

# Assessment of compliance with the Code of Practice for Official Statistics

## Consumer Price Indices

*(produced by the Office for National  
Statistics)*

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### **About the UK Statistics Authority**

The UK Statistics Authority is an independent body operating at arm's length from government as a non-ministerial department, directly accountable to Parliament. It was established on 1 April 2008 by the *Statistics and Registration Service Act 2007*.

The Authority's overall objective is to promote and safeguard the production and publication of official statistics that serve the public good. It is also required to promote and safeguard the quality and comprehensiveness of official statistics, and good practice in relation to official statistics.

The Statistics Authority has two main functions:

1. oversight of the Office for National Statistics (ONS) – the executive office of the Authority;
2. independent scrutiny (monitoring and assessment) of all official statistics produced in the UK.

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## ASSESSMENT AND DESIGNATION

The *Statistics and Registration Service Act 2007* gives the UK Statistics Authority a statutory power to assess sets of statistics against the *Code of Practice for Official Statistics*.

Assessment will determine whether it is appropriate for the statistics to be designated as National Statistics.

Designation as National Statistics means that the statistics comply with the *Code of Practice*. The *Code* is wide-ranging. Designation can be interpreted to mean that the statistics: meet identified user needs; are produced, managed and disseminated to high standards; and are explained well.

Designation as National Statistics should not be interpreted to mean that the statistics are always correct. For example, whilst the *Code* requires statistics to be produced to a level of accuracy that meets users' needs, it also recognises that errors can occur – in which case it requires them to be corrected and publicised.

Assessment Reports will not normally comment further on a set of statistics, for example on their validity as social or economic measures. However, Reports may point to such questions if the Authority believes that further research would be desirable.

Assessment Reports typically provide an overview of any noteworthy features of the methods used to produce the statistics, and will highlight substantial concerns about quality. Assessment Reports also describe aspects of the ways in which the producer addresses the 'sound methods and assured quality' principle of the *Code*, but do not themselves constitute a review of the methods used to produce the statistics. However the *Code* requires producers to "seek to achieve continuous improvement in statistical processes by, for example, undertaking regular reviews".

The Authority may grant designation on condition that the producer body takes steps, within a stated timeframe, to fully meet the *Code's* requirements. This is to avoid public confusion and does not reduce the obligation to comply with the *Code*.

The Authority grants designation on the basis of three main sources of information:

- i. factual evidence and assurances by senior statisticians in the producer body;
- ii. the views of users who we contact, or who contact us, and;
- iii. our own review activity.

Should further information come to light subsequently which changes the Authority's analysis, it may withdraw the Assessment Report and revise it as necessary.

It is a statutory requirement on the producer body to ensure that it continues to produce the set of statistics designated as National Statistics in compliance with the *Code of Practice*.

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# 1 Summary of findings

## 1.1 Introduction

1.1.1 This is one of a series of reports<sup>1</sup> prepared under the provisions of the *Statistics and Registration Service Act 2007*<sup>2</sup>. The Act requires all statistics currently designated as National Statistics to be assessed against the Code of Practice for Official Statistics<sup>3</sup>. The report covers consumer price indices released in the *Consumer Price Indices Statistical Bulletin*<sup>4</sup>, *Consumer Price Indices Briefing Note*<sup>5</sup> and *Focus on Consumer Price Indices*<sup>6</sup> and produced by the Office for National Statistics (ONS). These publications present statistics on consumer price inflation for the UK.

1.1.2 This report was prepared by the Authority's Assessment team, and approved by the Board of the Statistics Authority on the advice of the Head of Assessment.

## 1.2 Decision concerning designation as National Statistics

1.2.1 The Statistics Authority judges that the statistics covered by this report are readily accessible, produced according to sound methods and managed impartially and objectively in the public interest, subject to any points for action in this report. The Authority confirms that the statistics published in *Consumer Price Indices Statistical Bulletin*, *Consumer Price Indices Briefing Note* and *Focus on Consumer Price Indices* are designated as National Statistics, subject to the Office for National Statistics implementing the enhancements listed in section 1.5 and reporting to the Authority by January 2011 for Requirement 5 and by May 2011 for Requirements 1 to 4.

## 1.3 Summary of strengths and weaknesses

1.3.1 ONS has recently redesigned the *Consumer Price Indices Statistical Bulletin*. The new version is clearer and better presented and provides links to other useful documents. It includes information about the main purpose and the uses of the different measures of inflation. The *Consumer Price Indices Technical Manual*<sup>7</sup> is a useful reference document that provides extensive technical documentation. ONS has regular contact with the Treasury (HMT) and the Bank of England (the Bank) regarding the development of these statistics. The Consumer Prices Advisory Committee (CPAC) includes representatives from academia, consumer groups, economic analysts, journalists and trades unions. We see scope for ONS to engage more regularly with a wider number of users. ONS statisticians are involved in press briefings at the time of statistical releases.

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<sup>1</sup> <http://www.statisticsauthority.gov.uk/assessment/assessment-reports/index.html>

<sup>2</sup> [http://www.opsi.gov.uk/Acts/acts2007/pdf/ukpga\\_20070018\\_en.pdf](http://www.opsi.gov.uk/Acts/acts2007/pdf/ukpga_20070018_en.pdf)

<sup>3</sup> <http://www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html>

<sup>4</sup> <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=868>

<sup>5</sup> <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=868>

<sup>6</sup> <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=867>

<sup>7</sup> <http://www.statistics.gov.uk/statbase/product.asp?vlnk=2328>

1.3.2 ONS's forward work plan notes that the exclusion of owner occupiers' housing costs is widely considered to be the most significant weakness of the CPI. ONS has developed a programme of work to address this. The commentary in *Consumer Price Indices* focuses on the uses of these statistics as macroeconomic indicators of inflation, but provides less information about the uses of these statistics as compensation indices. It is not always clear whether the methods that have been developed in the past to produce the Retail Prices Index (RPI) remain the most appropriate methods today.

