UK Statistics Authority

Summary of Responses

Measuring Consumer Prices: the options for change

November 2015

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Introduction

The importance of statistics in helping people make the right decisions is something the UK Statistics Authority takes seriously. To do this we need continually to improve our statistics to keep abreast of rapid changes in society and technology. This is particularly true for consumer price statistics – statistics which have a direct impact on every one of us. Our recent consultation on the options for improving consumer prices has provided a rich source of information to guide us in deciding how to develop these statistics in future.

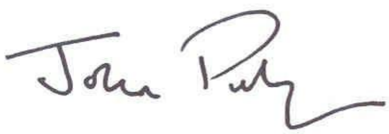
This document presents a summary of the responses to our consultation. The range of responses highlights the importance of these statistics to individuals, businesses, government and other organisations across the UK. My thanks to every one of you who took the time to respond. It is clear from your responses that improving inflation statistics is important to you. While you have a range of opinions on how we should develop these statistics, there is a clear desire across the board to continue to invest in improving them.

In determining the proposals, I will draw on Paul Johnson’s findings and the views you have provided. I will be guided by the advice I will receive from my new advisory panels I have recently established. I will also take into account the outcomes of the forthcoming Spending Review and the Independent Review of UK Economic Statistics being conducted by Professor Sir Charles Bean.

In early 2016 I will present my proposals to the board of the UK Statistics Authority to seek their endorsement. Once endorsed by the board, I will publish my proposals along with a rationale.

My team and I look forward to working with you on implementing these proposals and continuing to improve consumer price statistics to meet the needs of the full range of users.

John Pullinger



National Statistician

Background

The Authority's consultation, Measuring Consumer Prices: the options for change, was launched on 15 June 2015 and closed on 15 September 2015. The consultation followed a review, led by Mr Paul Johnson, which took a comprehensive look at how inflation is measured in the UK, and made a series of recommendations about the development of these statistics going forward. Drawing from the issues raised by the Johnson Review, as well as those raised by users, the consultation sought users' views on the future development of the UK's range of consumer price statistics.

The Authority appreciates that 'inflation' can mean different things, and that consumer price statistics can be used for different purposes:

- Sometimes, users may wish to understand how prices are changing across the economy as a whole;
- In other cases, users may wish to understand the impact of price changes on groups of households;
- And sometimes, where measures are built into commercial contracts or gilts, users seek assurance about the stability of these measures.

Therefore, the consultation document was framed around these different uses:

- **Section One** asked users about how ONS can best measure price change across the economy;
- **Section Two** sought views on the value of measuring the changes in prices experienced by different households, as well as the ways in which ONS could seek to do so;
- **Section Three** addressed the RPI, asking whether sub-indices of the measure should be discontinued, and about Mr Johnson's recommendation that development of the RPI be frozen; and
- **Section Four** asked users about how ONS can continue to improve quality, relevance and timeliness across its full range of consumer price statistics.

The consultation was publicised on the UK Statistics Authority, ONS and gov.uk websites, and links to the consultation were provided on social media websites and StatsUserNet. Open meetings were held in five locations across the UK to present the information in the consultation document to and discuss the options. The meetings were held on 24 June in London, 18 August in Belfast, 20 August in Edinburgh, 1 September in Manchester, and 3 September in Cardiff. There was a second presentation in London on 13 July at an open meeting organised by the RPI/CPI user group. Additionally, the consultation was presented at the Economic Forum on 13 July and at the Department for Business, Innovation and Skills (BIS) on 18 August.

This document provides a representation of the comments received and summaries the main issues raised. The National Statistician is very grateful to everybody who took the time to respond to the consultation.

Overview of responses

Respondents to the consultation represent a diverse range of users and hold a diverse range of views. The Authority received submissions from individuals representing central government departments, financial institutions, local government, pension groups, regulators, trade unions and utility companies, as well as from members of the public. While there is general support for a identifying a main measure of price change across the economy, respondents are split on what this measure should be. Nearly half feel that it should be CPIH, while others feel that it should be the RPI or even the Household Inflation Index (HII) as proposed by the CPI/RPI user group and Royal Statistical Society (RSS). Those who do not support having a main measure of price change across the economy believe that a single index cannot be applicable for all purposes. Most respondents feel that the main measure of inflation should not be governed by legislation and provide various reasons for supporting this position.

