

Public Service Pensioners' Council

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The Rt Hon. Elizabeth Truss MP
Chief Secretary to the Treasury
Unit 1, Horse Guards Rd,
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Dear Ms Truss,

12 December 2017

GOVERNMENT'S USE OF DIFFERENT INFLATION MEASURES

Thank you for your reply of 25 September 2017, regarding the current use of inflation statistics across Government.

My Executive Committee has asked me to write to you again, because it thought your letter was not sufficiently clear on why different rates continue to be used when charging or paying the public.

You state that the use of RPI would be reviewed for indirect taxes once the Government's fiscal consolidation plans have been implemented. Following the Budget, this could be well into the late 2020s. Meanwhile, utility companies, train operators and student loans continue to increase their charges by a measure that lost its National Statistic status in 2013.

The PSPC believes that this approach damages public confidence in the fairness of inflation measures. It cannot be right that RPI is a sufficiently good measure of inflation when it comes to taking money in, but is not an acceptable measure when it comes to paying money out.

The Johnson Review of indexation measures stated that the differential use of CPI and RPI should stop. Your response seems to say that there is no alternative to the use of RPI and CPI because there are currently no suitable indexation methods ready. It seems that there has been a lack of foresight and planning in ensuring that indexes fairly reflect household experience of price increases.

As I said in my last letter, we believe that there are serious weaknesses with the use of macroeconomic measures such as CPI or CPIH as inflation indices for households. We are therefore watching with interest the development of the Household Inflation Index (HII) by the Royal Statistical Society. This should help the development by ONS of a measure that tracks the cost of living changes facing different households, including pensioner households.

General Secretary: Lisa Ray

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The PSPC also believes that there are significant weaknesses in the argument that CPI better reflects inflation experiences, especially for pensioners. You state that the change took place because “CPI excludes the majority of housing costs because recipients are receiving Housing Benefit and most pensioners own their homes outright”. This statement is being, and will be, overtaken by events. A recent report stated that many more pensioners are now renting from private landlords - across Britain, retired people now account for 8 per cent of tenants, compared with around one in 20 (5.2%) in 2007 (source: lettings network Countrywide). Around one in every 12 private rental sector tenants is now a pensioner. Current trends indicate that fewer members of each cohort are owner-occupiers at each stage of their working lives. Logically this implies more will become lifetime renters.

The PSPC accepts that it is difficult to arrive at an accurate measure of increases in the cost of living, but we find the selective use of these indices unfair and damaging to public confidence. It cannot be right that wages and occupational pensions are increased more slowly than the charges for services used by wage earners and pensioners.

We believe that whilst work continues on the HII, Government should ensure some measure of fairness by the use of one indexation rate.

Yours sincerely,

Lisa Ray
General Secretary