

Written evidence submitted by the Royal Statistical Society (STL0047)

1. The Royal Statistical Society (RSS) welcomes that the Committee's [inquiry](#) will cover a breadth of issues with regard to the student loan system and its related financial implications. Our response focuses on a single, specific and important issue: the use of the Retail Prices Index (RPI) to calculate the interest rates on student loans and, hence, the overall size of these loans and their repayments. We recommend one corrective action that should be taken in the short term, and another improvement further ahead.

2. Instead of one or the other of the RPI or the CPI (Consumer Prices Index) being used consistently by the government for indexation, these indices seem to be used very selectively indeed. It is grossly unfair that, presently, government formulae which affect people's incomes (in the form of pension and benefit increases) often use the CPI, which normally provides a lower estimate of inflation, while several of their outgoings including student loan repayments (as well as, for example, air passenger duty, and caps on rail fare increases) are still related to increases in the RPI, which normally gives a higher estimate. [1]

2.1. The RPI was originally designed for uprating purposes: however, one of its mathematical formulae, combined with the way certain prices (notably for clothing) are collected, causes the RPI to overestimate what it is intended to measure. The Office for National Statistics (ONS) considers that, for legal reasons connected with its use in index-linked gilts, this formula effect cannot be corrected. Therefore, the RPI was stripped almost five years ago of its National Statistic status, and the UK Statistics Authority (UKSA) has recommended that the government and regulators move towards ending their use of it.

2.2. The CPI was designed for macroeconomic purposes such as its use as the Bank of England's target index. There are statistical arguments that suggest that it can underestimate the prices experienced by households. Unlike RPI, though, it currently has National Statistic status. In 2010-2012 when the government started to replace RPI with CPI for uprating purposes they declared on more than one occasion that they were doing so as they believed that CPI "was the most appropriate measure of the general level of prices". [2] Based on this outlook (and we have not seen any sign that the current administration has changed the position), the government should use CPI for all uprating purposes where a link to inflation is desired, unless there are clear and specific reasons why another indicator is appropriate.

2.3. In RSS's view, it is indefensible that, since 2010, the government has been selective in its use of CPI and RPI for the same purpose (i.e. uprating). The most common reason for distrust in official statistics is how politicians and the media use statistics. [3] Whether or not it is deliberate in all cases, the appearance of selectivity in the use of official statistics may damage trust in governments (whatever their complexion), politicians, and trust in official statistics.

2.4. In the short term, the RSS recommends that the government should set clear goals to move from the RPI to the CPI where possible to address the unfairness we have described, unless there are clear and specific reasons for selecting another indicator.

3. Looking further ahead, there is a pressing need for an index which focuses on the effect of changes in payments for goods and services on households. We expect the ONS's development of Household Cost Indices (HCI) to meet this need. Despite their merits as macroeconomic indices, CPI and CPIH (a version of CPI which incorporates a measure of housing costs) both fail to account properly for households' experiences of changing prices.

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The HCI should therefore form an important complement to the CPI/CPIH. Preliminary estimates of Household Cost Indices have been published by ONS. [4] In due course, assuming the HCI is satisfactorily established and proves its worth, it would then be appropriate for the government to review its uprating policies.

Supporting evidence

4. The UKSA Chair, Sir David Norgrove, has deprecated the use of RPI for student loan repayments. [5]
5. The ONS set out in their [Consumer Prices Development Plan](#) that they will only publish RPI-related data which is essential to the needs of users and that it will be maintained through routine changes [6].
6. The CPI accords with the Harmonised Index of Consumer Prices (HICP). The HICP was designed for macroeconomic purposes such as international comparisons and as a target when setting interest rates for the Eurozone [7]. Its construction is subject to EU rules and, under EU law, the UK is currently obliged to calculate it. CPIH includes a measure of housing costs and also council tax; otherwise it is identical to CPI. It is not subject to EU law. It has been the ONS's preferred headline measure since March of this year. The CPI/CPIH are most appropriate for monetary and macro-economic policy purposes and as an overall measure of inflation in the economy as a whole. (Historically CPIH has been, on average, very slightly lower than the CPI, but the difference is not great.)
7. Despite the merits of CPI/CPIH for macroeconomic purposes, there is a need for an index that tracks households' experience of inflation, which will be better addressed in the development of HCI. CPI and CPIH are weighted toward wealthier households; they also miss out on loan interest and the full cost of insurance premiums, and they do not fully monitor expenditure on housing. Even CPIH does not look directly at expenditure on housing, but uses rental equivalents.
8. The [National Statistician's letter](#) to the UKSA Chair on 'Shaping the Future of Consumer Inflation Statistics in the UK' (9th March 2016) proposed important potential uses that can be offered by a new household inflation index (since termed HCI): "*The [household inflation index] presents an idea that is fundamentally different in a number of important aspects to the traditional measurement of consumer inflation. These include the potential inclusion of asset prices and interest payments, plus giving each household's expenditure equal weight. The [household inflation index] could also be a vehicle for measuring different households' experience of changes in prices.*" [8]
9. We support ONS's development of the HCI, which has taken place subsequent to the National Statistician's letter. Once the HCI has been satisfactorily established, and provided that the purpose of uprating is to compensate for the impact of inflation on households, the HCI will be better suited than CPI/CPIH for uprating expenditure or income for that purpose. This builds upon [ONS use cases](#) set out in July 2017 [9]. We think that ultimately these two types of index (CPI/CPIH and HCI) should be released to the same frequency, side by side.