## 1.4 Detailed recommendations

1.4.1 The Assessment team identified some areas where it felt that ONS could strengthen its compliance with the Code. Those which the Assessment team considers essential to enable designation as National Statistics are listed in section 1.5. Other suggestions, which would improve the statistics and the service provided to users but which are not formally required for their designation, are listed at annex 1.

## 1.5 Requirements for designation as National Statistics

<b>Requirement 1</b>	Take steps to develop a greater understanding of the use made of the statistics; publish the relevant information and assumptions and use them to better support the use of the statistics (para 3.4).
<b>Requirement 2</b>	Publish information about the timeliness of these statistics, and how it might be improved (para 3.7).
<b>Requirement 3</b>	Publish information about the history and the reasons for the differences in scope and methods between the CPI and RPI; and explain the implications that these differences have for the uses to which these statistics are put (para 3.21).
<b>Requirement 4</b>	Ensure that the planned improvements to ONS's website will improve the accessibility of information on the full range of documents and datasets relating to these statistics (para 3.38).
<b>Requirement 5</b>	Ensure that all releases are issued at 9.30am on the day of release (para 3.44).

## 2 Subject of the assessment

2.1 Consumer price indices measure the change in the general level of prices of consumer goods and services in the UK over time. They are important indicators of how the UK economy is performing and are widely used by the government, business and society in general. They also show the impact of inflation on family budgets which is of considerable interest to the general public.

### *History of Consumer Price Indices*

2.2 ONS produces two main measures of consumer price inflation, the Consumer Prices Index (CPI) and the Retail Prices Index (RPI). Both are published for the UK as a whole; neither is available at a sub-national level. The RPI dates from 1947, though earlier continuous measures of consumer price inflation began in 1914. It was set up as a result of a report from a Cost of Living Advisory Committee. In 1956, major changes included introducing a firm definition of the RPI for the first time and extending the scope from expenditure by working classes to all wage earners excluding very high and low-earning households. After relatively minor changes in the 1960s and 1970s, an advisory committee was convened in the early 1980s whose recommendations largely form the basis of the current RPI including definition, scope and coverage. More recent changes include the addition of foreign holidays in 1993, UK holidays in 1994 and house depreciation in 1995.

2.3 The CPI was developed as a comparable measure of inflation across European Union (EU) Member States. Internationally, it is known as the Harmonised Index of Consumer Prices (HICP). It was created by an EU Council Regulation<sup>8</sup> passed in October 1995.

2.4 The UK HICP was first published in 1997 and was extended to cover health, education and insurance in 2000, 2001 and 2002 respectively. In December 2003, the Chancellor of the Exchequer announced that the UK inflation target would be based on the HICP. On the same day, the National Statistician announced that the UK HICP would be known as the CPI<sup>9</sup>.

### *Users and uses of consumer price indices*

2.5 The *Technical Manual* identifies the following main uses of consumer price indices:

- *As measures of inflation*  
Since 1992 UK governments have based their economic policies around targeting specific rates of inflation. Since 2003 the Chancellor has used the CPI as the basis for the Government's target for inflation. The Bank's

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<sup>8</sup> Council Regulation (EC) No 2494/95 of 23 October 1995 concerning harmonized indices of consumer prices, *Official Journal L 257*, 27/10/1995 P. 0001 - 0004

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31995R2494:EN:HTML>

<sup>9</sup> <http://www.statistics.gov.uk/pdfdir/pbr1203.pdf>



Monetary Policy Committee (MPC) uses the CPI to assess inflationary pressures and takes this into account in setting interest rates to achieve the inflation target. Parliament and the public use the CPI to judge the success of monetary policy in achieving the inflation target.

The HICP was and still is used to assess which EU Member States pass the inflation convergence criterion for membership of Economic and Monetary Union (EMU). The HICP is also used by the European Central Bank to assess price stability in the euro area.

- *To deflate expenditure measures*  
For many purposes, comparisons of economic series are more useful when the effect of price changes is eliminated to allow the series to be presented in real terms. ONS uses the CPI, the RPI and their components to adjust current levels of economic series. This is typically done by deflating (dividing) estimates of expenditure at current prices by appropriate consumer price indices derived from the CPI or the RPI.
- *Income and price adjustment*  
Since 1977, tax allowances and thresholds have been revised annually in line with changes in the RPI unless the Chancellor decided otherwise. The Department for Work and Pensions (DWP) has increased pensions and various benefits each year in line with the RPI and a derivative, the Rossi<sup>10</sup> index. In the June 2010 Budget, the Chancellor announced his intention to use the CPI rather than the RPI for the indexation of benefits, tax credits and public service pensions, from April 2011<sup>11</sup>.

The CPI and RPI are frequently taken into account in wage bargaining. Some pay agreements explicitly link pay rises to these indices. The Debt Management Office uses the RPI to uprate the values of the index-linked gilt-edged securities that it issues.

Many contracts link payments due, such as rent, to the change in the CPI or the RPI. Certain regulated privatised utilities have their prices constrained to rise by no more than a rate dependent on the RPI. Many pieces of legislation refer to the RPI as a way of adjusting prices, and there are a number of statutory instruments which refer to the RPI or its variants.

### *Governance Arrangements*

- 2.6 In 1989, responsibility for the production of the RPI moved from the former Employment Department to the Central Statistical Office (now ONS). Since 1995, ONS has contracted out the collection of prices data for the RPI. Research International is currently the main contractor for the collection of price data for the CPI and RPI.

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<sup>10</sup> The Rossi index is the all items RPI excluding mortgage interest payments, rent, council tax and housing depreciation.

