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27<sup>th</sup> November 2017

Dear First Minister,

### **Air Passenger Duty, business rates, and the Retail Prices Index**

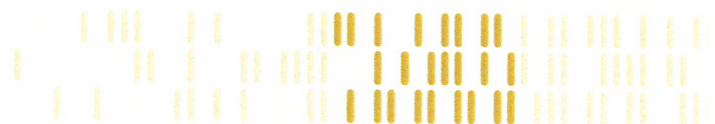
I am writing in view of the recent public debate about the level at which Air Passenger Duty (APD) should be set.

As APD for flights leaving Scotland will become a devolved responsibility from next year, I would encourage the Scottish Government to ensure that, as it plans future APD levels, it avoids a fundamental problem that lies at the heart of the current system.

At the Royal Statistical Society, we believe it is simply wrong that APD levels are currently tied to the Retail Prices Index (RPI). This is unjustifiable in light of the index's technical shortcomings, its loss (nearly five years ago) of official 'National Statistic' status, and the independent and authoritative advice – from, among others, the Office for National Statistics (ONS) – that the RPI should no longer be used for such uprating purposes.

This month, Sir David Norgrove (Chair, UK Statistics Authority), while giving evidence to the Public Administration & Constitutional Affairs Committee, also said that he deprecates the use of RPI in this way.

We are concerned that the RPI, which over-estimates inflation, is being used in a selective manner, and that this tends to have an effect of excessively increasing people's outgoings: for example, student loan repayments, rail fares, and, of course, APD. The Consumer Prices Index (CPI), which generally provides a lower estimate of inflation, tends to be used by the Government when uprating people's incomes (in the form of pensions or benefits).



The ONS considers that technical issues with the RPI are beyond repair, due to legal and other constraints. We therefore advise much more consistent use of CPI or CPIH (CPIH being CPI with a measure of housing costs). This should be complemented in due course by the ONS's new Household Costs Indices, which will more fully address the experience of price changes in typical households.

Accordingly, we hope the Scottish Government will ensure that any future adjustments in APD (or any new version of this tax), are linked to a measure of inflation which has the confidence of the UK Statistics Authority and ONS. We would be delighted if the Scottish Government's upcoming Budget addresses this issue.

Furthermore, the linkage of business rates to the RPI is subject to the same statistical concerns. The Barclay Review, which reported this summer, recommended that Scotland should move to a more widely accepted measure than RPI for business rates. In February, the UK Government announced that business rates for England will be pegged to the CPI (switching from the RPI), and this change was brought forward in last week's Budget to April 2018. We would be supportive of a similar change in Scotland.

In terms of the relevance of this issue to the RSS: we are a charity which supports the important role of statistics and data in society. One of our key strategic goals is for statistics to be used effectively in the public interest, so that policy formulation and decision-making are informed by evidence for the good of society. We are also a professional membership body with around 8000 individual members, over 500 of whom are based in Scotland.

I have copied this letter by email to the Cabinet Secretary for Finance and the Constitution, and look forward to hearing your thoughts in due course.

Yours sincerely,



**Hetan Shah**  
Executive Director