

## Background

Please confirm you have read and understood this important background information.

Yes, I have read and understood the information on this page.

## About you

### 1 What is your name?

Name:

### 2 What is your email address?

Email:

### 3 What is your organisation?

Organisation:

United Utilities PLC

## Section one: Measuring prices across the economy

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

No

**Why? Please provide comments.:**

In principle, we understand the desire to focus on a single main measure because agents in the economy and policymakers may expect such a measure to be identified and monitored. However, it must be recognised that a single measure cannot be applicable for all purposes. Whilst a rationalisation of indices may be desirable, one index cannot adequately serve all purposes. Our concern would be that focus on a single main measure may cause detriment to the necessary maintenance of other measures that are utilised across the economy.

For example, the majority of our business relates to an RPI price regulated licenced utility company – we are therefore particularly sensitive to any proposed changes to the way in which the RPI measure is managed by the ONS. In particular, we currently have c.£3bn of long-dated RPI-linked bonds in issue, and further deterioration in perception of the RPI measure could have a detrimental impact on companies such as us, our investors, and ultimately on the customers we serve.

Given the extensive and enduring use of RPI - with c.£500bn of RPI-linked Gilts, extending out as far as 2067 – as well its use within commercial contracts (e.g. private pensions) and regulatory settlements, we believe that it is vital that the ONS continues to appropriately maintain RPI as a measure of inflation (notwithstanding RPI no longer having 'official' status), and that it should not take any action which calls into question RPI as a measure of inflation, in order to avoid disturbing its on-going usage or forcing the adoption of an alternative measure of inflation.

Given the significant emphasis placed on RPI in these commercial contracts it is inevitable that RPI will remain an important measure for many stakeholders. Even in the event of an alternative "main measure" for inflation, RPI will always remain an important secondary measure where consistency of measurement should outweigh any concerns around statistical robustness of it as a measure of underlying inflation.

Therefore, in our view RPI should continue to be appropriately maintained, consistent with existing governance arrangements as set out in the Statistics and Registration Services Act (2007).

### 2 If you answered 'yes' to question 1a, then what should this measure be?

Other (please provide details).

**Why? Please provide comments.:**

Even though we did not answer yet to question 1, we still have opinions on this. This measure be the CPIH, as recommended in the Johnson review

### 3. Should its production be governed by legislation?

Yes

**Why? Please provide comments.:**

On the assumption that any main index identified would be used by the Bank of England (for inflation targeting) and by the Government (in indexation), then the possibility of the Bank of England having a 'governance' role should be considered. RPI has been subject to legislation (Statistics and Registration Service Act 2007) to the benefit of the UK and investors in index-linked Gilts. If an index is to be accepted by economic agents, then it needs the same legally-binding economic governance.

## Section two: Measuring consumer price inflation for different household types

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

Yes

#### Why? How often? Please provide comments.:

Different socio-economic groups are impacted by inflation on different products and services, and have different consumption patterns. Therefore, it would be useful to get such data for 'affordability' impacts etc. We consider that an annual frequency would probably be sufficient.

### 5 If yes, how should ONS seek to do so?

Using a payments-based approach.

#### Why? Please provide comments.:

This represents a more realistic impact on household budgets across different socio-economic groups.

## Section three: The RPI

### 6 Do you use the following indices? (Please select those that you use)

Component indices of the RPI

#### If yes, for what purposes? Please provide comments.:

We use component indices and sub-indices to understand unexpected movements in RPI and to produce in-house RPI forecasts.

### 7 Do you agree that the following indices should be discontinued? (Please select those that you suggest should be discontinued)

RPIJ, Tax and price Index, RPIY, RPI pensioner indices

#### Why? Please provide comments.:

In the case of RPIY - we agree it could be discontinued but only if RPIX continues to be published and maintained.

Whilst we have indicated that a number of RPI related indices could be discontinued (based upon our lack of use of such indices), we do believe it important that the ONS continues to publish sufficient detail on the constituents of RPI in order to maintain the integrity of the index and avoid the risk of undermining its on-going usage. We currently have c£3bn of long-dated RPI-linked bonds in issue. With the existing corporate bond and swap markets plus c£500bn of index-linked Gilts explicitly linked to RPI, we believe that it is vital that the ONS continues to publish sufficient detail on RPI and its constituents to enable market practitioners to retain confidence in the derivation of the index.

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

Yes

#### Why? Please provide comments.:

RPI should continue to be managed as it currently is. Freezing changes should only apply to the exclusions, inclusions and the aggregation methods – normal "maintenance" activities should continue as required by the Statistics and Registration Services Act (2007).

Given the extensive and enduring use of RPI - with c.£500bn of RPI-linked Gilts, extending out as far as 2067 – as well its use within commercial contracts (e.g. private pensions) and regulatory settlements, we believe that it is vital that the ONS continues to appropriately maintain RPI as a measure of inflation (notwithstanding RPI no longer having 'official' status), and that it should not take any action which calls into question RPI as a measure of inflation, in order to avoid disturbing its on-going usage or forcing the adoption of an alternative measure of inflation.

Given the significant emphasis placed on RPI in these commercial contracts it is inevitable that RPI will remain an important measure for many stakeholders. Even in the event of an alternative "main measure" for inflation, RPI will always remain an important secondary measure where consistency of measurement should outweighs any concerns around statistical robustness of it as a measure of underlying inflation.

We believe that the approach to maintaining RPI announced by the National Statistician in January 2013 is well understood within the markets and is considered appropriate in achieving the right balance between maintaining RPI - i.e. the annual update of baskets and weights, improvements to data validity etc. - without fundamental changes being contemplated.

We would strongly argue against any further undermining of RPI in order to maintain investor confidence. In our view RPI should continue to be appropriately maintained.

## Section four: Evolving consumer price statistics

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

Not Answered

#### Why? Please provide comments.:

We have no comments on this aspect of the consultation.

### 10 Should ONS include council tax in the CPIH?

Not Answered

**Why? Please provide comments.:**

We have no comments on this aspect of the consultation.

**Additional information**

**Do you have any further comments relevant to this consultation?**

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We would strongly argue against any further undermining of RPI in order to maintain investor confidence. In our view RPI should continue to be appropriately maintained.

**User satisfaction**

**Overall, how satisfied were you with this online consultation service today?**

Satisfied

**Please tell us if there are any specific areas for improvement, or if you have any other comments.:**

The online experience was easy and well thought out.

From the perspective of the UKSA and ONS having the structure in the responses is obviously highly beneficial. However, from a contributors point of view, it means that some points that we wished to make had to be shoe-horned into the available questions. On the whole it was a good experience and we feel that we managed to express our views adequately.