

ADVISORY PANEL ON CONSUMER PRICES – STAKEHOLDER

Minutes**28 September 2017****Board room, UK Statistics Authority, Drummond Gate, Pimlico, London SW1V 2QQ****10:30 – 13:00****Present**

Dame Kate Barker (Chairman)	Mr Ian Rowson (Ofgem)
Mr John Astin (APCP-T)	Ms Helen Sands (ONS)
Mr Steve Farrington (HM Treasury)	Mr Nick Vaughan (ONS & Chair of the Technical Panel)
Ms Joanna Konings (Bank of England)	Ms Sally West (Age UK)
Ms Jill Leyland (Royal Statistical Society)	Mr Matthew Whittaker (Resolution Foundation)
Mr Chris Payne (ONS)	
Mr Mike Prestwood (ONS)	

Secretariat:

Dr James Tucker (ONS)
Ms Jaya Jassi (ONS)

Apologies

Mr Jonathan Athrow (ONS)
Mr Richard Barwell (BNP Paribas)
Mr Andrew Sentance (PricewaterhouseCoopers)
Mr Geoff Tily (Trades Union Congress)

1. Introduction, apologies and actions*Paper APCP-S(17)10 – published*

- 1.1. The chairman welcomed attendees to the APCP-Stakeholder (APCP-S) meeting.
- 1.2. The actions from the previous meeting held on 31 May 2017 were discussed. There were no comments from the panel on the previous meetings minutes and actions. ONS confirmed that all of the actions have been completed.

2. A theoretical framework for the Household Cost Indices (Paper APCP-S(17)11)*Paper APCP-S(17)11 – This paper will be published alongside the minutes*

- 2.1. The first paper that was discussed was a paper outlining a theoretical framework for the Household Cost Indices. Mr Vaughan gave an update on the outcomes of the discussion regarding this paper at the Technical Panel meeting on 15 September 2017. He stated that the

meeting was constructive and that there was a really good debate between Technical Panel members, allowing the ONS to move closer to outlining a framework.

- 2.2. There was a clear consensus in the group that the HCIs should be calculated using 'democratic' weighting and that they should be on a payments basis. Some panel members felt that there was no real distinction between a Cost of Goods Index and a Cost of Living Index and some panel members also thought that a cost is equal to price times quantity, therefore cost and price are not synonymous. The group also discussed second hand goods, insurance and housing costs. Some members of the panel circulated their comments on the paper following the meeting, and these were shared with Stakeholder Panel members prior to the present meeting.
- 2.3. The chairman welcomed Mr Astin to the meeting. Mr Astin had been invited to give an overview, alongside Ms Leyland and ONS, on their proposal regarding a theoretical framework for the HCIs to the Stakeholder Panel. Ms Leyland highlighted that there are no overriding theoretical principles defined for the CPI, CPIH and HICP and that the ONS should consider defining principles for the CPIH. Mr Astin and Ms Leyland had made some changes to the paper in light of the Technical Panel's comments.
- 2.4. They expressed their thanks to ONS for the work being done on the HCIs. They did not consider their approach to calculating the HCI to be much different but their concerns are more about the presentation and wording of the HCI, rather than the calculation of it. When presented to the world they would like to see a name change, and the new index should be presented in its own right, rather than as an income deflator.
- 2.5. Mr Astin reiterated that cost often refers to price times quantity and that the Technical Panel agreed with him on this point. One panel member referred to Mr de Vincent-Humphreys comments on the paper, which used an example of student loans interest payments, that supported use of the term cost.
- 2.6. One panel member's view was that the sub-principles did a good job of accurately representing the intentions of the HCIs. However, the headline description of the HCI was too similar to the CPI in the second proposal and suggested that more differentiation was provided for users.
- 2.7. A panel member questioned the use of the term 'standard of living' in the ONS proposal as a regular fixed basket index is not a standard of living measure.
- 2.8. Another member expressed that, as a user, they are interested in something that can be used so there would be merit in borrowing from Australia and New Zealand that have a similar index. They also questioned how much difference the principles would make to the final figure. One member raised that having one single measure for the HCI would mean it would lose its value as an experiential measure of various household types and become more of an economic measure. There was some agreement amongst the panel. This was discussed further and ONS confirmed that there would be a measure for different types of households and then an aggregate measure to benchmark against.
- 2.9. The group discussed pensions and the HCIs. One panel member questioned how to ensure that the correct measure was being used to increase pensions and benefits. It was pointed out that there was no mention of pension contributions in the table of differences between the proposed HCIs and CPIH.

