
Chair of the UK Statistics Authority, Sir David Norgrove

Tony Cox
Chair
RPI CPI User Group
(via email)

3 February 2020

Dear Mr Cox,

Thank you for your letter of 12 November about the Authority's proposals on the future of the Retail Prices Index (RPI).

We have been clear for a long time that RPI is not a good measure of inflation and its use should be discouraged. The proposals we put to the Chancellor are consistent with this long-held view.

It is now some ten years since the change to clothing price collection that began the controversies about the merits of the RPI. There has since then been extensive consultation and discussion about inflation measurement. All the statistical issues have been well aired. A notable feature of these discussions was the wide range of opinions. It is clear there is never likely to be consensus on the issue of the RPI or consumer prices more generally.

Against this background the Board took advice from the National Statistician, as laid out in the Statistics and Registration Service Act 2007, in which he weighed up the various options. In drawing up his advice, the National Statistician considered the views of the Stakeholder Advisory Panel on Consumer Prices (APCP-S). The Board accepted his advice and that was the basis of the proposals we put to the Chancellor to cease publication of RPI and in the short term to bring the methods of CPIH into RPI. The Chancellor responded that he was not minded to promote legislation to end RPI, but that the Government intended to consult on whether to bring the methods in CPIH into RPI between 2025 and 2030, effectively aligning the measures. The Act is clear that the Chancellor's consent is needed for certain changes to RPI, and it is for the UK Statistics Authority to make proposals on the basis of statistical issues only.

In your letters to Ed Humpherson and me you highlighted the user need for an economic and household measure of inflation. The ONS has looked to meet these user needs by developing measures or families of measures with appropriate conceptual and statistical properties. This has given rise to the CPI/CPIH and Household Cost Indices respectively. We do not see RPI as meeting either of those user needs, but see it rather as a legacy measure.

You also asked for the Office for Statistics Regulation (OSR) to consider the proposed changes to the RPI with respect to the Code of Practice for Statistics. I enclose an annex from OSR to that effect.

I know colleagues from the ONS are in regular contact with the RPI/CPI user group and its members, and I hope this dialogue will be maintained. I also invite you to respond to the forthcoming consultation on the changes to the RPI. The Authority's consultation, which will be undertaken jointly with that of HM Treasury, will begin on 11 March. It will be open to responses for six weeks, closing on 22 April. HM Treasury will consult on the appropriate timing for the proposed changes to the RPI, while the Authority will consult on the technical method of making that change to the RPI.

I am copying this letter to the Economic Affairs Committee and the Public Administration and Constitutional Affairs Committee.

Yours sincerely,

A handwritten signature in black ink that reads "David Norgrove". The signature is written in a cursive, slightly slanted style.

Sir David Norgrove

ANNEX

The Office for Statistics Regulation (OSR) regulates all official statistics produced in the UK. We set the standards they must meet in the Code of Practice for Statistics (the Code). We conduct assessments into whether producers of government statistics uphold the Code's standards.

The changes proposed to the Retail Prices Index (RPI) by the UK Statistics Authority on the advice of the National Statistician are significant and will be the basis of an extensive consultation. In advance of the consultation, the RPI/CPI user group raised some questions about the extent to which ONS's approach was consistent with the Code of Practice for Statistics.

OSR has reviewed the approach taken by ONS against the relevant pillars and principles of the Code of Practice for Statistics. OSR does not itself produce statistics and is not responsible for considering the economic impacts on different sectors and groups. This annex focuses solely on the elements of the proposed changes to the RPI that relate to the Code of Practice. Rather than review the approach against all of the practices of the Code, we have focused on practices related to:

- Value:

Principle V1: This principle focuses on relevance to users. It recognises that **"Users of statistics and data should be at the centre of statistical production; their needs should be understood; their views sought and acted upon; and their use of statistics supported."**

- Quality:

Principle Q2: This principle focuses on the choice of methods, and openness about why certain methods have been chosen by producers. The full text is that: **"Producers of statistics and data should use the best available methods and recognised standards and be open about their decisions."**

- Trustworthiness:

Principle T2: This principle focuses on **independent decision making and leadership**. It is about whether decisions made by producers are the result of the exercise of professional judgement by statistical professionals.

