

ADVISORY PANELS ON CONSUMER PRICES - STAKEHOLDER

Minutes**09 September 2016****Board room, UK Statistics Authority, Drummond Gate, Pimlico, London SW1V 2QQ****10.30 – 13.00****Present**

Dame Kate Barker (Chairman)

Mr Richard Barwell (BNP Paribas)

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

Mr Stephen Farrington (HM Treasury)

Ms Jill Leyland (Royal Statistical Society)

Mr Ian Rowson (Ofgem)

Mr Andrew Sentance (PricewaterhouseCoopers)

Mr Geoff Tily (Trades Union Congress)

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

Ms Sally West (Age UK)

Mr Matthew Whittaker (Resolution Foundation)

Secretariat (Office for National Statistics)

Ms Tanya Flower (on behalf of Dr James Tucker)

Ms Helen Sands (on behalf of Mr Jonathan Lewis)

Apologies

Mr Jonathan Athrow (Office for National Statistics)

Mr Mike Prestwood (Office for National Statistics)

Dr James Tucker (Office for National Statistics)

Mr Jonathan Lewis (Office for National Statistics)

1. Introductions, apologies and actions (Paper APCP-S(16)07)

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 23 May 2016. An update on progress for each of the actions is provided in Table 1 below.

1.3. Table 1

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	Complete – Panel confirmed they had received update
2	Mr Payne to work with panel members and the CPI/RPI user group to collect a list of	Mr Payne	Complete – although the CPI/RPI

	concerns that should be addressed in the 'user concerns' section of the Compendium.		user group have not seen anything in response
3	Mr Payne to circulate a table to the panel that shows progress against each of the UKSA recommendations	Mr Payne	Complete – Panel confirmed they had received update
4	Mr Tucker to circulate a list of upcoming publications and identify where ONS would like engagement with the panel before publication.	Mr Tucker	This is ongoing, there haven't yet been any relevant publications to fulfil this action.

1.4. It was questioned whether a note was going out alongside the minutes with regards to Dr Mark Courtney's paper on 'Consumer Price Indices in the UK', which he presented at the January meeting of the APCP-T. Mr Vaughan confirmed that the note will be published alongside the minutes and this should draw a line under the discussion. Mr Payne has circulated this to the technical panel for comments. Stakeholder panel members requested that they also see this note.

Action 1: Mr Payne to forward Dr. Mark Courtney's note to stakeholder panel members.
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2. CPIH assessment 2 (Paper APCP-S(16)08)

- 2.1. Ms Flower explained the two papers that had been presented to the stakeholder panel regarding CPIH. The first article was regarding the different measures of owner-occupiers' housing (OOH) costs. This had been presented to the panel in May but had since changed substantially based on feedback received from the UKSA Monitoring & Assessment team. The second article was regarding quality assurance of admin data (QAAD), which was also devised to help meet some of the CPIH reassessment criteria.
- 2.2. Mr Vaughan provided an update on the thoughts of the technical panel on the first article. In summary, the technical panel believed that the article should:
- Have a stronger focus on the benefits and weaknesses of the approaches.
 - Have an emphasis on three different targets, rather than approaches, and clearly set out the concept, purpose and suitability of each approach.
 - Not include a depreciation component in a payments measure of OOH costs but should include calculation of a pure payments approach.

The technical panel had also discussed the methodology used for the calculation of Net Acquisition (NA) weights. Ms Flower explained to Stakeholder Panel members that the methodology for NA is going to be reviewed but this will not be concluded in time for the first edition of this article. Therefore, ONS will highlight the methodological issue in the first edition and start ongoing work to resolve this issue.

- 2.3. A member of the stakeholder panel questioned the reason for this article and whether they were part of the CPIH reassessment. There was uncertainty as to whether the purpose of the OOH paper was to make differences between the measures clear or to provide reconciliation of

these measures. Most the panel agreed that this was not an issue of reconciliation as the different approaches aren't measuring the same thing.