<sup>11</sup> See Press Notice 1: Main Budget announcements:  
[http://www.hm-treasury.gov.uk/d/junebudget\\_press\\_notice1.pdf](http://www.hm-treasury.gov.uk/d/junebudget_press_notice1.pdf)

- 2.7 Unusually for an official statistic, some aspects of the production and dissemination of the RPI are prescribed by national legislation. Section 21(1) of the *Statistics and Registration Service Act 2007* requires the UK Statistics Authority to 'compile and maintain the retail prices index, and publish it every month'. Section 21(2) says that 'Before making any change to the coverage or the basic calculation of the retail prices index, the Board [Statistics Authority] must consult the Bank of England as to whether the change constitutes a fundamental change in the index which would be materially detrimental to the interests of the holders of relevant index-linked gilt-edged securities'. Section 21(3) says that if the Bank does consider that such a change would be detrimental, the Authority 'may not make the change without the consent of the Chancellor of the Exchequer'.
- 2.8 The rules underlying the construction of the CPI are governed by the EU with changes determined by a qualified majority vote of the Member States.
- 2.9 The Consumer Prices Advisory Committee (CPAC) was established to advise on changes to the arrangements for producing and presenting consumer price indices.

#### *Methods for compiling consumer price indices*

- 2.10 A simple analogy for a consumer price index is that of a 'shopping basket' full of goods and services on which people typically spend their money: from bread to ready-made meals, from the cost of a cinema ticket to the price of a pint at the pub. The content of the basket is fixed but, as prices of individual products vary, so does the total cost of the basket. A consumer price index measures how the total cost of that basket changes over time.
- 2.11 The consumer price indices are based on the prices of over 650 items - specified goods and services. Price collectors visit 20,000 shops each month, in around 150 places throughout the UK, and record about 110,000 prices. A further 70,000 prices are collected, mostly via the internet by ONS, although some are collected by external organisations or market research companies. Weights are attached to the different items to reflect their importance in the typical household budget. Weights are based on information about spending taken mainly from the Living Costs and Food Survey and from the National Accounts. These weights are combined with the monthly price information to produce the consumer price indices.
- 2.12 The CPI and RPI adopt the same basic approach to the measurement of inflation. They both track the changing cost of a fixed basket of goods and services over time and both use exactly the same underlying price data. However, there are some important differences in the ways in which the two indices are constructed. These concern which consumers or households each index is designed to represent and the range of goods and services included. A particularly significant difference is that many owner occupiers' housing costs are excluded from the CPI but are included in the RPI. There are also differences in the way in which the two indices combine price data, known as the formula effect.

## *Consumer Price Indices Products and related outputs*

2.13 This assessment covers the following three National Statistics products:

- *Consumer Price Indices Statistical Bulletin*  
This is a monthly statistical release that presents the latest headline estimates of consumer price inflation. It presents estimates for the CPI and RPI for the most recent three years. It also presents other inflation estimates based on these two indices, including the all items RPI excluding mortgage interest payments (RPIX), the all items RPI excluding mortgage interest payments and indirect taxes (RPIY) and the CPI excluding indirect taxes (CPIY). The release includes some analysis of the main price changes that have contributed to the headline estimates. It also contains tables on price indices, percentage changes and weights for the groups of goods and services that make up the CPI.
- *Consumer Price Indices Briefing Note*  
This is a monthly note that is published at the same time as the *Consumer Price Indices Statistical Bulletin*. It presents background briefing material on the statistics that lie behind the headline results published in the *Statistical Bulletin*. It is mainly aimed at journalists and presents information about the contribution that the component indices have made to the change in the annual rate in the CPI and RPI.
- *Focus on Consumer Price Indices*  
This is a monthly statistical release that is published a week after the *Consumer Price Indices Statistical Bulletin*. It provides more detailed information on the CPI and RPI than the *Statistical Bulletin* and presents longer time series. It also presents some additional statistics, including the purchasing power of the pound and the RPI pensioner indices.

2.14 ONS publishes some additional reports that provide further information about the statistics that are released through the three National Statistics products. These include four publications that ONS publishes on a regular basis, discussed below. The Assessment team reviewed the material presented in these additional reports as part of this assessment, although these reports are not, themselves, statistical outputs.

- *CPI and RPI Basket of Goods and Services*<sup>12</sup>  
This is an annual article that provides information about the shopping basket that is being used to compile the CPI and RPI for that year. The shopping basket items are reviewed each year to ensure that they are representative of consumer spending patterns. This article describes the review process and explains how and why the various items in the CPI and RPI baskets are chosen.
- *Consumer Prices Index and Retail Prices Index: Updating Weights*<sup>13</sup>

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<sup>12</sup> <http://www.statistics.gov.uk/cci/article.asp?ID=2372>

<sup>13</sup> <http://www.statistics.gov.uk/CCI/article.asp?ID=2402>

These annual articles provide information about the weights used to compile the CPI and RPI for that year. At the beginning of each year the weights used to compile both the CPI and RPI are updated using the latest available information on household spending. The articles have described the sources for these weights, explains why the weights are important and provides a brief explanation of the main changes to these weights between the two most recent years.

- *Budgetary Measures Implemented; Estimated Impact on the CPI and the RPI*<sup>14</sup>

ONS publishes an article shortly after each Budget that presents estimates of the percentage changes in the CPI and RPI that are expected from the duty and taxation changes announced in the Budget.

2.15 ONS also produces the Personal Inflation Calculator and makes it available on its website<sup>15</sup>. This is an online tool that enables users to input their personal spending patterns to obtain an estimate of their own personal inflation rate and to see how it differs from the national estimates. The Personal Inflation Calculator is also available on the BBC website. This draws it to the attention of a wider audience.