There is very strong support for producing inflation measures by different household types, although some feel that the first priority should be producing a HII as proposed by the CPI/RPI user group and RSS. Some of these respondents explain that inflation measures for different household types could then be formed using this index. The majority of respondents want inflation indices by household type measured using a payments-based approach.

Respondents were asked if they use RPI sub-indices or analytical indices. RPI component indices are the most heavily used, followed by the RPI pensioner indices. Respondents report that RPIX and RPIY are used in contracts and “RPIX exposure has been traded in swap form” in financial markets. There are no specific uses for the other RPI sub-indices and analytical indices. Respondents were asked which of these indices should be discontinued. Unsurprisingly, most respondents want the indices they use to be continued. However some feel that all the RPI sub-indices and analytical should be continued, while at the other end of the spectrum, a few feel they should all be discontinued. Nearly all respondents disagree with the decision to freeze the RPI as the index cannot be discontinued. It will continue to be used and therefore respondents feel that is should be as accurate as possible (while accepting the upward bias due to the use of the Carli formula).

Most respondents do not feel that the priorities identified in the work plan for consumer price statistics are appropriate. However, in most cases, this is because respondents want something additional included or the priorities re-ordered. The most commonly identified additional priority – in particular from pension group, trade unions and some individuals - is the development of a HII as proposed by the RPI/CPI user group and RSS.

The majority of respondents support the inclusion of council tax in CPIH, many pointing towards it being a significant element of household expenditure.

Next steps

The UK Statistics Authority will consider this document carefully, along with advice from its regulatory function[1] and the newly established Advisory Panels for Consumer Prices[2]. The final response will be issued in the first half of 2016.

[1] One of the Authority's main functions is to provide independent regulation of all official statistics produced in the UK. The Authority determines whether official statistics comply with the Code of Practice for Official Statistics and, if so, designates them with the quality mark 'National Statistics'. The process of determining compliance with the Code and designation as National Statistics is known as 'Assessment'. The reassessment of CPIH as a National Statistic commenced in September 2015 and is likely to report in spring 2016.

[2] In June 2015 the UK Statistics Authority announced the formation of two independent advisory panels on consumer price statistics: a technical panel to advise the National Statistician on technical aspects of the statistics; and a stakeholder panel to provide advice on the uses and applications of price indices. The panels will meet for the first time at a joint meeting on 27 November 2015. Membership lists are available here: http://www.ons.gov.uk/ons/guide-method/development-programmes/other-development-work/prices-development-plan/consumer-prices-development-work.html

Respondents

In total there were 83 respondents to the consultation. Of these, 52 respondents used the online tool Citizen Space. The majority of the remaining respondents used email to send in their submission, although a handful of responses were provided over the phone or in the post. A full list of respondent organisations is provided in Annex A. Responses from organisations and individuals who are content for their response to be made public have been published alongside this document.

Respondents have been classified into eight groups to help with the detailed summary of responses, in some instances the groups have also been split into sub-groups. The groups and sub groups are as follows:

Group		Sub-group	
Pension groups	5		
Trade unions	5		
British Airways pensioners	12		
Mining industry pension scheme trustees	2		
Financial institutions	15	Named financial institutions	10
		Likely to be from individuals working in financial institutions	5
Utility companies	6	Water and water and sewerage providers	4
		Electricity distribution providers	2
Government	9	Central government	4
		Local government	3
		Devolved government	1
		Regulator	1
Other organisations	5		
Individuals	24		

Detailed summary of responses

The consultation document contained a number of sections and questions and in many instances respondents did not complete all of these. Therefore, the summary provided is based on the respondents who did answer the relevant section or question.

Some respondents did not use the template for response, therefore their comments and thoughts have been captured in the relevant sections where applicable.

Section One: *Measuring prices across the economy*

Should ONS identify a main measure of price change across the economy?

Around three quarters of respondents agree that ONS should identify a main measure of price change across the economy. In particular, support came from British Airways pensioners, financial institutions, government, and many individuals. Responses were more evenly split between yes and no for trade unions, pension groups, utility companies and other organisations. Mining industry pension scheme trustees did not support the identification of a main measure of price change across the economy.

