**The PUBLIC SERVICE PENSIONERS’ COUNCIL (PSPC)**

**Submission to the House of Lords Economic Affairs Committee**

**“The use of the retail prices index (RPI)”**

Founded over 50 years ago, the PSPC brings together the various organisations for retired public servants and retired members’ sections of public sector unions. We campaign alongside other pensioners’ organisations, to protect the interests of current and future pensioners, and the value of state and public service pensions.

The PSPC has been tracking the operation of various rates of inflation for a number of years in order to campaign for an accurate and fair measure of increases in the cost of living (and pensions) on behalf of our constituent members. We have written three times recently on this subject to the Chief Secretary to the Treasury (please see annex to this submission).

**Q1. The current situation regarding the retail price index is untenable. Do you agree? If so, what would you recommend is done to improve this situation?**

We agree that the current situation with RPI is unsatisfactory. Firstly, the RPI has had its status as a National Statistic withdrawn and the ONS has classified it as a ‘legacy’ measure and declined to improve it.

This has served as a justification to its previous withdrawal from uprating some public sector pensions, however, the government continues to use the RPI to raise revenue, rail fares, student loans, etc., and the CPI when paying out in terms of benefits, pensions, raising tax thresholds, etc. This is unfair and engenders a lack of trust in the use of these statistics.

We understand that there are legitimate reasons for having more than one index, but this means that those using them need to ensure they select the most appropriate index for any specific purpose. We would welcome a requirement for the government to justify linking price rises / cost of loans to differing rates of inflation. We believe that transparency around these decisions would increase the Public trust in such measures.

**Q2. Should the retail price index be abolished? If so, how should that be achieved?**

No, the RPI enjoys considerable public support and as stated above, it is used extensively in public and private contracts. Abolishing this index would undermine trust in the applicability of our statistics. If the RPI continues to be used to uprate services and utilities, it is appropriate that its formulation continues to be developed to ensure it is fit for this purpose.

PSPC understands that there are two classes of inflation – Macro-Economic and Household indices-as identified by the National Statistician. PSPC considers that it is important that both types of index are available to measure the economy.

The ONS is developing a new index that it hopes will fulfil the Household index function and the PSPC supports the development of the Household Inflation Index (HII) by Jill Leyland and John Astin. It is imperative that any measure of price changes should properly reflect any changes in prices as experienced by UK households and concentrate on the practical realities and making the index transparent for the general public, rather than academic interest.

This index will not be available for some considerable time and at present the only index that provides a measure of household inflation is the RPI which is another reason for its retention.

**Q4. What would the implications be of changing or abolishing the retail price index?**

The level of inflation is one of the most important statistics produced by the ONS. It informs us about the value of our money compared to its value in the past. This helps us to ensure that the money received tomorrow will buy more or less the same as it does today, this is crucial in the case of pensions.

The RPI was designed with this intention and currently is the only index that fulfils this purpose. The RPI should therefore continue to be maintained in accordance with its underlying principles. Abolishing it would result in a diminished understanding of the way in which our economy is working especially in terms of the effect of rising prices on households.

The CPI, is a macro-economic index, designed to compare costs internationally, but not designed as a measure of price increases affecting households. However, CPI is widely used in uprating pensions in the public sector and is an element of the Triple Lock on State Pension.

**Conclusion and further evidence**

PSPC are keen that this consultation does not waste the opportunity presented to ensure that the differing rates of inflation used for both microeconomic and macroeconomic purposes are applied properly and fairly.

The government will not justify its selection of price index for different uses i.e. CPI for pensions increases and paying money out, but RPI for charging on student loans and services to the public by private operators e.g.; rail and mobile phone service providers.

In addition, regulators such as Ofcom and Ofgem allow private companies and utilities providers to increase their prices by RPI, when their customers will not see an equivalent increase in their wages or pensions. We would like the Government to press these regulators to require that indexation used to uprate prices is in accordance with that used to increase income – pay and pension.

If the Committee has any questions on this submission, please contact the PSPC General Secretary, Lisa Ray at [pspc@cspa.co.uk](mailto:pspc@cspa.co.uk) or telephone 0208 688 8418.