

**UK STATISTICS AUTHORITY**

**Review of the Governance of Prices Statistics**

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## 1. Introduction

- 1.1 This review arises from the statement made by the Chair of the UK Statistics Authority to the House of Commons Public Administration Select Committee in September 2012 that, once the then programme of work on price indices had concluded, the Authority would undertake a wider review of the governance arrangements and structures supporting the production of price indices to ensure that these statistics best meet user needs in the future.<sup>1</sup> That commitment was reiterated in January 2013 when, in responding to the conclusions of the National Statistician's Consultation on Improving the Retail Price Index (RPI), the Authority indicated it would appoint an independent expert to lead this review and report to the Board of the Authority.<sup>2</sup>
- 1.2 The Authority subsequently decided to split this assessment into two parts and in May 2013 announced two separate, complementary reviews.<sup>3</sup> These are:
- a review of the range of price statistics, to consider what changes are needed to the range of consumer price statistics produced for the UK. This review is being led by Paul Johnson, Director of the Institute for Fiscal Studies, and will report in summer 2014;
  - a review of the governance of price statistics, to consider matters relating to the governance arrangements and structures supporting the production of price statistics by the Office for National Statistics (ONS). This review has been led by Professor Sir Adrian Smith, Deputy Chair of the Authority with responsibility for ONS, supported by an independent statistical consultant, Mike Hughes.
- 1.3 This paper reports on the second of these reviews. The two review teams have worked together closely, however, and it is anticipated that the outcomes of the Johnson Review will, in due course, be taken forward within the framework of the revised governance arrangements recommended in this report.

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<sup>1</sup> See response to Q46, at

<http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpublicadm/c406-i/c40601.htm>

<sup>2</sup> <http://www.statisticsauthority.gov.uk/news/statement-consultation-on-the-retail-prices-index-10012013.pdf>

<sup>3</sup> <http://www.statisticsauthority.gov.uk/news/statement---reviews-of-price-indices.pdf>

## **2. Objectives, scope and methodology**

### **Background**

- 2.1 Section 21 of the Statistics and Registration Service Act 2007 requires the Authority to compile and maintain the RPI and publish it every month. It further requires that before making any change to the coverage or the basic calculation of the RPI, the Authority must consult the Bank of England.
- 2.2 Prior to the introduction of these arrangements, changes to RPI methodology were determined by the Chancellor on the advice of the RPI Advisory Committee (RPIAC). This committee comprised a number of government and external experts appointed to advise the Head of the Central Statistical Office on changes needed to the RPI. It met intermittently between 1947 and 1994 but had not met since.
- 2.3 In the meantime, the Harmonised Index of Consumer Prices (referred to as the CPI in the UK) became the target for Bank of England action (December 2003).
- 2.4 In light of a number of changes ONS needed to consider for both the RPI and the CPI in the late 2000s, ONS set up the Consumer Prices Advisory Committee (CPAC) in April 2009 to provide ONS with advice on these changes, in like manner to the role and composition of the former RPIAC. CPAC was chaired by the National Statistician and was an advisory body for the Authority. The terms of reference of CPAC are set out at Annex A and the membership at Annex B. CPAC has met several times a year since 2009 and last met in January 2013.

### **Terms of Reference of the Review**

- 2.5 The objective of the governance review was to assess the governance arrangements and structures supporting the production of consumer price statistics by ONS and to make recommendations to ensure that these statistics best meet user needs in future. In doing so, it had regard to:
  - the arrangements to underpin the quality, integrity and independence of price statistics to serve the public good;
  - the provisions of the Statistics and Registration Service Act 2007;
  - the provisions of the Code of Practice for Official Statistics;
  - the role of the producer and the provision of the best advice to the producer; and
  - relevant practice in other statistical institutes and contexts.

### **Conduct of the Review**

- 2.6 Letters were sent to CPAC members and to a wide range of price experts, users and opinion formers, enclosing a questionnaire seeking comments on the current government arrangements and suggested alternative arrangements (copy at Annex

- C). A large number of those responding took the opportunity to hold meetings with the review team.
- 2.7 A number of international experts and organisations were contacted to establish international practice; and discussions were held with the chairs of the UK's Crime Statistics Advisory Committee and the ONS National Accounts Classification Committee to compare arrangements.
- 2.8 Those participating in the review, either in writing or by interview, are listed at Annex D.