Many who said yes feel that it is essential that a single recognised measure of inflation is available that can be used as a "broad measure for the nation as a whole" and that the "measure should be applied consistently, when used as an uprating index it should apply to both pensions and benefits and goods and services". Respondents acknowledge that "a range of different indices can cause confusion and can be misused in a 'pic and mix' fashion", where "relevant authorities can 'shop' for the one that is best for them" for example, "the CPI is used for the state pension and RPI is used for all rail fare increases and student loans".

Some also feel that having a main measure of inflation does not mean that other measures of inflation are any less valid for specific uses, but that there is "one main reference rate which is generally quoted". One individual says "there will never be a single index correct for all applications but it is better to choose a single main measure, to know its strengths and weaknesses and to use it intelligently than to have a confusing selection breeding abuse and distrust".

Conversely, some respondents feel that there should not be a single measure of price change across the economy as a single index cannot be applicable for all purposes. The Royal Statistical Society (RSS) says "a single 'one size fits all' headline index has superficial attractions and would avoid 'index rate shopping'. But this must not override the key need of statistics being fit for purpose. A modern economy is complex and in many areas more than one overall major statistics is required. 'Index rate shopping' can be minimised when the purpose of the indices is clear".

Several respondents state that there should be separate measures for macroeconomic and household purposes. These respondents feel that "the CPI was designed for international comparison and macroeconomic purposes" and that a separate index should be used for household purposes. The RSS suggest that this index has a number of uses including "uprating (e.g. in wage negotiation, pensions, tax brackets or contracts) where the aim is to compensate, or take into account, the impact of inflation on households".

It is also important to note that some respondents, in particular financial institutions, who did not select either yes or no to a main measure, simply emphasised the importance that ONS maintains an accurate, timely and reliable index, and if changes are introduced, that there needs to be a significant lead-in time, a suggestion of at least twelve months was given.

What should this measure be?

Almost half of the respondents to this question believe that CPIH should be the main measure of price change across the economy. Many argue that as the RPI has lost its National Statistics status, and the CPI is not directly relevant to “the man on the street”, CPIH would be the best option for our main measure of consumer price inflation. Many highlight that housing absorbs a significant part of private income and hence should be captured in a main measure. The Bank of England says “once the issues surrounding the measurement of owner-occupied housing costs are judged to have been resolved, the CPIH measure regains its status as a National Statistic, and has a proven track record, there is a strong case for its becoming the main measure of inflation”.

However, some respondents raise concerns with using the CPIH as the main measure. These include interest payments and taxes related to income or wealth being excluded and coverage being based on expenditure both by residents and foreign visitors. Additionally, owner occupiers’ housing costs being measured using rental equivalence is a concern for some as “it is hard for the man on the street to understand what owners equivalent rent really means”. The overriding view is that CPIH is better than the CPI but could be improved further. Some recommend using the net acquisitions approach rather than the rental equivalence to measure owner occupiers’ housing costs.

Around a quarter of respondents (mainly drawn from the trade unions, pension groups and some individuals) feel that the RPI should be the main measure of price change across the economy. Many of these respondents disagree with the removal of its National Statistics status. One trade union claims that the UK Statistics Authority has taken a “one sided approach putting RPI under intense scrutiny and exaggerating its flaws while omitting CPI from any similar level of analysis”. A number of respondents refer to research conducted by Mark Courtney[3]. They say “his findings suggest that the RPI is a good measure of consumer price inflation for uprating purposes”.

Some respondents examine the justification provided by ONS for using the geometric mean in the CPI and point out how this has changed overtime, “at one time ‘consumer substitution’ was given great emphasis, at other times, ‘price bounce’ has been the statistical reasons put forward, ... now the most common justification put forward appears to be that RPI is out of line with ‘international best practice’”. A trade union feels that “this position is conflating common international practice with best practice”.

Other arguments supporting the RPI include “it is currently by far the most used index by the private sector for uprating purposes and has a degree of familiarity and trust, that in the current climate, any new index would struggle to replicate”. Many emphasise the opposition

[3] *Consumer Price Indices in the UK*, Mark Courtney: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2520056

to changing the RPI in response to the 2012 consultation[4], and some say the RPI provides the best measure at the moment until a better measure is developed.

