

Statistical Notice

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Coverage: United Kingdom
Theme: Economy

DWP Family and Household Income Statistics – adjusting for inflation

This Statistical Notice advises users of proposed changes to future Households Below Average Income (HBAI), Family Resources Survey (FRS), Pensioners' Income Series (PI), and Income-Related Benefits: Estimates of Take-Up (Take-Up) data and publications. These changes will take effect for the 2014/15 publications, pre-announced for publication during May/June 2016.

In summary, the changes are:

- **Inflation measure:** Variants of the Consumer Price Index (CPI) will replace use of the Retail Prices Index (RPI) in the HBAI, PI and FRS publications. Results for headline figures and trends, on both before and after housing costs bases (BHC and AHC), using the previous RPI-based measure will be presented as appropriate in an Annex to the Methodology Report for HBAI and PI so that the effect of this methodological change is clear.
- **Publication format:** In order to focus on commentary and analysis that aid interpretation, we propose to produce significantly shorter publications for 2014/15 with a clear focus on commentary and analysis of the key findings for entry level users. This move will bring HBAI, PI, FRS, and Take-Up Statistics publications into line with new standard DWP Statistics reporting practices. All existing publication tables will continue to be available online as spreadsheets to support our more expert and experienced users.

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Inflation

Background

1. Inflation is the speed at which the prices of goods and services bought by households rise or fall. To date, HBAI and PI (and FRS to a lesser extent) have used variants of the Retail Prices Index (RPI) to adjust incomes for inflation.
2. In January 2013, the National Statistician announced that, in accordance with the Statistics and Registration Service Act 2007, the RPI and its derivatives had been assessed against the Code of Practice for Official Statistics and found not to meet the required standard for designation as National Statistics¹.
3. In May 2013, Paul Johnson, Director of the Institute for Fiscal Studies, was invited by the UK Statistics Authority (UKSA) to lead a review into UK price indices, to consider what changes are needed to the range of consumer price statistics produced for the UK to best meet current and future user needs.
4. The Johnson Review was published in January 2015, delivering a final report with a series of recommendations to the Board of the UKSA². Chief amongst these was the recommendation that CPIH be adopted as the UK's main price index.
5. The UKSA published a consultation document on consumer price statistics, following the Johnson Review, on 15th June 2015 which closed on 15th September 2015³. A summary of responses to the consultation has been published and is now being considered by the UKSA, alongside advice from its regulatory function and the Advisory Panels for Consumer Prices. A final response is expected at some stage in the first half of 2016.
6. On 9th March 2016 the National Statistician, John Pullinger, wrote to the Chair of the UKSA, Sir Andrew Dilnot, setting out his views on the future of consumer price statistics in the UK⁴. Key positions were as follows:
 - The view that RPI “is not a good measure of inflation” and that future usage is strongly discouraged in favour of superior alternatives.

¹ <https://www.statisticsauthority.gov.uk/archive/assessment/assessment/assessment-reports/assessment-report-246---the-retail-prices-index.pdf>

² <https://www.statisticsauthority.gov.uk/reports-and-correspondence/reviews/uk-consumer-price-statistics-a-review/>

³ <https://www.statisticsauthority.gov.uk/reports-and-correspondence/consultations/>

⁴ <https://www.statisticsauthority.gov.uk/correspondence/shaping-the-future-of-consumer-inflation-statistics-in-the-uk/>

- That he is “inclined to consider that CPIH should become the ONS preferred measure of consumer inflation and the focal point of ONS commentary in due course”, following its expected future re-accreditation as a National Statistic.
- That ONS should publish proposals and a timetable for development of a HII (Household Inflation Index) - a new inflation index showing the effect of changes in payments for goods and services.

2014/15 Publications

7. Over recent years we have maintained the use of RPI in our publications, in line with expert advice received. In particular, we have previously been reluctant to make methodological changes in advance of any final UKSA decision, to avoid risk of reporting estimates inconsistent with UKSA advice and potentially leading to repeated revisions to published series.
8. The current position as set out above, however, makes on-going use of RPI in our publication untenable.
9. The only UK inflation index currently designated as a National Statistic is the Consumer Price Index (CPI). In terms of potential alternatives:
 - **CPIH** – whilst, on current evidence, we might expect CPIH to be adopted in future as the preferred UK measure of consumer inflation, it is not currently classified as a National Statistic.
Further, the only current practical difference between the CPI and CPIH indices is in the treatment of owner-occupier housing costs (OOH). As analysis of disposable income in HBAI and PI ideally requires specifically adapted variants of inflation regarding housing costs, this difference is largely immaterial from our perspective.
 - **RPIJ** – this series is to be discontinued.
 - **HII** – whilst we will follow ONS’s work here with interest, these indices are still in the early stages of development.
10. As such, following receipt of technical advice from independent experts at the Institute for Fiscal Studies (IFS), DWP commissioned the production of bespoke variants of CPI from ONS⁵. These are:
 - An 'experimental' CPI series including mortgage interest payments, ground rent and dwelling insurance – for use with incomes Before Housing Costs (BHC)
 - A CPI series excluding rents, maintenance repairs and water charges – for use with incomes After Housing Costs (AHC).