2.16 Time series for the different sets of consumer price indices can be downloaded from the Time Series Data<sup>16</sup> area of ONS's website. There are additional documents linked from the main *Statistical Bulletin* and *Focus on Consumer Price Indices* pages, including a 'nugget' of information, from a link entitled *Latest on CPI & RPI*<sup>17</sup> giving commentary about the latest changes in the CPI and RPI. This inflation nugget received over 590,000 website hits in 2009.

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<sup>14</sup> <http://www.statistics.gov.uk/cci/article.asp?ID=2462>

<sup>15</sup> <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=14762>

<sup>16</sup> <http://www.statistics.gov.uk/statbase/TSDtables1.asp>

<sup>17</sup> <http://www.statistics.gov.uk/CCI/nugget.asp?ID=19>

### 3 Assessment findings

#### Principle 1: Meeting user needs

**The production, management and dissemination of official statistics should meet the requirements of informed decision-making by government, public services, business, researchers and the public.**

- 3.1 A tripartite group of ONS, the Bank and HMT meets regularly to discuss consumer prices issues. Proposals for changes to the RPI are considered by the Consumer Prices Advisory Committee (CPAC).
- 3.2 CPAC was established in 2009 to advise on proposals for methodological changes to the RPI, as recommended by ONS. CPAC has a broad membership that includes users from the Bank, HMT, the press, the Trades Union Congress, and the National Institute of Economic and Social Research. The Committee is chaired by the National Statistician. Issues discussed at CPAC are made public through the publication of papers submitted to the Authority Board<sup>18</sup>. CPAC has recently decided to make summary minutes of its meetings publicly available in future. This will increase the transparency of the way in which priorities are set for developing these statistics.
- 3.3 A report on the triennial review<sup>19</sup> of the CPI and RPI was published in November 2009. This presented the results of a user survey which was sent to the three main users, HMT, the Bank and the Department for Business, Innovation and Skills (BIS). The report summarises the main uses of these statistics.
- 3.4 In the past ONS held regular user group meetings, although these have now stopped. Some users who responded to us as part of this assessment commented that they did not feel that they were regularly consulted with, or informed about, forthcoming changes to the statistics. Although ONS engages with some individual users through CPAC, we see scope for ONS to engage more regularly with a wider number of users. As part of the designation as National Statistics, ONS should take steps to develop a greater understanding of the use made of the statistics; publish the relevant information and assumptions and use them to better support the use of the statistics<sup>20</sup> (Requirement 1).
- 3.5 In 2009 ONS carried out a public consultation about changes to the methods used in constructing mortgage interest payments series in the RPI. Responses are summarised in *Response to Public Consultation on the Measurement of Mortgage Interest Payments within the Retail Prices Index*<sup>21</sup> published in 2009. This paper states the background, changes to be made and when, and views expressed in the consultation.

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<sup>18</sup> <http://www.statisticsauthority.gov.uk/about-the-authority/board-and-committees-documentation/minutes-and-papers/index.html>

<sup>19</sup> A review conducted by ONS on a voluntary basis;  
[http://www.statistics.gov.uk/downloads/theme\\_economy/CPI\\_Triennial\\_Review.pdf](http://www.statistics.gov.uk/downloads/theme_economy/CPI_Triennial_Review.pdf)

<sup>20</sup> In relation to Principle 1 Practice 2 of the Code of Practice

<sup>21</sup> <http://www.ons.gov.uk/about/consultations/measurement-of-mortgage-interest-payments-within-the-retail-prices-index--2009-ons-response-to-public-consultation-on-the-measurement-of-mortgage-interest-payments.pdf>

- 3.6 ONS redesigned the *Consumer Price Indices Statistical Bulletin* for the June 2010 estimates, published in July. This was the first significant redesign of the release for over 10 years. The new release focused on one measure of inflation, the CPI. The *Statistical Bulletin* also still presented figures for the RPI and for various sub-indices derived from the CPI and RPI which have their own particular uses. The background notes to the release explained that the changes were introduced to reduce confusion for users and to ensure that key messages were conveyed clearly. One user expressed concern to us that ONS had made these changes without having consulted widely on the changes beforehand. ONS told us that it had invited comments on draft versions of the redesigned release from CPAC and from some media representatives. The Assessment team considers that the changes made to the bulletin for the June estimates appeared to diminish the significance of the RPI and that these changes would have benefited from wider consultation. ONS has recently consulted users about the redesigned Statistical Bulletin and has published its response to this consultation exercise on its website<sup>22</sup>. In response to the comments it received, ONS has decided to reinstate the latest RPI 12-monthly rate to the front page of the Bulletin.
- 3.7 The UK is the slowest Member State in Europe to publish its CPI. In 2010 it will only be able to provide data to be included in Eurostat's HICP publication<sup>23</sup> on 6 occasions. As part of the designation as National Statistics, ONS should publish information about the timeliness of these statistics and how it might be improved<sup>24</sup> (Requirement 2).
- 3.8 Some users told us that they wanted separate price indices for different geographical areas. The *Technical Manual* provides information on a report by the RPI Advisory Committee in 1971 that found that the compilation of regional price indices would be feasible although costly and expressed some reservations about their desirability. The Department of Employment, which at that time was responsible for the RPI, did not proceed.
- 3.9 In the 2003 Budget, the Chancellor announced plans to produce regional price indices for the UK. ONS published its plans for addressing this need later that year in *Developing estimates of relative regional consumer price levels*<sup>25</sup>. It also published the results of surveys that compared consumer price levels between different UK regions in 2003<sup>26</sup> and 2004<sup>27</sup>. The *Allsopp Review of Statistics for Economic Policy Making*<sup>28</sup> supported the approach taken by ONS to regional price surveys, although ONS has not carried out any further regional price survey since 2004. We suggest that ONS establish an up-to-date official position on relative regional consumer price levels and regional price indices.

