



T: 0300 244 4000
E: scottish.ministers@gov.scot

Dr Sally Witcher OBE
Scottish Commission on Social Security
c/o Secretariat
Victoria Quay
Edinburgh
EH6 6QQ

info@socialsecuritycommission.scot

18 September 2019

Dear Dr Witcher,

ANNUAL UPDATING OF SOCIAL SECURITY ASSISTANCE – POLICY PAPER AND ANALYTICAL REPORT

I am aware that you are currently considering the updating policy paper and analytical report that I sent to you on 2 September 2019. However, I wish to update you with regards to the response by the UK Government to the House of Lords Economic Affairs Committee's report 'Measuring Inflation' that was published in January 2019 and which is referred to in our report.

The UK Government was due to provide a response to the House of Lords Economic Affairs Committee report by the end of April 2019 but had indicated it would take longer due to the complexity of the issue. The UK Statistical Authority and the Chancellor of the Exchequer responded to the issues raised in the Committee's report on 4 September 2019. The responses are available at: <https://www.gov.uk/government/publications/a-response-from-sajid-javid-to-sir-david-norgrove-on-uksas-proposed-reform-of-the-retail-prices-index-and-the-governments-response-to-the-house-of> and <https://www.statisticsauthority.gov.uk/correspondence/authority-response-to-lords-economic-affairs-committees-report-measuring-inflation/>

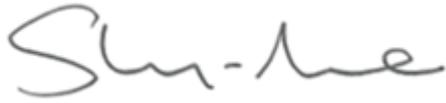
A summary of these responses is attached in **Annex A**.

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

I understand my officials attended your meeting on 10 September to discuss the uprating policy paper and analytical report and were able to update you with this information. I hope that you found it helpful. I look forward to receiving your response to the report.

Yours sincerely



SHIRLEY-ANNE SOMERVILLE

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot



Chancellor's response to the House of Lords' 'Measuring Inflation' report – Summary Note

This note provides a summary of UK Statistical Authority (UKSA) and the Chancellor's responses to the issues raised in the House of Lords Economic Affairs Committee's 'Measuring Inflation' report.

Key Points

- The UKSA chairman – Sir David Norgrove - confirmed that both UKSA and the Office for National Statistics “are clear that the RPI is not a good measure of inflation”.
- In his letter to the Chancellor, Sir Norgrove proposed two courses of actions – to introduce primary legislation to cease the production of RPI and, whilst the primary legislation process is ongoing, address the shortcomings of the RPI by adopting the methods of the accredited CPIH measure.
- The Chancellor has rejected the UKSA proposal to cease the publication of RPI although he confirmed that the UK Government will not introduce new uses of RPI. However, the UK Government will continue to consider its current use of RPI at future fiscal events.
- The Chancellor has agreed with UKSA's proposals to align the RPI's methodology with CPIH. These changes however are likely to take place only after 2025 following a consultation.
- The Chancellor, in his letter to the Economic Affairs Committee, confirmed that the UK Government has no current plans to stop issuing gilts linked to RPI.
- In his response to the Committee, the Chancellor stressed that the UK Government views CPIH as conceptually the best measure of inflation with the objective of CPIH becoming the Government's headline measure of inflation over time.

House of Lords Economic Affairs Committee recommendations for the use of RPI

The Committee was critical of the authorities for allowing the flaws in RPI to remain unaddressed and recommended that UKSA should put forward proposals to 'fix' RPI. It also recommended that the UKG should adopt a single general measure of inflation for all purposes and noted that, with improvements, RPI could be a viable candidate for measuring inflation. Finally, the Committee has also called for the UK Government to stop issuing RPI-linked gilts and begin to issue gilts that are linked to CPI instead.

On 4th September 2019, the UK Government published the following correspondence:

- UKSA proposals for the future of the UK's consumer price statistics;
- Response of the Chancellor of the Exchequer to the UKSA proposals;

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

- Response of the Chancellor of the Exchequer to the House of Lords Economic Affairs Committee recommendations;
- UKSA response to the House of Lords Economic Affairs Committee recommendations.

