

Dear Colleague,

CONSULTATION ON RETAIL PRICES INDEX (RPI)

The National Statistician wrote to you on the 17 September outlining her public consultation on a number of possible options for improving the RPI. This centres on the formulae used in the calculation. The consultation period began on 8 October 2012 and will close on 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 department's give this issue their attention.

The options developed by the National Statistician are:

1. **No change to the formula**– the reasons for the formula effect gap have been identified, explained and understood.
2. **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.
3. **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.
4. **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 etc 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 1 percentage point 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 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 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 of the Exchequer 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 department consider widely the impacts of a potential change to the value of measured RPI. 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 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.

Please use the attached template for your response and return to [REDACTED] by the 19 November. I would be grateful if you could identify someone in the SCS in a position to lead this and to notify [REDACTED] who that person is no later than the 9 November. If meeting these deadlines is difficult, please let the above colleagues know.

The Treasury proposes convening a meeting of interested parties to discuss the impacts identified at the end of November.

Yours sincerely

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

- *This change will have increased/decreased/neutral/uncertain cost implications.*
- *Provide information on scale of pressure (positive and negative) in current prices.*

2012/13	2013/14	2014/15	2015/16	2016/17
+ / -	+ / -	+ / -	+ / -	+ / -

Equalities

- *Are there any groups that would be disproportionately affected by this change?*
- *N.B. please include all information available in the table below for each of the nine protected groups under the Equalities Act 2010.*

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 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.