

Implementation in financial year ending 2016 of measures announced in the Summer 2015 Budget, previous budgets and Autumn Statements

On 25 March 2015, the Office for National Statistics published an article that explained the estimated impact of implementing measures announced in the March 2015 Budget, previous Budgets and Autumn Statement reports, on the Consumer Prices Index (CPI), CPIH – a measure which includes owner occupiers' housing costs – and the Retail Prices Index (RPI).

This note updates those estimates with measures that were announced in the Summer 2015 Budget. Only one of these measures will directly impact during the financial year ending 2016:

- the increase in the standard rate of Insurance Premium Tax (IPT) from 1 November 2015 – the standard rate will increase from 6% to 9.5%

In accordance with the Statistics and Registration Service Act 2007, the Retail Prices Index and its derivatives have been assessed against the Code of Practice for Official Statistics and found not to meet the required standard for designation as National Statistics. A full report can be found on the [UK Statistics Authority](http://www.ukstatauthority.gov.uk) website. The National Statistics status of CPIH has also been discontinued pending work by the Office for National Statistics (ONS) to investigate and improve the method for measuring owner occupiers' housing costs in this index.

List of measures announced in the budget and Autumn Statement that will impact on the CPI, CPIH and RPI 1-month rates in the financial year ending 2016.

Table 1

Changes	Percentage points contribution to 1-month change			Timing of effect
	CPI	CPIH ¹	RPI ²	
Changes to excise duties³				
<u>Tobacco</u>				
As announced at the 2014 Budget, duty rates on tobacco products will increase by 2% above the RPI rate of inflation on all tobacco duty rates each year until the end of the next Parliament.	+0.04	+0.04	+0.05	18 March 2015

[Please note: This note is prepared simply as a helpful guide to users of the CPI, CPIH and RPI. The Office for National Statistics accepts no liability whatsoever for losses of any kind arising as a result of reliance on this note.]

Changes	Percentage points contribution to 1-month change			Timing of effect
	CPI	CPIH ¹	RPI ²	
<p><u>Alcohol</u></p> <p>Duty rates were reduced by 2% for: spirits; sparkling cider and perry not exceeding 5.5% alcohol by volume (abv); still cider and perry not exceeding 7.5% abv; beer between 2.8% and 7.5% abv; and wine and made-wine exceeding 22% abv.</p> <p>The duty rate for low strength beer (less than 2.8% abv) was reduced by 6%, overall duty rate for high strength beer (above 7.5% abv) by 0.75% and for still cider and perry exceeding 7.5% abv by 1.3%.</p> <p>This reduced the price of a typical bottle of spirits by 18 pence, a typical litre of cider by 1 penny, and a typical pint of beer by 1 penny.</p>	-0.02	-0.02	-0.02	23 March 2015
<p><u>Vehicle Excise Duty (VED)</u></p> <p>Legislation was introduced to increase VED rates in line with the Retail Prices Index (RPI) for cars, vans, and motorcycles, with effect from 1 April 2015. The impact of these increases show at 3 decimal places only and round to zero.</p>	0.00	0.00	0.00	1 April 2015
<p><u>Air Passenger Duty (APD)</u></p> <p>APD duty rates for 2015 to 2016 were set out at the 2014 Budget.</p> <p>The rates (lowest class of travel) are as follows: Band A (0 – 2,000 miles) remains at £13 and Band B (over 2,000 miles) becomes £71. Bands C and D have been abolished.</p>	-0.01	-0.01	-0.01	1 April 2015
<p><u>Road Fuel</u></p> <p>The rate for unleaded petrol and heavy oil (diesel) for 2015-16 was frozen in the 2015 Budgets.</p>	0.00	0.00	0.00	NA

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Changes	Percentage points contribution to 1-month change			Timing of effect
	CPI	CPIH ¹	RPI ²	
Changes to indirect taxes				
<u>Value Added Tax (VAT)</u>				
There were no changes announced in the March and Summer 2015 Budgets pertaining to the CPI, CPIH or RPI.	0.00	0.00	0.00	NA
<u>Insurance Premium Tax (IPT)</u>				
The Summer 2015 Budget announced that the standard rate of IPT will increase to 9.5% from 6%.	+0.03	+0.02	+0.09	1 November 2015

Table 1 Footnotes

1. The National Statistics status of CPIH has been discontinued pending work by the Office for National Statistics (ONS) to investigate and improve the method for measuring owner occupiers' housing costs in this index.
2. The RPI is not a National Statistic.
3. Changes in duty rates are inclusive of VAT, and, for cigarettes, ad valorem tax.