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<sup>22</sup> <http://www.ons.gov.uk/about/consultations/closed-consultations/redesign-of-the-consumer-price-indices-statistical-bulletin-2010/index.html>

<sup>23</sup> [http://epp.eurostat.ec.europa.eu/portal/page/portal/hicp/publications/news\\_releases](http://epp.eurostat.ec.europa.eu/portal/page/portal/hicp/publications/news_releases)

<sup>24</sup> In relation to Principle 1 Practice 4 of the Code of Practice

<sup>25</sup> <http://www.statistics.gov.uk/CCI/article.asp?ID=481>

<sup>26</sup> <http://www.statistics.gov.uk/CCI/article.asp?ID=743>

<sup>27</sup> <http://www.statistics.gov.uk/cci/article.asp?id=1016>

<sup>28</sup> [http://webarchive.nationalarchives.gov.uk/http://www.hm-treasury.gov.uk/consultations\\_and\\_legislation/allsopp\\_review/consult\\_allsopp\\_index.cfm](http://webarchive.nationalarchives.gov.uk/http://www.hm-treasury.gov.uk/consultations_and_legislation/allsopp_review/consult_allsopp_index.cfm)

## Principle 2: Impartiality and objectivity

### Official statistics, and information about statistical processes, should be managed impartially and objectively.

- 3.10 ONS publishes consumer price indices in an orderly and timely manner on its website, free of charge to users.
- 3.11 Once the RPI figures are published they are never revised. This is because of the problems revisions would cause to users, particularly in relation to the use of the RPI for index-linking. When errors have occurred, an announcement has been made about the size of the error and by how much the correct value differed from the published value. Although the index is not revised for the month or months in error, it is set to the correct level going forwards at the earliest opportunity so that the error is not continued into the future. The decision never to revise published RPI figures is a consequence of the special governance arrangements for the RPI specified under the *Statistics and Registration Service Act 2007* and we interpret these statutory provisions as exempting ONS from Principle 2 Practice 7 of the Code.
- 3.12 CPI figures are subject to revisions. In February 2006 ONS changed the reference period for the CPI from 1996=100 to 2005=100. At the same time, it changed its rounding procedure for the CPI which resulted in around one-third of the monthly and annual rates of change being revised. An ONS News Release<sup>29</sup> in December 2005 preannounced the rebasing of the CPI and drew attention to expected revisions to historical rates of change.
- 3.13 An error was made in adjusting for the change in Value Added Tax (VAT) in the December 2008 CPI and RPI figures which were published on 20 January 2009. The error did not affect the headline statistics or the standard lower level aggregates although three supplementary series were affected. ONS addressed this error in accordance with the standards of the Code. A revised release<sup>30</sup> was issued on 26 January 2009 which explained the error.

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<sup>29</sup> <http://www.statistics.gov.uk/pdfdir/cpirebasing1205.pdf>

<sup>30</sup> <http://www.statistics.gov.uk/pdfdir/cpi0109.pdf>

### Principle 3: Integrity

**At all stages in the production, management and dissemination of official statistics, the public interest should prevail over organisational, political or personal interests.**

- 3.14 The *Statistics and Registration Service Act 2007* requires the Chancellor rather than ONS's Head of Profession to approve fundamental changes to the coverage and basic calculation of the RPI in certain circumstances (see para 2.7). We interpret these statutory provisions as exempting ONS from the need to comply with Principle 3 Practice 3 of the Code. ONS told us that it has not sought the Chancellor's approval for any changes to the RPI since the Act came into force. We suggest that ONS describe its overall approach to improving the way in which the RPI is constructed, taking account of the constraints imposed by legislation.
- 3.15 ONS published the redesigned *Consumer Price Indices Statistical Bulletin* in July 2010. This was just a month after the Chancellor announced his intention to use the CPI rather than the RPI to index benefits and pensions. One user expressed concern that this timing could create the impression that the change to the *Bulletin* was politically inspired. Initial plans to change the emphasis of the *Bulletin* towards the CPI were discussed much earlier, in particular, in a March meeting of CPAC, and all decisions were taken independently from the Chancellor's announcement. The Assessment team notes that if ONS had been more open with users about its plans to redesign the *Statistical Bulletin* this would have removed such grounds for concern about possible political influence.
- 3.16 ONS has published some articles in response to criticism in the media about the reliability of these statistics. One example of this occurred in 2008 when the public perception was that inflation was higher than the official statistics. ONS published an article<sup>31</sup> which reviewed evidence relating to the perception that inflation is higher than suggested by official estimates.
- 3.17 ONS statisticians are involved in press briefing at the time of statistical releases which provides them with an opportunity to comment publicly on these statistics. We see this as good practice.

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<sup>31</sup> [http://www.statistics.gov.uk/elmr/09\\_08/downloads/ELMR\\_Sep08\\_Marks.pdf](http://www.statistics.gov.uk/elmr/09_08/downloads/ELMR_Sep08_Marks.pdf)



## Principle 4: Sound methods and assured quality

**Statistical methods should be consistent with scientific principles and internationally recognised best practices, and be fully documented. Quality should be monitored and assured taking account of internationally agreed practices.**

