

Implementation in financial year ending 2017 of measures announced in the March 2016 Budget, Previous Budgets and Autumn Statements

This note explains the estimated impact of implementing measures announced in the March 2016 budget, previous budgets and pre-budget reports on the Consumer Prices Index (CPI), CPIH – a measure which includes owner occupiers' housing costs, and the Retail Prices Index (RPI).

It does not include an estimate of the impact of the levy on soft drinks with added sugar content because these changes are not due to come into effect until April 2018. The impact of these changes will be estimated in a future budget note.

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.statistics.gov.uk) website.

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 2017.

Table 1

Changes	Percentage points contribution to 1-month change			Timing of effect
	CPI	CPIH ¹	RPI ²	

Changes to excise duties³

Tobacco

As announced at the 2016 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.	+0.06	+0.05	+0.06	16 March 2016
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Budget 2016 also announced that hand-rolling tobacco duty would rise by an additional 3% above this to 5% above retail price inflation.

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Changes	Percentage points contribution to 1-month change			Timing of effect
	CPI	CPIH ¹	RPI ²	
<p><u>Alcohol</u> As announced at Budget 2016, the following alcohol duty rates will increase in line with inflation (based on RPI): sparkling cider and perry exceeding 5.5% alcohol by volume (abv) but less than 8.5% abv; all wine and made-wine rates at or below 22% abv</p> <p>The duty rates on beer, spirits, wine and made wine exceeding 22% abv, still cider and perry, and sparkling cider and perry of a strength not exceeding 5.5% abv have been frozen.</p>	+0.01	+0.00	+0.01	21 March 2016
<p><u>Vehicle Excise Duty (VED)</u> VED rates will increase in line with the Retail Prices Index (RPI) for cars, vans, and motorcycles, with effect from 1 April 2016.</p>	+0.01	+0.01	+0.01	1 April 2016
<p><u>Air Passenger Duty (APD)</u> As announced at March Budget 15, air passenger duty rates will increase in line with RPI from 1 April 2016.</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 £73.</p> <p>The impact of these increases show at 3 decimal places only and round to zero.</p>	0.00	0.00	0.00	1 April 2016
<p><u>Road Fuel</u> The rate for unleaded petrol and heavy oil (diesel) for 2016-17 was frozen in the 2016 Budget.</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 2016 Budget pertaining to the CPI, CPIH or RPI.	0.00	0.00	0.00	NA
<u>Insurance Premium Tax (IPT)</u>				
The March 2016 Budget announced that the standard rate of IPT will increase to 10% from 9.5%	0.00	0.00	+0.01	1 October 2016
<u>Social Housing Rents</u>				
The Summer 2015 Budget announced that rents for social housing would decrease by 1% each year for next four years, starting in April 2016.	-0.03	-0.02	-0.03	1 April 2016

Table 1 Footnotes

1. The National Statistics status of CPIH has been discontinued pending work by the Office for National Statistics (ONS) to meet the requirements set out in the UK Statistics Authority's independent assessment <https://www.statisticsauthority.gov.uk/publication/statistics-on-consumer-price-inflation-including-owner-occupiers-housing-costs/>
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 2016 and those that have been or will be implemented in the financial year ending 2017

Table 2

Changes	Percentage points contribution to 1-month change					
	Consumer Prices Index		CPIH ¹		Retail Prices Index ²	
	<u>2015/16³</u>	<u>2016/17</u>	<u>2015/16³</u>	<u>2016/17</u>	<u>2015/16³</u>	<u>2016/17</u>
<u>Excise duties</u>						
Tobacco	+0.04	+0.06	+0.04	+0.05	+0.05	+0.06
Alcohol	-0.02	+0.01	-0.02	0.00	-0.02	+0.01
Vehicle excise duty	0.00	+0.01	0.00	+0.01	0.00	+0.01
Air passenger duty	-0.01	0.00	-0.01	0.00	-0.01	0.00
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	+0.03	0.00	+0.02	0.00	+0.09	+0.01
Social Housing Rents	0.00	-0.03	0.00	-0.02	0.00	-0.03
Total effect of budget measures ⁴	+0.04	+0.05	+0.03	+0.04	+0.11	+0.06