We have not identified any breaches of the Code and broadly speaking ONS has complied with the relevant requirements of the Code. We identify actions that ONS should take to enhance its fulfilment of the expectations of the Code, which we set out under "Actions" in the third column of this annex.

Code of Practice for Statistics Pillar, Principle and Practice	Issues raised concerning the approach to addressing the weaknesses of the RPI	Office for Statistics Regulation’s evaluation of evidence and recommended actions
<p>Value pillar</p> <p>V1 Users of statistics and data should be at the centre of statistical production; their needs should be understood, their views sought and acted on, and their use of statistics supported.</p> <p>V1.1 Statistics producers should maintain and refresh their understanding of the use and potential use of the statistics and data. They should consider the ways in which the statistics might be used and the nature of the decisions that are or could be informed by them.</p>	<p>The RPI/CPI User Group (the user group) in its letter to OSR’s Director General for Regulation, Ed Humpherson of 12 November 2019, commented that a three-family approach [RPI, CPI/CPIH and HCIs], set out in ONS papers in 2017¹ and 2018² has “<i>wide support</i>”.</p> <p>This question of the status of the three-family approach is an important issue. It relates to the explanation of the fundamental purpose of different inflation indices.</p> <p>The three-family approach, which the user group refers to, was set out by ONS in an article Measuring changing prices and costs for consumers and households in July 2017. In the article ONS says that in ‘<i>meeting the range of user needs [for measuring changing price of consumers and households], it is important to ensure that the statistics present a clear and coherent picture. To facilitate this, we have set out three “use cases”, along with how they relate to the measures that we currently publish and those that are under development. Taken together, our aim is that these should present a clear future approach to measuring changes in prices and costs faced by consumers and households</i>’.</p> <p>The ‘use cases’ are:</p> <ul style="list-style-type: none"> - A comprehensive measure of inflation, based on economic principles: the Consumer Prices Index including owner occupiers’ housing costs (CPIH) - A set of measures to reflect the change in costs as experienced by households: the Household Costs Indices (HCIs); and 	<p>The Code of Practice for Statistics (the Code) expects producers to be clear about the purpose of the statistics and the uses to which they are put.</p> <p>We have long supported the ‘use case’ approach to demonstrating how the principal consumer and household inflation indices cohere. For example, Ed Humpherson in his letter to the National Statistician of 31 July 2017 re-designating CPIH statistics as National Statistics said:</p> <p><i>‘At the time of our assessment [of CPIH] in March 2016, this purpose [of CPIH and how it fits with other measures of inflation] was unclear. Since then, ONS has clarified what it describes as the ‘use case’ of CPIH in its role as an economic indicator of inflation, based on economic principles, within a wider family of measures. This greater clarity of purpose has helped us assess whether CPIH does meet the user need for a macroeconomic measure, and we conclude that CPIH does indeed meet the economic ‘use case’. However, other elements of this statistical ecosystem are still being debated and need further work. For example, there is more work for ONS to clarify both the purpose and methodology of the experimental Household Cost Indices.’</i></p> <p>OSR and its predecessor Monitoring and Assessment Team have consistently exhorted ONS to continue to update the information published about the users and uses of the consumer price inflation statistics, and user experiences of those statistics. For example, the Assessment Report 257 published in July 2013 set out this expectation.</p> <p>It’s clear that the changes to RPI, by bringing the methods of CPIH into the RPI, have an impact on the current three-family use cases. The absence of any mention of the impact of the changes on the use cases in the latest ONS/Authority papers is noticeable.</p>

