
Chair of the UK Statistics Authority, Sir David Norgrove

Mr Chris Giles
Via email

15 September 2017

Dear Chris,

Thank you for your email of 21 July, about the UK Statistics Authority's responsibilities with regard to the Retail Prices Index (RPI).

The Authority has been clear publicly for some years that the RPI is a poor measure of inflation.

The question the Authority faced in 2013 was whether, within the terms of its statutory responsibilities, it should have sought then to change the RPI to address the weakness arising from the use of the Carli index. Following a public consultation, the then National Statistician concluded "there is significant value to users in maintaining the continuity of the existing RPI's long time series without major change, so that it may continue to be used for long-term indexation and for index-linked gilts and bonds in accordance with user expectations."¹

The Authority Board accepted this conclusion, and the recommendation that alternative measures should be developed. It also accepted the recommendation that the RPI lose its designation as a National Statistic.²

In 2015, Paul Johnson's *Review of Consumer Price Statistics* agreed that "despite its statistical inadequacy, the RPI cannot simply be discontinued", and recommended that "no further changes should be made to the RPI methodology, other than those that ensure its continued functionality."³

I would also draw your attention to Section 21 of the *Statistics and Registration Service Act 2007*, which gives the RPI a unique status. In that context HM Treasury, in response to the Authority's consultation about the Johnson review, stated that "the Government remains committed to using RPI e.g. in existing index-linked gilts which currently run out to 2068."⁴

The annexes attached discuss in more detail the questions raised in your letter, together with supporting material. In summary, I consider that the Authority has been consistent and clear in its view that the RPI is not an appropriate method for calculating inflation, and has acted accordingly to safeguard the quality of official statistics.

¹ [National Statistician announces outcome of consultation on RPI](#) (January 2013)

² [Assessment Report 246](#) (March 2013)

³ [UK Consumer Prices: A Review](#) (January 2015)

⁴ [Responses to Consumer Prices Consultation](#) (published November 2015)

I share your regret that the RPI is still used more widely than for index-linked gilts, including for student loan repayments and for rail fares. If the intention is to link them to changes in prices it would be preferable and more transparent to relate them to CPI or CPIH. I am pleased that Ofwat's consultation⁵ about its 2019 price review proposes to move away from using RPI.

Yours sincerely,

A handwritten signature in black ink that reads "David Norgrove". The signature is written in a cursive, slightly slanted style.

Sir David Norgrove

⁵ Ofwat, [Delivering Water 2020: Consulting on our methodology for the 2019 price review](#) (July 2017)

Issues raised in email of 21 July 2017

- 1) To accept the RPI is "not a good measure of inflation" and propose to do nothing about it is in breach of the Board's duty to promote and safeguard the quality of official statistics under Section 7 of the Act.

Section 7 of the Statistics and Registration Service Act establishes the high level objective of the Board, setting the scene for the functional sections (8 to 21): *In the exercise of its functions under sections 8 to 21 the Board is to have the objective of promoting and safeguarding the production and publication of official statistics that serve the public good.*

ONS' capacity to update the RPI methodology is constrained by section 21 of the Act:

Section 21 (Retail prices index) of the Act says that:

- (1) *The Board must under section 20—*
 - (a) *compile and maintain the retail prices index, and*
 - (b) *publish it every month.*
- (2) *Before making any change to the coverage or the basic calculation of the retail prices index, the Board must consult the Bank of England as to whether the change constitutes a fundamental change in the index which would be materially detrimental to the interests of the holders of relevant index-linked gilt-edged securities.*
- (3) *If the Bank of England considers that the change constitutes a fundamental change in the index which would be materially detrimental to the interests of the holders of relevant index-linked gilt-edged securities, the Board may not make the change without the consent of the Chancellor of the Exchequer.*

Annex 2 sets out the consultation, methodological research and analytical work undertaken by ONS and others in recent years to promote consumer price indices that serve the public good.

In terms of Government's own position, it has been clear that the RPI must remain the index of determining returns for index-linked gilts, including for example in the 2013 consultation, where the Treasury said: "The government remains committed to using RPI e.g. in existing index-linked gilts which currently run out to 2068."¹

- 2) Under Section 8 of the Act, the Board has not reported its concern about the quality of the RPI to the National Statistician despite the National Statistician being clear it is "not a good measure".