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Comparison of the impact on the CPI, CPIH and RPI 1-month rates of the budget and Autumn Statement measures that were implemented in the financial year ending 2015 and those that have been or will be implemented in the financial year ending 2016

Table 2

Changes	Percentage points contribution to 1-month change					
	Consumer Prices Index		CPIH ¹		Retail Prices Index ²	
	<u>2014/15³</u>	<u>2015/16</u>	<u>2014/15³</u>	<u>2015/16</u>	<u>2014/15³</u>	<u>2015/16</u>
<u>Excise duties</u>						
Tobacco	+0.07	+0.04	+0.06	+0.04	+0.08	+0.05
Alcohol	0.00	-0.02	0.00	-0.02	0.00	-0.02
Vehicle excise duty	+0.02	0.00	+0.02	0.00	+0.02	0.00
Air passenger duty	0.00	-0.01	0.00	-0.01	0.00	-0.01
Road Fuel	0.00	0.00	0.00	0.00	0.00	0.00
<u>Indirect Taxes</u>						
Value Added Tax	0.00	0.00	0.00	0.00	0.00	0.00
Insurance Premium Tax	0.00	+0.03	0.00	+0.02	0.00	+0.09
Total effect of budget measures⁴	+0.09	+0.04	+0.08	+0.03	+0.10	+0.11

Table 2 Footnotes

1. The National Statistics status of CPIH has been discontinued pending work by the Office for National Statistics (ONS) to investigate and improve the method for measuring owner occupiers' housing costs in this index.
2. The RPI is not a National Statistic.
3. Historic estimates provided were calculated at the time of the 2014 Budget and have not been revised in light of new information.
4. The overall effect is calculated as the sum of the individual rounded effects shown in the table.

Effects on the CPI, CPIH and RPI 1-month rates

The measures that will be implemented in the financial year ending 2016 are estimated to increase the CPI 1-month rate by approximately 0.04 percentage points, the CPIH 1-month rate by approximately 0.03 percentage points and the RPI 1-month rate by approximately 0.11 percentage points.

All 3 impact assessments are based on changes in duties being passed on, in full, to consumers as soon as they come into effect.

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Cumulative effects on the all items CPI, CPIH and RPI 12-month rates of the budget and Autumn Statement measures that were implemented in financial year ending 2015 and those that have been or will be implemented in financial year ending 2016

Tables 3, 4 and 5 show the likely timing of effects on the CPI, CPIH and RPI 12-month rates, assuming all announced changes are passed on immediately and in full to consumers as soon as they come into effect. In practice, this is unlikely: for instance, changes to tobacco and alcohol duties generally affect the index over a period of several months as stocks deplete.

Table 3: CPI all items

CPI date	Change	Effect ¹	Cumulative effect ²
April 2015	Increases in tobacco duties	+0.04	
	Decreases in alcohol duties	-0.02	+0.02
	Increases in vehicle excise duties	0.00	+0.02
	Decreases in air passenger duties	-0.01	+0.01
	Last year's increases in tobacco duties drop out of the 12 month comparison	-0.07	-0.06
	Last year's increases in alcohol duties drop out of the 12 month comparison	0.00	-0.06
	Last year's increases in vehicle excise duties drop out of the 12 month comparison	-0.02	-0.08
November 2015	Last year's increases in air passenger duty drop out of the 12 month comparison	0.00	-0.08
	Increase in Insurance Premium Tax	+0.03	-0.05

Table 3 Footnotes

1. Historic estimates provided were calculated at the time of the 2014 Budget and have not been revised in light of new information.
2. The cumulative effect is calculated as the sum of the individual rounded effects shown in the table.

Effects on the CPI 12-month rate

It is estimated the budgetary measures implemented in financial year ending 2016 will add 0.04 percentage points to the CPI 1-month rate. However, because the impact of the measures implemented in financial year 2015 was larger (+0.09 percentage points), it is estimated that the CPI 12-month rate will be reduced by 0.05 percentage points.

This impact assessment is based on changes in duties being passed on, in full, to consumers as soon as they come into effect.

