



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

25 September 2017

Dear Lisa,

#### GOVERNMENT'S USE OF DIFFERENT INFLATION MEASURES

1. Thank you for your letter of 30 August on the Government's use of different inflation measures.
2. You are correct that the Government currently makes use of both the CPI and RPI price indices. In 2011 the uprating of pensions and some benefits was moved from RPI to CPI on the basis that CPI provides a more appropriate measure of recipients' inflation experiences. This is because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright), and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. It also makes uprating consistent with the Bank of England's inflation target.
3. At that time the Government committed to reviewing the use of RPI for indirect taxes once its fiscal consolidation plans have been implemented. The Government has made good progress on this, reducing the deficit by three quarters from its post-war peak as a share of GDP. However, our national debt remains too high at almost £65,000 for every household.



4. RPI lost its National Statistic status in 2013. However, it has not always been clear what measure of inflation the Government should use as an alternative. The Johnson Report on Consumer Price Statistics recommended we make greater use of CPIH, but at the time it was not a National Statistic. In fact, CPIH has only regained this status in July. We believe that CPIH needs time to establish itself as a National Statistic before it is considered for policy purposes.

5. You are also correct that the ONS are developing a new measure of the change in costs faced by specific groups of households. These will be known as Household Cost Indices. However, these are still at an early stage of development. It is therefore too soon to know if these statistics will be useful from a policy perspective.

6. I hope that helps you understand the current use of inflation statistics across Government.

Best wishes,

A handwritten signature in blue ink, reading "Elizabeth Truss".

ELIZABETH TRUSS MP