As this correspondence was published after our review of evidence had been shared with the Social Security Committee and SCoSS, this information is additional to what was included in the material shared on 2nd September.

UKSA proposals for the future of the UK's consumer price statistics

The chairman of the UK Statistics Authority (UKSA), Sir David Norgrove, issued a letter to the then Chancellor of the Exchequer on 4 March 2019 which was published on 4 September 2019. In his letter, he made clear that “the RPI is not a good measure of inflation” but one they are “legally obliged to produce”. He recommended that the publication of the RPI be stopped at a point in future and, in the interim, the shortcomings of the RPI be addressed by aligning its methodology with that of the CPIH. UKSA proposal, however, did not go into more detail about how CPIH methodology would be linked to RPI.

However, UKSA would require the consent of the Chancellor for any changes they take forward that the Bank of England considers ‘both fundamental and materially detrimental’ to the holders of UK Government debt for which payments are adjusted by RPI, namely RPI-linked gilts. Since the Bank of England considers these changes to be fundamental and materially detrimental, consent of the Chancellor for the proposed change to RPI is required up to 2030 when the last relevant gilts mature.

Response of the Chancellor of the Exchequer to the UK Statistics Authority proposals

In his response, the Chancellor of the Exchequer stressed that ending the publication of the RPI would potentially be highly disruptive for the wide range of existing users of RPI. In light of this and UKG’s focus in the next few months on Brexit, the Chancellor will not promote legislation that would remove the requirement for UKSA to produce and publish RPI.

At the same time, the Chancellor confirmed that he will not approve the UKSA recommendation to align CPIH methods with RPI any earlier than February 2025. This is because the full extent of the effects on users is unknown and the private and public sectors would need substantial time to prepare for any changes in the RPI.

To understand the potential effects of aligning CPIH with RPI and uncover potential technical matters, the Chancellor proposed that UKG consult publicly on whether this change should be made at a date other than 2030. UKG and UKSA will begin the consultation in January 2020 and the responses will be published before the Spring Statement and the end of the financial year.

Response of the Chancellor of the Exchequer to the House of Lords Economic Affairs Committee recommendations

Responding to the Committee, the Chancellor referred to UKSA’s proposal to align CPIH methods with RPI in order to ‘fix’ RPI and the consultation that will be taken forward in January 2020.

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

St Andrew’s House, Regent Road, Edinburgh EH1 3DG
www.gov.scot



In response to the recommendation to adopt a single general measure of inflation, the Chancellor stressed the UKG's objective of CPIH becoming the headline measure of inflation over time. However, he suggested that the UKG will continue to consider its use of RPI at future fiscal events drawing on the evidence from the consultation.

The Chancellor, in contrast to the recommendation made by the Committee to begin issuing gilts linked to CPI as opposed to RPI, confirmed that UKG has no current plans to stop issuing RPI-linked gilts. He noted that the UKG has consulted on this matter previously and rejected the proposal due to concerns over the demand for CPI-linked bonds and likely implications for cost-effectiveness of such issuance.

In addition, the Chancellor rejected the proposal to remove the requirement on the UKSA to publish RPI, because of its current widespread use across the economy. Instead of discontinuing the publication of RPI, the Chancellor reiterated the acceptance of the UKSA proposal to improve RPI by aligning it with CPIH.

UKSA response to the House of Lords Economic Affairs Committee recommendations

On 4 September 2019, UKSA provided a detailed response to the recommendations raised by the House of Lords Economic Affairs Committee. While UKSA recognised that there is never likely to be unanimity on the correct formula to use, they stressed that in their view “the Carli is not generally a good index”. Carli formula is used in the calculation of RPI and UKSA have noted that it has undesirable properties highlighted widely by many technical manuals and academic papers.

In addition, UKSA rejected a recommendation by the Committee to engage further with stakeholders and users on the best method for capturing owner-occupier housing costs and noted that the ONS have consulted widely on the matter of rental equivalence over the last 10 years and they do not intend to undertake any further engagement with users or experts. The previous consultations led to the use of CPIH methodology.

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

