

**UK STATISTICS AUTHORITY  
ADVISORY PANEL ON CONSUMER PRICES – STAKEHOLDER**

**Minutes**

**Friday 3 April 2020  
Via Conference Call**

**Members in attendance**

Dame Kate Barker (Chair)  
Mr Jonathan Athow (ONS)  
Mr Jonathan Camfield (Lane Clark & Peacock)  
Mr Daniel Gallagher (HM Treasury) - for items 1. and 2.  
Mr Richard Gibson (Barnett Waddingham)  
Mr Simon Hayes (Bank of England)  
Ms Jenny King (Which?)  
Mr Ashwin Kumar (Manchester Metropolitan University)  
Mr Ian Rowson (Independent Policy Analyst)  
Mr James Smith (Resolution Foundation)  
Dr Geoff Tily (Trade Union Congress)  
Mr Alex Waddington (HM Treasury)

**Secretariat**

Mr Andy King (ONS)  
Ms Abby Humphries (ONS)

**Apologies**

Ms Jill Leyland (Royal Statistical Society) – written submission provided at Annex A  
Mr Grant Fitzner (ONS)  
Mr Michael Hardie (ONS)

## 1. Introduction and apologies

- 1.1 The Chair welcomed everyone to the meeting, in particular Mr Smith to his first meeting. Apologies were received from Ms Leyland, Mr Fitzner and Mr Hardie.

## 2. The future of RPI presentation

- 2.1 Mr Athow gave a presentation (which is published alongside the minutes) giving the background to the RPI consultation and the proposed approach for transitioning RPI to a CPIH-based approach.
- 2.2 Mr Camfield and Mr Gibson gave a presentation on how the market has reacted to the announcement of the consultation and the implications for pension schemes. These slides are commercially sensitive and will not be published.

## 3. Round table discussion following the start of the RPI consultation

- 3.1 Initially, the Panel were invited to comment on whether they felt that the RPI consultation should be delayed.
- i. There was majority consensus that, given the current situation, the consultation should be delayed, especially as it would not be possible to hold any public forums. However, it is important to provide clarity on when the consultation will take place, should it be delayed. The Panel noted that it was important for financial markets to have clarity on the way ahead for the index and related instruments.
  - ii. A Panel member raised that consultation does not consider the suggested compromises outlined in the House of Lords Economic Affairs Committee's (HLEAC's) report on [Measuring inflation](#). Mr Athow noted that the HLEAC's report was nuanced and multifaceted without necessarily a single, clear way forward.
- 3.2 The Panel were then asked to comment on the first question in the consultation:
- **Do you agree that this proposed approach is statistically rigorous?**
    - i. There was consensus that the proposed approach to transition the RPI to a CPIH-based methodology was logical, transparent and would result in a smooth transition, which would provide a logical framework to cater for agreements which rely on specific months across the year (for their inflation calculations).
    - ii. It was noted that there is a need to consider the use of rounded figures given the current calculations of RPI and CPIH/CPI differ in their approaches.
    - iii. The Panel reiterated their view that, were the changes to bring RPI in line with CPIH methodology to take place in 2025, there should be no subsequent divergence between RPI and CPIH in the period before 2030 (after which the ONS would be able to continue improvements to RPI and CPIH without needing to refer to the Bank of England and the Chancellor).

- iv. A Panel member commented on the time-series properties of the RPI during and after transition. Mr Athow reported that there will be a communication challenge as the RPI will be a hybrid during the transition year, and that the ONS will need to clearly outline to users the changing methodologies across the RPI's historic timeseries.

3.3 The Panel continued to comment on questions 5 to 8:

- **What other impacts might the proposed changes to address the shortcomings of the RPI have in areas or contracts where the RPI is used?**
  - **Are there any other issues relevant to the proposal the Authority is minded to make of which the Authority or the Chancellor ought to be aware?**
  - **Which lower level or supplementary RPI indices are currently used, and what are they used for?**
  - **What guidance would users of lower level or supplementary RPI indices find most useful for the ONS to provide?**
- i. The Panel felt that it was important to properly understand the wide range of impacts that any decision will have. The RPI is used extensively in long-term contracts and agreements (including financial market instruments, and insurance and property contracts). The Panel asked if there is more that could be done (beyond relying on responses to the consultation) to better understand who will be affected?
  - ii. Across the Panel, the members reported limited usage of supplementary RPI indices. However, supplementary indices reflect a richer dataset to which reduced access would be detrimental.
  - iii. Linked to the question of supplementary indices, the Panel questioned whether CPIH should be used as a single measure of inflation. The usage of the Household Cost Indices (HCIs) or lower-level indices may be more appropriate to some users.
  - iv. The continued development and promotion of the HCIs was widely supported by the Panel as it was felt that the HCIs will be insightful to inform policy decisions and better understand the inflationary impact on low income and disadvantaged households.
  - v. There will inevitably be both winners and losers from the outcome of the consultation, and there needs to be greater understanding of how people and organisations will be affected. Low income households and those reliant on benefits are less likely to be affected as most benefit payments have already moved to be based on CPI.
  - vi. A Panel member hoped that the Chancellor was aware of issues for the network regulators. This decision has an impact on the financial mechanisms the regulators are putting in place.
  - vii. A separate Panel member felt that the proposed approach outlined in the consultation was wrong, agreeing with [Jill Leyland's written contribution](#). The HLEAC's recommendations had been largely ignored and [Mr Athow's earlier comment](#) was challenged.

