



BANK OF ENGLAND

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Ben Broadbent
Deputy Governor, Monetary Policy

10 December 2019

Dear Mike

Proposed changes to RPI in 2020

I refer to your letter of 28 November 2019 addressed to Simon Hayes and Rhys Phillips, which covers the following planned changes to the Retail Prices Index (RPI): the 2019 annual update of the basket of RPI items (including the removal of the separate 'imported lamb' section); the updating of shop-type weights; the migration of some ONS systems to different platforms; and the use of automated methods to collect some prices.

A senior committee at the Bank under my chairmanship has considered whether any of these would constitute a "fundamental change" to the RPI that is also "materially detrimental" to the interests of holders of the relevant index-linked gilts. This pertains to the ONS's and the Bank's obligations under Section 21 of the Statistics and Registration Service Act 2007.

Committee members concluded that both the basket update and the reintroduction of routine annual updates of shop-type weights represent the sort of routine "maintenance" change that ought to be expected to ensure that the RPI remains consistent with its purpose. Committee members agreed that the proposal to remove the RPI section for "imported lamb" brings the collection of lamb prices into line with the level of detail provided for other items such as beef and pork, so was not a change to coverage.

Committee members also considered the move of the production of the private rents for England from the Valuation Office Agency to the ONS, the continued migration of some ONS functions to alternative platforms and the move towards using automated price collection tools. As you note in your letter, these changes are expected to enable the ONS to carry out more detailed quality assurance, reduce the scope for error and improve efficiency, but will not affect the data sample or processing of the data following collection. The committee noted that the new automated price collection tools will be used in the first instance for items for which prices change infrequently. If these tools were in future to be used for items where prices may change more frequently it might be necessary to reassess their impact. This is because of the potential interaction between the formulae used to aggregate price quotes and the effect of alterations in the frequency or timing of price collections on the dispersion of price changes.

In summary, the committee was of the view that none of the planned changes referenced above constitute fundamental changes to the coverage or basic calculation of the RPI, nor would they be materially detrimental to the holders of relevant index-linked bonds.

A copy of this letter goes to Vanessa MacDougall and Daniel Gallagher at the Treasury, to Jonathan Athow and Grant Fitzner at the ONS, and to Simon Hayes, Rhys Phillips, Simon Kirby and Nicholas Butt at the Bank of England.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ben Broadbent'.

Ben Broadbent
Deputy Governor, Monetary Policy