Section 8 (Monitoring and reporting of official statistics) of the Act says that:

- (1) *The Board is to monitor the production and publication of official statistics.*
- (2) *The Board may report any concerns it has about—*
 - (a) *the quality of any official statistics,*
 - (b) *good practice in relation to any official statistics, or*
 - (c) *the comprehensiveness of any official statistics, to the person responsible for those statistics.*
- (3) *The Board may publish its findings or any report under this section.*

¹ [Responses to Consumer Prices Consultation](#) (published November 2015)

Assessment Report 246² considered the extent to which the RPI complied with the Code in the context of the (then) National Statistician's consultation on options for improving the RPI. Section 1.2 of the Assessment Report summarises the reasons for the decision to cancel the designation of the RPI as National Statistics. The minutes³ of the March 2013 meeting of the Authority Board record the discussion of the Assessment Report, in the presence of the (then) National Statistician.

- 3) Under Section 9 of the Act, the Board has not maintained standards of official statistics with reference to the RPI, nor published guidance or advice as required by the Act.

Section 9 (Definitions etc for official statistics) of the Act says that:

(1) *The Board is to—*

(a) *develop and maintain definitions, methodologies, classifications and standards for official statistics, and*

(b) *promote their use in relation to official statistics.*

(2) *The Board may in particular for the purposes of this section give guidance and advice to persons responsible for official statistics.*

(3) *The Board may publish guidance and advice given under this section.*

The (February 2013) response⁴ to the consultation by Jil Matheson (the then National Statistician) on options for improving the Retail Prices Index,) noted that:

there is significant value to users in maintaining the continuity of the existing RPI's long time series without major change, so that it may continue to be used for long-term indexation and for index-linked gilts and bonds in accordance with user expectations. Therefore, while the Carli formula would not be chosen were ONS constructing a new price index, the National Statistician recommended that the formulae used at the elementary aggregate level in the RPI should remain unchanged.

John Pullinger's letter⁵ of 9 March 2016 to Sir Andrew Dilnot, the former Chair of the Statistics Authority, provides guidance about the RPI:

... I believe that the RPI is not a good measure of inflation and does not realistically have the potential to become one. I strongly discourage the use of RPI for as a measure of inflation as there are far superior alternatives. Nonetheless, RPI is still used for a number of legacy purposes and its production is mandated by legislation. My intention is that from the start of 2017, ONS would publish the minimum of RPI-related data necessary to ensure the critical and essential needs of existing users are met. This would consist of the aggregates RPI and RPIX. Component indices of RPI (for example, the RPI indices for food, clothing etc) would also continue. For the avoidance of doubt, RPIJ would no longer be published.

The Assessment Report – publicly⁶ commissioned by the Board in light of the National Statistician's consultation – gives further guidance and advice.

² [Assessment Report 246](#) (March 2013)

³ [UK Statistics Authority Board Minutes](#) (March 2013)

⁴ [Response to the National Statistician's consultation on options for improving the RPI](#) (February 2013)

⁵ [Letter from John Pullinger to Sir Andrew Dilnot](#) (March 2016)

John Pullinger's letter also explains how the RPI will be maintained:

The RPI would continue to be maintained through routine changes. This covers all changes required to continue production of a consistent, fit for purpose RPI (for example the annual update of the basket and weights, computer systems upgrades and improvements to data validation and quality assurance methods). With due consideration to the requirements of the Statistics and Registration Services Act 2007, ONS would only consider making methodological changes to the RPI if to not do so would inhibit the improvement of CPIH and the Consumer Prices Index.

In a statement on the future of consumer price inflation statistics published⁷ in November 2016, John Pullinger provided further guidance about aspects of the RPI, including its maintenance:

I also want to clarify the future of RPIJ. In my letter to Sir Andrew in March, I set out my intention that RPIJ would no longer be published. Since then it has come to my attention that a small number of users employ this measure, and others are considering adopting it. After giving this further consideration I can however confirm that ONS will cease publication of RPIJ from March 2017. I have made this decision because, although RPIJ addresses the problems relating to RPI's use of the Carli formula, RPIJ shares RPI's other shortcomings, including using a direct measure of house prices to estimate owner occupiers' housing costs. It therefore is not a good economic measure of consumer inflation. Continuing with a second measure of inflation which has these shortcomings will not help to create a clear and coherent understanding of inflation in the UK. We will continue to publish information about the formula effect and the RPI/RPIJ "wedge" so that users can understand how the difference between the Carli and Jevons formulas affects consumer price inflation measures.

