Bank of England

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Dear Mike and Matt

Proposed changes to RPI in 2023

I refer to your letter dated 30 November, addressed to Simon Hayes and Rhys Phillips, covering the following planned changes to the Retail Prices Index (RPI):

i) the 2023 annual update of the basket of RPI items (including both the contents and their associated expenditure weights);
ii) the annual refresh of location rotation and re-enumeration (with all 30 locations refreshed for 2023 following a reduced number for 2022 and zero for 2021 due to the impacts of Covid);
iii) changes to the price collection schedule and lead times for foreign holiday items;
iv) changes to the measurement of rail fares price indices in Great Britain; and
v) changes to the measurement of second-hand cars price indices.

A senior committee at the Bank under my chairmanship has considered whether any of these changes constitutes a "fundamental change" in the RPI which would be "materially detrimental" to the interests of holders of relevant index-linked gilts (ILGs). This pertains to the ONS's and the Bank's obligations under Section 21 of the Statistics and Registration Service Act 2007.

The committee concluded that none of items (i), (ii) and (iii) represents a fundamental change in the coverage or basic calculation of the RPI.

Committee members concluded that both the annual update of the basket of RPI items and the annual refresh of location rotation and re-enumeration are the sort of routine “maintenance” changes required to ensure the RPI remains consistent with its purpose. Following the enforced reduction during the pandemic the committee welcomes the return in 2023 to refreshing the usual number of 30 locations.

The committee considered whether changes to the price collection schedule and lead times for foreign holiday items would be materially detrimental to the interests of holders of relevant ILGs, and concluded that the ONS proposal to run a dual collection for 2023 so that prices in 2024 can be compared with prices recorded in the same part of the month should cancel out any regular seasonal factors. It also noted that the calculation of package holiday indices using a weighted average of the 12 month price relatives over the past 12 months should reduce the impact of any other timing factors. It therefore concluded that the changes would not be materially detrimental to the interests of holders of relevant ILGs.

In respect of items (iv) and (v) the committee concluded that neither is a change to the coverage of RPI, as the data sources being introduced do not affect the target population of the RPI or the composition of its consumption basket. However, the committee views both to be **fundamental changes to the basic calculation of the RPI**.

Regarding rail fares: there are currently no raw prices used for the RPI series (it is instead based on the headline increase in regulated rail fares), so the use of actual quotes for Great Britain is a significant change. In addition, the use of multilateral methods, along with near-real-time weights, constitutes a significant change in the way the RPI’s components are typically calculated.

The new method for measuring changes in second-hand car prices is also viewed as a fundamental change to the basic calculation of the RPI. The current approach tracks a fixed sample of cars starting in January throughout each year. The new approach instead uses data from Auto Trader to provide a far larger and more dynamic sample, and so the aggregation formulae are therefore more complex.

While changes (iv) and (v) are significant, **the evidence does not indicate that on a balance of probabilities either change would be materially detrimental to the interests of holders of relevant ILGs**. In the sample periods available, the new data sources and methodologies resulted in indices that were similar to the published series. This, combined with the small weight of the affected items, means there would have been minimal effects on the RPI in recent years.

However, the committee noted the intention to apply these new methods, using more detailed information about individual prices, to other components of the index. Potentially, these might have more significant effects on measured RPI inflation. The committee would assess any such changes on a case-by-case basis, as and when they occur.

As the ONS begins to make use of new very large data sets, the committee appreciates its commitment to high standards of due diligence and governance. The committee welcomes the planned further communication from the ONS about its data governance if and when these changes are announced in the new year.

A copy of this letter goes to Sam Beckett, Grant Fitzner, Jason Zawadski and Chris Payne at the ONS, Daniel Gallagher and Thomas Yeomans at the Treasury, and to Simon Hayes, Rhys Philips, Carleton Webb and Simon Kirby at the Bank of England.

Yours sincerely

Ben Broadbent