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10. The original case for a household inflation index was advanced in a [paper](#) by RSS fellows, John Astin and Jill Leyland. This sets out that the household inflation index should have utility for uprating purposes, and should also include student loan repayments for households [10].

About us

The Royal Statistical Society (RSS) is a learned society and professional body for statisticians and data analysts, and a charity which promotes statistics for the public good.

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Footnotes and references

[1] Northern Ireland's interest rate policy for student loans differs from the rest of the UK, although it still refers to the RPI. In England, Scotland and Wales the interest rate is RPI plus 3% while studying, and RPI plus up to 3% after studying, depending on income. In Northern Ireland the interest rate for student loans is set in September at either the RPI of the previous March, or 1% above the highest base rate of a nominated group of banks (Bank Base Rate), whichever is lower.

HMRC (2017) 'Air passenger duty: changes to rates' [webpage], 8 March 2017. Available at: <https://www.gov.uk/government/publications/air-passenger-duty-changes-to-rates/air-passenger-duty-changes-to-rates>

ORR (2017) *Rail Fares Index (January 2017)* [PDF], 30 March 2017. Available from: http://orr.gov.uk/_data/assets/pdf_file/0020/24518/rail-fares-index-january-2017.pdf

[2] Department for Work and Pensions (2011) *Impact of the move to CPI for Occupational Pensions* [PDF], 11 February 2011
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220341/cpi-private-pensions-consultation-ia.pdf

[3] Simpson, I. (2017) *Public confidence in official statistics – 2016* [PDF], NatCen Social Research. Available from: http://natcen.ac.uk/media/1361381/natcen_public-confidence-in-official-statistics_web_v2.pdf

[4] ONS (2017) 'Release: Household Cost Indices: preliminary estimates 2005 to 2017' [webpage], 19 December 2017. Home > release calendar > published. Available at: <https://www.ons.gov.uk/releases/householdcostsindicespreliminaryestimates2005to2017>

[5] Letter from Sir David Norgrove, Chairman, UK Statistics Authority, to Chris Giles, Economics Editor, Financial Times, *Response on quality of the Retail Prices Index (RPI)* [PDF], 15 September 2017. Available from: https://www.statisticsauthority.gov.uk/wp-content/uploads/2017/09/Letter-from-Sir-David-Norgrove-to-Chris-Giles_.pdf

[6] ONS (2016) 'Consumer prices development plan' [webpage], 28 October 2016. Home > Economy > Inflation and Price Indices > Consumer Prices Development Plan. Available at: <https://www.ons.gov.uk/economy/inflationandpriceindices/articles/consumerpricesdevelopmentplan/2016-10-11>

[7] "Whereas there is a need for the Community and particularly its fiscal and monetary authorities to have regular and timely consumer price indexes for the purpose of providing comparisons of inflation in the

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macro-economic and international context as distinct from indexes for national and micro-economic purposes...” in Council Regulation (EC) no 2494/95 of 23 October 1995 concerning harmonized indices of consumer prices. <https://publications.europa.eu/en/publication-detail/-/publication/4ac289c8-733a-479c-9a4f-e631dbbed6b9/language-en>

[8] Letter from John Pullinger to Sir Andrew Dilnot, ‘Shaping the Future of Consumer Inflation Statistics in the UK’ [PDF], 9 March 2016. Available from: <https://www.statisticsauthority.gov.uk/wp-content/uploads/2016/03/Letter-from-John-Pullinger-to-Sir-Andrew-Dilnot-090316.pdf>

[9] ONS (2017) ‘Measuring changing prices and costs for consumers and households’ [webpage], 18 July 2017. Home > Economy > Inflation and price indices > Measuring changing prices and costs for consumers and households. Available at: <https://www.ons.gov.uk/economy/inflationandpriceindices/articles/measuringchangingpricesandcostsforconsumersandhouseholds/2017-07-18>

[10] Astin, J. Leyland, J. (2015) *Towards a household inflation index: Compiling a consumer price index with public credibility* [PDF]. Available from: <http://www.rss.org.uk/Images/PDF/publications/Astin-Leyland-HII-paper-Apr-2015.pdf>