

# Template for response

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The Authority encourages respondents, where possible, to provide their submissions [online](#).

Where you would prefer to respond via email or on paper, please use this template and return the submission via email to [cpi@ons.gsi.gov.uk](mailto:cpi@ons.gsi.gov.uk), or via post to:

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## Section One: Measuring prices across the economy

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

Yes

#### 1a. Why? Please provide any comments below:

We appreciate that there are various different ways of measuring inflation, for example, there is a lack of agreement over how the cost of housing should be measured. However, due to the importance of inflation statistics to the economy, there is a need for the Office for National Statistics (ONS) to clearly identify one measure as its recommended best general measure of overall inflation. Simply issuing a mass of different inflation statistics without any guidance would create substantial confusion for users.

*If yes:*

**2. What should this measure be?**

- a. CPIH
- b. CPI
- c. Other – Yes - Bank of England inflation target (currently CPI)

**2a. Why? Please provide any comments below:**

The main Office for National Statistics measure of inflation should be the same as that used by the Bank of England for its inflation target (currently CPI). The inflation target measure affects interest rate decisions, so is the one most people relate to. Substantial public confusion about inflation could be created if the ONS and Bank of England promoted different statistics as the main measure of inflation.

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

Yes

**3a. Why? Please provide any comments below:**

The production of RPI is currently regulated by legislation (Statistics and Registration Service Act 2007). This legal basis increases investor confidence in financial products which use RPI. Enshrining the chosen measure of inflation in legislation should increase confidence in it, aiding the UK Statistics Authority's aim of reducing the use of RPI in financial products.

## 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

#### 4a. Why? How often? Please provide any comments below:

The headline measure of inflation is an overall average, but different households experience varying levels of inflation depending on the mix of goods they consume. Local authorities and many others would find it highly useful to be able to identify how particular groups are affected by inflation. This would enable a more detailed picture to be built up of the needs of local residents.

It would help to publish this information to the same timings as the main measure of inflation, to aid comparisons between them.

*If yes:*

**5. How should ONS seek to do so?**

- i. Using a payments-based approach
- ii. On the same basis as existing measures such as CPI - Yes
- iii. Via another means

**5a. Why? Please provide any comments below:**

We acknowledge the statistical debates about how to measure the cost of living, such as whether a payments or acquisitions approach is statistically preferable. However, the choice needs to reflect how the household figures will be used in practice.

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

### 6. Do you use the following indices?

i. RPIJ <sup>1</sup>	No
ii. Tax and price Index	No
iii. RPIY <sup>2</sup>	No - but aware of others using it
iv. RPI pensioner indices	No
v. Component indices of the RPI	No
vi. Any other RPI analytical- or sub- index	Yes - RPIX

#### 6a. If yes, for what purposes? Please provide any comments below:

The consultation acknowledges that the main RPI index will have to be continued, as it is being used in long term contracts, such as in index linked Government bonds not expiring until the 2060s. However, RPI subindices are also being used in long term contracts. We are extremely concerned that the UK Statistics Authority seems to be unaware of this.

RPI subindices are often used in business contracts because, as RPI is a measure of household prices, subindices of it have been used in contract indexing to try to get closer to inflation as experienced by businesses. RPIX (RPI excluding mortgage interest payments) is probably the most commonly used. Hampshire County Council has several contracts using RPIX, including one major 25 year contract. RPIY is also likely to get used (we are aware of another council which uses RPIY).

We do not use the other indices but other local authorities and businesses may be doing so. 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.

<sup>1</sup> RPI calculated using formulae that meet international standards

<sup>2</sup> RPI excluding Mortgage Interest Payments and indirect taxes

**7. Do you agree that the below indices should be discontinued?**

i. RPIJ	No opinion
ii. Tax and price Index	No opinion
iii. RPIY	Disagree
iv. RPI pensioner indices	No opinion
v. Component indices of the RPI	Disagree
vi. Any other RPI analytical- or sub-index	Disagree, particularly RPIX

**7a. Why? Please provide any comments below:**

We strongly disagree with the discontinuation of most subindices of RPI, particularly RPIX. Loss of these could result in substantial costs for many organisations if they have to change inflation measures in major long term contracts.