- 2.10. There was a consensus that democratic (housing) weighting should be used. Using the payments approach to measuring Owner-Occupiers' Housing costs (OOH) was also agreed on. There was some discussion on whether to include the capital cost of housing in the index. Some panel members thought it should be included and others thought it should be excluded. Shelter was argued to be a basic necessity and that payments, both interest and capital, need to be reflected as the index is looking at the experience of households. Another member argued that interest is the cost of the housing service and capital is the saving expenditure and that capital costs should be excluded. ONS confirmed that they plan to produce HCIs both including and excluding capital costs at the end of the year. However, the version including capital costs would be for analytical purposes, as it doesn't sit within the proposed theoretical framework. One panel member questioned how users would know which index to use, the one including or excluding capital costs? It was suggested that a consultation paper should be issued alongside the publication of the experimental statistics. A panel member pointed out that the majority of the Technical Panel wanted to exclude capital costs in the index and the majority of the Stakeholder panel also felt they should be excluded.
- 2.11. There was an agreement on interest on credit card debt being included and there was also general agreement on the treatment of insurance, following some discussion. However, it was noted that although the weight for insurance should be gross, any expenditure following a claim should be deducted from the relevant class. It was also noted that second hand goods were not included in the table of differences between the proposed HCIs and CPIH. ONS explained that the figures released at the end of 2017 were a prototype, and second hand goods are something that would be explored further in the future.
- 2.12. There was discussion around tuition fees and one member queried whether the loan that students receive is counted as part of their income. The ONS were asked to look into that further as if the tuition fee is not counted as being spent immediately it may lead to misinterpretation of the results, students may be perceived as having a greater income than is actually the case. There was overall agreement for taking a payments approach for tuition fees but the difficulties around knowing whether to include it in a students or parents' index was discussed. There was an agreement on council tax being included.

Action 1: ONS to investigate the treatment of student loans with regards to income
--

- 2.13. There was further discussion around pension contributions and whether they should be included in the index or not. It was suggested that the ONS should put forward a stronger rationale for excluding pension contributions.

Action 2: ONS to put forward a stronger rationale for excluding pension contributions in the HCIs

3. Improving clothing measurement in consumer price inflation statistics (Paper APCP-S(17)12)

Paper APCP-S(17)12 - This paper will be published alongside the minutes

- 3.1. Mr Payne provided an overview of the paper and outlined ONS' forward plans.

- 3.2. The panel members made some drafting comments on the paper and requested that it was re-circulated before it was published.

Action 3: Panel members to send comments on Paper APCP-S(17)12 to the secretariat for inclusion in an updated paper before publication

- 3.3. One panel member asked about the results of the work that had already been done on clothing. There was a request to see the results.

Action 4: ONS to share the work already done on clothing with panel members

- 3.4. One panel member commented that ONS may be attempting to do too much in terms of different methodologies and statistical techniques and would all of this be implemented in practice. It was agreed that perhaps not everything would be implemented in practice but it was worth doing the work to identify what the best way forward with this project would be.
- 3.5. There was some discussion about using alternative data sources to improve the measurement of clothing items. The ONS have access to some web-scraped clothing data.

Action 5: ONS to update the Clothing paper according to comments prior to publication

4. A review of quality adjustment in UK consumer price statistics (Paper APCP-S(17)13) *Paper APCP-S(17)13 – This paper will be published alongside the minutes*

- 4.1. Mr Payne outlined the paper and deliverables and invited feedback from members of the panel.
- 4.2. There was an update on the discussion from the Technical Panel meeting regarding this paper. It was stated that the discussion revolved around how useful or not the Implicit Quality Index (IQI) would be. Members of the panel could see how the index was useful for hedonics but there were some concerns about whether that would follow through to other quality adjustment methods. It was added that members of the Technical Panel were interested in what other countries are doing.
- 4.3. A panel member talked about the practical use of the IQI and how it would be useful.
- 4.4. One panel member noted that quality adjustment was an issue in IT and computers but questioned how widespread it was across other items. It was confirmed that this issue is present in a wide range of goods across the entire basket and that price collectors implicitly quality adjust when products go out of stock as they have to review products.
- 4.5. Panel members endorsed the paper and it was agreed that any updates and further work would be brought back to the panel for discussion.

5. AOB and date of next meeting

- 5.1. The next Stakeholder Panel meeting will take place on Friday 2 February 2018.

- 5.2. The ONS raised the annual report and proposed that the report would be in the same format as the previous year. Members of the panel agreed with that decision.
- 5.3. Stakeholder panel members were asked to raise any issues that they wanted the Technical Panel members to discuss in future meetings.

Action 6: Panel members to contact the secretariat and raise any issues they want discussed at the Technical Panel meetings in the future

Actions

No.	Action	Person Responsible
1	ONS to investigate the treatment of student loans with regards to income	Ms Helen Sands
2	ONS to put forward a stronger rationale for excluding pension contributions in the HCIs	Ms Helen Sands
3	Panel members to send comments on Paper APCP-S(17)12 to the secretariat for inclusion in an updated paper before publication	Stakeholder Panel Members
4	ONS to share the work already done on clothing	Mr Chris Payne
5	ONS to update the Clothing paper according to comments prior to publication	Ms Jaya Jassi
6	Panel members to contact the secretariat and raise any issues they want discussed at the Technical Panel meetings in the future	Stakeholder Panel Members