

## **Introduction**

1. This is the submission from Prospect to the UK Statistics Authority's consultation Document "Measuring Consumer Prices: the options for change".
2. Prospect is an independent trade union that represents over 110,000 professional, managerial, technical and scientific staff across private and public sectors. Prospect represents engineers, managers and other professionals across the electricity supply industry and in the gas industry.
3. Prospect members have a keen interest in the use of inflation statistics and their adoption by various parties – from pension funds applying cost of living increases, to bargaining groups negotiating pay rises and various Regulators setting prices. The outcome of changing measures of cost of living has a direct impact on the incomes of working people over short and long timescales.
4. The importance placed on the issue of price inflation indices is demonstrated by our participation in a legal challenge against the decision taken in 2010 to change the measure of price inflation used for uprating public sector pensions (amongst other areas of government expenditure). Prospect has also engaged in related consultation exercises with ONS and UKSA in the past. We continue to welcome the opportunity to ensure that the voices of working people are heard in this respect.
5. The views expressed are informed by comments of members through the union's democratic representative structures.

## **Prospect's Position**

6. We believe that it is correct for National Statistics to be the subject of scrutiny, debate and potential modification. We appreciate the need for the UK Statistics Authority to ensure that such figures can stand up to a high standard of academic rigour.
7. However we are especially mindful of the need for the producers of statistics to keep users at the forefront of all they do. Statistics can be meaningless if they cannot be explained or understood. The need for users to understand statistical methodology and to have access to consistent data is paramount to engender confidence in the system of statistical production.
8. In particular Prospect remains to be convinced on the adoption of a formula based around geometric means to calculate indices. The rationale that it was adopted as a mechanism for taking the substitution of goods into account seems arbitrary; and in our experience can lead to suspicion that the formula is designed to keep figures artificially low. UKSA has significant work to do to convince the populace that this approach is fair and correct.
9. As a user of these statistics when negotiating on behalf of our members on pay and pensions related matters, Prospect is of the firm belief that abandoning the RPI will leave a void which will be impossible to fill. We are mindful that the majority of pay increases negotiated in the last four years to be link to a price index, have in fact

been based on the RPI (more than 90% of pay awards on record). We are aware that a very large number of defined benefit pension schemes retain a link the provision of increases based on the RPI, and that this commitment will have to exist for many decades into the future.

10. As such Prospect urges UKSA and ONS to maintain production of the RPI on a consistent basis to that presently produced.
11. UKSA's template response document, with Prospect's response, follows.

# Appendix – Prospect Template Responses

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## Section One: Measuring prices across the economy

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

- a. Yes
- b. No

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

*It is recognised that a single, reportable measure of price inflation would have its advantages to markets, policy-makers and negotiators; particularly in respect of comparing economic changes over time. However in setting a “main” measure of price change it is vitally important to recognise that price inflation statistics are used for a range of purposes, and that each of these purposes might validly expect a different approach to calculation.*

*If the main purpose of producing inflation statistics is thought to be for macro-economic analysis, or international comparison, then this should be used. Alternatively, if its prime purpose is as a deflator in National Accounting then this should be used. If however the main purpose is to provide a basis on which benefits, wages, pensions, statutory thresholds and regulated prices are increased; then a measure best suited to this should be used.*

*Prospect does not fundamentally disagree with the notion of a “main” measure, but we are concerned that this may lead to the abandonment of all other measures, particularly where a contractual, statutory or moral expectation to benefit from a pre-existing measure exists.*

*Given that the use for the purposes of increasing benefits, pensions etc. is the only one in which real monetary payments are actually affected, it would seem appropriate to set this as a main purpose for the calculation of inflation.*

If yes:

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

- a. ~~the CPIH, as recommended in the Johnson review. The CPIH includes owner-occupiers' housing costs. It does not currently hold the *National Statistics* designation (although its re-assessment is due to commence shortly). The index is a UK measure, designed by ONS to meet UK needs.~~
- b. ~~the CPI, ONS's current headline measure. The CPI is an EU measure, designed by Eurostat to ensure comparable consumer prices statistics across the EU.~~
- c. other (please provide details).

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

CPI was introduced to provide a comparison of prices in the European Union and is useful for macroeconomic purposes. However for many other purposes such as uprating pay, benefits and pensions other measures of inflation are more suitable in our view.

Previous ONS research has shown that most other countries have a national measure for measuring prices in addition to a CPI measure; therefore we see no reason why the UK could not adopt a similar approach.

