



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

4 September 2019

Sir David Norgrove
Chair of the UK Statistics Authority
1 Drummond Gate
London SW1V 2QQ

Dear Sir David,

Thank you for your letter to my predecessor of 4 March outlining the UK Statistics Authority's (UKSA) proposals for the Retail Prices Index (RPI). You have made two proposals. First, that the publication of RPI should cease, which would require primary legislation. Recognising that legislation would take time, you have proposed that RPI should be aligned with the Consumer Prices Index including owner occupiers' housing costs (CPIH). We have discussed your proposals, and you have decided to publish them today.

I recognise that there are flaws in RPI and that maintaining public trust in official statistics is important. But RPI is used widely across the economy. UKSA's first proposal to end the publication of RPI would potentially be highly disruptive for the wide range of users of RPI. In turn, this could be damaging to the economy and the public finances. As we have discussed, the next few months are a critical period for the UK as we ready ourselves to leave the EU on 31 October. Given the potential disruption for users of a change to RPI and the Government's focus on Brexit, I am not minded to promote legislation that would remove the requirement for UKSA to produce and publish RPI.

I can see the statistical arguments for UKSA's second proposal to fix RPI by aligning its methodology with CPIH. The continued publication of a widely used, but flawed statistic could be seen to undermine the integrity and credibility of the UK statistical system. While your proposed fix goes well beyond the recommendation of the Lords Economic Affairs Committee, I understand you have taken this decision based on advice from the National Statistician. Aligning RPI with CPIH would ensure existing uses would automatically be based on the ONS's headline measure of inflation. Addressing the flaws in RPI in this way may be a more efficient approach than continuing to ask users to stop using it and rewriting existing contracts, but it does not remove many of the implications.

Due to provisions in legislation, my consent as Chancellor is required for you to change the calculation of RPI as proposed, because of its use as the reference index for some government debt. The requirement to seek my consent to certain changes to RPI expires in



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2030. You have signalled that, while you cannot commit your successors, it is unlikely that the UKSA in 2030 would take a different view from your proposal to align RPI with CPIH. In coming to a decision, I consider the integrity of the statistical system, the effect on the public finances and on the holders of specific index-linked gilts.

I am mindful that there would be significant effects of your approach for users of RPI. While we know that RPI is embedded across the economy, we do not know the full extent of the effects on users, how some will respond or how they might adjust contractual arrangements in advance of UKSA aligning RPI with CPIH. Given the potential for significant and diverse effects of the change you have proposed, it must be appropriate to start from the assumption that some or all users in the private and public sectors, households, firms and financial markets will need substantial time to prepare.

Therefore, I am unable to consent to the introduction of the change you have proposed any earlier than February 2025, based on the information I have available. To ensure better information about the potential effects, the Government will consult publicly on whether this change should be made at a date other than 2030, and if so, when between 2025 and 2030. As part of this consultation, UKSA will consult on technical matters concerning how to implement the proposed alignment of RPI with CPIH.

The Government has made some changes in its use of inflation indices over the past decade in areas of public policy. I can confirm, as set out at Budget 2018, that the Government will not introduce new uses of RPI. The Government will continue to consider its use of RPI further at future fiscal events, drawing on the evidence gleaned in the consultation, and considering the issues in the round.

I want to ensure that the Treasury, alongside the rest of government, has the time and space to focus on delivering Brexit. Therefore, we will begin our consultation in January 2020, and the Government and UKSA will publish a response to the consultation before the Spring Statement and the end of the financial year.

SAJID JAVID