 2003, the UK HICP has been known as the CPI. The CPI sub-index CPIY excludes indirect taxes; the sub-index CPI-CT assumes constant tax rates; and sub-index CPI (special aggregates) relates to areas of the CPI where price movements are typically more volatile or are influenced by specific factors such as changes in oil prices.
- *CPIH and sub-index CPIHY*  
CPIH is a measure of UK consumer price inflation that includes OOH – the costs associated with owning, maintaining and living in one’s own home. ONS calculates OOH costs for inclusion in CPIH using a rental equivalence approach<sup>11</sup>, following a recommendation of CPAC<sup>12</sup> and a consultation with

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<sup>9</sup> The Jevons formula is a geometric formulation and is based on a calculation that uses the  $n$ th root of the product on  $n$  price measures and is applied at the elementary aggregation level

<sup>10</sup> <http://epp.eurostat.ec.europa.eu/portal/page/portal/hicp/introduction>

<sup>11</sup> This method uses changes in rental prices to measure the costs of owning, living in and maintaining a property

<sup>12</sup> CPAC papers are available at: <http://www.ons.gov.uk/ons/guide-method/development-programmes/other-development-work/consumer-prices-advisory-committee/index.html>

users<sup>13</sup>. ONS released CPIH for the first time on 19 March 2013<sup>14</sup>, trailed in the previous week by an article: *Introducing the new CPIH measure of Consumer Price Inflation*<sup>15</sup>. The absence of OOH within the HICP has been a widely recognised weakness and the European Statistical System (ESS)<sup>16</sup> has been considering for many years the most appropriate way forward to introduce OOH into HICP. On 1 February 2013 a European Regulation (no 93/2013)<sup>17</sup> came into force, which requires ONS to provide a stand-alone OOH index, using the net acquisitions approach<sup>18</sup> from the end of 2014. ONS classifies CPIH and CPIHY as experimental statistics<sup>19</sup>.

- *RPIJ*  
RPIJ is a variant of the RPI that replaces the arithmetic average of price relatives (the Carli formula) at the first stage of aggregation for certain items with a geometric formulation (Jevons formula). Annex 5 (paragraphs A5.1 to A5.3) of this report outlines the background to its introduction. RPIJ is presented at the all items level only<sup>20</sup>. ONS released RPIJ for the first time on 19 March 2013 trailed in the previous week by an article *Introducing the New RPIJ Measure of Consumer Price Inflation*<sup>21</sup>. ONS classifies RPIJ as an experimental statistic.
- *RPI and sub-indices*  
The RPI and sub-indices are not in scope of this assessment, and were covered in Assessment Report 246<sup>22</sup>. For further information see paragraphs A5.3 to A5.6 of annex 5 of this report.

2.4 In addition to *Consumer Price Inflation*, ONS publishes:

- *Consumer Price Inflation Detailed Briefing Note*<sup>23</sup>, which presents background information about the statistics that lie behind the headline results, including the contribution that the component indices have made to the change in the annual rate in the CPI and RPI;
- A downloadable time series dataset and reference tables – the statistics are published in HTML and PDF with data tables published in Excel and CSV

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<sup>13</sup> <http://www.ons.gov.uk/ons/about-ons/user-engagement/consultations-and-surveys/archived-consultations/2012/national-statistician-s-consultation-on-options-for-improving-the-retail-prices-index/index.html>

<sup>14</sup> <http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/february-2013/stb---consumer-price-indices---february-2013.html>

<sup>15</sup> <http://www.ons.gov.uk/ons/rel/cpi/introducing-the-new-cpih-measure-of-consumer-price-inflation/2005-to-2012/index.html>

<sup>16</sup> [http://epp.eurostat.ec.europa.eu/portal/page/portal/pgp\\_ess/ess/ess\\_news](http://epp.eurostat.ec.europa.eu/portal/page/portal/pgp_ess/ess/ess_news)

<sup>17</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32013R0093:EN:NOT>

<sup>18</sup> The net acquisitions approach treats a house as the purchase of a good that is part asset (land) and part consumable (the house) plus costs associated with buying and maintaining a house, for example major repairs, transfer costs and dwellings insurance

<sup>19</sup> <http://www.statisticsauthority.gov.uk/news/assessment-and-designation-of-experimental-statistics.html>

<sup>20</sup> The all items level is the ultimate level of aggregation which defines the overall inflation rate measured by that index

<sup>21</sup> <http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/introducing-the-new-rpij-measure-of-consumer-price-inflation.pdf>

<sup>22</sup> <http://www.statisticsauthority.gov.uk/assessment/assessment-reports/assessment-report-246---the-retail-prices-index.pdf>

<sup>23</sup> <http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/may-2013/consumer-price-indices--detailed-briefing-note.pdf>

formats. This equates to a level 3 rating under the Five Star Scheme proposed in the *Open Data White Paper: Unleashing the potential*<sup>24</sup>.

- In addition to the regular monthly statistics, each quarter (with a two month lag) ONS publishes monthly data on the individual price quotes and item indices that underpin the CPI<sup>25</sup>. Data are presented at a broad geographic level (for example, South East England, West Midlands, Wales) to ensure no individual retailer or service provider is identifiable. *Responding to the Open Data Agenda: An ONS case study*<sup>26</sup> published in 2012 describes the background to the release of this dataset in 2011.

2.5 ONS publishes some additional reports that provide further information about the consumer price inflation statistics:

- *Consumer Prices Index and Retail Prices Index: The 2013 Basket of Goods and Services*<sup>27</sup>. This article describes the contents of the basket in 2013 and explains how and why the various items in the CPI and RPI are chosen.
- *Consumer Prices Index and Retail Prices Index: Updating Weights*<sup>28</sup>. This article describes the weights used to compile the CPI and RPI, and explains the annual updates to them.
- *Estimated Effect of the Budget on Consumer Prices Index and Retail Prices Index*<sup>29</sup>. ONS publishes an article shortly after each Budget that presents estimates of the percentage changes in the CPI and RPI that are expected from the announced duty and taxation changes.

