

# Developing an Index of Household Payments

Response from the Greater London Authority to the ONS paper

August 2016

## 1. Do you believe that there is a need for this type of index? If so, why?

There is a perception among both professional and lay users of inflation measures that CPI and CPIH do not reflect households' experience of inflation. We believe that this is due, at least in part, to the fact that the national accounts system for calculating costs does not reflect households purchasing decisions and the way that they make payments. We therefore believe that an index that is specifically constructed to monitor the price changes experienced by households is needed.

## 2. What is your need for this index and why do you believe it would be suitable for your need?

An index of household costs or prices would have widespread applications in economic monitoring, wage setting and income/poverty measurement, and many other individual exercises, such as evaluating the true cost of education (student loans).

In particular, having indices that reflect inflation as experienced by different parts of the population, for example by region (particularly important for the GLA), by income decile, by tenure, by life stage (eg households with children, pensioner households, WA without children) would allow us to monitor whether changes in the wider economy are reflected throughout the population or whether some parts of the population experience greater increases in their costs than others, (and ultimately whether this is reasonably reflected in their income).

## 3. How frequently would the index need to be published to meet this need?

Such an index should ideally be published monthly, or at least quarterly to allow users to have an index close to the time point relevant for each purpose. Some uses might relate to a calendar year, a financial year or an academic year, or indeed any other time point.

**To best meet the need stated above:**

## 4. What is your preferred treatment for weighting (for example, household expenditure weighted or economy-wide expenditure weighted)?

As a measure of changing prices experienced by households it would need to be household expenditure weighted.

5. **What is your preferred population (for example, all UK or private UK) coverage?**

As a measure of changes in household costs, it should be constructed for all households in the UK. However, “institutional households” represent a very small portion of all households in the UK, and it is not clear whether changing prices experienced by this group would be significantly different to those experienced by private households (or indeed whether this would impact on the index). Some sensitivity analysis around this would be welcome.

6. **What is your preferred expenditure (for example, national or domestic) coverage?**

In an ideal situation, the index would measure national spending. However, we recognise that this is a difficult proposal and may be an area that can be improved over time.

7. **What is your preferred approach to timing?**

We believe that a payments approach should be adopted, as this again reflects households’ spending decisions. This may be for small items, such as purchasing non-perishable items in bulk or taking advantage of lower rates for early booking or the true costs of a large purchase (from a sofa to a house) taking into account interest payments (see below).

8. **What is your preferred treatment for the following items?**

**interest payments** – we agree that these should be included. Any interest costs are taken into account by households making purchasing decisions. Interest accrued from investments should form part of any income measure produced either alongside an index or separately. This does not affect the prices paid.

**student loans** – we agree that these should be included. This should be consistent with the approach to other forms of loan, reflecting the costs paid at the time of payment.

**insurance premiums** – we agree that the full cost of premiums should be included on a gross basis. Replacing goods or paying for services through payments from insurance companies should then not be included in the index.

**life insurance premiums** – we agree that life insurance premiums should be included. Life assurance, except for the life insurance part of it, should not. Life insurance may be a requirement of some types of loan (for example, mortgage). Any payouts would then be eligible for inclusion as income if appropriate.

**Taxation** – we agree that indirect taxes including VAT, Council Tax and Stamp Duty should be included in the index but direct taxes, such as NI and income tax should not.

**owner occupier housing costs excluding capital costs** – we agree that these should all be included (Stamp Duty already listed under taxation above)

**capital housing costs** – we agree that these should be included on the basis of payments made as with other purchases. This reflects households’ spending decisions as for other goods, as advocated above and is consistent with the “at point of payment” approach. Unless capital housing costs are included, then the low housing costs once purchase is completed (ie any mortgage is paid off) cannot be reflected in a household price index. This is particularly necessary when considering indices for sub groups of the population.

**9. Are there any other areas you believe we need to consider with regards to this index?**

The collection of data needed for such as Index, particularly in relation to whether or how it could/should be applied to any potential sub groups, including regional splits, needs to be discussed more fully.

**10. Do you have any additional comments?**

It is difficult for a non-expert to understand the term “Index of Household Payments”, and how this differs from Household Spending, which may be more discretionary – more one year than another. A term that used the term prices rather than payments might have a wider comprehension in terms of what this index is trying to do, even if less accurate. ONS officials described their proposal as not being a measure of inflation, which is likely to lead to even greater confusion if that were to be broadcast more widely.

The documentation and explanation produced alongside this index will be particularly important and accessible to all users to help understand any differences. This means that work to understand how and where the differences arise and their effects, needs to be completed, including the methodological differences as well as content, and made available to users.

We strongly welcome ONS’ plans to publish income statistics alongside this new index. However, we recognise that this will be a challenging task, to produce for the sub groups as well as a national figure on a monthly basis. We therefore urge that production of such income statistics should be developed alongside the new index, but should not inhibit publication of the new index if the income statistics are not available to the same schedule.