Most recently, the Deputy National Statistician for Economic Statistics, Jonathan Athow, said⁸:

We are building a suite of measures as an alternative to the RPI. We will continue to produce RPI for legacy uses. However, the RPI is a flawed measure of inflation with serious shortcomings and we do not recommend its use.

Finally, as Annex 2 shows, ONS has published a range of analytical articles in recent years about different aspects of the RPI. Moreover, ONS has published⁹ a detailed Consumer Prices Index Technical Manual (with updates on, for example, new weights¹⁰), an accessible summary in its Quality and Methodology Information paper¹¹, and a statement of its approach to measuring changing prices and costs for consumers and households¹².

⁶ See final para, www.statisticsauthority.gov.uk/news/consultation-on-the-retail-prices-index/

⁷ [Statement on future of consumer inflation statistics in the UK](#) (November 2016)

⁸ [Statement on the redesignation of CPIH as a National Statistic](#) (July 2017)

⁹ [Consumer Price Indices Technical Manual](#) (2014 edition)

¹⁰ [Consumer price inflation, updating weights](#) (March 2017)

¹¹ [Consumer Price Inflation: Quality and Methodology Information](#) (March 2017)

¹² [Measuring changing prices and costs for consumers and households](#) (July 2017)

- 4) Under Section 28 of the Act, the Board must seek to minimise the burdens (including financial burdens) it imposes on other persons. In failing to correct known errors in the RPI, the Board is imposing large financial burdens, among others, on taxpayers who have issued long-dated financial instruments linked to the RPI, to students who have interest rates on loans linked to the RPI and rail passengers, who have their fares linked to the RPI. These financial burdens are a direct consequence of the Board's current unwillingness to improve the quality of the RPI.

The Explanatory Notes make clear that the main intention of s28 is about the burdens imposed by surveys and by Assessment. In any event the methodological weaknesses of the RPI are well understood across government, and John Pullinger's view ("I strongly discourage the use of RPI for as a measure of inflation as there are far superior alternatives") is clear and unequivocal.

Annex 2

Timeline of key issues related to the RPI since 2010

6 December 2010	Assessment Report 79: Consumer Price Indices
6 December 2010	UKSA Monitoring Brief: Communicating Inflation
6 December 2010	UKSA statement summarising steps required, including to investigate differences between CPI and RPI
18 January 2011	Article explaining the increased impact of the formula effect
12 July 2011	Article: History of the differences between RPI and CPI
16 August 2011	Article: Implications of the differences between RPI and CPI
20 March 2012	Article: International comparisons of the formula effect
September 2012	Chair of UKSA announcement to PASC that he will commission a wider review of governance and structures (para 5)
8 October 2012	National Statistician's consultation on options for improving the Retail Prices Index
10 January 2013	UKSA statement Consultation on the Retail Prices Index
10 January 2013	Response to the National Statistician's consultation
14 March 2013	Assessment Report 246: The Retail Prices Index
14 March 2013	UKSA statement – Retail Prices Index
16 May 2013	UKSA launch of review of the range of prices statistics (by Paul Johnson) and the Governance of Price Statistics (Prof Sir Adrian Smith)
12 February 2014	Publication of Governance of Price Statistics (Smith Review)
12 February 2014	UKSA statement
8 January 2015	Publication of Johnson Review
8 January 2015	UKSA Statement on UK Price Statistics: A review
3 June 2015	Announcement of two independent advisory committees (stakeholder issues and technical issues)
15 June 2015	Consultation - Measuring Consumer Prices: the options for change
27 November 2015	Summary of Responses to the June 2015 consultation
9 March 2016	National Statistician writes to Chair
7 November 2016	Notification of proposed changes to RPI in 2017
10 November 2016	Statement on the future of consumer price inflation statistics
18 July 2017	An article explaining the future approach to measuring changing prices and costs for consumers and households