The next most popular suggestion is a Household Inflation Index (HII) as proposed by the RPI/CPI user group and RSS. A version of a HII is set out in a paper[5] written by John Astin and Jill Leyland. Some respondents, in particular trade unions and pension groups, feel that if the RPI cannot be resurrected as a main index, the HII can fill the gap in UK inflation indices. An individual feels that “the HII should be presented as the main index for household inflation. It is not right for the public to have to make a choice among two or more inflation indices or to suffer the present confusion of having incomes and prices uprated by two different indices”.

However, there is some concern that there are already two inflation measures (the RPI and CPI) which are used for different purposes, introducing a third would only make things more complicated.

There was very little support for continuing to use CPI as the main measure of price change across the economy. Of those that did support it, reasons included the importance of the main measure being comparable internationally, and that it should be the same measure used as the Bank of England’s inflation target.

Should its production be governed by legislation?

Of those that answered, nearly two thirds do not believe that the production of the main measure of inflation should be governed by legislation. Many are sceptical about the value of such legislation, it would be “too ponderous”, it would “be likely to limit and delay improvements”, and would not necessarily “improve the trust and confidence in inflation indices”. Additionally, many expressed concerns that it may lead to political interference and influence. One respondent feels it would “undermine the professional independence of the ONS and would be a breach of the code of practice”. Many suggest alternative options to ensure an independent and impartial index, such as its production being governed independently by a body answerable to the public.

However some respondents did support legislation, in particular there was support from utility companies and local councils who talk about the use of the main measure of inflation in long dated contracts and suggest that financial confidence would be enhanced if it was governed by legislation. There was also some support for legislation from financial institutions who also feel that it would increase confidence in the statistics and it would “set the ‘rules of the game’ for changes in methodology etc”. Some pension groups and individuals feel that it would “help give the general public faith in the measure” and it would “prevent cherry picking”.

[4] National Statistician's consultation on options for improving the Retail Prices Index: http://www.ons.gov.uk/ons/about-ons/get-involved/consultations-and-user-surveys/archived-consultations/2012/national-statistician-s-consultation-on-options-for-improving-the-retail-prices-index/index.html

[5] *Towards a household inflation index,* John Astin and Jill Leyland: http://www.statsusernet.org.uk/communities/community-home/librarydocuments/viewdocument?DocumentKey=e4f517b3-f381-417b-8233-fdce26f40f20&tab=librarydocuments

Section Two: *Measuring consumer price inflation for different household types*

Should ONS seek to measure changes in prices as experienced by different households?

There is very strong support for producing inflation measures by different household types; of all questions asked in the consultation, this question had the highest level of support. However representatives from the British Airways pensioners, pensioner groups and trade unions feel that the first priority should be producing a HII as proposed by the RPI/CPI user group and RSS which some feel should be "truly fit for the purpose of uplifting pensions and benefits to compensate for increases in prices and which could gain wide public acceptance and understanding". Some of these respondents suggest that the inflation measures for different household types would be "subdivisions" of the main HII.

Many feel that it would be helpful to understand whether different household groups experience different rates of inflation, in particular to "inform policy in respect of these different classes". Some of the individual respondents feel that ONS should "collect and publish information on prices as widely as possible, allowing users to combine such information as they feel most appropriate". Many respondents have ideas for the breakdown that should be provided, suggestions include income groups, economic status (e.g. in education, working age, in receipt of benefits, retired) and some also suggest that a geographical breakdown is important.

The consultation asked users how often they feel the inflation indices by household type should be published. Of those that answered, there were a variety of opinions. Some feel annually would be most appropriate as this would avoid confusion with the main measure of inflation, providing "the best balance between higher frequency, data availability and resource requirements" and it would still be suitable if the indices were used for uprating purposes, "e.g. pension increases based on the cost of living increases experienced by pensioner households, or university fee increases limited to cost of living for those in education". Quarterly publications would be suitable for a few respondents, as it would "facilitate their use for a wider range of comparisons". Finally, some respondents suggest producing this output on a monthly basis as it would enable same time comparisons with the other measures.

Although the majority support the idea of having measures of inflation by household type, even those in favour acknowledge that too many indicators could obscure the overall picture and/or confuse users. One individual says "while the need for the different indices exists, there is the potential that if the resultant measures vary significantly from CPIH those most affected will continue to challenge methodology and validity".