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Table 4: CPIH¹ all items

CPIH date	Change	Effect ²	Cumulative effect ³
April 2015	Increases in tobacco duties	+0.04	
	Decreases in alcohol duties	-0.02	+0.02
	Increases in vehicle excise duties	0.00	+0.02
	Decreases in air passenger duties	-0.01	+0.01
	Last year's increases in tobacco duties drop out of the 12 month comparison	-0.06	-0.05
	Last year's increases in alcohol duties drop out of the 12 month comparison	0.00	-0.05
	Last year's increases in vehicle excise duties drop out of the 12 month comparison	-0.02	-0.07
	Last year's increases in air passenger duty drop out of the 12 month comparison	0.00	-0.07
	November 2015	Increase in Insurance Premium Tax	+0.02

Table 4 Footnotes

1. The National Statistics status of CPIH has been discontinued pending work by the Office for National Statistics (ONS) to investigate and improve the method for measuring owner occupiers' housing costs in this index.
2. Historic estimates provided were calculated at the time of the 2014 Budget and have not been revised in light of new information.
3. The cumulative effect is calculated as the sum of the individual rounded effects shown in the table.

Effects on the CPIH 12-month rate

It is estimated the budgetary measures implemented in financial year ending 2016 will add 0.03 percentage points to the CPIH 1-month rate. However, because the impact of the measures implemented in financial year 2015 was larger (+0.08 percentage points), it is estimated that the CPIH 12-month rate will be reduced by 0.05 percentage points.

This impact assessment is based on changes in duties being passed on, in full, to consumers as soon as they come into effect.

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Table 5: RPI¹ all items

RPI date	Change	Effect ²	Cumulative effect ³	
April 2015	Increases in tobacco duties	+0.05		
	Decreases in alcohol duties	-0.02	+0.03	
	Increases in vehicle excise duties	0.00	+0.03	
	Decreases in air passenger duties	-0.01	+0.02	
	Last year's increases in tobacco duties drop out of the 12 month comparison	-0.08	-0.06	
	Last year's increases in alcohol duties drop out of the 12 month comparison	0.00	-0.06	
	Last year's increases in vehicle excise duties drop out of the 12 month comparison	-0.02	-0.08	
	Last year's increases in air passenger duty drop out of the 12 month comparison	0.00	-0.08	
	November 2015	Increase in Insurance Premium Tax	+0.09	0.01

Table 5 Footnotes

1. The RPI is not a National Statistic.
2. Historic estimates provided were calculated at the time of the 2014 Budget and have not been revised in light of new information.
3. The cumulative effect is calculated as the sum of the individual rounded effects shown in the table.

Effects on the RPI 12-month rate

It is estimated the budgetary measures implemented in financial year ending 2016 will add 0.11 percentage points to the RPI 1-month rate. However, because the impact of the measures implemented in financial year 2015 was smaller (+0.10 percentage points), it is estimated that the RPI 12-month rate will be increased by 0.01 percentage points.

This impact assessment is based on changes in duties being passed on, in full, to consumers as soon as they come into effect.

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Background notes

1. The CPI is a measure of consumer price inflation produced to international standards and in line with European regulations. First published in 1997 as the Harmonised Index of Consumer Prices (HICP), the CPI is the inflation measure used in the Government's target for inflation. The CPI is also used for purposes such as uprating pensions, wages and benefits and can aid in the understanding of inflation on family budgets. For more information on the uses of the CPI see ['Users and uses of consumer price inflation statistics'](#).
2. CPIH is a measure of UK consumer price inflation that includes owner occupiers' housing costs (OOH). These are the costs of housing services associated with owning, maintaining and living in one's own home. OOH does not include costs such as utility bills, minor repairs and maintenance which are already included in the index. CPIH uses an approach called rental equivalence to measure OOH. Rental equivalence uses the rent paid for an equivalent house as a proxy for the costs faced by an owner occupier. In other words this answers the question "how much would I have to pay in rent to live in a home like mine?" for an owner occupier. OOH does not seek to capture increases in house prices. Although, this may be inconsistent with some users' expectations of measures of OOH, the inclusion of an asset price and therefore capital gains makes the measure less suitable for a measure of consumption. Currently, the method of calculation, the population coverage and the basket of goods and services are the same as the CPI, with the exception of OOH. The method of deriving the weights for CPIH and the data used for these are also the same as for CPI, with the exception of OOH. This can result in some differences from the CPI.
3. The RPI is a long-standing measure of UK inflation that has historically been used for a wide range of purposes such as the indexation of pensions, rents and index-linked gilts. For further information on current and historic uses of the RPI please see ['Users and uses of consumer price inflation statistics'](#).
4. The effects of the Budgets shown in this note are estimates only.
5. Percentage point contributions to the CPI, CPIH and RPI one-month change are based on average retail prices as measured in the February and June 2015 indices for the March and Summer 2015 budgets respectively. The effects expressed in pence may differ from those calculated by other sources or as announced in the Budget.
6. No estimate has been made of any price changes resulting from other Budget measures, direct or otherwise.

For more information

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