## **3. Main Findings**

### **Strengths of CPAC**

- 3.1 There was agreement from both CPAC members and ONS staff that CPAC had provided very valuable support and direction to ONS on prices matter, particularly on technical issues. It had also been helpful for ONS in bringing a user perspective to the deliberations. Additionally, the National Statistician made special mention of CPAC's ability to identify readily the key elements of what were often complex and difficult issues and to provide effective advice. One CPAC member felt the benefits were so significant that ONS should consider creating similar advisory bodies for other major statistical topics such as National Accounts and the Labour Market.

### **Weaknesses of CPAC**

- 3.2 This endorsement for the principle of an advisory body was not without its caveats, however, and a number of problems were identified with the CPAC arrangements.
- 3.3 There was uncertainty and confusion about the governance arrangements, both by the CPAC membership itself and more particularly by external observers. Despite CPAC's title and its terms of reference indicating it was an advisory body, it was widely perceived that CPAC was a decision-making body, not least by some CPAC members themselves. This perception was reinforced by the fact that CPAC was chaired by the National Statistician, which caused uncertainties about the juxtaposition of her roles as chair of CPAC and the Authority's chief statistical advisor. Some respondents also expressed uncertainty about the responsibilities of the Board of the UK Statistics Authority on price index matters relative to those of ONS.
- 3.4 CPAC was required to provide advice on both the purpose/use of price indices (hereafter termed stakeholder issues) and technical issues on their construction/measurement. Whilst it is possible for an individual to be an expert in both these facets of price indices, some CPAC members felt there was a confounding of issues at times and not all members were always able to contribute to the discussion effectively. Linked to this was the composition of the committee, where the view was expressed quite strongly in some quarters that there were too many economists and government officials on the committee and too few technical statisticians and users (consumers of price index data). Also, it was not clear to many how CPAC members were selected.
- 3.5 Following the precedent set on the RPIAC, a couple of prominent journalists have served on CPAC in their personal capacity as an economist. Whilst the presence of journalists on CPAC was helpful in the communication of price index issues, some CPAC members felt their presence inhibited discussions on politically sensitive issues.
- 3.6 A number of external users complained about the lack of transparency in CPAC business. Since September 2010, ONS has made minutes of meetings and related

papers available ex-post but it was nevertheless still felt that CPAC papers should be published in advance, providing the opportunity for wider consultation and giving individuals the opportunity to contribute to the debate. Some respondents went so far as to suggest that the lack of transparency undermined the integrity of the CPAC process.

## **International Comparisons**

- 3.7 There are only a few examples of an international comparator for CPAC. The closest comparison is the Canadian model, which is a standing advisory committee comprising eight eminent experts with an independent chairman. Its role is to review progress on Statistics Canada's work programme for price measurement and to provide advice on technical matters. It usually meets for a couple of days once a year and deals almost entirely with technical issues. Australia and New Zealand have similarly constituted price advisory committees but these are only convened for the periodic reviews that these countries hold on their price indices every 5/6 years.
- 3.8 No EU countries now have a dedicated advisory committee for prices, relying instead for advice on price index issues through the generality of Statistics Councils/User Councils/Advisory Boards that exist to support National Statistics Institutions in most EU countries.
- 3.9 It became clear during the review that the widespread use of automatic index-linking in the UK – for gilts, savings, social benefits, etc – brings a level of “user” interest in the formulation of price indices that may not exist elsewhere.

## **Domestic Advisory Bodies**

- 3.10 CPAC has a direct domestic comparator in the Crime Statistics Advisory Committee (CSAC), set up by the National Statistician in 2011 to provide advice on crime statistics and related issues to the Home Secretary, Her Majesty's Inspectorate of Constabulary and ONS. This is a standing committee, which meets several times a year and comprises a mixture of external and government experts with an independent chairman, Stephen Shute, Professor of Criminal Law and Criminal Justice at the University of Sussex. The National Statistician is a member of this committee, *ex officio*.
- 3.11 The review team also considered ONS's National Accounts Classification Committee. This is a wholly internal ONS committee taking decisions on classification issues and there are no direct parallels with CPAC.

## 4. Recommendations

4.1 The review findings justify the continued existence of an advisory function on price indices but a number of changes to the existing arrangements are recommended. In making these recommendations, it is important that:

- The Board of the UK Statistics Authority remains ultimately responsible for any changes to ONS price indices;<sup>4</sup> and
- ONS Prices Division continues to produce an annual work programme which should include, inter alia, all proposed non-routine changes to ONS price indices.

## Organisation and Governance

4.2 Firstly, because of the different expertise needed for the consideration of the stakeholder and technical aspects of price indices it is recommended that the advisory function currently performed by CPAC is split in to two separate advisory panels, one dealing with stakeholder issues and the other dealing with technical issues. Secondly, to remove any ambiguity about the National Statistician's role, it is recommended that she withdraws from the advisory process and that the two panels report to her on behalf of the Board. Thirdly, it is recommended that the Stakeholder Panel is chaired by an independent expert in similar fashion to the CSAC and Statistics Canada. Fourthly, it was felt appropriate to rename CPAC to signify the changes from the previous arrangements.