2.6 ONS has also produced an online tool – the Personal Inflation Calculator<sup>30</sup>(PIC). This tool enables users to input their personal spending patterns to obtain an estimate of their own personal inflation rate and to compare against the national estimates (for more, see paragraph 3.19).

### Sources and methods

2.7 The same underlying price data are used to compile the CPI, CPIH (and the respective sub indices) and RPIJ and are based on almost 700 individual goods and services. ONS arranges for the measures of prices to be taken from around 150 locations throughout the UK. Of the 180,000 price quotations, around 110,000 are collected by visiting outlets. Since 1995, local price collection has been carried out by a market research firm. ONS collects most of the remaining price quotations from the internet, and by telephone and email. The remainder are collected by external organisations or obtained from other

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<sup>24</sup> [http://data.gov.uk/sites/default/files/Open\\_data\\_White\\_Paper.pdf](http://data.gov.uk/sites/default/files/Open_data_White_Paper.pdf)

<sup>25</sup> <http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/cpi-and-rpi-item-indices-and-price-quotes/index.html>

<sup>26</sup> <http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/responding-to-the-open-data-agenda---an-ons-case-study--consumer-prices-index.pdf>

<sup>27</sup> <http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/cpi-and-rpi-basket-of-goods-and-services/cpi-and-rpi-2013-basket-of-goods-and-services.pdf>

<sup>28</sup> <http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/cpi-and-rpi--updating-weights/index.html>

<sup>29</sup> <http://www.ons.gov.uk/ons/rel/cpi/estimated-effect-of-the-budget-on-consumer-prices-index-and-retail-prices-index/spring-2013/index.html>

<sup>30</sup> <http://www.neighbourhood.statistics.gov.uk/HTMLDocs/dvc14/index.html>

public sector bodies. Private housing rental data are sourced from the Valuation Office Agency, the Welsh Government and the Scottish Government.

- 2.8 Households spend more on some goods and services than others, and so when prices are combined to form the indices, weights are applied to reflect this. Information about spending patterns that underlie the weights used for CPI and CPIH largely comes from the household expenditure component of the UK National Accounts<sup>31</sup>. The Living Costs and Food Survey (LCF), part of ONS's Integrated Household Survey, is one of the major inputs into the household expenditure component. The CPI's weights are based on the expenditure of all private households in the UK, foreign visitors to the UK and residents of communal establishments such as retirement homes. RPIJ excludes the expenditure of certain private households<sup>32</sup>, foreign visitors and communal establishments. RPIJ spending patterns are predominantly sourced from the LCF.

### *Governance Arrangements*

- 2.9 An EU Council Regulation<sup>33</sup> passed in October 1995 authorised the creation of a Harmonised Index of Consumer Prices (HICP) which is the common name for the CPI in the European Union. Subsequent regulations have been passed by the EU which has regulated the development of the HICP<sup>34</sup>. 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.
- 2.10 CPAC was established in 2009 to advise the Statistics Authority on proposed changes to the arrangements for producing and presenting consumer price indices and to provide advice on RPI methodological issues. CPAC membership is drawn from the Authority, ONS, the Bank of England, HM Treasury, academia, the media and the Trades Union Congress.

### *Users and uses of Consumer Price Inflation*

- 2.11 ONS's *How ONS consumer price statistics are used*<sup>35</sup> identifies the following main uses of consumer price indices:
- *As a macro-economic measure of inflation and to inform policy-making decisions*  
Since 1992, UK governments have based their economic policies around targeting specific rates of inflation and in 2003 the Chancellor of the Exchequer initiated the use of the CPI as the basis for the Government's target for inflation. The Bank of England's Monetary Policy Committee uses the CPI to assess inflationary pressures and takes it into account in setting interest rates. Parliament and the public use the CPI to judge the success of monetary policy in achieving the inflation target.

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<sup>31</sup> In accordance with the Household Final Monetary Consumption Expenditure concept as defined in the European System of Accounts 1995

<sup>32</sup> Households whose income is within the top four per cent of all households and pensioner households which derive at least three quarters of their income from state pensions and benefits

<sup>33</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31995R2494:EN:NOT>

<sup>34</sup> <http://epp.eurostat.ec.europa.eu/portal/page/portal/hicp/legislation>

<sup>35</sup> <http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/july-2011/how-ons-consumer-price-statistics-are-used.pdf>

- *For deflation*  
For many purposes, comparisons of economic series are more useful when the effect of price changes is eliminated to allow the series to be presented in real terms to enable constant price comparisons over time. ONS uses the CPI and its components to adjust current levels of some economic series. This is typically done by deflating (dividing) estimates of expenditure at current prices by appropriate consumer price indices.
- *For indexation of wages, benefits and pensions*  
The CPI is frequently taken into account in wage bargaining. Some pay agreements explicitly link pay rises to CPI. In April 2012, the Department for Work and Pensions (DWP) increased state pensions and various benefits in line with the CPI.
- *Price adjustment*  
Many contracts link payments due, such as rent, to a change in the CPI.

2.12 There is evidence that users are starting to consider how they might use the new CPIH and RPIJ measures. On 13 June 2013, DWP announced plans to engage with users on its future approach for adjusting for inflation in the Households Below Average Income (HBAI), Family Resources Survey and Pensioners Income Series data and publications<sup>36</sup>. An Institute for Fiscal Studies report *Living Standards, Poverty and Inequality in the UK: 2013*<sup>37</sup> (IFS Report R81), that draws on DWP's HBAI statistics, also recommended that government should consider changing the measure of inflation used to RPIJ to ensure an accurate picture of changes in living standards.