Some of the reasons provided by those who do not want inflation indices by household type include "the fewer indices the better, more indices will lead to misuse of those indices, and further distrust of official statistics" and "the various differences are virtually infinite". One individual feels that the additional expenditure required to produce these indices is not justifiable in the current climate. Another respondent suggests it should be "left to third party analysis".

If yes, how should ONS seek to do so?

The majority of respondents want household inflation indices measured using a payments-based approach. The reasons given include that this method realistically reflects the impact on household budgets across difference socio-economic groups and it also seems “fairer”. One individual feels that “the current estimation of the cost of financial services, including insurance, is sharply at odds with the actual experiences of many householders and lacks common sense”.

However, some respondents would like the household inflation indices on the same basis as an existing measure such as the CPI, emphasising that the choice needs to reflect how the household figures will be used in practice. One local council feels “most people will want to compare the household figures against the main national inflation figure, so they need to be produced on the same basis. If they are produced on a different basis many users will not appreciate this and go on to make inaccurate comparisons. As a result, if existing measures of inflation continue to use an acquisitions basis, then the household figures will need to be produced in the same way”.

Section Three: *The RPI*

Do you use the following indices?

Respondents were asked if they use any of the following indices: RPIJ, Tax and price Index, RPIY, RPI pensioner indices, component indices of the RPI or any other RPI index. A definition of each of these indices is available in annex B.

Of this list, **RPI component indices** are the most heavily used. In particular, the component indices are used by financial institutions to manage RPI linked bonds (gilts, corporate bonds) and pension funds. Specifically, the component indices are used to construct reliable RPI forecasts which are used to inform investment decisions. Although the CPI has similar components, one respondent feels “there are subtle differences ... that make these inappropriate to accurately construct a reliable RPI forecast”. Component indices of the RPI are also used by utility companies in a similar way, to directly understand drivers behind changes in RPI inflation and to produce in-house RPI forecasts. Trade unions and pension groups use RPI component indices for bargaining and campaigning work on pay rates and pensions.

The Department for Transport (DfT) uses the component indices of the RPI to understand the cost of transport and how it is changing. They also use the “equivalent CPI component indices, but there is an issue in that the RPI and CPI transport indices have different coverage and were set up to answer different questions – as a result we would lose some information if they moved from the RPI to the CPI”.

The **RPI pensioner indices** are also popular. All the British Airways pensioners indicate that they use the RPI pensioner indices; however, their comments do not mention a specific use and instead refer to the switch made by British Airways trustees from using the RPI to the CPI in 2011 to uprate their pensions. However, trade unions and pensioner groups do provide some specific uses of the RPI pensioner indices, such as tracking inflationary pressures experienced by pensioner households over time (against the average for all UK households) and for bargaining over pension schemes and campaigning around pension policy.

Two local councils responded to the consultation and both use **RPIX** in their contracts, including one with a major 25 year contract. One council said that ending the publication of RPIX “would cause us considerable difficulties”. The other council states that “RPI sub-indices are often used in business contracts, with RPIX probably being the most common” and suggests that “**RPIY** is also likely to get used (we are aware of another council which uses RPIY)”. The respondent goes on to say “when analysing the feedback from this consultation, we urge the UK Statistics Authority to bear in mind that many of those using these indices will not be aware of this consultation so will not have responded, with some not even being aware that these measures are deeply buried in their contracts”. One financial institution points out that “RPIX exposure has been traded in swap form, and it is accordingly essential that this measure is produced”.

One union uses **RPIJ** to analyse how public service pensions would be increased under different indices, and a utility company uses it to directly estimate and monitor the impact of the formula effect on the RPI (the company does not use the published formula effect as this is based on CPI weights). A financial institution reports that they carried out a survey of their consultants in May 2014 on the use of RPIJ and said “at that point no scheme responded to say that they had switched to RPIJ. A number of schemes had looked into doing so, but had been advised by their lawyers that a switch was not possible. A couple of other schemes were interested in the idea, but were keeping a watching brief for now. As such, we are not aware of any schemes that use RPIJ”.

An individual reports that they “use the RPIJ and RPI series every month to adjust the RPIXC series (RPI excluding mortgage interest payments and community tax) for the formula effect”.

One trade union uses the **Tax and price index** (along with the some of the other RPI sub indices and analytical indices) “to advise judgments about the cost of living, as well as specific analytical work”.

