

ADVISORY PANELS ON CONSUMER PRICES - STAKEHOLDER

Minutes**23 May 2016****Board room, UK Statistics Authority, Drummond Gate, Pimlico, London SW1V 2QQ****10.30 – 13.00****Present**

Dame Kate Barker (Chairman)

Mr Jonathan Athrow (Office for National Statistics)

Mr James Bell (Bank of England attending for Mr Andy Haldane)

Ms Jill Leyland (Royal Statistical Society)

Mr Mike Prestwood (Office for National Statistics)

Mr Ian Rowson (Ofgem) – by phone, part of meeting only

Mr Geoff Tily (Trades Union Congress)

Mr Nick Vaughan (Office for National Statistics & Chair of the Technical Panel)

Mr Matthew Whittaker (Resolution Foundation)

Secretariat (Office for National Statistics)

Dr James Tucker

Ms Tanya Flower

Apologies

Mr Richard Barwell (BNP Paribas)

Mr Stephen Farrington (HM Treasury)

Mr Andrew Sentance (PricewaterhouseCoopers)

Ms Sally West (Age UK)

1. Introductions, apologies and actions

- 1.1. The Chairman welcomed attendees to the meeting.
- 1.2. The Chairman covered the actions from previous APCP-Stakeholder (APCP-S) meeting held on 22 January 2016. The action from the previous meeting to update and publish the Terms of Reference for the APCP-S meeting was signed off as complete by the Secretariat. The Terms of Reference and papers for previous meetings are available on the [UKSA website](#).

2. Update from the technical panel

- 2.1. Mr Prestwood presented a verbal update on the APCP-Technical meeting, held on 10 May 2016.
- 2.2. Panel members discussed Mark Courtney's response to the minutes from the previous APCP-Technical meeting. At the Technical panel meeting, it was felt that while the published minutes were an accurate summary of the discussion and therefore should not be updated, there were further details that could be incorporated into a short paper to be published alongside the minutes. Mr Courtney would be invited to provide comments on this paper. Stakeholder panel members welcomed this proposal, in particular as it allowed further detail to be published on

Mr Courtney's substantive points of evidence and subsequent discussion. While some members were anxious not to close the discussion on the elementary aggregate formulae, they acknowledged that this was a technical panel matter.

- 2.3. The technical panel had also discussed two work programmes that are required for ONS to comply with Eurostat regulations, including work on integrating a double price update into the CPI and implementing a new layer into the COICOP classification structure. Technical panel members were satisfied with the proposed timeline and methodology. Stakeholder members were satisfied with what was discussed. There was one query regarding the results from the double price update, and why they differed from a paper published in 2012 that looked at evidence in switching from January to December weights.

Action 1: Mr Payne (APCP-Technical secretariat) to provide an answer to the query on the double price update.

- 2.4. Finally, the technical panel considered a method to smooth volatile weights, a recommendation outlined in the Johnson Review. The technical panel did not feel strongly with regards to the methodology, and felt that further research was required before making a decision. Stakeholder panel members agreed that it was better to be aware of the problems and to be able to explain them, rather than applying a different methodology on an ad-hoc basis.

3. CPIH reassessment update

- 3.1. Mr Prestwood provided a brief verbal update on the reassessment of CPIH as a national statistic. ONS are attending regular meetings with the UKSA monitoring and assessment team and are currently on track to address the requirements identified in the UKSA assessment report by the September deadline. UKSA have asked for a bedding-in period of a minimum of 3 months before redesignation, therefore implementation of CPIH as the headline measure may not be possible in the January 2017 timeframe. The UKSA will also consult users after September.
- 3.2. Panel members felt that it was important to work on the communication and dissemination of CPIH, as it is more likely to be designated as a National Statistic if users are engaged with the idea and support its production.