⁵ <https://www.ons.gov.uk/economy/inflationandpriceindices/adhocs/005567dwpdeflatorsrequest>

11. These series are available back to January 2000 and 1996 respectively. Where we need to make adjustments to incomes for earlier periods we propose to use approximations as:
 - BHC: the RPI-based BHC series currently used in our publications, less 0.5%
 - AHC: the RPIX series currently used in our publications less 0.5%⁶
12. This approach, whilst only intended as a broad approximation, has similarly been agreed with IFS and is line with analysis previously provided by the Office for Budget Responsibility on the long term difference between RPI and CPI attributable to the formula effect⁷.
13. The overall methodological approach outlined above has been agreed by the DWP Head of Profession for Statistics.

Likely Impacts

14. In HBAI and PI, inflation is used to adjust incomes in three main ways:
 - To present incomes in real terms i.e. adjusted in line with inflation to the current publication year
 - To adjust thresholds for absolute low incomes measures
 - To in-year deflate incomes to a common point in the year so that respondents interviewed at the start and end of the year have their incomes evaluated on a consistent basis.
15. The majority of results in our publications will not be significantly affected by changes in the inflation indices. For full clarity, we will provide alternate results for headline figures against appropriate variants of RPI (consistent with the previous approach) in technical annexes to the 2014/15 publications to clearly demonstrate the impacts of this methodological change.
16. Illustratively, at a headline level, as CPI tends to be lower than RPI on average, use of these inflation indices in place of RPI would be expected to generally decrease real terms income prior to 2014/15 (with the largest differences in earlier years); moderately increase the percentage and number of people in absolute low income prior to 2010/11 (with the largest differences in earlier years); and decrease the percentage and number in absolute low income from 2011/12 to 2014/15.

⁶ RPIX is equivalent to RPI excluding Mortgage Interest Payments.

⁷ http://budgetresponsibility.org.uk/docs/dlm_uploads/Working-paper-No2-The-long-run-difference-between-RPI-and-CPI-inflation.pdf

17. Associated changes proposed:

- Prior to the 2000/01 HBAI publication, incomes were deflated to the month of publication rather than to the average of the reporting year as is current practice. We plan to take this opportunity to revise historic datasets to in-year deflate incomes to the mid-year point using CPI variants for 1994/95 through 2014/15. Relevant content held at the UK Data Archive will be updated appropriately.
- Currently HBAI trend tables show results for 1998/99 through 2001/02 for the United Kingdom, using imputed estimates for Northern Ireland. We plan to remove this imputation from the 2014/15 publication. In other words, all published results will show coverage for Great Britain from 1994/95 through to 2001/02 and for the UK from 2002/03 through to 2014/15.

The Way Forward

18. In the interests of providing consistent statistics over time our current planning assumption is that we will hold with the methodological approach outlined above when adjusting for inflation in future publications. We will, however, review this position in light of any significant developments in the wider debate or in light of relevant advice from the UKSA or ONS.

Publication Format

Background

19. It is a common theme across Government that more needs to be done to improve communication around official statistics and this is a specific stated aim for the UK Statistics Authority (UKSA).
20. The 'Better Statistics, Better Decisions' publication sets out a five-year UKSA strategy from 2015 to achieve the stated mission of providing high quality statistics, analysis and advice to help Britain make better decisions⁸ There is a particular focus around making statistics more accessible to non-specialist audiences with Objective 3 setting out a vision to improve communication by finding *“innovative ways of making data, statistics and analysis more accessible, engaging and easier to understand, to support accurate and meaningful interpretation.”*

⁸ <https://www.statisticsauthority.gov.uk/archive/news/uk-statistics-authority-statement-of-strategy-2015-2020-better-statistics-better-decisions.pdf>

21. More specifically for our statistics, a UKSA Monitoring Review from February 2015 makes specific recommendations around improving the coherence and accessibility of Official Statistics on income and earnings⁹.

Publication Formats from 2014/15

22. From the 2014/15 publications we plan to migrate the HBAI, PI, FRS, and Take-Up Statistics reports to the new standard DWP Statistics template. This will result in much shorter, more focussed and accessible publications without sacrificing the breadth of statistical analysis currently provided.
23. The purpose of these changes is to tailor our reporting to meet different user needs rather than “one size fits all”. In particular, we are attempting to explain our statistics and their context in an accessible way so that they can be better understood by all users.
24. Indicatively, the 2013/14 HBAI report saw extensive media coverage, as well as over 2,000 unique web-hits within the first week of publication. Given this level of public interest it is evident that we need a strong focus on the accessibility of our analysis.
25. Draft examples for the future HBAI and PI central reports, based on the most recent 2013/14 data, are available as annexes to this note. These are only intended to be illustrative of the new publication formats rather than final products and we welcome any user feedback on these new publication formats and contents.
26. Our intention is that these changes will not compromise our support to existing users – the full suite of output tables familiar to experienced users of our publications will continue to be made available via online tables; and expert users will continue to be supported via detailed methodological guidance and access to the underlying data via the UK Data Archive.
27. The overall approach being taken by DWP is consistent with Government Statistical Service (GSS) best practice guidance on presenting statistics¹⁰. In particular that reporting should follow the ‘inverted pyramid’ approach and aim for a more journalistic style, with the most important information at the front, followed by more detailed information. This is in contrast to more academic reporting styles where key concepts are defined and assumptions set out in detail before headline results are presented.

⁹ <https://www.statisticsauthority.gov.uk/archive/assessment/monitoring/monitoring-reviews/monitoring-review-1-2015---the-coherence-and-accessibility-of-official-statistics-on-income-and-earnings.pdf>

¹⁰ <https://gss.civilservice.gov.uk/statistics/presentation-and-dissemination/>