4.3 The Advisory Panel on Consumer Prices (Stakeholder) should serve as the standing committee to advise the National Statistician on the uses and applications of price indices. Its work should be defined principally by the content of ONS Price Division's annual work programme on price indices, which it should monitor and advise on, but it should have the scope to identify and pursue issues in its own right. It should submit an annual report on its activities to the Board. It should convene as often as necessary to discharge its functions but should meet at least once a year. Membership of the Panel (ideally 8-10) should reflect a wide range of user interests and it should have an independent Chair. The Chair of the Stakeholder Panel should be recruited through open competition and Panel membership should be by invitation from the National Statistician and Chair of the Panel in collaboration to ensure an appropriate mix of interests and expertise. Staff from the Statistics Authority should provide the secretariat for the Stakeholder Panel and should coordinate interaction with the complementary Technical Panel.

4.4 The Advisory Panel on Consumer Prices (Technical) should provide advice on all technical aspects of price indices as requested by ONS and/or the Stakeholder Panel

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<sup>4</sup> As set out in the provisions of the Statistics and Registration Service Act 2007.



and should convene as needed under the chairmanship of the ONS Director of Collection and Production. It should be a relatively small group (5-6) of experts in price index methodology and should preferably include some international experts. Membership should be by invitation from the National Statistician. ONS Prices Division should provide the secretariat for the Technical Panel.

- 4.5 The underlying rationale for the creation of the two separate panels is to ensure issues are directed to the experts best placed to deal with them in an efficient and effective way. It is envisaged that the Technical Panel will comprise individuals who are experts in index number measurement and construction whereas members of the Stakeholder Panel will be experts in the application and use of index numbers. So, for example, the Technical Panel would be the forum to consider and advise on the theory and practicalities of the different methods of measuring housing costs whilst the Stakeholder Panel would be the forum to advise on the most appropriate method to use in a particular situation. It would be quite possible for an expert to be a member of both panels. Moreover, there will be occasions where it would be advantageous for the two panels to convene jointly to discuss a particular issue. Authority staff should provide the linkage between the two panels.

## **Confidentiality**

- 4.6 The presence of journalists on CPAC was questioned in certain quarters on the grounds that members might be inhibited from speaking fully and frankly through the risk of subsequently being quoted in the media. ONS has no need to rely on a journalistic presence on the panels for communication reasons but, equally, there is no just reason for excluding suitable experts from either panel simply because they currently work as a journalist. Nor should journalists be regarded as the only likely source of leaks. It is therefore recommended that all panel members should be selected on merit and should agree a suitable confidentiality statement respecting the discussions that take place within the panels.

## **Transparency**

- 4.7 Strong representations were made to the review team about committee papers being made publicly available prior to meetings to provide the opportunity for wider consultation. Equally, representations were made about the need to take due account of the market sensitivity of certain proposals presented to the committee, some of which may not even come to fruition. A broader selection of user representatives on the Stakeholder Panel should facilitate better representation of users' views and, on balance, it is recommended that panel papers remain confidential until after they have been discussed. Thereafter, they should continue to be published alongside the minutes of the relevant meeting except in cases where the National Statistician decides material is restricted and should be withheld until it is no longer judged market sensitive.

## **Tripartite Group**

- 4.8 This Group, comprising representatives of ONS, HM Treasury and the Bank of England, meets regularly to discuss operational aspects of all ONS price indices including consumer price indices. Some external respondents speculated that this forum was used to take decisions on consumer price issues that were proper to CPAC to advise on. To maintain the integrity of the advisory function, the review team considered the disbandment of the Tripartite Group. There was no evidence that the Group was being used inappropriately, however, and its disbandment would cause a major disruption to efficient business. It is therefore recommended that the Group produce and publish terms of reference that make clear it is not a forum for discussing non-routine changes to consumer price indices.

## **Annex A: CPAC Terms of Reference**

Section 21 of the Statistics and Registration Service Act 2007 requires the UK Statistics Authority to compile and maintain the RPI and publish it every month. It further requires that, prior to making any change to the coverage or the basic calculation of the index, the Authority must consult the Bank of England as to whether the change constitutes a fundamental change in the index which would be materially detrimental to the interests of the holders of relevant index-linked gilt edged securities. If the Bank of England considers that that change is a fundamental change in the index which would be materially detrimental to the holders of relevant index-linked gilts, the Authority may not make the change without the consent of the Chancellor of the Exchequer.