- viii. Some Panel members agreed support of the HLEAC recommendation that the treatment of clothing be fixed. They felt that, previously, the UKSA commentary had been unconvincing, rejecting this compromise on the grounds that it did not provide a full solution. It was also problematic that the Panel had been used in support of the UKSA position, given that the [Panel's letter to the National Statistician](#) had been clear that there was a range of views.
- ix. The Panel member continued to say that the proposed changes do not command public confidence and would reduce trust in inflation statistics. Fundamentally, they considered the HLEAC compromise is a 'less bad' approach to inflation measurement than that of the UKSA proposal, and they felt that it is likely that many would find grounds for legal challenge were the present proposal to go ahead.
- x. The Chair urged the Treasury to consider, once the consultation is complete, how any necessary legal issues with regard to long-term contracts might be addressed.
- xi. Mr Athow responded to the Panel's comments by stating that:
  - a) the wide usage of RPI is very challenging and it is hoped that the consultation will help to identify the range of issues faced by users;
  - b) there are legal constraints regarding what UKSA can consult on, so the consultation focusses on areas UKSA can consider; and
  - c) we do not want to reduce the range of published sub-indices but there are some measures, like the Retail Prices Index excluding Mortgage interest payments (RPIX), which have no alternative once the transition has begun. In addition, the full range of sub-indices would be available within CPIH.
- xii. Mr Waddington added that the consultation document was formed on the basis of the Chancellor's responsibilities, which gives the focus on the gilts market but there are wider concerns which the Treasury hopes to pick up in the responses.

#### **4. Summary**

- 4.1 It was agreed that the May Panel meeting will go ahead (as a conference call) and would focus on the measures being put in place to produce consumer price indices in the current coronavirus (COVID-19) affected situation.

## **Annex A – Comments from Ms Leyland on Q1, Q5 and Q6 of the consultation ahead of the APCP-S Meeting on 3 April 2020**

**Q1.** *(Here I am drawing largely on comments from a Royal Statistical Society colleague)*

Most public interest is in the year-on-year change in the RPI, the “annual rate of inflation”. The proposal to preserve monthly growth rates has the disadvantage that it will take a year from implementation of the change before the year-on-year changes of the RPI and CPIH become equal, whereas under the alternatives it would happen immediately. However, the month-on-month changes would immediately become equal.

It should be borne in mind that the RPI is always rounded off to one decimal place for publication, and the monthly and annual percentage changes are calculated from the rounded figures, not the underlying figures calculated to several decimal places. If the levels of the RPI and CPIH are in a constant ratio, then rounding might cause the calculated percentage changes to differ. With this caveat, the method is statistically rigorous.

Adding to this, I would hope that rates of change are calculated from unrounded figures in future.

**Q5.** Two points:

1. The consultation is hugely focused on pension funds, bond holders and related sectors. There are significant impacts elsewhere. For example:
  - a) there will be arbitrary winners and losers to business contracts.
  - b) will those who have bought RPI linked annuities and will have overpaid have a claim against the annuity provider?
  - c) what about holders and issuers of RPI linked corporate bonds?
2. The decision and the way it has been handled will, in my view, in the long term have a damaging impact on trust in the UKSA and ONS. A decision with enormous impact on many people is being carried out without proper consultation. The dates of the key announcements (4<sup>th</sup> September and 11<sup>th</sup> March) were both “good days to bury bad news” and a limited consultation is being carried out during a time when most people’s attention is elsewhere. I fear it will also be grist to the mill of those who argue that ONS is still really under the thumb of the Treasury. And all this comes on top of everything that has happened to the RPI from 2010 onwards. (This saddens me since there is so much excellent work carried out in ONS generally.)

Of much lesser importance, I also feel this undermines the stakeholder panel since we have not been able to discuss or influence what should happen.

**Q6.**

I think you all know my feelings about the proposed change which in my view is very wrong. I reiterate that there is no mandate for such a sweeping change but will not otherwise repeat what I said in the past. I accept that there are differing views on the panel.

There is no mention of the tripartite approach to consumer price indices (CPI/CPIH; HCIs; and RPI as legacy index) in the consultation document. And barely a mention of Household Cost Indices (HCIs) or the fact that in John Pullinger’s letter to the UKSA Board in February 2019 he said: “In this situation, those users who were seeking an index reflecting the impact of price changes on households should then be given the opportunity to use the HCIs.” At that time, he was proposing incorporating CPIH methods into RPI in the near future when

HCI's were still under development. But the Chancellor's decision to push the change back to 2025 to 2030 changes this since by then HCI's should be fully developed.

I do believe that HCI's need to be given more prominence by ONS generally but in particular in respect to the changes proposed in this consultation. They match the aims of RPI more closely than CPI or CPIH. I was also interested to see the last sentence of the first para on P3 of the [note from the Pensions Policy Institute](#) which, after pointing out that pensioners' shopping baskets tend to differ from those of working age, said, "An ideal index for pensioner benefits to be inflated by would be worth further investigation." The HCI for pensioners would be an ideal starting point for this, would it not?

If CPIH is going to be used for "everything" I think there is a strong case for it to be fully reviewed to ensure it is as good as possible for its expanded role. This to include, but not be restricted to, formulae (although many of these will change anyway with the change to scanner data and web scraping).

One point made in our last discussion on the consultation was that not enough is known about the use of the RPI – or indeed on the use of consumer price indices generally outside the certain sectors. Given that the proposed changes will not be made until 2025 at the earliest and possibly not until 2030 would this be a good moment to investigate what needs there are for inflation indices? (Remembering that the investigation carried out during the Johnson Review was somewhat limited in this regard – see the list of people consulted.) This might help to ensure that from 2030 there was a good and robust system of consumer price indices.

Jill Leyland

2<sup>nd</sup> April 2020

*Disclaimer: While Jill Leyland represents the Royal Statistical Society (RSS) on the Panel these views are her own and not necessarily those of the RSS.*