The last option, **Other RPI analytical/sub-indices**, was selected by a number of respondents. Beyond the use of RPIX already mentioned, no specific information was provided about any of the other indices which fall into this category.

It is also worth noting that HM Treasury states in its response “the Government uses many of the inflation indices listed alongside others, where appropriate, for analysis, contracts and other purposes. Moreover a wide variety of indices are used across the private sector”, although no detail of the specific indices used is provided.

Although users were not specifically asked if they used the **RPI**, many still talked about their use of the index. Two trade unions use “the RPI extensively as it remains the dominant rate used as a reference point for pay bargaining in the UK”. An individual uses the RPI to “check interest rates on my NS&I savings, to check the real rise in the cost of living, and likely rail fare increases, and how much money I'm losing on my public sector pension since the switch from RPI to CPI as a measure of inflation for public sector pensions”.

For the water and water and sewerage providers “the use of the RPI has been a key part of the framework of economic regulation of the water and sewerage sector in England and Wales over the last 25 years, with the RPI being used both in setting prices and in the financing of the sector”.

A local council feels that the RPI is important for local authorities in England as it is used to increase the business rate multiplier each year; this requirement is written into the legislation.

Finally, the DfT notes that the RPI is “deeply enmeshed and widely used within the transport industry and therefore decisions related to the future of the RPI will have an impact on work within the DfT. Transition costs and the timeframes involved in moving to a new index would be considerable but would depend on the specific contracts involved”.

Do you agree that the following indices should be discontinued?

Respondents were asked which of the following indices should be discontinued: RPIJ, Tax and price Index, RPIY, RPI pensioner indices, component indices of the RPI or any other RPI analytical- or sub- index. Understandably, most respondents have focussed on which indices should not be discontinued.

Following on from the previous question, most respondents do not want the indices that they use to be discontinued. Financial institutions “feel extremely strongly that the component indices of the RPI should NOT be discontinued” and one goes on to say that while they do not “routinely use the RPIJ or RPIY – they are useful to have in the toolbox in case a request or an issue comes up where I need to reply”. However, another respondent in this group says that the “RPIJ is not helpful as nothing is indexed to it” but they “strongly argue against discontinuation of RPIX”. Some respondents make the point that since ONS is required to continue publishing the RPI, it makes sense to continue to publish the components indices “which you have to calculate for the index in any case”.

Although RPIJ is not widely used, some trade unions and pension groups feel that it should continue to be published as it uses the “geometric mean, rather than the arithmetic mean, within the RPI context”.

Some respondents note that all the series should be continued in the interests of transparency, and others say ONS should consider whether it may cause significant disruption if the indices are withdrawn. One individual feels that if many of these indices are stopped, “the loss of transparency will fuel suspicions that the CPI statistics are being manipulated in the interests of reducing government payments”.

Although the majority feel that at least some, if not all, of the indices listed should be continued, some respondents believe that all of these indices should be discontinued for a variety of reasons. They will “continue to inflame debate as to the validity of any new or improved index”, it would “avoid confusion if all RPI related indices were discontinued” and if “the RPI is not capable of being brought up to best standards, it makes no sense to be creating confusion by disseminating umpteen variants of it”. However, those in favour of discontinuing some/all of these indices are aware that this could be difficult due to their use by government and regulators. Some respondents state that they are in favour of discontinuing these provided parallels are made available.

Do you have any views on what 'freezing' changes to the RPI should mean in practice?

Nearly all who responded to this question disagree with the decision to freeze the RPI. The overriding view is that as RPI cannot be discontinued, it will continue to be used and so should be as accurate a measure as possible. Users are aware of the issues related to RPI and the upward bias due to the use of Carli aggregation, however many still believe that it is the best available index for the users purpose. Any changes or improvements made to price collection in CPIH should also be adopted for RPI, for example “improvements in sampling design, data coverage and development of new data sources, such as scanner data and ‘web-scraping’ should continue to be developed and applied, in accordance with best practice”. A utility company makes the point that not freezing RPI would also limit the costs of continuing to publish RPI data, since parallel data collection (alongside those used for CPI) would not be required.