Any methodological changes to the RPI therefore require the approval of the Authority before being referred to the Bank of England. To facilitate this, the Authority established a body to advise it on proposals for change to the RPI. This body is called the Consumer Prices Advisory Committee and it has three distinct roles:

1. To advise the UK Statistics Authority on the implication for the Retail Prices Index (RPI) of the improvements to this index recommended by the Office for National Statistics (ONS).
2. To provide the UK Statistics Authority with advice on RPI methodological issues.
3. To advise the UK Statistics Authority on improvements to the UK Consumer Prices Index (CPI) recommended by ONS.

## **Annex B: List of CPAC Members, 2013**

### ***Members***

Ms Jil Matheson	<i>National Statistician (Chair)</i>
Mr James Bell	<i>Bank of England</i>
Mr Derek Bird	<i>Office for National Statistics</i>
Dr Ian Crawford	<i>University of Oxford</i>
Mr Partha Dasgupta	<i>UK Statistics Authority</i>
Mr Chris Giles	<i>Financial Times</i>
Dr Gary Gillespie	<i>Scottish Government</i>
Professor Stephen Nickell	<i>Office for Budget Responsibility</i>
Mr David Ramsden	<i>H. M. Treasury</i>
Professor James Sefton	<i>Imperial College London</i>
Mr Philip Turnbull	<i>Independent Statistical Expert</i>
Mr Nick Vaughan	<i>H. M. Treasury</i>
Mrs Caron Walker	<i>Office for National Statistics</i>
Mr Glen Watson	<i>Office for National Statistics</i>
Dr Martin Weale	<i>Monetary Policy Committee</i>
Mr Duncan Weldon	<i>Trades Union Congress</i>

### ***Secretariat***

Mr Zuhaib Khan	<i>Office for National Statistics</i>
Ms Ainslie Restieaux	<i>Office for National Statistics</i>

## Annex C: Sample questionnaire

1. What do you see as being the strengths and weaknesses of the current prices governance system?
2. Do you have any views on what structures and arrangements might work best for future prices governance?
3. Are there other governance models, which you think may be relevant in the context of prices in the UK and which the UK could learn from?
4. What is your understanding of current governance arrangements for prices?  
Specifically:
  - a. What do you understand the Authority's role to be?
  - b. What do you understand the National Statistician's role to be?
  - c. What do you understand CPAC's role to be?
  - d. What do you understand ONS's role to be?
5. [If a member of CPAC]:
  - a. In what capacity did you understand you were a member of CPAC?
  - b. From your experience as a member, what do you consider to be the strengths and weaknesses of CPAC?
6. Do you have any further comments?

## Annex D: List of Review Participants

Mr Paul Johnson	<i>Review of Range of Prices Statistics</i>
Mr Marcel van Kints	<i>Australian Bureau of Statistics</i>
Mr Rupert de Vincent-Humphreys	<i>Bank of England</i>
Mr Stuart Berry	<i>Bank of England</i>
Mr James Bell	<i>Bank of England, CPAC member</i>
Dr Gary Gillespie	<i>CPAC member</i>
Dr Martin Weale	<i>CPAC member</i>
Mr Philip Turnbull	<i>CPAC member</i>
Prof Stephen Nickell	<i>CPAC member</i>
Prof Stephen Shute	<i>Crime Statistics Advisory Committee</i>
Mr Robert Stheeman	<i>Debt Management Office</i>
Mr James Holland	<i>Department for Work and Pensions</i>
Mr Richard Alldritt	<i>Head of Assessment</i>
Mr Geoff Tily	<i>HM Treasury</i>
Mr Nick Vaughan	<i>HM Treasury, CPAC member</i>
Mr Dennis Roberts	<i>Independent expert</i>
Ms Kate Barker	<i>Independent expert</i>
Mr John Astin	<i>Independent international expert</i>
Prof Bert Balk	<i>Independent international expert</i>
Ms Jil Matheson	<i>National Statistician, Chair of CPAC</i>
Ms Pam Davies	<i>National Statistician's Office</i>
Mr Derek Bird	<i>Office for National Statistics</i>
Mrs Caron Walker	<i>Office for National Statistics</i>
Mr Graeme Walker	<i>Office for National Statistics</i>
Mr John Pullinger	<i>Royal Statistical Society</i>

Ms Jill Leyland

*Royal Statistical Society*

Mr Tony Cox

*RPI/CPI user group*

Mr Richard Evans

*Statistics Canada*