4. CPIH Assessment (Paper APCP-S(16)04)

- 4.1. The Chairman invited panel members to discuss the early drafts of two articles (the 'CPIH Compendium' and the 'Comparison of Measures of OOH in the UK'). The Chair asked for more detailed drafting comments to be sent directly to the APCP-T Secretariat, Mr Payne.
- 4.2. Members were unanimous in their view that these documents are a useful source of information that provides vital context for users of CPIH. The rest of the discussion focused on suggestions to enhance the articles for users, and to better meet the requirements of the UKSA reassessment. In general, members felt that the papers could make the arguments to use rental equivalence stronger from the outset. Given the importance of these articles, ONS should focus on communication and engagement with key user groups, for example using data visualisations to explain the difference between the different measures of OOH for the general public.
- 4.3. In particular, comments on the first article 'CPIH Compendium' included:
- The main reasons for using rental equivalence should be made clearer at the beginning of the article, to strengthen the argument for why that particular measure was chosen.

Currently, the article implicitly states that rental equivalence should be used, but does not adequately address some of the concerns associated with using rental equivalence (for example, credibility).

- The article should explain that the CPIH sets out to measure the most ‘statistically accurate’ measure of inflation, defined as the “cost of consumption”. Therefore, on this definition asset prices should not be included in the measure of housing costs. This argument can be made clearer for the reader. This also means that any reference to the use of inflation as the basis of any argument should be removed from the article (for example, the argument that if CPIH is to be used as the inflation target, it should not include interest payments because of the circularity between interest payments and the inflation target).
- It would be more useful to put references to the CPAC discussions in an Annex, and base the arguments for using rental equivalence in the main section of the article on the current statistical evidence rather than previous discussions.
- The section on the development of measuring owner occupied housing costs could be strengthened to include the development of OOH in the RPI, to give further context for the article. In particular, it should be made clearer that the approach used in the RPI is not a pure payments approach, as it also includes a measure of depreciation.
- A potential issue of double counting should be clarified: if rental equivalence is imputed from actual rentals, which already include a premium for maintenance, does this mean that the maintenance part of CPI will therefore be double counting some of the costs involved in maintaining and repairing houses. It was subsequently clarified after the meeting that there is a boundary between the types of maintenance covered in each component, meaning that there is no double counting
- The references should also include the advice given to the National Statistician from both APCP-S and APCP-T with regards to CPIH.
- The main objective of the paper is to build confidence in CPIH as the headline measure for the long term. Therefore, there should be a section on how ONS has planned for the continuation of the CPIH data sources. For example, while the effect of an increasing number of owner occupiers (as per current government policy) on the sample size of rentals should be minimal, it should be noted in the paper. The paper should also be clearer about the relationship between housing benefit and rent, and how rent controls may impact on any future indices. It should also be clear about the provisions for robust data collection in future if government policy changes and rent officers are no longer available to collect data for the VOA.
- The section on user concerns should be developed further to cover all user concerns including discussions that are currently ongoing in the CPI/RPI user group. The current table is not a clear way of presenting the information.

Action 2: Mr Payne to work with panel members and the CPI/RPI user group to collect a list of concerns that should be addressed in the ‘user concerns’ section of the Compendium.

4.4. Members also discussed the second article, the ‘Comparison of Measures of OOH in the UK’. In particular, comments included:

- It was useful to have graphs showing both the 12-month change and the index level over time. Graphs should also include the new measure of house prices published by ONS and the Land Registry.
- The arguments surrounding rental equivalence should be made clearer in the summary (see comments above for the Compendium).
- The extent to which long term trends for all measures of OOH can be affected by interest rates should be stated more clearly. Since the beginning of the time series shown by the graphs (1988), there have been longer term trends in the housing market (in particular, a fairly consistent reduction of interest rates) which may not continue in the future. Therefore, the movement of the indices, especially those which include some measure of asset prices, may be different in future.
- The fact that rental equivalence differs from the other measures not because it is wrong but because it is measuring a different concept should be brought out more clearly in the article (for example, using rental data may also not fully capture the risk premium involved in home ownership).
- The article should make it clearer to all users that, by the definition used, OOH should not include house prices.

4.5. Panel members will see the next draft of these articles by correspondence before the UKSA deadline in September. It was suggested that a statement from both panels on rental equivalence should also be published in September, which sets out their position and advice.

