

## ADVISORY PANEL ON CONSUMER PRICES – TECHNICAL

**OOH weight for imputed rentals****Purpose**

1. ONS is currently undergoing the process for revising OOH weights for the March 2017 publication. A decision needs to be made as to whether the weight for owner occupiers' housing costs (OOH) should be updated to include expenditure for other imputed rentals.

**Recommendations**

2. Members of the Panel are invited to:
  - a) Consider the arguments for and against including expenditure on *Other imputed rents for secondary residences* in the expenditure for the OOH weight, and advise by correspondence on the appropriate expenditure category, by 02/12/2016.
  - b) Consider including expenditure on *Other imputed rents for free or reduced rents* in the expenditure for the OOH weight, and advise by correspondence on the appropriate treatment, by 02/12/2016.

**Background**

3. Owner occupiers' housing costs are the costs associated with owning, maintaining and living in one's own home. The weight for the owner occupiers' housing costs (OOH) component of CPIH is derived from expenditure on imputed rentals, published as part of Household Final Consumption Expenditure (HHFCE) in the national accounts. *Imputed rents* is categorised at COICOP level 3 and feeds into Housing. *Imputed rents* (0.4.2) is further subdivided into *Imputed rentals for owner occupiers* (0.4.2.1) and *Other imputed rents, such as secondary residences and households paying free or reduced rent* (0.4.2.2). Imputed rent expenditure is split approximately 95% to 5% in favour of *imputed rentals for owner occupiers*.
4. We currently use the expenditure under 0.4.2.1, *Imputed rentals for owner occupiers*, to derive the weight for OOH in CPIH. We are reviewing whether the expenditure under 0.4.2.2, *Other imputed rents*, should also be included in the expenditure for OOH. We are therefore seeking the advice of the Technical Advisory Panel on Consumer Prices (APCP-T) in this matter. We are seeking advice specifically on whether the additional expenditure should be included in the expenditure for the OOH weight, rather than whether it should be included in CPIH more widely.
5. Other costs associated with secondary home ownership are currently included through utility bills, and repairs and maintenance (and Council Tax from March 2017).
6. The secondary home owner still receives a flow of housing services, even if they are not using the property as their primary residence. The home owner is paying for the second home to be available to them when they want to use it. That they do not use it all the time merely increases the pro-rata cost to them of using it when they do. The CPI also includes consumption of hotels or rented accommodation by owner occupiers.
7. However, including expenditure for secondary residences could be perceived as double counting in terms of owner occupation. It could be argued that a property owner can only

occupy, and therefore consume, one of their owned properties at a time. By spending time in their secondary residence, the owner occupier is forgoing the housing service in their primary residence. Inclusion of OOH costs for the primary residence may proxy OOH costs when the owner occupier is living in their secondary residence. Therefore including secondary residences may double count expenditure on owner occupation.

8. The COICOP classification provides a distinction between imputed rents for owner occupation, and other imputed rentals. In aiming to capture expenditure for the OOH component we require imputed rental expenditure for OOH, not imputed rentals more generally.
9. Including expenditure on free or reduced rents seems inappropriate in the OOH component, as this does not reflect owner occupation. It is not clear how much of the expenditure on *Other imputed rentals* is from secondary residences, and how much is from free or reduced rents; however, national accountants have suggested that the split is approximately 50/50.
10. Between 2005 and 2015, the average expenditure for *Imputed rentals for owner occupiers* is approximately 175 - 180 parts per thousand. It is estimated that adding in 'other imputed rentals' to the expenditure would increase the weight by approximately 5 parts per thousand. Clearly *Other imputed rentals* is significant in terms of expenditure. However, whilst inclusion of this expenditure would increase the OOH weight, it is not expected to have a significant impact on the index. Moreover, the revised weights (due to be incorporated from March 2017), which are smaller than the current weights, will remain less than the current weights should we incorporate this additional expenditure given the use of revised Blue Book 2016 expenditure for imputed rents and the inclusion of council tax.

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**November, 2016**