- 3.18 ONS publishes two documents that explain how it compiles the CPI and RPI. *Consumer Price Indices – A Brief Guide*<sup>32</sup> is a short document that is written in plain English and is aimed at a non-specialist audience. *Consumer Price Indices Technical Manual* provides extensive technical documentation, covering the concepts underpinning the indices, the methods used, the collection and validation of prices, the calculation of weights, and the publication and usage of the different indices.
- 3.19 ONS's website provides links to information about the methods used in the compilation of the CPI and RPI<sup>33</sup>. The website includes the technical manual, changes to the basket of goods and a guide to measuring inflation. ONS also published *Summary Quality Report for Consumer Price Indices*<sup>34</sup> which pulls together information on the different dimensions of quality promulgated by Eurostat<sup>35</sup>. This document provides useful information about data quality and includes a helpful set of weblinks in the reference section.
- 3.20 The statistical methods used to produce the CPI are, in the main, consistent with recommended international best practice as set out by Eurostat in its Compendium of HICP reference documents<sup>36</sup>. The main area of non-compliance with Council Regulation (European Community) No 701/2006<sup>37</sup> is in relation to the time coverage of price collection. The Regulation, which came into force in 2008, stipulates that price collection must take place over the period of at least one working week around the centre of the month. The reason for the deviation of the UK figures from the Regulation is that the same data are collected for both CPI and RPI, and the RPI represents a day in the middle of the month. ONS is carrying out additional pilot data collection to address the issue. The pilot collects fruit and vegetable prices over three days each month instead of the current one day in the middle of the month. We suggest that ONS publish the results of this pilot work to collect prices data over a longer period each month, once it is complete.
- 3.21 The *Consumer Price Indices Technical Manual* provides very detailed information about the different ways in which the CPI and RPI have been constructed. However, it is not always clear whether the different approaches that have been adopted in the past for the RPI remain appropriate today. For example:

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<sup>32</sup> <http://www.statistics.gov.uk/statbase/product.asp?vlnk=62>

<sup>33</sup> <http://www.statistics.gov.uk/cpi/nugget.asp?ID=1709>

<sup>34</sup> <http://www.ons.gov.uk/about-statistics/methodology-and-quality/quality/qual-info-economic-social-and-bus-stats/quality-reports-for-economic-statistics/summary-quality-report-for-cpi.pdf>

<sup>35</sup> <http://www.statistics.gov.uk/STATBASE/Product.asp?vlnk=13578>

<sup>36</sup> [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-AO-01-005/EN/KS-AO-01-005-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-AO-01-005/EN/KS-AO-01-005-EN.PDF)

<sup>37</sup> <http://eur-lex.europa.eu/lex/LexUriServ/LexUriServ.do?uri=OJ:L:2006:122:0003:0004:EN:PDF>

- the use of the arithmetic mean to combine individual prices rather than the geometric mean;
- a classification system specified and developed by earlier RPI Advisory Committees, rather than a system founded on National Accounts principles and based on the international classification system for household consumption expenditure; and
- the use of a population base that excludes the top four per cent of households by income and pensioner households mainly dependent on state benefits.

The RPI also includes certain items, such as TV licences, Vehicle Excise Duty, trade union subscriptions and Council Tax, which have been excluded from the scope of the CPI. ONS told us that it is currently analysing the relationship between the CPI and RPI with the aim of publishing its findings at the end of the year. As part of the designation as National Statistics, ONS should publish information about the history and the reasons for differences in scope and methods between the CPI and RPI; and explain the implications that these differences have for the uses to which these statistics are put<sup>38</sup> (Requirement 3).

- 3.22 It is not clear in the releases or in the accompanying documentation whether the single most suitable consumer price index for the purposes of measuring inflation is also the single most suitable measure for adjusting prices and incomes. ONS told us that it does not provide any additional information detailing how the indices should be used, beyond that contained in the *Technical Manual*. It told us that it would not wish to contradict policy adopted by other Government departments or private companies in contracts or legal agreements since, by doing so, it could be considered liable for any loss of income resulting from its advice.
- 3.23 Quality assurance of the data is carried out using a range of field, audit and validation checks. A description of these processes is included in the *Technical Manual*. ONS also produces a quality manual that documents the quality processes used in the production of the statistics. This is used for audit purposes and is not published, to avoid any risk of index manipulation.
- 3.24 Since 2000, Eurostat has been working to develop a suitable measure of owner occupiers' housing costs for inclusion in the HICP. This work has proved difficult and there is still no international agreement on the appropriate method. ONS participates in a Eurostat HICP Steering Group which is investigating different measures. CPAC's 2010 Annual Report<sup>39</sup> recommends that ONS develop owner occupiers' housing costs indices using two separate methods for potential inclusion in an expanded CPI. The Report also includes ONS's high level forward work programme for these statistics which includes development work on owner occupiers' housing costs indices. The plan notes that the exclusion of these costs is widely considered to be the most significant weakness of the CPI and that this is the top development priority for key users. ONS plans to consult widely over this planned work programme.

<sup>38</sup> In relation to Principle 4 Practices 1 and 5 of the Code of Practice

<sup>39</sup> [http://www.statistics.gov.uk/downloads/theme\\_economy/cpac-annual-report2010.pdf](http://www.statistics.gov.uk/downloads/theme_economy/cpac-annual-report2010.pdf)

## **Principle 5: Confidentiality**

**Private information about individual persons (including bodies corporate) compiled in the production of official statistics is confidential, and should be used for statistical purposes only.**

3.25 Data collected from shelf prices in retail outlets and taken from the internet is not confidential. ONS collects some price data directly from retailers that have national pricing policies. Although these data are not confidential, ONS treats them as being confidential. ONS does not publish or pass on any data relating to individual businesses or retailers. Ad hoc requests for detailed data are checked for disclosure based on the number of price quotes included within the aggregate.

## Principle 6: Proportionate burden

**The cost burden on data suppliers should not be excessive and should be assessed relative to the benefits arising from the use of the statistics.**

- 3.26 Most data are collected by contractors recording shelf prices using handheld computers in shops and by ONS staff collecting prices from the internet. Since the prices are simply observed, their collection does not impose a burden on retailers. As a courtesy, letters of introduction are sent to retailers to seek permission for collectors to enter and collect prices from outlets. These letters also explain why the prices are collected and what the data are used for.
- 3.27 ONS collects some price data from central sources, for example, from larger chain stores that have national pricing policies. ONS estimate the burden that this imposes on its suppliers is £17,000.
- 3.28 The burden imposed by producing these statistics was reduced significantly between 2005/06 to 2008/09. This was mainly due to replacing data collection over the phone with internet-based collection from websites.
- 3.29 The *Office for National Statistics Simplification Plan 2009*<sup>40</sup> describes how ONS is reducing the administrative burden imposed by its data collection activities.

