

John Pullinger CB CStat | National Statistician

Sir Andrew Dilnot CBE
Chair, UK Statistics Authority
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Dear Andrew

Work with the Valuation Office Agency on CPIH

Since I wrote to you on 14 August 2014¹ ONS and the Valuation Office Agency have completed work on the owner occupiers' housing (OOH) component of CPIH. It corroborates the initial assessment set out in that letter. The work looked at aspects of the current methodology that might be improved and the impact that these would have on the annual rate of growth. It shows that the rate of growth of CPIH could be 0.2 percentage points higher were changes introduced, though the work indicates that this is an upper bound and in most periods the impact would be 0.1 percentage points or less.

Four aspects of the methodology have been assessed;

- I. The matching process for replacement properties, which can be improved so all viable matches are identified and used;
- II. The imputation approach for properties where a matching replacement property cannot be found, which can be improved by introducing a better imputation approach also used for other components of consumer price indices;
- III. The sample size of properties can be improved to allow a better balance between a robust initial sample and the maintenance of the sample over the year;
- IV. Evidence around the assumed contract length suggests a shorter period might be appropriate, and this has initiated further work.

Next steps

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

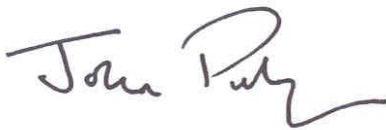
The same data are used to measure private rental prices in the suite of consumer price inflation statistics. However, the lower weighting applied to this component means that the findings set out in this note would not have an appreciable impact on CPI, RPI or RPIJ. Consequently, we do not propose to revise the private rents index in any aggregate, though improvements in the methodology will feed through as part of the annual update.

The release schedule will also allow ONS and VOA officials to complete further analyses to explain the relationship between OOH and the growth rates implied by VOA's estimates of average rental prices. This

important analytical work, which will be reported in an article that will be published on the ONS website, will clarify for users why the OOH index growth rates differ from some users' expectations. In completing these analyses ONS will work with colleagues in DCLG who have offered to provide expert external input to review the work. This work is also important for the 'Johnson' review and ONS will work with the review team to complete the analyses. To maximise input to the work we also intend to engage with the Residential Landlords' Association to improve our common understanding of the private housing rental sector. Finally, ONS will continue to pursue additional information on the average length of a contract for a rental property, which is an important element of the methodology, and we are working with VOA to firm up the basis for the contract length assumption before any final proposals for change are implemented.

I am copying this letter to the Chief Executive of the VOA, Penny Ciniewicz, the Permanent Secretary at HM Treasury, Sir Nick Macpherson, the Permanent Secretary at HM Revenue & Customs, Lin Homer, and the Deputy Governor of the Bank of England, Ben Broadbent.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'John Pullinger', with a stylized flourish at the end.

John Pullinger

¹ <http://www.statisticsauthority.gov.uk/reports---correspondence/correspondence/letter-from-john-pullinger-to-sir-andrew-dilnot-140814.pdf>