¹ <https://www.ons.gov.uk/economy/inflationandpriceindices/articles/measuringchangingpricesandcostsforconsumersandhouseholds/2017-07-18>

² <https://www.ons.gov.uk/economy/inflationandpriceindices/articles/measuringchangingpricesandcostsforconsumersandhouseholds/march2018>

	<p>- A legacy measure that is required to meet existing user needs: the Retail Prices Index (RPI) In relation to the RPI, ONS in the July 2017 article says that <i>“the methods used to produce the Retail Prices Index (RPI) are not consistent with internationally recognised best practice, a flaw which led to it losing National Statistics status in 2013. It also has other weaknesses, including its population coverage which excludes certain households. The National Statistician’s statement in 2016 described these deficiencies and strongly discouraged its use.</i></p> <p><i>Nonetheless, there are a number of long-established uses of RPI, including for index-linked gilts and long-term contracts, which make it impractical to stop its publication. For this reason, whilst we have significantly scaled back publication of RPI-related data, we continue to publish the minimum necessary to ensure the essential needs of existing users are met.”</i></p>	<p>In our view, ONS needs to set out how its proposals for bringing the methods of CPIH into the RPI change the use-cases (particularly of the RPI) and whether in fact the result of the change is for there now to be two use cases.</p> <p>1. ONS should now explain to users how use cases for the family of three principal consumer inflation statistics could be reformulated both in the interim (as changes to the methods are being explored) and the envisaged use cases once these have been completed to help guide users in the appropriate application of each statistic.</p>
<p>V1.4 Statistics producers should engage publicly through a variety of means that are appropriate to the needs of different audiences and proportionate to the potential of the statistics to serve the public good. An open dialogue should be maintained using proactive formal and informal engagement to listen to the views of new and established contacts. Statistics producers should undertake public engagement collaboratively wherever possible, working in partnership with policy makers and other statistics producers to obtain the views of stakeholders.</p>	<p>The Code expects producers to engage with users.</p> <p>The user group in its letter to Ed Humpherson points to an Authority Board meeting on 14 February 2019 quoting the minutes <i>“that – although members were aware of the wider implications of making changes to the RPI – the Board should make its recommendations regarding the future of the UK’s consumer price statistics based on statistical considerations only.”</i></p> <p>The user group queries whether this policy is consistent with the Code in respect to taking user needs into account and to maintain an open dialogue.</p>	<p>The legislative context is important in considering the extent and nature of user engagement. The Statistics and Registration Service Act 2007 prescribes that if, on the advice of the National Statistician, the Authority wants to change the measurement or construction of the RPI, it is required to consult the Bank of England on whether that would lead to material detriment to bondholders (section 21.2 of the Act). If the answer to that is yes, then the Chancellor of the Exchequer must give permission (section 21.3 of the Act).</p> <p>This legislative context creates a unique set of circumstances for an official statistic. It prescribes a process of discussion in a way that is not required for any other statistic. We also understand that ONS has received legal advice to the effect that it should be guided solely by statistical matters, and not by wider economic effects on specific groups in society.</p> <p>The context and advice mean that wide engagement is not straightforward. But this should not be taken to mean that it is impossible to take the views of users into account in considering the options available. Indeed, the written documentation that the</p>