#### *Costs of production*

2.13 ONS estimates that the total annual cost of producing *Consumer Price Inflation* is approximately £2.4 million.

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<sup>36</sup> <https://www.gov.uk/government/publications/dwp-family-and-household-income-statistics-adjusting-for-inflation-statistical-notice>

<sup>37</sup> <http://www.ifs.org.uk/publications/6759>

### 3 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 ONS engages with users of consumer price inflation statistics using different means. In addition to regular meetings with the Bank of England and HM Treasury, ONS attends all meetings of the RPI/CPI user group<sup>38</sup>. There is also frequent dialogue on the user group's forum on StatsUserNet<sup>39</sup>, which has around one hundred active members, and which the statistics team in ONS told us it monitors closely. *Consumer Price Inflation* invites user feedback and ONS maintains records of known users so that it can alert them to developments to the statistics, including any public consultations. ONS carried out six public consultations around consumer price inflation statistics between 2010 and 2012<sup>40</sup> – the latest two being about the recommendation to introduce CPIH and options for improving the RPI, which led to the introduction of RPIJ. These consultations attracted 20 and 406 responses respectively.
- 3.2 Users responding to this assessment expressed concerns about the number of changes made to the suite of inflation measures without any fundamental assessment of user needs, resulting in an 'incoherent and confusing' set of statistics. The Statistics Authority has launched a review<sup>41</sup> to consider the needs for changes to the range of these statistics produced for the UK to best meet current and future user needs. This review is due to report in summer 2014 and has obviated the need for any Requirement in this assessment report which might otherwise have arisen from these findings.
- 3.3 ONS publishes summary information about the users and uses of CPI in *Consumer Price Inflation*. ONS has published more detail about the statistics in a supplementary paper *How ONS consumer price statistics are used* (see paragraph 2.11), which is linked from *Consumer Price Inflation*. ONS has not published any such information about CPIH. *Consumer Price Inflation* states that 'the primary purpose of RPIJ is to enable users of the RPI to understand the impact that the use of the Carli formula<sup>42</sup> (which does not meet international standards) has on the RPI inflation rate'. The report does not make it clear if RPIJ has any wider application. The user response to this assessment suggests that there is some confusion about how these new measures could be used and ONS has not yet published any information about users' experiences of CPIH or RPIJ. As part of the designation as National Statistics, ONS should update the information published about the users and uses of the

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<sup>38</sup> Established to 'foster cooperation and the exchange of information between ONS statisticians concerned with the RPI and CPI, CPAC and those using the data'

<sup>39</sup> <http://www.statsusernet.org.uk/Home/>

<sup>40</sup> <http://www.ons.gov.uk/ons/about-ons/user-engagement/consultations-and-surveys/archived-consultations/index.html>

<sup>41</sup> <http://www.statisticsauthority.gov.uk/reports---correspondence/current-reviews/range-of-prices-statistics.html>

<sup>42</sup> The Carli formula was developed in 1764 by Carli, an Italian economist, this formula is the arithmetic average of the price relative, or ratio, between one period and a base period

consumer price inflation statistics, and user experiences of those statistics, to include information about CPIH and RPIJ<sup>43</sup> (Requirement 1).

- 3.4 Some users, while welcoming the Statistics Authority's review of the needs for changes to the range of these statistics, were anxious that arrangements be made for 'ongoing and recurring' monitoring of their needs after the review. They told us that engagement between ONS and users should not just take place through the User Group but also at a strategic level and take proper account of all users' views. The Statistics Authority announced, on 16 May 2013, the initiation of a review of the governance arrangements and structures that support the production of consumer price inflation statistics<sup>44</sup> to report in October 2013. The statistics team told the Assessment team that, currently, there are no plans for CPAC to meet for the period of this review, pending its outcomes. As part of the designation as National Statistics, ONS should publish a response to the findings of the Review of Governance of Prices Statistics once that Review has been published, advising users about any changes to the governance arrangements for these statistics<sup>45</sup> (Requirement 2).
- 3.5 Following a public consultation in 2012<sup>46</sup>, ONS published a strategy for consumer price statistics, together with its regular update of the forward work programme, as part of CPAC's annual report to the Statistics Authority<sup>47</sup>. ONS has published these strategic documents to its website but we found it difficult to locate them among the CPAC meeting papers. In addition, there have been some significant announcements about the consumer price inflation statistics since the publication of the ONS work programme in September 2012. These announcements have resulted in its strategy and the work programme being superseded by new priorities set by the Statistics Authority. The statistics team told us that while elements of its development activities within the work programme will continue, its current priorities will now be to support the two reviews and to address compliance with European regulation. As part of the designation as National Statistics, ONS should publish current information about the status of its strategy for consumer price inflation statistics and development priorities for them<sup>48</sup> (Requirement 3).

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<sup>43</sup> In relation to Principle 1, Practices 2, and 5 and Protocol 1, Practice 1 of the *Code of Practice*

<sup>44</sup> <http://www.statisticsauthority.gov.uk/reports---correspondence/current-reviews/governance-of-prices-statistics.html>

<sup>45</sup> In relation to Principle 1, Practice 1 and Protocol 1, Practice 1 of the *Code of Practice*

<sup>46</sup> <http://www.ons.gov.uk/ons/about-ons/user-engagement/consultations-and-surveys/archived-consultations/2012/owner-occupiers-housing-costs/index.html>

<sup>47</sup> <http://www.ons.gov.uk/ons/guide-method/development-programmes/other-development-work/consumer-prices-advisory-committee/cpac-papers/consumer-prices-advisory-committee---2012-annual-report.pdf>

<sup>48</sup> In relation to Principle 1, Practice 3 and Protocol 1, Practice 2 of the *Code of Practice*



## Principle 2: Impartiality and objectivity

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

- 3.6 ONS publishes these statistics in an orderly and timely manner on its website, free of charge to users. The statistics are presented impartially and objectively.
- 3.7 *Consumer Price Inflation* includes a very brief revisions policy noting that the CPI indices are subject to revision, though this happens infrequently in practice, and that the RPI indices are never revised – an agreed exemption<sup>49</sup> from the *Code*. The policy also states that the revisions practices for CPIH and RPIJ follow those for CPI and RPI and that specific policies have yet to be developed for these indices. ONS has not published any information about the criteria for CPI revisions. As part of the designation as National Statistics, ONS should publish a revisions policy for consumer price inflation statistics, including CPIH and RPIJ<sup>50</sup> (Requirement 4).