- 2.4. Ms Flower explained that the article would provide an update of this data quarterly. Panel members suggested that if this article was going to be published regularly it need to be formatted as a proper bulletin. The arguments should be made in the CPIH Compendium beforehand and the article shouldn't be released until after the Compendium has been published, noting that data shouldn't be published ahead of the full explanation. All members were agreed that the Compendium should be published first, and the OOH article should follow.
- 2.5. Although panel members were agreed that the article should include a pure payments measure, some thought it beneficial to also include the RPI approach, as this is what many users are familiar with. Other members thought it would confuse the issue to include an approach that was not consistent with any theoretical viewpoint.
- 2.6. Panel members suggested that the article shouldn't show any superiority over the measures, and should provide a neutral commentary on these measures including both strengths and weaknesses. They agreed it would be valid to say method X is better at measuring Y, but not that method X is better at measuring OOH. This is because there is not one single measure of OOH: the three approaches target three different aspects of OOH. However, one panel member thought remaining neutral may cause confusion for users over which measure to use.
- 2.7. Members of the panel expressed the usefulness of longer runs of data. Currently the data only goes back to 2005, but this misses an interesting point in time, particularly regarding movements in interest rates. Ms Flower pointed out that in practice it would be difficult to go back further in time, however ONS could try and produce historical series for the different approaches, to be included in the "spotlight" section of the regular publication. It was also noted that the calculation of Mortgage Interest Payments (MIPs) was changed in 2009, and that it would be interesting to see the impact this may have had.
- 2.8. The need for a landing page for CPIH information was also addressed. Ms Flower explained that although there is not one currently, ONS are looking to provide a "hub" for CPIH users, where they can find all the information relevant to its calculation and use. One member pointed out that for every technical paper released there should be a link to a non-technical summary or paper that sets information out for the casual reader.
- 2.9. Some panel members believed that the paper was trying to find and explain differences and similarities between the indices (for example, using a 12 month lag), when really there is no short-term relationship because the approaches target different aspects of OOH. ONS should instead focus on explaining why this is.
- 2.10. Panel members also provided further comments on the drafting of the OOH article, including:
 - Making the underlying concepts clearer to the casual reader by using analogies and more detailed explanatory text (for example, what is the nature of an asset or capital good?)
 - Fixing drafting issues within the article, particularly graphs and titles that need to be tightened up before publication
 - Reducing the amount of speculation in the article, explaining each index clearly and trying not to speculate on the differences between them. The indices are different because they are measuring different aspects of OOH

- Including commentary on which of the measures most react to market shocks (for example, a change in interest rates)
- Using an alternative market to London to explain movements, London is an outlier when it comes to housing.

Action 2: Stakeholder panel to provide ONS with their comments regarding the OOH article.

Action 3: ONS to review their timeline for releasing the OOH article and how this article will fit alongside the Compendium.

2.11. The stakeholder panel agreed that the QAAD was useful and it was helpful to know this was there for reference, although few felt they would actually read/use it. It was expressed that a table summarising the key risks would be useful.

2.12. One panel member requested similar information for the other sources of administrative data.

Action 4: Ms Flower to send Mr Farrington the full QAAD article.

3. Council Tax in CPIH (Paper APCP-S(16)09)

3.1. Mr Vaughan provided a brief summary and update from the technical panel. He mentioned that there had been debates over whether Council Tax should be included or excluded in CPIH, but that decision has already been made by the National Statistician. The technical panel members reached the following conclusions:

- Council Tax should be excluded from CPIHY (CPIH excluding indirect tax), but the terminology needed amending to differentiate between “consumption tax” and “non-consumption tax”
- Council Tax should have its own COICOP5 classification within the housing division of COICOP
- CPIH should be launched on the best footing and so should be backdated to include Council Tax from 2005.

3.2. The stakeholder panel suggested that this paper needed redrafting prior to publication alongside the minutes. The conclusions made in the paper were accepted.

3.3. One panel member questioned whether this was also an opportunity to revise the imputed rents weights, which Ms Flower confirmed ONS will be doing. Ms Flower explained that this shouldn't have a great impact as the imputed rent weights in CPIH were revised more recently than ONS Blue Book, so only a small revision will now be necessary.

3.4. The panel discussed the decision to include this in CPIH and not CPI. As it is a tax relevant to all households and not just owner-occupiers, theoretically it should also be included in CPI. However, as it is against HICP regulations, it will not be included in CPI.