Action 3: Mr Payne to circulate a table to the panel that shows progress against each of the UKSA recommendations

5. Users and uses of consumer price inflation statistics (Paper APCP-S(16)05)

5.1. The Chairman invited panel members to discuss the updated version of the “Users and uses of consumer price inflation statistics” paper that was first published in 2013. The Chair asked for more detailed drafting comments to be sent directly to the APCP-T Secretariat, Mr Payne.

5.2. In general, members felt that the document is still a useful source of information for users. However, the current version does not include many references to RPIJ. Since the National Statistician’s response was published in March 2016, there has been more evidence of interest in the use of RPIJ.. There also needs to be greater commentary about why the CPIH will be the chosen headline measure of inflation in the future, including why CPIH was chosen over RPIJ and the differences between them.

5.3. Other comments on the paper included:

- There should be an abridged version of Table 2 in the main summary, as it is a very useful source on information on the differences between the main measures.
- The use of indices in the calculation of personal tax allowances should be checked for accuracy
- The National Statistic status is a stamp of approval for users: it may be difficult to convince people to use CPIH before it is designated
- The paper should represent current usage, rather than intended. The use of CPIH is therefore overstated in the current draft of the publication.

- The UK Regulators Network (UKRN) published a paper on how indices are currently used in the regulation sector which should be a useful reference. OFGEM, and regional regulators such as the Northern Ireland utility regulators and the Scottish water regulator should be mentioned in the paper
- The current timetable for establishing CPIH as a headline measure is not clear, and there should be a stronger position on not using the RPI for new contracts and taxes. These do not have large sunk costs (unlike more long-term contracts and legal obligations found in pension scheme contracts) and therefore should not be using RPI.

6. Work plan for consumer price statistics (Paper APCP-S(16)06)

- 6.1. The Chairman invited panel members to discuss the proposed work plan for consumer price statistics.
- 6.2. Members would like to add an additional project in the high priority section that looks at the formula effect, continuing the work done in 2011 and 2012 and in particular considering clothing and the impact on the wedge between RPI and CPI as we move into new markets in the future (product differentiation may happen faster in the modern economy). Other comments included:
- Focusing on the long-term time series, it would be useful to publish a hierarchy of the different indices that should be used when using historical data (for example, how far back should you use CPI before reverting to the RPI measure).
 - For the discussion on the users and uses of price statistics, it would be easier to convince people that CPIH should be used as the headline measure of inflation if information relating to changes in payments for the typical household were also available.
 - The text on page 2 of the draft referred to CPI needing to be consistent with European regulations, rather than HICP
- 6.3. Finally, panel members also questioned the input of the panel into these work streams, in particular providing comments on research papers and publications. Members were happy to see papers circulated outside of the formal meeting arrangement if timings were an issue.

Action 4: Mr Tucker to circulate a list of upcoming publications and identify where ONS would like engagement with the panel before publication.

7. AOB and date of next meeting

- 7.1. Mr Prestwood questioned panel members over whether the panel wished to see the issues raised by stakeholders on forums such as Statsusernet. The general agreement among members was that ONS should work together with RPI/CPI user group to prioritise the feedback, and those cases which are seen as a priority can be taken to the panel on a case by case basis.
- 7.2. The Chairman asked the Secretariat to ensure that members confirmed that they were either attending or not attending meetings before the day of the meeting.
- 7.3. The next meeting will take place on 9 September 2016.

Actions

No.	Action	Person Responsible	Status
1	Mr Payne (APCP-Technical secretariat) to provide an answer to the query on the double price update.	Mr Payne	
2	Mr Payne to work with panel members and the CPI/RPI user group to collect a list of concerns that should be addressed in the 'user concerns' section of the Compendium.	Mr Payne	
3	Mr Payne to circulate a table to the panel that shows progress against each of the UKSA recommendations	Mr Payne	
4	Mr Tucker to circulate a list of upcoming publications and identify where ONS would like engagement with the panel before publication.	Mr Tucker	