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<sup>49</sup> <http://www.statisticsauthority.gov.uk/assessment/code-of-practice/exemption-requests/exemption-request---ons---300911.pdf>

<sup>50</sup> In relation to Principle 2, Practice 6 of the *Code of Practice*

### **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.**

- 3.8 No incidents of political pressures, abuses of trust or complaints relating to professional integrity, quality or standards were reported to or identified by the Assessment team.

## 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.**

- 3.9 *Consumer Price Indices Technical Manual*<sup>51</sup> provides extensive technical documentation about the concepts, methods and sources for the consumer price inflation statistics. The manual is updated approximately every two to three years with the last update being in April 2012 and so does not include CPIH or RPIJ. However, ONS has published technical articles about the two new indices and includes direct links to these articles in *Consumer Price Inflation*. ONS also publishes guides for those who are new to price indices, including *A tale of many price indices*<sup>52</sup> and a helpful visual guide to understanding changes in the CPI 12-month rate<sup>53</sup>. The quality report *Inflation – CPI & RPI*<sup>54</sup> was last updated in December 2011 and so also excludes any reference to CPIH or RPIJ. ONS has not published any information about the arrangements for quality audits of the administrative sources for private rental data. The statistics team told us that methodological information, including the Technical Manual, will be updated by the end of 2013 and that a review of the quality report is provisionally scheduled for autumn 2013. As part of the designation as National Statistics, ONS should update the published methodology and quality information to reflect the latest developments in consumer price inflation statistics, including information about CPIH and RPIJ and quality audit arrangements for administrative data sources<sup>55</sup> (Requirement 5).
- 3.10 Some users told us that they would like ONS to provide clear guidance about which inflation measure should be used for which purpose. Others asked for better information about the relative strengths and limitations of the different measures of inflation, in relation to potential use. We endorse ONS's commitment to focus on the latter and provide information about strengths and limitations for users, as noted in recommendations to CPAC in January 2013<sup>56</sup>. ONS does not publish any information about the accuracy of these statistics. The statistics team told us that some initial investigations suggest that the complexity of the sample design for the consumer price inflation statistics would not support robust measures of accuracy. ONS said that the outcomes of these initial investigations have not been documented. During the course of consulting users about the introduction of CPIH and the approach to measuring OOH, ONS published a range of helpful information about the methods

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<sup>51</sup> <http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices---technical-manual/2012-edition/index.html>

<sup>52</sup> <http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/december-2012/sty-a-tale-of-many-price-indices.html>

<sup>53</sup> <http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/explaining-the-contributions-to-change-in-12-month-rate.pdf>

<sup>54</sup> <http://www.ons.gov.uk/ons/guide-method/method-quality/quality/quality-information/economy/quality-and-methodology-information-for-cpi-and-rpi.pdf>

<sup>55</sup> In relation to Principle 4, Practices 1 and 2 and Protocol 3, Practice 5 of the *Code of Practice*

<sup>56</sup> <http://www.ons.gov.uk/ons/guide-method/development-programmes/other-development-work/consumer-prices-advisory-committee/cpac-papers/cpac-papers---january-2013-meeting.pdf>

adopted and the reasons for the choices made<sup>57</sup>, including specifically about the choice of the rental equivalence approach<sup>58</sup>. As part of the designation as National Statistics, ONS should provide users with advice about the characteristics, including the relative strengths and limitations of its current measures of inflation, in relation to potential use<sup>59</sup> (Requirement 6). We suggest that in meeting this requirement, ONS publish the outcomes of investigations into developing measures of accuracy, and consider what further might be done to develop such measures. We further suggest that ONS publish better information alongside CPIH to clarify what it does and does not seek to measure.

- 3.11 ONS classifies CPIH and RPIJ as experimental statistics however it was unable to categorically confirm that the decision to freeze the methods used to produce the RPI, and only to contemplate 'routine' changes, did not extend to RPIJ. ONS has not confirmed when it plans to evaluate the experimental statistics, nor how it will involve users in that evaluation, but the statistics team told us that it is likely that any decisions will now be dependent on the outcomes of the reviews of governance and the range of price statistics. As part of the designation as National Statistics, ONS should (a) confirm that it will seek to achieve continuous improvement in statistical processes related to RPIJ; and (b) develop plans about how and when the experimental status of CPIH and RPIJ will be reviewed, and how users will be involved in the evaluation of the statistics<sup>60</sup> (Requirement 7).
- 3.12 There is a question about whether ONS complies fully with *Council Regulation EC No 701/2006*<sup>61</sup> with respect to the temporal coverage of its price collection for a few items in the CPI (called HICP internationally). The regulation came into effect at the beginning of 2008 and stipulates that collection must take place over a period of at least one working week around the centre of the month and across more than one working week for items with sharp and irregular price movements. UK collection is for a single specified 'Index Day' in the month. In practice the collection is carried out on the day before and the day after Index Day as well as on Index Day itself. The statistics team told us that it is currently evaluating the extent to which its practices comply with *EC No 701/2006*. As part of the designation as National Statistics, ONS should publish details of its plans for completing and presenting to Eurostat its evaluation of the UK's compliance with the EC regulation *No 701/2006* on the temporal coverage of price collection as soon as it is finalised<sup>62</sup> (Requirement 8).
- 3.13 Some users, in responses to this assessment, expressed their desire for ONS to explore the production of modelled estimates of regional consumer prices. When consulting users about the strategy for consumer price inflation