		<p>Authority made available to the public on 4 September 2019 is clear that the advice offered by the Authority Chair to the Chancellor of the Exchequer drew both on the formal advice of the UK's National Statistician, and on the advice of the National Statistician's Advisory Panel on Consumer Prices.</p> <p>OSR's view is that, in a complex legislative context, the National Statistician's advice sought to reflect the advice available to him. However, it is important that, in line with V1.4 of the Code, which requires open dialogue, there are further opportunities for interested users like the RPI/CPI group to express their views. The consultation is planned to start on the day of the HM Treasury Budget statement on 11 March 2020. We encourage ONS to include some reasonably broad questions to ensure that V1.4 is followed.</p> <p>2. Alongside the forthcoming joint consultation by the UK Statistics Authority and HM Treasury, ONS should commit to keeping its approach to inflation measurement under review, to ensure that price statistics continue to meet user need. The consultation should also seek to maximise the opportunities to engage respondents on matters where ONS has not formed a final view and consider including some open-ended consultation questions to inform future plans.</p>
<p>V1.5 The views received from users, potential users and other stakeholders should be addressed, where practicable. Statistics producers should consider whether to produce new statistics to meet identified information gaps. Feedback should be provided to them about how their needs can and cannot be met, being transparent about reasons for the decisions made and any constraints.</p>	<p>The key issue is the extent to which ONS has set out for users on how far their views have been taken on board.</p> <p>The user group expressed in its letter to Ed Humpherson concerns about the extent to which the Consumer Prices Stakeholder panel views on the changes were accounted for.</p>	<p>From a regulatory point of view inflation measures are perhaps unique in attracting a very wide range of interested users, ranging from economic policy-makers through to individual members of the public whose lives are all affected in many ways by inflation.</p> <p>The National Statistician weighed up various options and in drawing up his advice to the UK Statistics Authority Board he considered the views of the Stakeholder Advisory Panel on Consumer Prices. This was covered in the National Statistician's formal advice to the UK Statistics Authority Board on the Retail Prices Index [para 5] by John Pullinger and the panel's advice is published on the Authority website.</p> <p>The Consumer Prices Stakeholder Panel was split on its opinions about the House of Lords Economic Affairs Committee's recommendation that there be one government inflation index.</p> <p>We can see that, due to the market sensitivity around these statistics, fulsome disclosure of the deliberations and balances that</p>