Financial institutions feel that the index should continue to be improved, the “RPI should still be the best index it can be while acknowledging its upward bias due to the use of Carli aggregation. It is nonsensical to have an index that must be produced until 2068 that is effectively ‘mothballed’ with just the weights updated annually”. There is a similar response from the utility companies, “the basic formulae should remain unchanged, since this preserves the RPI on a consistent basis with how it has previously been produced. Neither the weights nor the methodology for collecting price data should be frozen. Users of RPI have always been exposed to changes in weights and data gathering routines, so freezing weights and data gathering routines would imply a break from past practice”.

The National Association of Pension Funds feels “RPI has clearly been shown to be based on an inferior methodology to CPI and we agree with the approach to abandon the measure. However such a move needs to come with parallel commitments to modernise both the legislation governing pension scheme indexation and government debt issuance, in a managed fashion. This cannot occur in isolation from other areas of Government policy as the RPI legacy has a number of consequences for pension schemes”.

It is highlighted by HM Treasury that “the existing position is widely understood by Government and other stakeholders: ONS/UKSA are committed to only making routine changes to the RPI, such as the annual update of the basket and weights”, however it feels that “it would be useful for ONS/UKSA to provide more detailed guidelines, where possible, on what is within the scope of a routine change and what isn't”. This feeling is echoed in a number of responses from the government, financial institutions and utility companies which mention the importance of developing a protocol on changes to the RPI.

The British Airways pensioners say “if RPI is flawed, then it should not be used”, however, they are “not convinced that it is flawed and there remain strong academic arguments in favour of RPI over CPI”.

Many of the trade unions and pensioner groups feel that the National Statistics status of the RPI should not have been cancelled, “there is no substantial, sound statistical case for the removal of RPI’s status as a ‘national statistic’. Therefore, we believe that RPI should have its full status restored and return to acting as the UK’s main uprating index. ... We do not claim that RPI is perfect. Like any measure it needs to evolve, making improvements and adjustments as necessary". Some also feel that "there will be a real danger to ONS's credibility if it attempts to 'freeze' the RPI so that it is not updated in line with best practice".

Individuals have a wide range of opinions, while some suggest that the RPI should not be frozen others suggest that a new index should be developed to replace the RPI (such as the HII proposed by the RPI/CPI user group and RSS), or that it should be discontinued altogether, "freezing the RPI would create too many anomalies".

Section Four: *Evolving consumer price statistics*

Are the priorities identified by ONS in its forward work plan appropriate?

Responses to this question reflect preferences expressed in earlier sections of the consultation document, therefore many feel that the priorities identified do not meet their needs. However, in most cases, respondents want something additional included or disagree with the priority/ordering of projects rather than dismissing the whole work plan.

One key piece of additional work identified by respondents – particularly among trade unions, pension groups and some individuals - is the development of a HII as proposed by RPI/CPI user group and RSS. Some respondents feel that the development of this index should be a high priority and, importantly, come before the development of inflation rates for different household types.

A few respondents emphasise that work should concentrate on reducing the "formula effect" difference between RPI and CPI, however others acknowledge the large amount of work that has already been carried out.

Others suggested that ONS should devote more resources to improving and monitoring methods of quality adjustment, including the use of non-comparable substitutions and implied quality change. The RPI/CPI user group suggest that ONS should consider whether additional external resources, e.g. via the research councils, could assist in taking forward this work if it does not always have sufficient resources. One respondent wants ONS to "work with the RSS to try to restore public confidence in official statistics, in particular the cost of living index".

As captured in section three of the consultation, some of the financial institutions re-state that they want RPI to continue to be maintained and that this should be reflected in the work plan. Two respondents feel that calculating experimental retrospective superlative indices is not a good use of ONS's scarce resources. A few feel that the compliance with European regulations should not be a priority because of the pending referendum, while others specifically mention this as a priority in their response.

There are also some general comments on the work plan. There is a suggestion that ONS should carry out periodic consultations on the work plan, prior to finalisation, to engage with a wider range of users when developing its work programme. The work plan should be more specific with time scales rather than merely short term and long term. Terminology should be improved, for example producing CPI and CPIH to the "best possible standard" is not easily measurable. Finally in the short term, ONS should take into account the recommendation of Professor Sir Charles Bean's review of economic statistics[6], when these are published.

Should ONS include council tax in the CPIH?

