



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Ms Lisa Ray
General Secretary of Public Service Pensioners' Council
Civil Service Pensioners Alliance
Grosvenor House
125 High Street, Croydon
CR0 9XP

7 September 2018

Dear Lisa,

GOVERNMENT'S USE OF DIFFERENT INFLATION MEASURES

1. Thank you for your letter of 31 July setting out further concerns about the Government's use of different inflation measures.
2. As previously explained, the problems with RPI are well known and the Government has committed to reviewing the use of RPI for indirect taxes once its fiscal consolidation plans have been implemented. However, were the Government to move all indirect taxes off RPI immediately this would result in a significant shortfall for the public finances. In order to mitigate this, other taxes would have to be increased to cover the shortfall, spending on vital public services would have to be cut or borrowing would have to increase, burdening future generations with higher debt.
3. Your letter raises concerns about consumer protection in the regulated sectors. The government periodically reviews the UK's consumer protection regimes to ensure consumers' interests are safeguarded in our economy, and recently published its 'Modernising Consumer Markets: Consumer Green Paper'. This seeks views on improving the consumer experience in modern regulated markets for utilities, telecommunications and financial services, as well as exploring how to ensure the roles of government and the regulators are clear in working together to create well-functioning consumer markets and an environment for long-term investment.
4. In relation to mobile phone pricing, Ofcom, the UK's independent communications regulator, has a principal duty to further the interests of citizens and consumers. Where appropriate, Ofcom seek to meet this through competition and their



recent analysis shows that prices, in real terms, for mobile phone communications across a range of consumer profiles decreased by 14.2% in 2017, excluding the cost of handsets.¹ Ofcom's General Conditions of Entitlement – the regulatory rules that all communications providers must follow to operate in the UK – also provide consumer protection. For example, where a price increase causes material detriment to the consumer, the provider must give the consumer at least one month's notice and allow them to exit their contract without penalty (guidance explains the treatment of inflation-linked price increases subject to the contract wording).

5. With regards to your reference to Ofgem, we acknowledge that the energy market hasn't been working for ordinary consumers. For millions of households, energy tariffs are far too high. That is why the Government has legislated to require Ofgem to implement a temporary price cap on standard variable and default tariffs by the end of the year. The cap will guarantee protection for 11 million households currently on the highest energy tariffs – in addition to 5 million vulnerable households already protected by Ofgem's safeguard and prepayment meter (PPM) caps. This will be in place until 2020 when Ofgem will recommend to government whether it should be extended on an annual basis up to 2023.

6. You asked why it is appropriate to uprate regulated train fares by RPI. The cost base of the industry is a key driver of fares and these costs are currently uprated in line with RPI. The Government is committed to helping passengers, but not at the expense of the taxpayer. As part of our reform agenda, we want to work with the unions to move the industry cost base from RPI to CPI.

7. You asked what CPIH would have to display before being used for policy purposes. The development of CPIH has taken a long time, with it gaining and subsequently losing National Statistic status in 2014. It has now regained National Statistic status. We would now like to see CPIH establish a track record of publications as a National Statistic. Further,

¹ Pricing trends for communications services (Ofcom, 2018); <https://www.ofcom.org.uk/research-and-data/multi-sector-research/general-communications/pricing>



the official series for CPIH begins in 2005. The ONS are developing a modelled back series to help users of inflation statistics understand the behaviour of the statistic over a longer time horizon. As you will be aware, the only difference between CPI and CPIH is the inclusion of owner-occupier housing costs in CPIH. These tend to move in relation to the housing market, and therefore the properties of CPIH relative to CPI in the current data series are likely to be significantly affected by the large changes in house price inflation since 2005. Understanding better the properties over a longer historical series will help inform our understanding of the fiscal impact of using CPIH. As the Chancellor set out at the Treasury Select Committee on the 25 April 2018, he ultimately expects that indexation will move onto CPIH, but that the transition must consider the fiscal cost of such a change.

Best wishes,

A handwritten signature in blue ink, which appears to read 'Elizabeth Truss'.

RT HON ELIZABETH TRUSS MP