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Date: 11<sup>th</sup> December 2023

Andrea Rosen and Simon Kirby  
Head of Sterling Markets Division and Senior Manager of Current Economic Conditions Division  
Bank of England  
Threadneedle Street  
London  
EC2R 8AH

Dear Andrea and Simon,

This letter covers changes to the suite of consumer price inflation statistics in 2024 that will be implemented as part of the standard production cycle that are unrelated to the ONS's Prices Transformation project covered in Michael Hardie's letter of 13<sup>th</sup> November.

#### **i. Issue**

A request for the Bank of England to assess the changes to the Retail Prices Index (RPI) proposed by UK Statistics Authority (the Authority) for implementation in 2024.

#### **ii. Action**

To note the contents of this letter, which is being sent to acknowledge the requirements under Section 21 of the Statistics and Registration Service Act 2007. In previous years it has initiated the Authority's consultation with the Bank over whether any proposed changes to the RPI would constitute a fundamental change in the index which would be materially detrimental to the interests of holders of relevant index-linked gilts, and hence trigger the redemption clause.

#### **iii. Timing**

For response by 12<sup>th</sup> January 2024.

#### **iv. Context**

The ONS aims to ensure the quality of all its statistical outputs including the RPI. Our current policy is to "address the shortcomings in the RPI in full at the earliest legal and practical opportunity (in February 2030) by bringing the methods and data sources from the National Statistic and ONS's lead measure of inflation, the Consumer Prices Index including owner occupiers' housing costs (CPIH), into the RPI". Prior to 2030, and always with due consideration to the requirements of the Statistics and Registration Service Act 2007, we propose generally to follow the approach outlined in earlier policy statements, namely: "The RPI would continue to be maintained through routine changes". By contrast, in general, we "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 (CPI)." The principles underlying this policy are that, given we expect to be unable to address the key methodological shortcomings of the RPI before 2030, in the interim we will generally prioritise ensuring that changes to the RPI keep it up-to-date, and are limited and predictable, with our development work focussed on improving our headline consumer price statistics (CPIH and CPI) as the best way to ensure the overall relevance, accuracy and reliability of our price statistics, and the best and most efficient use of our resources.

As work on consumer prices transformation has progressed it has become clear that there is some degree of conflict between ensuring changes to RPI are limited and predictable and maintaining the quality of the suite of consumer price statistics. To enable existing data sources and methods to be continued to be used in the RPI would require significant investment in legacy systems that are no longer being used for CPI and CPIH. We therefore propose allowing methods and data improvements from the Prices Transformation Project to feed into the RPI where they are not substantially similar to the elements of the RPI that we do not expect to be able to address before 2030, most notably the Carli formula and methodology for owner occupiers' housing (OOH) costs. This allows us to continue to provide some predictability while also ensuring we devote resource to modernising the production and improving the quality of our full suite of consumer price statistics.

Further details of these changes are outlined in the letter from Michael Hardie. The rest of this letter focusses on the changes that are proposed as part of the standard production cycle changes to the suite of consumer price inflation statistics in 2024.

## vi. Proposals for implantation in RPI in March 2024

### 1. Annual basket and weights update

The standard procedures for the annual updating of the baskets are well rehearsed. Although fixed within each year, the contents of the baskets of goods and services and their associated expenditure weights are updated annually to ensure that they are representative of household spending patterns. The updating mitigates potential biases that might otherwise occur from not allowing for changing consumer expenditure habits.

The annual update of the suite of consumer price inflation statistics will take effect with the February 2024 indices, which will be published on 20<sup>th</sup> March 2024. An accompanying article describing the changes to the baskets will be published on the ONS website about a week earlier. A full description of the reweighting and updating process can be found in the [basket article](#) and the [weights article for 2023](#). The items in the Consumer Prices Index including owner-occupiers' Housing costs (CPIH), Consumer Prices Index (CPI) and Retail Prices Index (RPI) baskets will be updated in 2024, so that they remain representative of consumer spending and trends.

For our consumer prices indices, in the previous two years we have adjusted the consumer expenditure used in the calculation of index weights to reflect the impact of the Covid-19 pandemic. These adjustments were only applied in those areas of the basket where we saw significant shifts in spending. For the current update of weights, we do not expect to apply any further adjustments. A further change will also be introduced for consumer price indices, where the current approach of rounding class level weights (Classification of Individual Consumption by Purpose (COICOP) level 4) to the nearest integer and then rescaling lower level weights will be removed. These changes do not affect RPI.

As with last year's weights update, the RPI will continue to be weighted principally using annual Living Costs and Food survey data at a lag of 6 months.

Changes in the contents of the baskets and their associated weights are not significant beyond their primary aim of ensuring the continuous and proper representation of consumer expenditure habits.

### 2. Location rotation and re-enumeration

Approximately 140 locations in the UK are visited each month as part of the local price collection. These locations are carefully selected according to retail turnover and controlled to avoid overlaps with current locations within the sample. To maintain the sample of locations, each year 30 locations are refreshed, either by excluding a location and replacing it with a new one (rotation) or refreshing the list of outlets in the existing location (re-enumeration). We have refreshed a full 30 locations again in readiness for our 2024 collections.

For completeness I also note that changes to three of our foreign holiday items (hotels, self-catering, and cruises) which appear in the RPI, CPI and CPIH will be implemented in 2024. We will move to collect prices six months in advance of the holiday, rather than collecting all prices for a given year in an arbitrary order within August to February the year before. This will bring these items in line with our other similar foreign holiday items (such as city breaks and late-booked holidays), ensure greater consistency within a given price relative, more closely match consumer behaviour and enable us to conduct real time checks. We also plan to collect the prices of holidays taking place in index week, rather than holidays taking place on/around the first of the month, to more closely align with the majority of the basket. We also plan to drop child prices from our collection for hotels, as data limitations mean that they form only a small part of our sample.

This change was proposed last year as the new method requires a year's worth of base prices before indices can be calculated. The Bank assessment was that the change did not represent a fundamental change in the coverage or basic calculation of the RPI, nor would it be materially detrimental to the interests of holders of relevant ILGs. No changes have been made to the assessed methodology so we are not requesting a further assessment.

Please let me know if you have any queries or would like to discuss any of the changes raised in this letter further.

A copy of this letter goes to Carleton Webb at the Bank of England, to Thomas Yeomans, Daniel Gallagher and Tom Hemingway at the Treasury and to Mike Keoghan, Grant Fitzner, Jason Zawadzki, Michael Hardie and Chris Jenkins here at ONS.

A handwritten signature in black ink, appearing to read 'M Corder', written in a cursive style.

Yours sincerely,  
Matthew Corder

Deputy Director, Prices Division, Office for National Statistics