
Chair of the UK Statistics Authority, Sir David Norgrove**OFFICIAL SENSITIVE – MARKET SENSITIVE**

Rt Hon Philip Hammond MP
Chancellor of the Exchequer
(*via email*)

4 March 2019

Dear Chancellor,

We spoke in October about the inadequacies of the Retail Prices Index (RPI) and the statistical, legal and practical issues that would arise in addressing them. Since then we have had the report of the House of Lords Economic Affairs Committee, and there has been correspondence from the chairs of the Treasury Committee and the House of Lords Economic Affairs Committee.

This letter sets out the UK Statistics Authority's proposals for the future of the UK's consumer price statistics. It describes the current position, a changing context, and – drawing on the advice of the National Statistician – proposals for change. In formulating the substance of our approach, the UK Statistics Authority may only take statistical matters into account. We recognise that our proposals would have substantial wider effects but these are not matters that can bear on our decisions.

The question whether to make changes to the RPI to improve it was the subject of consultation in 2012. The decision made by the then National Statistician, and one widely supported in the consultation at the time, was to leave the RPI unchanged. This decision gave rise in turn to the conclusion that the RPI should be treated as a legacy measure, with no future substantive changes to its construction and methods. That position was endorsed by an independent review of consumer prices led by Paul Johnson and confirmed in the UK Statistics Authority's response to the 2015 consultation on the Johnson review. In the period since, the Office for National Statistics (ONS) has developed alternative measures of inflation, and the Authority has urged users to move away from the RPI.

Since the Authority's decision, in 2013, to maintain the RPI as a legacy index, several factors have changed. In 2017, the CPIH was designated as a National Statistic and the Household Cost Indices were first published. In 2018, ONS published its analysis of shortcomings of the RPI, summarising the various issues. In January the Lords Economic Affairs Committee's report made a clear call for the UK Statistics Authority to reconsider its position on RPI. And earlier this month, the National Statistician's Advisory Panel on Consumer Prices concluded that the current position is unsatisfactory and urged us to take action on the RPI.

Some six years since the RPI lost its National Statistic status, it continues in widespread use. We are in a position where we and the ONS, who are the producers of the UK's consumer price statistics, are clear that the RPI is not a good measure of inflation. It is however the only statistic that we are legally obliged to produce and which we cannot change without consulting the Bank of England and potentially you. Its production, and the legislation around it, sits uncomfortably with our legal obligation to promote and safeguard the quality of official statistics. The legislation is particularly problematic from a statistical perspective as it treats changes that increase the RPI differently from changes that reduce it.

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Our recommendation, in line with our long-standing position, is that publication of the RPI should cease. Better alternatives exist and to announce the end of the RPI for an appropriate future date would give the Government, the markets, businesses and others time to agree on alternative arrangements.

Recognising that the abolition of the RPI will require primary legislation, that the legislative route would take time, and that there would be substantial implementation issues that the Government would need to consider, the Authority proposes a second course of action to be undertaken in parallel.

Until 2030, when the last relevant index-linked gilts mature, we are constrained by section 21 of the Statistics and Registration Service Act 2007. This says that if a change is proposed to the RPI that is both fundamental and materially detrimental to the holders of those index-linked gilts, it could only be made with your consent. The Act requires that the Bank of England should determine whether any proposed change meets the test for consulting you. I therefore wrote to the Governor to describe the change we propose. This would address the shortcomings of the RPI by adopting the methods of the accredited CPIH measure. The effect, at least initially, would be to turn the RPI into CPIH by another name.

The Bank of England has confirmed that such changes would be both fundamental and materially detrimental. I enclose a copy of the Bank of England's advice to me.

We recognise that this would be a substantial change to the RPI, with its own disadvantages. We would be favouring a particular index to replace the current RPI, rather than allowing individuals and firms to choose the index with the most appropriate statistical properties for their circumstances. In addition, the requirements set down in section 21 would still apply. So, there would be a continuing question whether future changes to CPIH should also be reflected in the RPI, with the potential for the indices again to move apart in future. However, there are no options for the future of the RPI that are without challenges, and we believe the present situation is unsustainable.

I would therefore be grateful to know whether you are willing to give your consent under section 21 of the Statistics and Registration Service Act 2007 to make the changes to the RPI described here. We recognise that there are a number of wider issues you will need to consider, and should you agree, we would be happy to discuss with the Treasury the timing and mechanics of the change.

It would of course be open to you to decide to accept or reject separately each of abolition and the proposed changes to the RPI. But our clear recommendation is that both should be pursued.

I am copying this letter to the Governor of the Bank of England and to the Minister for the Constitution in the Cabinet Office.

Yours sincerely



Sir David Norgrove