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<sup>57</sup> <http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/index.html>

<sup>58</sup> <http://www.ons.gov.uk/ons/about-ons/user-engagement/consultations-and-surveys/archived-consultations/2012/owner-occupiers-housing-costs/ons-response-to-ooH-consultations-pdf.pdf>

<sup>59</sup> In relation to Principle 4, Practices 1 and Principle 8, Practice 1 of the *Code of Practice*

<sup>60</sup> In relation to Principle 4, Practice 5 and Protocol 1, Practice 5 of the *Code of Practice*

<sup>61</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:122:0003:0004:EN:PDF>

<sup>62</sup> In relation to Principle 4, Practice 6 of the *Code of Practice*

statistics<sup>63</sup>, ONS said that it will not be pursuing regional price indices because the costs of doing so are prohibitive. We suggest that ONS keep users informed about the development of estimates of regional relative price levels.

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<sup>63</sup> <http://www.ons.gov.uk/ons/about-ons/user-engagement/consultations-and-surveys/archived-consultations/2012/owner-occupiers-housing-costs/owner-occupiers--housing-costs-consultation-document.pdf>

## 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.**

- 3.14 ONS has assured us that it takes all necessary steps to protect the confidentiality of the data it collects. The Consumer Price Inflation statistics are produced in line with the National Statistician's Guidance: *Confidentiality of Official Statistics*<sup>64</sup>.
- 3.15 Data collected from shelf prices in retail outlets and taken from the internet are not confidential. However, in aggregate ONS regards them as being commercially sensitive and therefore treats them as being confidential. *Responding to the Open Data Agenda: An ONS case study*<sup>65</sup> illustrates how ONS has sought to optimise the utility of the consumer price inflation data while protecting confidentiality.

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<sup>64</sup> <http://www.statisticsauthority.gov.uk/national-statistician/ns-reports--reviews-and-guidance/national-statistician-s-guidance/confidentiality-of-official-statistics.pdf>

<sup>65</sup> See footnote 26

## 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.**

- 3.16 Most data are collected by contractors recording shelf prices using 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. ONS collects some price data from central sources, for example, from larger chain stores that have national pricing policies as well as through telephone calls to other businesses (for example window cleaners, nannies).. ONS estimates the burden that this imposes on its suppliers is approximately £12,000<sup>66</sup>.

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<sup>66</sup> <http://www.ons.gov.uk/ons/about-ons/what-we-do/corporate-documentation/compliance/compliance-and-simplification-plans/compliance-plan-2011-12.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.**

- 3.17 The statistics team told us that consumer price inflation statistics are identified as a key priority within ONS in relation to the allocation of resources and the retention of appropriately skilled staff. To assure business continuity, documentation of all procedures related to the monthly production of these statistics is regularly audited as part of ONS compliance procedures against the requirements of the ISO 9001<sup>67</sup> quality standard.

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<sup>67</sup> <http://www.bsigroup.co.uk/en-GB/iso-9001-quality-management/>



## Principle 8: Frankness and accessibility

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

- 3.18 ONS has made some small enhancements to *Consumer Price Inflation* since it first published the new indices in March 2013 – for example, including a summary table to better direct users to the different measures. ONS has also worked with the National Statistician’s Good Practice team to have the report reviewed by a user panel. Users reported that they appreciate the commentary in *Consumer Price Inflation* and confirmed that it meets their needs; some also commended the accompanying *Briefing Note*. To date, however, there has been no reference to the RPIJ inflation rate in the main headline points of the report and no commentary supports the understanding of movements in RPIJ. ONS has framed the primary purpose of RPIJ as enabling users of the RPI to understand the impact the use of the Carli formula has on the inflation rate. It is the view of the Assessment team that such positioning of RPIJ without accompanying full and frank commentary does not enable the statistics to be readily accessible to all users. As part of the designation as National Statistics, ONS should improve the commentary in relation to RPIJ in *Consumer Price Inflation* so that it aids user interpretation of the statistics<sup>68</sup> (Requirement 9). We suggest that in meeting this requirement ONS should consider the points detailed in annex 2.
- 3.19 ONS recognises the importance of addressing the interest in the perceptions of inflation and published an article<sup>69</sup> in 2012 on the effectiveness of its personal inflation calculator (PIC). The article referred to a version of the PIC hosted on the BBC’s website<sup>70</sup> which encourages use of the PIC by a wider audience. Since the publication of that article, the BBC has introduced a second version – Calculate Your Inflation Rate<sup>71</sup> which appears to have the same purpose. ONS has not had an opportunity to properly evaluate fully the impact of having more than one PIC-type tool in the public domain and had no information from the BBC about its long-term intentions for continuing with the different tools. We suggest that ONS continue to review the user need for the PIC in the light of the different versions that are in the public domain and update i) the article on perceptions of inflation and ii) any metadata on the ONS website about the PIC.

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<sup>68</sup> In relation to Principle 8, Practice 2 of the *Code of Practice*

<sup>69</sup> <http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/perceptions-of-consumer-price-inflation.pdf>

<sup>70</sup> <http://news.bbc.co.uk/1/hi/business/7669072.stm>

<sup>71</sup> <http://www.bbc.co.uk/news/business-22523612>

## **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.**

3.20 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.**

- 3.21 ONS changed the name of *Consumer Price Inflation* in February 2013 from *Consumer Price Indices*. However, the statistics are still referred to as *Consumer Price Indices* on the National Statistics Publication Hub<sup>72</sup>. Until this is resolved, there could be confusion about where to locate the reports and the dates of the future releases. The statistics team told us that this was a problem related to the transition to the new title and would be resolved quickly. We suggest that ONS ensure that the statistical reports can be easily accessed from the Publication Hub and that there are clear links to the timetable for statistical releases for twelve months ahead.