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<sup>40</sup> [http://statistics.gov.uk/downloads/theme\\_other/SimplificationPlan2009.pdf](http://statistics.gov.uk/downloads/theme_other/SimplificationPlan2009.pdf)

## Principle 7: Resources

**The resources made available for statistical activities should be sufficient to meet the requirements of this Code and should be used efficiently and effectively.**

- 3.30 ONS spends around £2.3 million a year to produce these statistics.
- 3.31 ONS has taken steps to develop its approach to data collection. Insurance indices were previously based on a small number of price quotes collected from websites. ONS identified a market research company which collects a much wider range and larger sample of insurance data. ONS agreed a contract with the company to supply a subset of this disaggregated information. ONS told us that in deciding to proceed with this approach, it considered the cost of the contract against the increased quality from the wider coverage.
- 3.32 ONS has been planning to redevelop its computer systems for the CPI and RPI to allow the data to be processed more efficiently. These plans are currently being reviewed by the Cabinet Office.
- 3.33 The production of CPI and RPI statistics was successfully relocated from London to Newport during 2007 with minimal transfer of staff. In its annual assessment of ONS performance, the Bank of England said 'The relocation of the labour market and prices teams to Newport does not appear to have had any adverse impact on their statistical outputs'.

## Principle 8: Frankness and accessibility

**Official statistics, accompanied by full and frank commentary, should be readily accessible to all users.**

- 3.34 ONS produces a wide range of material relating to consumer price indices to cater for different types of users. The redesigned *Consumer Price Indices Statistical Bulletin* for June 2010 (see para 3.6) is clearer and better presented than the old release. It includes new graphs and data tables which are presented alongside written commentary in a helpful way. Many of the data tables in the old release have been removed, but are still published by ONS on its website and a link is included in the release. The release no longer presents any international comparisons. We suggest that ONS consider reinstating some international comparisons in the *Statistical Bulletin*.
- 3.35 *Consumer Price Indices Statistical Bulletin* and *Focus on Consumer Prices* contain detailed information about price changes for consumer goods and services accompanied by commentary and by information about methods, procedures and classifications.
- 3.36 *Focus on Consumer Prices* contains RPI pensioner indices for one person and for two person pensioner households. No additional information is provided in the publication about the uses of the indices or how they are compiled. We suggest that ONS provide further information in *Focus on Consumer Prices* about the uses and potential uses of the pensioner price indices and about the methods used to compile them. The pensioner indices are the only example of consumer price indices produced by ONS for a specific population group. One user expressed a need for separate price indices for a range of different household types. As part of implementing Requirement 1 (see para 3.4), we suggest that ONS consult users about the need for separate price indices for a range of different household types.
- 3.37 ONS produces a *Personal Inflation Calculator* which allows individuals to obtain an estimate of their own personal inflation rate. Users input information about their own spending habits to find out how their personal inflation rate differs from the national one over the last year. This is a straightforward way for the public to make use of official statistics that are applicable to their own lives. The *Personal Inflation Calculator* is easy to access from the homepage of ONS's website.
- 3.38 *Focus on Consumer Prices* contains a useful page summarising the documents available on CPI and RPI and where to find these on ONS's website. This includes links to datasets which are not clearly signposted on the website. ONS produces a range of informative articles about these statistics that address specific topics that are of particular interest. However, it can be difficult to find these articles on ONS's website. ONS has a development programme to launch a new website which is expected to deliver improvements in 2011. As part of the designation as National Statistics, ONS should ensure that the planned improvements to the website will improve the accessibility of

information on the full range of documents and datasets relating to these statistics<sup>41</sup> (Requirement 4).

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<sup>41</sup> In relation to Principle 8 Practice 4 of the Code of Practice

## **Protocol 1: User engagement**

**Effective user engagement is fundamental both to trust in statistics and securing maximum public value. This Protocol draws together the relevant practices set out elsewhere in the Code and expands on the requirements in relation to consultation.**

3.39 The requirements for this Protocol are covered elsewhere in this report.



## Protocol 2: Release practices

**Statistical reports should be released into the public domain in an orderly manner that promotes public confidence and gives equal access to all, subject to relevant legislation.**

- 3.40 All ONS releases are accessible through the National Statistics Publication Hub. ONS publishes a full timetable of releases and the publication timetable for the CPI and RPI for the following six months is included in the background notes of the *Consumer Price Indices Statistical Bulletin*.
- 3.41 A list of those granted pre-release access to these statistics is available on ONS's website<sup>42</sup>. The *Pre-release Access to Official Statistics Order 2008*<sup>43</sup> limits pre-release access to a maximum of 24 hours. The National Statistician has granted certain exceptions to these restrictions as provided for under Principle 5 of the Order. The following two exceptions for consumer price indices were announced in December 2008<sup>44</sup>:
- the Monetary Policy Committee, the Chancellor and two HMT officials are granted up to 3.5 days pre-release access when the Monetary Policy Committee meeting falls three (working) days prior to release; and
  - The Governor of the Bank of England, Ministers and their close briefing officials are informed at 5pm on the Friday before CPI publication in months when the CPI triggers an Open Letter from the Governor to the Chancellor.
- 3.42 The National Statistician announced further exceptions in April 2009<sup>45</sup> and March 2010<sup>46</sup> to grant Ministers and their close briefing officials extended pre-release access to the March 2009 and February 2010 CPI and RPI figures. This was to enable the statistics to be used in the preparation of the Budget Statements. The National Statistician wrote to the Chair of the UK Statistics Authority at the time of these announcements, explaining the reasons for the decisions.
- 3.43 The current list of those with pre-release access to these statistics covers over 40 recipients. ONS has completed a corporate review of pre-release access lists. We suggest that ONS publish a summary of the changes that it has made to the pre-release access lists.
- 3.44 The Code requires National Statistics releases to be issued at 9.30am on the day of publication. ONS's website systems do not enable releases to be published simultaneously, which means there is sometimes a delay beyond 9.30am. One user told us that he is never able to access the data at 9.30am and that this is of very serious concern. ONS informed us that this matter is being reviewed as part of the web development programme, which is due to be completed in early 2011. As part of the designation as National Statistics ONS