The majority of respondents said that council tax should be included in CPIH. Many pointed out that it represents a significant element of household budgets and that the general public would expect it to be included. Some users (including the British Airways pensioners) feel "council tax does not depend on income and should be included in CPIH". Others note that council tax is a cost of housing and should therefore be included. Two respondents mention the disproportionate burden council tax places on low income households, and because of this, welcome its inclusion in CPIH. There is some mention of devolution and what this may mean for council tax in the future, particularly in Scotland.

A minority of respondents believe that council tax should not be included in CPIH. These respondents often rationalise their answers with detailed explanations. One local council states, the "objective of consumer price measures is to show changes in the cost of acquiring consumable goods and services for households, so purchasing assets, paying direct taxes etc. are not included. Taxes should only be included if they are part of the price of acquiring goods, such as VAT or fuel duty", other reasons for not including council tax in CPIH include consistency with the National Accounts (where council tax is treated as a tax) and international comparability.

There are some concerns from respondents that users want council tax included in CPIH for the wrong reasons, for example, it is suggested that some users may feel that the inclusion of council tax will increase inflation rates which would be beneficial if CPIH is used for uprating purposes in the future.

Some did not respond to this question or said no to the inclusion of council tax in CPIH as the question assumes that CPIH will be ONS's main measure of inflation (which they do not support). One individual said "in principle, council tax should be included in ONS's main index but this index should not necessarily be CPIH".

Thank you

The National Statistician, UK Statistics Authority and ONS would once again like to thank everybody who took the time to comment on this consultation document. Throughout the process the involvement of, and engagement by stakeholders, has been critical and we are extremely grateful for that support.

[6] In July 2015, the Chancellor of the Exchequer commissioned Professor Sir Charles Bean to conduct an independent review of the quality, delivery and governance of UK economic statistics. It is anticipated that Sir Charles will publish an interim report in the autumn, with a final report published by Budget 2016.

Annex A: *List of Respondent Organisations*

Pension groups
Age UK
British Airways Pensioners (12 individual respondents)
National Federation of Occupational Pensioners (NFOP)
Public Service Pensioners' Council (PSPC)
National Pensioners Convention (NPC)
Civil Service Pensioners' Alliance (CSPA)

Trade unions
National Union of Teachers (NUT)
Trades Union Congress (TUC)
Prospect
UNISON
Unite the Union

Mining industry pension scheme trustees
Mine Workers Pension Scheme Trustees Limited
Coal Staff Superannuation Scheme Trustees Limited

Named financial institutions
Barclays Investment Bank
BT Pension Scheme[7]
Goldman Sachs
Henderson Global Investors
Hermes Investment Management
National Association of Pension Funds
Norges Bank Investment Management
Ruffer LLP
Scotiabank
The Pension Protection Fund
Towers Watson

Utility companies
Northern Powergrid
Severn Trent PLC
South West Water
SP Energy Networks
United Utilities PLC
Water UK

Government
Bank of England
Department of Transport

[7] Late respondent, included in this list for completeness. It has not been counted in the total number of respondents.

Hampshire County Council
HM Treasury
GLA Economics
National Assembly for Wales
Ofgem
Office of Manpower Economics
Oxfordshire County Council

Other organisations
MacroStrategy Partnership LLP
ManpowerGroup
Royal Statistical Society
RPI/CPI user group
Wokingham University - third age mathematics group

Annex B: *RPI sub indices and analytical indices*

RPI component indices – underlying indices which are aggregated to create the all items RPI.

RPIJ - an improved variant of the RPI which is calculated using formulae that meet international standards.

RPIY - the RPI excluding mortgage interest payments and indirect taxes. Measures movements in “underlying” prices, excluding price changes which are directly due to changes in indirect taxation.

RPIX – the RPI excluding mortgage interest payments. RPIX was the basis for the Government’s first inflation target in 1992 and it fulfilled this role until it was replaced by the CPI in 2003.

RPI pensioner indices – indices for one-pensioner and two-pensioner households who derive more than three quarters of their income from the state pension.

Tax and price Index (TPI) – measures how much a consumer's income would need to change in order to purchase the same basket of goods. The TPI takes into account changes in retail prices due to inflation, as well as changes to direct taxes that reduce a consumer's disposable income.

The Rossi index – the RPI excluding most of the housing sections (rent, mortgage interest, council tax and housing depreciation). Up until 2011, it was used to uprate state income-related benefits