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<sup>72</sup> <http://www.statistics.gov.uk/hub/search/index.html?newquery=consumer+price+inflation>

### **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.**

3.22 ONS has published a Statement of Administrative Sources<sup>73</sup>. ONS's arrangements for auditing the quality of administrative data used in the production of Consumer Price Inflation statistics are discussed under Principle 4.

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<sup>73</sup> <http://www.ons.gov.uk/ons/guide-method/the-national-statistics-standard/code-of-practice/statement-of-administrative-sources/index.html>

## Annex 1: Suggestions for improvement

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

- |                     |   |
|---------------------|---|
| <b>Suggestion 1</b> | Publish the outcomes of investigations into developing measures of accuracy, and consider what further might be done to develop such measures (para 3.10).  |
| <b>Suggestion 2</b> | Publish better information alongside CPIH to clarify what it does and does not seek to measure (para 3.10).   |
| <b>Suggestion 3</b> | Keep users informed about the development of estimates of regional relative price levels (para 3.13).   |
| <b>Suggestion 4</b> | Consider the points detailed in annex 2, in seeking to improve the statistical reports (para 3.18).   |
| <b>Suggestion 5</b> | Continue to monitor the effectiveness of the PIC in the light of the different versions that are in the public domain and update i) the article on perceptions of inflation; and ii) any metadata on the ONS website about the PIC (para 3.19). |
| <b>Suggestion 6</b> | Ensure that the statistical reports can be easily accessed from National Statistics Publication Hub and that there are clear links to the timetable for statistical releases for twelve months ahead (para 3.21).                               |

## Annex 2: Compliance with Standards for Statistical Reports

- A2.1 In November 2012, the Statistics Authority issued a statement on *Standards for Statistical Reports*<sup>74</sup>. While this is not part of the *Code of Practice for Official Statistics*, the Authority regards it as advice that will promote both understanding and compliance with the *Code*. In relation to the statistical reports associated with the Consumer Price Inflation Statistics, this annex comments on compliance with the statement on standards.
- A2.2 In implementing any Requirements of this report (at paragraph 1.5) which relate to the content of statistical reports, we encourage the producer body to apply the standards as fully as possible.

### **Include an impartial narrative in plain English that draws out the main messages from the statistics**

- A2.3 The main messages from the statistics are given at the start of the report followed by a brief description of Consumer Price Inflation. The narrative gives some detail supporting the latest CPI and CPIH estimates, along with those for RPI and the long-term trends. The report details the principal contributions to upwards and downwards pressure on prices along with the scale of such pressures. All narrative is reported impartially with no statements of opinion and is demonstrably evidence based.
- A2.4 While no comparisons with other countries are provided in the report, there is a hyperlink to Eurostat's database tables where a summary of the latest European data is available. International comparisons are also presented in the accompanying reference tables. The May 2013 report explained how the inflation statistics relate to a new publication of the Index of Private Housing Rental Prices (IPHRP). The inflation and the IPHRP statistics share the same data source in relation to private housing rental prices.
- A2.5 Narrative in the report includes only the key numbers, suitably rounded, and is accompanied by illustrative graphs and tables. Supplementary reference tables are presented at the end of the report. The language used is straightforward and avoids adopting technical terms. A detailed briefing note which drills down into the detail of what is changing accompanies the report.

### **Include information about the context and likely uses of the statistics**

- A2.6 The report explains that CPI is the inflation measure used to set the Government's target for inflation. Brief information about other uses of the CPI is also presented along with a hyperlink to a document called *How ONS consumer price inflation statistics are used*. ONS does not describe any distinct uses for CPIH or any of the sub-indices (such as CPIY).
- A2.7 Apart from noting the difference between the RPI and the RPIJ rates there is no other commentary about RPIJ such as around changes to the RPIJ due to differences between the RPIJ and the CPI (for example what is in the basket of goods or population coverage).

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<sup>74</sup> <http://www.statisticsauthority.gov.uk/news/standards-for-statistical-reports.html>

## **Include information about the strengths and limitations of the statistics in relation to their potential use**

- A2.8 No information is provided about the accuracy of the statistics. The latest quality report dated December 2011 which is linked to from *Consumer Price Inflation*, states that the methodology for estimating the accuracy of the RPI and CPI has not yet been fully developed because of the complexity of the sample design but further work continues. There is little information within the narrative of the report about strengths and limitations of the statistics in relation to their potential uses. There is no explanation, or links to, an explanation about, the implications of using the statistics for particular purposes.
- A2.9 *Consumer Price Inflation* gives summary information about the revisions policy relating to the CPI indices which are revisable but are rarely revised. Following publication, the RPI indices are never revised. The CPIH and the RPIJ currently follow the revisions practices for the CPI and for the RPI respectively. No information is provided about the criteria for CPI revisions, and the statement regarding CPIH and RPIJ is confusing.

## **Be professionally sound**

- A2.10 The descriptive statements are demonstrably consistent with the statistics. The descriptions of proportions, changes, trends and patterns are professionally sound. The report includes charts and tables that conform to good practice standards.

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

- A2.11 The title describes in plain English the coverage of the statistics and the period to which the statistics relate. There are statements in the report which give the date of the next release, and that release of the statistics is monthly. The narrative discusses the nature of the CPI-12 month rate and again by implication that the latest monthly statistics are new statistics released in the report.
- A2.12 The name of the producer body, and the name and contact details of the responsible statistician are all given in the report. Information, or links to information, about definitions, data sources and methods are all detailed.
- A2.13 The report includes links to relevant metadata such as the *Consumer Price Indices Technical Manual* and articles from the ONS's guidance and methodology section of its website<sup>75</sup>. Full descriptions of the recent changes which saw the introduction of CPIH and RPIJ have also been referenced in the report.
- A2.14 National Statistics, Experimental Statistics and Official Statistics are clearly labelled and the National Statistics logo is displayed appropriately. The report includes clear links to supplementary datasets. The background notes section of the report sets out the comparability of the statistics describing changes to the coverage of goods and services within the CPI over time plus other changes which were introduced.