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<sup>42</sup> <http://www.ons.gov.uk/about-statistics/ns-standard/cop/compliance/monthly/cpi.html>

<sup>43</sup> [http://www.opsi.gov.uk/si/si2008/uksi\\_20082998\\_en\\_1](http://www.opsi.gov.uk/si/si2008/uksi_20082998_en_1)

<sup>44</sup> <http://www.ons.gov.uk/about/newsroom/statements/announcement-by-the-national-statistician-15-12.html>

<sup>45</sup> <http://www.ons.gov.uk/about/newsroom/statements/announcement-by-the-national-statistician-17-4.html>

<sup>46</sup> <http://www.ons.gov.uk/about/newsroom/statements/announcement-by-the-national-statistician-19-3.html>

should ensure that all releases are issued at 9.30am on the day of release<sup>47</sup> (Requirement 5). The same Requirement has been made in the Assessment Reports for ONS Labour Market statistics<sup>48</sup>, Balance of Payments statistics<sup>49</sup>, Overseas Travel and Tourism statistics<sup>50</sup> and Statistics on E-commerce and Information and Communication Technology Activity<sup>51</sup>.

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<sup>47</sup> In relation to Protocol 2 Practice 4 of the Code of Practice

<sup>48</sup> Assessment Report 34, Requirement 5, para 3.51

<sup>49</sup> Assessment Report 45, Requirement 11, para 3.35

<sup>50</sup> Assessment Report 47, Requirement 7, para 3.32

<sup>51</sup> Assessment Report 56, Requirement 7, para 3.29

### **Protocol 3: The use of administrative sources for statistical purposes**

**Administrative sources should be fully exploited for statistical purposes, subject to adherence to appropriate safeguards.**

3.45 ONS has published a Statement of Administrative Sources<sup>52</sup>.

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<sup>52</sup> <http://www.ons.gov.uk/about-statistics/ns-standard/cop/statement-of-administrative-sources/index.html>

## Annex 1: Suggestions for improvement

A1.1 This annex includes some suggestions for improvement to the consumer price indices produced by ONS, in the interest of the public good. These are not formally required for designation, but the Assessment team considers that their implementation will improve public confidence in the production, management and dissemination of official statistics.

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|---------------------|---|
| <b>Suggestion 1</b> | Establish an up-to-date official position on relative regional consumer price levels and regional price indices (para 3.9).   |
| <b>Suggestion 2</b> | Describe ONS's overall approach to improving the way in which the RPI is constructed, taking account of the constraints imposed by legislation (para 3.14)                              |
| <b>Suggestion 3</b> | Publish the results of pilot work to collect prices data over a longer period each month once it is complete (para 3.20).   |
| <b>Suggestion 4</b> | Consider reinstating some international comparisons in <i>Consumer Price Indices Statistical Bulletin</i> (para 3.34).  |
| <b>Suggestion 5</b> | Provide further information in <i>Focus on Consumer Prices</i> about the uses and potential uses of the pensioner price indices and about the methods used to compile them (para 3.36). |
| <b>Suggestion 6</b> | Consult users about the need for separate price indices for a range of different household types, as part of implementing Requirement 1 (para 3.36).                                    |
| <b>Suggestion 7</b> | Publish a summary of the changes made to the pre-release access lists (para 3.43).  |

## **Annex 2: Summary of assessment process and users' views**

A2.1 This assessment was conducted from April to October 2010.

A2.2 The Assessment team – Neil Jackson, Catherine Barham and Kim Reimann – agreed the scope of and timetable for this assessment with representatives of ONS in April. The Written Evidence for Assessment was provided on 21 June. The Assessment team subsequently met ONS during July to review compliance with the Code of Practice, taking account of the written evidence provided and other relevant sources of evidence.

### **Summary of users contacted, and issues raised**

A2.3 Part of the assessment process involves our consideration of the views of users. We approach some known and potential users of the set of statistics, and we invite comments via an open note on the Authority's website. This process is not a statistical survey, but it enables us to gain some insights about the extent to which the statistics meet users' needs and the extent to which users feel that the producers of those statistics engage with them. We are aware that responses from users may not be representative of wider views, and we take account of this in the way that we prepare assessment reports.

A2.4 The Assessment team received 22 responses from the user consultation. The respondents were grouped as follows:

Government departments	7
Insurance companies	7
Suppliers	2
Journalists	1
Others	5

A2.5 Most users we approached expressed general approval of the detail and commentary provided in the three publications. They also conveyed satisfaction with the prompt and informative service received upon contacting ONS with queries or data requests. Some commented that there is little or no user consultation and engagement and that they would like to be contacted by ONS more frequently. Some complained about the accessibility of data on ONS's website and would like ONS to make it easier to find relevant data. A number of users would like to see owner occupiers' housing costs included in the CPI. Some users wanted separate price indices for different household types and for different geographical areas.

### **Key documents/links provided**

Written Evidence for Assessment document



