
Chair of the UK Statistics Authority, Sir David Norgrove

Andrew Bailey
Governor
Bank of England
(via email)

5 November 2020

Dear Governor,

You will be aware of my correspondence with your predecessor about the future of the Retail Prices Index or RPI, and in particular the respective responsibilities of the UK Statistics Authority Board and the Bank of England under section 21 of the Statistics and Registration Service Act 2007 (SRSA). This says that before making any change to the coverage or the basic calculation of the RPI, the Board must consult the Bank of England as to whether the change constitutes a fundamental change in the index which would be materially detrimental to the interests of the holders of relevant index-linked gilt-edged securities or gilts.

In 2019 the Authority put two proposals to the Chancellor of the Exchequer, which were:

- to cease publication of the RPI at some point in the future, though we noted this would require the Government to bring forward primary legislation and also take some time to implement given the wide use of RPI; and
- in the short-term to address the shortcomings of RPI by bringing the methods and data of CPIH into it.

After I consulted your predecessor about the second proposal, the Bank of England had determined that it was both “fundamental” and “materially detrimental” to the holders of “relevant” index-linked gilts. As such the consent of the Chancellor was required in accordance with section 21(3).

In September 2019, the Chancellor ruled out the first proposal, and on the second, announced he would not provide consent to making the change before 2025, but would consult on the timing for bringing the methods and data of CPIH into RPI. Specifically, the consultation would be on whether this should happen in the window between 2025 and 2030. Following that consultation, the Chancellor has written to me setting out his position, namely that while he understands the statistical arguments of the Board’s intended approach to reform RPI, in order to minimise the impact of the Authority’s reform to RPI on the holders of index-linked gilts, he was unable to offer his consent to the implementation of such a proposal before the maturity of the final relevant index-linked gilt in 2030. I enclose a copy of his letter.

The purpose of my letter to you now is to seek the greatest degree of clarity possible on the position were the methods and data of CPIH to be brought into RPI in 2030. (Separate correspondence, closer to the time of implementation, would be needed on the specific proposal.)

Provided that the legal framework in section 21 of the SRSA as set out above, including the definition of “relevant index-linked gilt-edged securities”, remains unchanged, our understanding is as follows:

- the last of the “relevant” index-linked gilts will mature in July 2030, and the last RPI data used in calculating the coupon for those gilts will refer to November 2029, scheduled to be published in December 2029;
- the requirement to consult the Bank of England before making any change to the coverage or basic calculation of RPI would not be extinguished following the calculation of the last coupon on the last of the relevant index-linked gilts or following the redemption of the last relevant index-linked gilts unless it is removed by legislation;
- however, if a change were made to the coverage or basic calculation of RPI after November 2029, being the last date RPI data would be used in calculating the coupon on the relevant index-linked gilts, it would be straightforward for the Bank to conclude that any change would not be materially detrimental to the holders of relevant index-linked gilts, because the proposed change would not affect the returns on the remaining relevant index-linked gilts, or because there were no longer any holders of such relevant index-linked gilts.

As such, and absent any other changes, the UK Statistics Authority Board would not need to seek the consent of the Chancellor of the Exchequer under section 21(3) to alter the RPI. Any changes we would make to RPI would need to be implemented in an orderly way, and we usually make changes to our consumer price inflation measures each February. If our understanding of the legal position is correct, then we should be able practically and legally to make the change in February 2030.

I am aware, however, that judgements regarding whether a change to RPI is “fundamental” and “materially detrimental” under section 21 are the responsibility of the Bank of England, and would therefore be grateful if you could clarify the position here as much as is possible, particularly in relation to any change to RPI in February 2030. This would allow us to collectively provide certainty for users on the future position.

I am copying this letter to the Chancellor.

Yours sincerely,

A handwritten signature in black ink that reads "David Norgrove". The signature is written in a cursive, slightly slanted style.

Sir David Norgrove