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<sup>75</sup> <http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/index.html>

A2.15 ONS has also taken steps to ensure that it provides analysis that 'backcasts' the statistics to periods before the introduction of a new series such as the CPIH which has been backcast to 2006 and the RPIJ backcast to 2003.



## Annex 3: Summary of assessment process and users' views

A3.1 This assessment was conducted from February to June 2013.

A3.2 The Assessment team – Iain Russell and Donna Livesey – agreed the scope of and timetable for this assessment with representatives of ONS in February 2013. The Written Evidence for Assessment was provided on 19 April. The Assessment team subsequently met ONS in June 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

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

A3.4 The Assessment team received 22 responses from the user consultation, which included 3 group and 19 individual responses. The respondents were grouped as follows:

|                              |   |
|------------------------------|---|
| RPI/CPI User Group           | 1 |
| Royal Statistical Society    | 1 |
| Commercial                   | 6 |
| Individuals                  | 6 |
| Central government           | 3 |
| Non departmental public body | 1 |
| Trade unions                 | 3 |
| Membership organisations     | 1 |

A3.5 Users generally reported that engagement with the producers was active, although there was isolated feedback that ONS could do more to lead debate and correct misunderstandings around official inflation measures. The creation of the new CPIH is acknowledged by some users as being an improvement on the existing CPI measure. There was positive comment about the detailed briefing note which accompanies the release of the statistics. Some respondents commented about the RPI statistics, which are not in scope for this assessment. Some respondents expressed concern that the introduction of the RPIJ, combined with the Authority's cancellation of the designation of the RPI, were signs that the RPI would sooner or later, either not be published, or be replaced by the RPIJ.

A3.6 Responses on behalf of a number of users (such as from the Royal Statistical Society and the RPI/CPI User Group) were generally of the view that changes have been made to the suite of indicators in recent years without any fundamental assessment of users' needs. The result is described as an increasingly incoherent, and thus confusing, set of statistics. There was a body of opinion that there is need for guidance on the suitability of the different measures for different needs. Some describe what is currently in the report as

being misleading in terms of which indices are used, for example for contracts and wage negotiations. More than one user called for the indices to be available to three decimal places. The responses also reflected the strongly held opposing views around the decision to adopt the rental equivalence approach in the OOH component in the new CPIH. Among the concerns about the use of the rental equivalence approach is that the CPIH will not pick up the consumer expenditure impacts of a house price 'asset bubble' quickly enough. It was suggested that this could result in either inappropriate or delayed policy choices. ONS told us in response to these concerns that the purpose of the OOH component of CPIH is not to measure the cost of housing and is thus not expected to reflect the volatilities in house prices.

- A3.7 Responses received from central government departments combined with other evidence of the views of the Bank of England about these statistics displayed no major concerns. Two users attached a priority to the development of regional consumer price indices by ONS.
- A3.8 Other responses which do not lend themselves to summary here have been fed back to ONS, when the respective respondents gave their permission.

### **Key documents/links provided**

Written Evidence for Assessment document

## Annex 4: Summary of Requirements from Assessment Report 79

A4.1 One set of statistics in this assessment, the CPI and its sub-indices, was assessed in Assessment Report 79<sup>76</sup>, published in December 2010. The Authority initiated this re-assessment because ONS introduced the new indices – the CPIH (and the CPIHY sub-index) and the RPIJ, where the underlying methodology for their production is the same as used for the CPI. Additionally the Authority initiated a re-assessment of the RPI, in early 2013, resulting in cancelling the National Statistics designation of these statistics and the related sub-indices.

A4.2 The requirements recorded in Assessment Report 79 were:

**Requirement 1** Take steps to develop a greater understanding of the use made of the statistics; publish the relevant information and assumptions and use them to better support the use of the statistics.

**Requirement 2** Publish information about the timeliness of these statistics and how it might be improved.

**Requirement 3** Publish information about the history and the reasons for the difference in scope and methods between the CPI and RPI; and explain the implications that these differences have for the uses to which these statistics are put.

**Requirement 4** Ensure that the planned improvements to ONS's website will improve the accessibility of information on the full range of documents and datasets relating to these statistics

**Requirement 5** Ensure that all releases are issued at 9.30am on the day of release.

A4.3 The Statistics Authority confirmed the National Statistics designation of these statistics in a letter to ONS on 31 January 2012<sup>77</sup>.

A4.4 One Requirement within this report relates to an aspect of *Code* compliance that resulted in Requirement 3 in Assessment Report 79. This is:

**Requirement 6** Provide users with advice about the relative strengths and limitations of the different measures of inflation, in relation to potential use.