		<p>the Statistics Authority was weighing was necessarily very limited. We are also clear that there has been considerable discussion and consultation about the future of the RPI and about the other indices over many years.</p> <p>3. OSR advises ONS that it increases the volume and improves the tone of its user engagement. This is an area where there is always more that could be done, and we expect ONS to continue to focus attention on user engagement, working closely and positively with interested users including the RPI/CPI group, and taking care to engage the group fully during the development work on the RPI and the Household Costs Indices, and in particular explaining clearly the methodological choices that have been chosen and why alternatives have been rejected.</p>
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<p>Quality pillar</p> <p>Q2 Producers of statistics and data should use the best available methods and recognised standards, and be open about their decisions.</p> <p>Q2.3 Statistics producers should be transparent about methods used, giving the reasons for their selection. The level of detail of the explanation should be proportionate to the complexity of the methods chosen and reflect the needs of different types of users and uses.</p>	<p>The question here is whether the questions about the RPI are appropriately described as 'shortcomings'.</p> <p>The user group disputes the Statistics Authority's description of 'shortcomings' in the RPI. The group's letter to OSR's Director General for Regulation says that ONS's articles "<i>...make it clear that both the CPI and CPIH are macro-economic indicators of price changes. The RPI is by nature and history a household index. To judge one sort of index by the rules and practices governing another (deliberately different) type makes little sense. Turning it into the CPIH would completely alter its character</i>".</p> <p>The user group states that the issues related to the RPI labelled as shortcomings were all decisions arrived at in the past by due consideration and assessment including by the relevant advisory committee. The user group considers, with the passage of time, that it may be that these decisions need to be reviewed but the [consequences of the] decisions should not be dismissed as 'shortcomings'.</p>	<p>It was the professional advice of the National Statistician to the Authority Board that there were shortcomings, as set out in the documents published by the Statistics Authority on 4 September 2019.</p> <p>As per the Code requirement Q2.3, we judge that ONS has been transparent in the methodological choices it has made. ONS has explained why it considers the RPI to be flawed on several occasions. We consider that this complies with the requirement of Q2.3 to give reasons for the methods selected.</p> <p>However, there remain substantive questions of method that have yet to be resolved. OSR considers that substantial time is required to prepare for these changes after 2025 and that ONS should be proactive in undertaking this consultation. The user group expressed several concerns it has about the impacts of the changes on the measurement of households' experience of inflation. These include, inter-alia: (i) measuring owner-occupied housing price changes where it is in favour of the RPI's approach; (ii) exclusion of high-income households and pensioners decided specifically so the index would better suit its purpose: and (iii) population coverage on a national not domestic basis. These are all important questions and it is important that they are addressed within the material accompanying the proposed consultation.</p> <p>In addition, OSR's view is that the RPI, as originally conceived, reflected the experience of households and the pressures on their budgets. However, the needs of macroeconomic purposes and hence economic theory came to dominate debate over how indices were constructed. To address the need for an index that reflects the experience of households, ONS has now developed a Household Costs Index.</p> <p>4 ONS should continue to discuss with stakeholders how the further development of the new Household Costs Indices (HCIs) could also assist in mitigating user concerns around the impacts of aligning the methods of the RPI and CPIH.</p>
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<p>Trustworthiness pillar</p> <p>T2 Independent decision making and leadership³</p> <p>T2.1 The Chief Statistician/Head of Profession for Statistics should have sole authority for deciding on methods, standards and procedures, and on the content and timing of the release of regular and ad hoc official statistics. This should include: determining the need for new official statistics, ceasing the release of official statistics, and the development of experimental statistics.</p> <p>T2.4 The Chief Statistician/Head of Profession for Statistics should encourage collaboration, harmonisation and innovation with other organisations, both inside and outside of government and across professional groups.</p>	<p>The question here is over the transparency of decision-making.</p> <p>The user group drew OSR’s attention to a July 2019 House of Commons Public Administration and Constitutional Affairs Committee (PACAC) report on the Governance of Statistics, [particularly one of the Committee’s conclusions at para 132]. The workings of the Tetrapartite Group (ONS, Bank of England, HM Treasury and OBR) were described by a PACAC member as “<i>secretive and arguably biased towards excessive Treasury and Bank influence</i>”. [Q273 of Witness Evidence]. The user group says this raises potential issues surrounding confidence in the people and organisations that produce statistics and data.</p> <p>PACAC heard from one contributor to its inquiry whose view is that ‘<i>discussions with advisory groups should be clearly minuted and that ...it would have been better if ONS had a formal duty to respond to such groups</i>’. [Q234 of Witness Evidence]</p> <p>However, it was the view of at least one Tetrapartite Group attendee that it [operated at a] “<i>relatively junior level ...It has nothing to do with policy...it does not decide anything. It is information gathering, information exchange basically from the ONS to us about how these indices are compiled. I think there are, if not full minutes, then at least agendas and some description of what has gone on published by the ONS. But it is purely technical information, it does not have a policy function.</i>” [Q309 of Witness Evidence]</p>	<p>There is a perception of a lack of transparency and undue influence upon ONS over statistical matters. ONS does not publish the minutes of the meetings of the Tetrapartite Group but has in the past published the minutes of meetings of a similar group of stakeholders about the National Accounts.</p> <p>5. ONS should explain the purpose the of the Tetrapartite Group on inflation and its broad topics of discussion.</p> <p>However, this step is not enough on its own to address the perceptions about interactions between the ONS and bodies such as HM Treasury and the Bank of England relating to RPI. We are not persuaded that publication of minutes is necessarily an effective response on its own to perceptions of this kind. As per our recommendation #3 above, we consider that the best approach to overcoming the mistrust is to for ONS to continue to increase the volume and enhance the quality of its user engagement around these statistics.</p>
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³ The full T2 principle is “Organisations should assign a Chief Statistician/Head of Profession for Statistics who upholds and advocates the standards of the Code, strives to improve the statistics and data for public good, and challenges their inappropriate use”. We have adopted the summary text ‘independent decision making and leadership’ because it is this aspect related to governance that is most relevant to the changes to the RPI.