Organisations have used RPI and its submeasures in their contracts in good faith because (until 2013) it was an official national statistic, and one they felt particularly confident in using as its methodology was and remains protected by legislation. Having encouraged the use of RPI in the past, the UK Statistics Authority needs to take responsibility for its impact and can not just walk away from the measure. The production of RPI subindices used in business contracts needs to continue for the foreseeable future. Producing these is relatively straightforward as they just involve adjusted versions of the main RPI calculations, so the cost of continuing these statistics will be much less than the cost to organisations of not continuing them.

It may be reasonable to discontinue the Tax and Price Index, Rossi Index and the RPI Pensioner Indices, as these are less likely to be used in contracts. RPIJ could also possibly be discontinued; as it was introduced very recently, organisations are unlikely to have become familiar enough with it to have started using it in contracts.



**8. Do you have any views on what ‘freezing’ changes to the RPI should mean in practice? Please provide comments.**

The consultation sets out that the basket of goods used to calculate RPI and their weighting will continue to be updated, and this certainly needs to be done. The freeze as proposed would involve not making any further improvements to the methodology behind the RPI calculation, so RPI would continue to use the outdated Carli index, exclude many pensioners and not treat housing costs in the best way. As updates will be made to the CPI formula, the two measures will increasingly diverge from one another.

We strongly disagree with the freezing of changes to RPI. The main RPI measure and many of its subindices will need to continue being produced for decades due to their use in long term contracts. Many Government bonds are linked to RPI, so, far from being just a matter of statistical policy, freezing the RPI formula could potentially cost taxpayers many billions of pounds.

It would be much more preferable, for both users and statisticians, to work towards harmonising RPI with CPI. RPI would eventually become the same as CPI, fully resolving the current problem of two competing headline inflation measures. We appreciate that this will take a while. The Treasury may well be reluctant to see major change for some time, as Government bonds have been issued which until the 2030s allow the holder to redeem them if there are major changes to the RPI methodology. However, more minor changes should be made now, with major changes made once possible, with full convergence and resolution perhaps being achievable by 2040.

## Section Four: Evolving Consumer Price Statistics

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

Partly

#### 9a. Why? Please provide your comments below:

We have no particular objections to any of the content in the forward work plan. However, the work plan should also include maintaining RPI and its subindices, together with work on converging them with CPI.

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

No

### 10a. Why? Please provide your comments below:

Council tax is not currently in CPI or CPIH and we disagree with the proposed inclusion of council tax in CPIH. Although council tax is in RPI we think it should be taken out of this.

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.

Council tax is a direct tax and not a service charge, with no direct link between the payment of council tax and receipt of council services. For example, a significant amount of council tax receipts are used to fund social care, but there is no link between how much council tax you pay and how much social care you receive. On this basis, it is inappropriate to include council tax in consumer price measures.

Some statisticians have argued in more abstract terms for the inclusion of council tax in CPIH. They argue it is a property related bill so, just like bills for repairs to a house, it should form part of CPIH (as CPIH includes housing costs). This argument is tenuous. Council tax is a tax, not a bill for property services. Furthermore, living in a property does not necessarily result in a council tax liability, for example, properties owned by the Crown (such as armed forces accommodation) and student halls of residence are exempt from council tax. Living in any property in Scotland may also soon not involve any council tax, as the Scottish Government is actively looking at replacing it.

The overall conclusion which should be drawn from these considerations is that council tax should not be included in CPIH. Given all the efforts made to remove the deficiencies of RPI from CPI measures, it makes no sense to cancel these out by introducing a deficiency from RPI into CPIH.