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Ed Humpherson,
Director General for Regulation,
UK Statistics Authority,
1 Drummond Gate
London, SW1V 2QQ

13 October, 2014

Dear Mr Humpherson

BIS REVIEW OF CONSTRUCTION PRICES INDICES

ONS have drawn my attention to the recent consultation on this topic conducted by the Department for Business, Innovation and Skills (BIS). I have missed my opportunity to comment.

I am nevertheless writing to you, because I believe that the current BIS programme of improvements to the indices represents a missed opportunity for ONS to be given full responsibility for these important series. Regular statistical surveys on construction were passed to ONS several years ago, but for some obscure reason this did not include construction prices. Reading the inadequate review documents and BIS interim response to the comments received in the consultation¹ just reinforces my concern that only the ONS have the capacity and statistical experience to produce new and improved indices.

The main problems seems to be reflected in the improvement paper which states on page 8 “Essentially, the aim is to find for a proxy for “tender prices” that will allow us to arrive at “market prices” or the price paid by the client for construction work without using Bills of Quantities.” (my underlining). BQs are the basis of ONS PPP construction prices and the consultation paper states that tender prices are already used directly by ONS for deflation of the national accounts construction aggregates. Furthermore BQs provide one relatively reliable means of deriving weights for aggregation of input or cost based price indices, and one which avoids the need for a costly special statistical survey of inputs to construction. Abandoning tenders or BQ approaches without a clear cut and higher quality alternative would appear to be a backward step.

AECOM’s construction prices data (“SPON price books) may well be excellent, but there is no information in the public documentation as to how the weights will be derived, and how can a sensible cost price indexes for construction exclude fuel costs?

Even more worrying is the proposal to use a market indicator to adjust input costs to output prices. A survey of construction company actual markups for profits and overheads, or one conducted via quantity surveyors might be possibilities; but an indicator (especially one based on employment) is totally unsuitable, and is certain to give misleading results. Tender prices are at least actual price quotes for actual projects.

¹ Improvement to the Construction Price Indices and impacts, Frances Pottier (BIS) and David Crosthwaite (AECOM), June 2014; Methodological Changes to Construction Price and Cost Indices, User Consultation, July 2014; and Preliminary response to PCI consultation, BIS, September 2014.

The UKSA assessment of November 2011², judged that the existing series did not then meet national statistics standards, and even though the UKSA reinstated them in November 2012, the decision must have been marginal. To now move to an even weaker methodology would certainly seem to be something that the UKSA should be concerned about.

I am copying this letter to the BIS consultation contact point (Frances Pottier) and to Kate Davies in ONS, who kindly pointed me in the direction of the consultation documents only last week.

Yours sincerely
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² Construction Price and Cost Indices, Assessment Report 95, UKSA, February 2011