Table 2 Footnotes

1. The National Statistics status of CPIH has been discontinued pending work by the Office for National Statistics (ONS) to meet the requirements set out in the UK Statistics Authority's independent assessment <https://www.statisticsauthority.gov.uk/publication/statistics-on-consumer-price-inflation-including-owner-occupiers-housing-costs/>
2. The RPI is not a National Statistic.
3. Historic estimates provided were calculated at the time of the 2015 March and July Budgets 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 2017 are estimated to increase the CPI 1-month rate by approximately 0.05 percentage points, the CPIH 1-month rate by approximately 0.04 percentage points and the RPI 1-month rate by approximately 0.06 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 2016 and those that have been or will be implemented in financial year ending 2017

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
March 2016	Increases in tobacco duties	+0.06	
	Increases in alcohol duties	+0.01	+0.07
April 2016	Increases in vehicle excise duties	+0.01	+0.08
	Decreases in social housing rent	-0.03	+0.05
	Last year's increases in tobacco duties drop out of the 12 month comparison	-0.04	+0.01
	Last year's decreases in alcohol duties drop out of the 12 month comparison	+0.02	+0.03
	Last year's decreases in air passenger duty drop out of the 12 month comparison	+0.01	+0.04
November 2016	Last year's increase in insurance premium tax drop out of the 12 month comparison	-0.03	+0.01

Table 3 Footnotes

1. Historic estimates provided were calculated at the time of the 2015 March and July Budgets 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 2017 will add 0.05 percentage points to the CPI 1-month rate. It is estimated that the CPI 12-month rate will be increased by 0.01 percentage points because the impact of the measures implemented in financial year 2016 was 0.04 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
March 2016	Increases in tobacco duties	+0.05	
April 2016	Increases in vehicle excise duties	+0.01	+0.06
	Decreases in social housing rents	-0.02	+0.04
	Last year's increases in tobacco duties drop out of the 12 month comparison	-0.04	0.00
	Last year's decreases in alcohol duties drop out of the 12 month comparison	+0.02	+0.02
	Last year's decreases in air passenger duty drop out of the 12 month comparison	+0.01	+0.03
November 2016	Last year's increase in insurance premium tax drops out of the 12 month comparison	-0.02	+0.01

Table 4 Footnotes

1. The National Statistics status of CPIH has been discontinued pending work by the Office for National Statistics (ONS) to meet the requirements set out in the UK Statistics Authority's independent assessment <https://www.statisticsauthority.gov.uk/publication/statistics-on-consumer-price-inflation-including-owner-occupiers-housing-costs/>
2. Historic estimates provided were calculated at the time of the 2015 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 2017 will add 0.04 percentage points to the CPIH 1-month rate. It is estimated that the CPIH 12-month rate will be increased by 0.01 percentage points because the impact of the measures implemented in financial year 2016 was +0.03 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
March 2016	Increases in tobacco duties	+0.06	
	Increases in alcohol duties	+0.01	+0.07
April 2016	Increases in vehicle excise duties	+0.01	+0.08
	Decreases in social housing rents	-0.03	+0.05
	Last year's increases in tobacco duties drop out of the 12 month comparison	-0.05	-0.00
	Last year's decreases in alcohol duties drop out of the 12 month comparison	+0.02	+0.02
	Last year's decreases in air passenger duty drop out of the 12 month comparison	+0.01	+0.03
October 2016	Increases in insurance premium tax	+0.01	+0.04
November 2016	Last year's increase in insurance premium tax drops out of the 12 month comparison	-0.09	-0.05

Table 5 Footnotes

1. The RPI is not a National Statistic.
2. Historic estimates provided were calculated at the time of the 2015 March and July 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 2017 will add 0.06 percentage points to the RPI 1-month rate. However, because the impact of the measures implemented in financial year 2016 was larger (+0.11 percentage points), it is estimated that the RPI 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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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:

<http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/index.html>

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:

<http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/index.html>

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 2016 indices. 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.

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For more information

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