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<sup>76</sup> See footnote 5

<sup>77</sup> <http://statisticsauthority.gov.uk/assessment/assessment/assessment-reports/confirmation-of-designation-letters/letter-of-confirmation-as-national-statistics---assessment-report-56--79-and-103.pdf>

- A4.5 Requirement 3 in Assessment Report 79 resulted from a lack of clarity about whether different approaches adopted in the past for the RPI remained appropriate. Examples cited included: the use of the arithmetic mean to combine individual prices rather than the geometric mean; a classification system specified 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 different population base for RPI compared with CPI. There was a link between this Requirement and a Suggestion in the Statistics Authority's Monitoring Brief *Communicating Inflation*<sup>78</sup>. This Suggestion was 'Include in the *Consumer Price Indices* statistical bulletin a fuller discussion of the uses and potential uses of the different statistics on inflation, and provide some signposting to further guidance on the suitability of the different indices for particular uses. We also suggest that ONS review the continuing user requirement for RPIX and for two separate measures that exclude indirect taxation, CPIY and RPIY, and the way these measures are described and presented in *Consumer Price Indices*'. In response, ONS published an article detailing the differences in scope and methods between the CPI and the RPI<sup>79</sup>. ONS also published a detailed account of the implications that the differences between the RPI and the CPI have for the uses to which they are put<sup>80</sup>.
- A4.6 This assessment has found that, in the light of the presentation of a wider range of measures of consumer price inflation, users believe that the statistics have become increasingly confusing and lack coherence. ONS has said that it is for decision-makers, outside ONS, to determine which statistics people use for their purposes. However, it has undertaken to provide information to users on the strengths and limitations of the different indices in relation to use and potential use.

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<sup>78</sup> <http://www.statisticsauthority.gov.uk/assessment/monitoring/monitoring-reviews/monitoring-brief-7-2010---communicating-inflation.pdf>

<sup>79</sup> <http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/history-of-and-differences-between-the-consumer-prices-index-and-retail-prices-index/index.html>

<sup>80</sup> See footnote 40

## Annex 5: Background to the Statistics Authority assessments and reviews of CPI

- A5.1 In parallel to the statutory assessment in 2010 – Assessment Report 79, the Statistics Authority published a Monitoring Brief: *Communicating Inflation* considering the clarity of the statistical messages to users about the different inflation measures. The report suggested, inter alia, that ONS and CPAC should carry out more analysis of the strengths and weaknesses of the CPI and RPI. It also recommended that ONS consult users about whether proposals for improving the CPI (while maintaining the RPI) represented a suitable approach to developing improved measures of inflation while continuing to meet users' needs for existing measures.
- A5.2 In its annual report to the Statistics Authority for 2011<sup>81</sup>, CPAC noted the increased challenge and scrutiny demonstrated by the two Statistics Authority reports. CPAC endorsed a work programme to explore further the increasing impact during 2010 and 2011 of the 'formula effect' on the gap between the CPI and RPI. CPAC suggested that the completion of the work programme should be a top priority for ONS and that implementation of any improvements should take place as soon as possible, most likely in early 2013. Based on the information available at the time, the Statistics Authority confirmed the designation of the set of statistics published in *Consumer Price Indices* (known as *Consumer Price Inflation* since February 2013) as National Statistics in January 2012
- A5.3 In autumn 2012, the National Statistician carried out a consultation with users about options for possible changes to the methods used to produce the RPI. The options concerned the use of the Carli formula for aggregating price change data at the very detailed level in the RPI. ONS's research found that the use of the Carli formula in the RPI is the primary source of the formula effect difference between the RPI and the CPI. It also found that, in the international community, the UK is alone in its use of the Carli formula at the elementary aggregate level<sup>82</sup>. The National Statistician announced the outcome of the consultation<sup>83</sup> on 10 January 2013 and ONS published the full response on 22 February 2013<sup>84</sup>. The National Statistician concluded that the RPI does not meet international standards and recommended that from March 2013 a new index be published, RPIJ, which does not use the Carli formula
- A5.4 The National Statistician also announced that, for the foreseeable future, ONS would continue to produce and publish the RPI. This basis for this decision is the continuing user need for the existing RPI in its current form, for example in the index-linked gilts and bonds market, in private sector business contracts and in the indexation of private pension payments. In an Authority Statement on 10 January 2013 the Board of the UK Statistics Authority accepted the

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<sup>81</sup> <http://www.ons.gov.uk/ons/guide-method/development-programmes/other-development-work/consumer-prices-advisory-committee/cpac-papers/consumer-prices-advisory-committee---2011-annual-report.pdf>

<sup>82</sup> An elementary aggregate is the lowest level at which individual prices are aggregated

<sup>83</sup> <http://www.ons.gov.uk/ons/rel/mro/news-release/rpirecommendations/rpinewsrelease.html>

<sup>84</sup> <http://www.ons.gov.uk/ons/about-ons/user-engagement/consultations-and-surveys/archived-consultations/2012/national-statistician-s-consultation-on-options-for-improving-the-retail-prices-index/national-statisticians-response.pdf>

recommendations of the National Statistician. However, in the light of the identified methodological shortcomings of the RPI, the Board asked that these statistics be re-assessed immediately to determine whether they merited continued designation as National Statistics.

- A5.5 Assessment Report 246 provides details of the outcomes from the re-assessment of the RPI in February 2013. The Statistics Authority reiterated its support for the decision by the National Statistician that, to meet the needs of existing users of the RPI in its current form, ONS will not amend its basic formulation. However, this has the effect that the RPI is inconsistent with the *Code of Practice* and the Statistics Authority cancelled the designation of the RPI, including its sub-indices as National Statistics.
- A5.6 The Statistics Authority confirmed in Assessment Report 246 its intention to carry out this separate assessment of the new RPIJ, along with that of the new CPIH, during the first half of 2013 and announced that it would include a re-assessment of the remaining sets of statistics presented in *Consumer Price Inflation* (excluding RPI).
- A5.7 Further to the Authority's Statement on 10 January 2013, the Authority announced the launch of two reviews relating to price indices on 16 May 2013:
- Range of price statistics – Paul Johnson, Director of the Institute for Fiscal Studies, is leading a review to consider what changes are needed to the range of consumer price statistics produced for the UK to best meet current and future user needs. This review is due to report by summer 2014.
  - Governance of prices statistics – Professor Sir Adrian Smith, the Authority's Deputy Chair with responsibility for ONS, is leading a review to consider matters relating to the governance arrangements and structures supporting the production of consumer price statistics. This review is due to report by October 2013.