3.5. The panel also noted discussion on future proofing the definitions and calculations is needed.

Action 5: ONS to redraft the Council Tax paper and circulate to panel members prior to publication alongside the minutes

4. Developing an Index of Household Payments (Paper APCP-S(16)10)

4.1. Mr Vaughan provided an update on this paper from the technical panel, explaining that they had a full and robust discussion on the Index of Household Payments (IHP). It was also noted that the ONS paper aimed to address the RSS criteria. Mr Vaughan provided the following notes from the technical panel:

- There were concerns around the concept and the criteria being used.
- There was dissatisfaction with how the index had been named
- Some said the index should be set out scientifically and a bottom-up approach used to build the index (i.e. start from a concept and build the statistical framework around it)
- Some saw merit in a more complete measure of household welfare, but noted that this would need exhaustive data on household payments, and household income.
- Some challenged the whole concept behind the paper
- Arguments were raised by the panel as to whether this should be seen as inflation.

The technical panel had agreed that this index had some merit in being used as an annual indicator of welfare for different households, but in meeting this, the index needed to be produced alongside receipts of income.

- 4.2. The stakeholder panel questioned what gap this index would fill. It was suggested that there was a gap between the CPIH and a Cost of Living Index (COLI), and the index could be seen as a bridge to the RPI.
- 4.3. Concerns were raised by a few panel members over the proposed frequency of production (annual). It was stated that if this index were to be used for uprating, an annual publication would not be useful. It was pointed out negotiations take place at different times during the year, so timely indices would be essential.
- 4.4. The majority of panel members felt strongly that this index could not be released without a comparable measure of income as this could be very misleading. One panel member stated that if released on its own, the IHP had the potential to be “systematically and deliberately misused”. This is because the IHP as it currently stands would capture only the cost of a rise in interest payments on households who are net borrowers, and on its own there would be no way of capturing the corresponding rise in income for households who are net savers, who would benefit from the interest rate rise. It therefore would not be suitable for an uprating index.
- 4.5. One member said that the example used in the ONS bulletin, the Effects of Taxes and Benefits on Household Income, paralleled with the Department for Work and Pensions (DWP) measures, Housing Below Average Income (HBAI – before and after housing costs). This opens up the idea that there could be many different versions of the index.
- 4.6. The panel debated whether a single aggregate index was useful, or whether population sub-groups would paint a better picture. The purpose behind this index is to measure the experience of a ‘typical household’, but there is a wide spectrum of households with different experiences, which would not be captured by an aggregate index. Some noted that sub-groups would be useful in understanding the experience of different types of households, and particularly in identifying vulnerable groups. Some of the panel members believed that just producing indices for the groups was more relevant. Others argued that these sub-group indices could be aggregated anyway, and a single measure was still needed.

4.7. Further questions were raised by the panel including:

- How important are the perceptions of a household? It is not feasible to capture a households' perception because perception is subjective.
- What should be the boundary of the conceptual frame?
- What research is there to back up the assumptions made about household perceptions?
- Won't this encourage "inflation shopping" by users?

4.8. The Chairman summarised the discussion, saying that there had been a wide and interesting range of views on the topic. No further action will be taken by the stakeholder panel at this stage, but going forwards there needs to be greater clarity over the reasons why this index is being produced and the gap that it is filling. This needs to be communicated before ONS devotes further resource to developing the index.

5. AOB and date of next meeting

5.1. One panel member questioned what work on the formula effect did ONS envisage? Although ONS are not currently working on this issue, it was thought by a couple of panel members that it should be given higher priority in the Prices Work Programme. Mr Vaughan pointed out that a thorough discussion had been held with regards to the formula effect and that Technical Panel members were not convinced by Dr. Mark Courtney's comments.

5.2. The Chairman of the panel suggested that a revisions policy was needed for CPIH. Mr Vaughan explained that ONS needed to review the revisions policy but the current version could be circulated to panel members.

Action 6: ONS to circulate revisions policy to panel
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5.3. The date for 2017 meetings has not yet been confirmed. Proposed dates will be circulated to the panel in due course.

Action 7: ONS to circulate proposed dates for 2017 meetings to panel
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Actions

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1	Mr Payne to forward Dr. Mark Courtney's note to stakeholder panel members.	Mr Payne	
2	Stakeholder panel to provide ONS with their comments regarding the OOH article.	Stakeholder panel members	
3	ONS to review their timeline for releasing the OOH article and how this article will fit alongside the compendium.	Ms Flower	
4	Ms Flower to send Mr Farrington the full	Ms Flower	

	QAAD for Prices.		
5	ONS to redraft Council Tax article and circulate to panel members prior to publication on ONS website	Mr Payne	
6	ONS to circulate current revisions policy to panel	Mr Prestwood	
7	ONS to circulate proposed dates for 2017 meetings to panel	Mr Lewis	