



HM TREASURY

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Nicholas Macpherson
Permanent Secretary

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Sir Bob Kerslake
Head of the Civil Service
Cabinet Office
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8 November 2012

Dear Bob,

Consultation on Retail Prices Index

The National Statistician's letter of 17 September (addressed to me) outlined her public consultation on a number of possible options for improving the Retail Prices Index. This centres on the formulae used in the calculation. The consultation period began on Monday 8 October 2012 and will close on Friday 30 November 2012.

As the RPI has many uses, any changes could impact on a wide range of policy areas and it is therefore important that departments give this issue their attention.

The options developed by the National Statistician are:

- (i) **no change to the formula** – the reasons for the formula effect gap have been identified, explained and understood;
- (ii) **change one particular approach to averaging prices for a limited number of categories** for example, clothing. This would reduce but not remove the formula effect gap as some difference between the RPI and CPI formulation would remain;
- (iii) **change one particular approach to averaging prices for all categories that use it**. This would reduce the formula effect gap to a minimum, although some difference between the RPI and CPI formulation would remain; and
- (iv) **change the RPI so that its formulae align fully with those used in the CPI** – this would remove the formula effect gap between the RPI and CPI, though there would remain differences in



estimates because of the different coverage, weights, products and so on used in each.

The above options represent a spectrum of change in aligning the formula used to aggregate prices at the most basic level, which if adopted, would lower the RPI by varying degrees. The wedge between the two measures of consumer price inflation as a result of the differences in formula has averaged one per cent since 2011.

Any decision to recommend a change to the RPI would be taken by the Statistics Board, which operates under the name of the UK Statistics Authority as an independent body, at arm's length from ministers.

Changes to the RPI are required to follow governance arrangements set out in the Statistics and Registration Service Act 2007. Consequently, the Bank of England will be consulted on whether any proposal would be a fundamental change to the coverage or the basic calculation of the RPI that would be materially detrimental to the interests of holders of relevant index-linked gilts. Only if the Bank considers that a proposed change to the RPI constitutes a fundamental change that is materially detrimental to the holders of index-linked gilts, would the agreement of the Chancellor be required before the change could be made.

Should the Chancellor be required to take a decision, he will need to consider advice on the impacts on groups which share a protected characteristic under the Equality Act 2010 and the actions which might be taken to mitigate any detrimental impacts.

On a contingency basis, I am therefore writing to request that your and colleagues' departments consider widely the impacts of a potential change to the value of measured RPI via the template attached. This should include implications for your departmental business and policies, your Arm's Length Bodies, if applicable, and major stakeholders.

Given the market sensitivities around this issue, and the governance arrangements surrounding independence of the statistical system, it is important that that Government is not viewed as prejudging a particular outcome. I would therefore be grateful if you and other Permanent Secretary colleagues could take this into account in any discussion you subsequently have with colleagues and stakeholders.

If any change were proposed, and subject to the above, the Office for National Statistics (ONS) would introduce any change with the annual update of the RPI when it is published on 19 March 2013. In this instance it

will be important for departments to work to a common timetable, with possible mitigation, if applicable, considered in a coordinated way.

I would be grateful if you would complete the template attached and send it to [REDACTED] by close on Monday 19 November. In addition I would be grateful if you could identify someone in the Senior Civil Service in a position to lead on this and send their contact details to [REDACTED] by close next Thursday 15 November.

Once this information has been received, officials here propose convening a meeting at the end of November with interested parties to discuss the impacts identified.

I am copying this to all Permanent Secretaries

Yours
N I Macpherson

N I Macpherson

Impact of Potential RPI Methodology Change			
Broad policy area	Specific policy	Department	
		Deputy Director	
		Policy lead	

Does your department or ALB's have any policies that are affected by the rate of RPI in any way?

- ☐ Yes - *if yes please use a separate form for each policy area*
- ☐ No

Are you aware of any of your key stakeholders your department has dealings with that are affected by the rate of RPI in any way?

- ☐ Yes - *if yes please use a separate form for each stakeholder*
- ☐ No

Description of policy

- *What is the basic policy objective?*

Change to the methodology which would result in a potential reduction in RPI

- *Set out what specific element of the policy is affected by a potential reduction in RPI (including formal and informal mechanisms, e.g. legislation, precedent, Budget decisions, etc)*
- *For a given change in RPI, briefly outline what the consequences are in policy terms*

People

- *Who would this affect? (e.g. households, businesses, etc.)*
- *How many would this change affect?*
- *Any other information (e.g. distribution, sector-based impact, growth)*

Description and scale of key monetised costs by main affected groups

<i>This change will have increased/decreased/neutral/uncertain cost implications.</i> <i>Provide information on scale of pressure (positive and negative) in current prices.</i>				
2012/13	2013/14	2014/15	2015/16	2016/17
+ / -	+ / -	+ / -	+ / -	+ / -
Equalities				
<i>Are there any groups that would be disproportionately affected by this change?</i> <i>N.B. please include all information available in the table below for each of the nine protected groups under the Equalities Act 2010.</i>				
Protected characteristic	Number rating: (see below)	Description of Impact: (please quantify the impact as far as possible)	In light of your answer to the numerical rating, have mitigating options been considered? If yes please explain	
Age				
Gender				
Marriage / civil partnership				
Disability				
Pregnancy				
Religion / other belief				
Race				
Sexual Orientation				
Gender reassignment				
Handling Issues				
<i>Are there are any specific background/handling issues to be aware of?</i>				
Other				
<i>Any other relevant information, e.g. potential policy responses.</i>				
<i>I have read the above impact assessment and I am satisfied that given the evidence available it represents a reasonable view of the impact of a potential change to the RPI, including on protected groups.</i>				
Signed by the responsible SCS official			Date	

Numerical Ratings for Equalities Assessment

1 – Significant / disproportionate Positive Impact of a change of methodology which would result in a potential reduction in RPI.

2 - Significant / disproportionate Negative Impact of a change of methodology which would result in a potential reduction in RPI.

3 - No significant differentiated impacts of a change of methodology which would result in a potential reduction in RPI.