In our view the RPI is a more suitable measure for inflation because it includes housing costs and Council Tax. As noted in our introduction, we remain to be convinced of the rationale for using a geometric approach to calculate an average is always the best option. In the absence of a compelling case that can be demonstrated to the UK populace, Prospect believes that an arithmetic mean based approach, as used in the RPI, should be adopted.

Prospect did not support the introduction of CPIH because the method of calculating housing costs was rental equivalence. We believe that this does not accurately reflect actual housing costs experienced by a majority of our members.

We note that CPIH may include Council Tax in the future, which would be an improvement in this measure, however because the rental equivalence method is used to calculate CPIH we do not think it will command the authority needed to replace existing inflation measures.

We are also minded that RPI calculations do not include the very highest and lowest earning households from their sample base, whereas CPI calculations do. ONS figures show that variations in household inflation are experienced by households with differing expenditure profiles; with lower spending households spending more. Given this disparity it would seem appropriate to retain a formula that can take account of disparities in earnings.

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

- a. ~~Yes~~
- b. No

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

*Harnessing the production of a main measure of price inflation in legislation is meaningless if the full extent of its uses is not similarly framed.*

*If users can find ways to arbitrarily change the usage of ONS data for the purposes of statutory payments, then there would be little benefit in enshrining its production in legislation.*

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

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

- i. Yes
- ii. ~~No~~

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

*Although it may be difficult to categorise different households so succinctly, there may be a rationale for breaking up categories of the population into discrete categories based on their economic status (e.g. in education, of working age or retired). This can be used to inform policy in respect of these different classes (e.g. pension increases based on the cost of living increases experienced by pensioner households, or university fee increases limited to cost of living for those in education).*

*Given that such policy is unlikely to be made more frequently than annually, there may be an argument that these figures should not be published any more regularly. However, given the scope for variations to be seen as outliers, it would seem to publish figures more different households more frequently (e.g. quarterly).*

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.~~
- iii. ~~Via another means (please provide details)~~

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

*If the payments approach was to take full account of expenditure, including on renovation, repair and mortgage interest housing costs, then this approach should be used to take account of these significant areas of household expenditure.*

## Section Three: The RPI

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

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

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

*Prospect negotiators regularly access information on RPI changes as this is still the most widely respected measure of price inflation amongst working people and employers. It is also used as an implicit measure for inflation protection in a large number of defined benefit pension schemes, and is an intrinsic part of millions of scheme members' accrued rights.*

*Use of RPI pensioner indices and broken down components of the RPI are still used for research purposes in analysing RPI applicable to different groups.*

<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                                   | Yes/No |
| ii.  | Tax and price Index                    | Yes/No |
| iii. | RPIY                                   | Yes/No |
| iv.  | RPI pensioner indices                  | Yes/No |
| v.   | Component indices of the RPI           | Yes/No |
| vi.  | Any other RPI analytical- or sub-index | Yes/No |

**7a. If yes, why? Please provide any comments below:**

*As noted in the previous answer, we value the production of some of these indices and anticipate that some other parties will value the continued production of the others. Assuming that is the case, we would not support the discontinuation of these indices.*

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

*Whilst the RPI may be viewed as a legacy index, Prospect is strongly of the view that it must continue to be credible so as to remain fit for purpose for users who retain a vested interest in it. There will also be a great deal of value in being able to conduct time comparisons of price inflation changes, covering as long a timeframe as possible. Given the historic existence of RPI data, it will be wrong to effectively render this historic data meaningless by having no ongoing basis for comparison.*

*We note that UK Index Linked Gilts (with a time frame to redemption of more than 50 years in some instances) also rely on the production of RPI statistics. Given the nature of these arrangements, Prospect believes that there will continue to be a compelling reason to keep RPI statistics updated and relevant for many decades to come.*

## Section Four: Evolving Consumer Price Statistics

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

- a. Yes
- b. No

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

*Prospect does not have any explicit comments in this respect, except to reiterate that as well as responding to evolving statistical needs, UKSA and ONS must work to ensure that historic requirements can be adequately fulfilled (such as pension obligations) and to respect the fact that abandoning statistics that are widely used will not be in the best interests of users.*

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

- a. Yes
- b. ~~No~~

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

*Given that council tax payments (and analogous payments in other countries of the UK) represent a significant proportion of household expenditure, Prospect believes that this should be included in all measures of inflation.*