

17th August 2020

CWU Response to the joint HM Treasury and UK Statistics Authority Consultation on the Reform to Retail Prices Index Methodology

Introduction

1. The Communication Workers Union (CWU) is the largest union in the communications sector in the UK, representing approximately 192,000 members in the postal, telecoms, financial services and related industries.
2. **The CWU and the wider trade union movement have long considered RPI to be the most suitable measure of inflation for assessing the rising cost of living for working households.** Whilst the CPI and CPIH were designed for macroeconomic purposes, the RPI was intended primarily to measure the impact of inflation on a typical household. Its original use was as a guide for wage and salary increases. **In the interests of helping to ensure that pay keeps pace with the increase in costs faced by workers, we believe that RPI must continue to be based on its existing core methodology. This is also important to make sure that pensioners do not lose out** where their pensions are increased annually by reference to RPI.
3. **We disagree with the UK Statistics Authority's proposal to impose the CPIH methodology on the RPI** as CPIH has recognised weaknesses of its own, and the change would remove the RPI's distinct role of measuring inflation as it affects British households. The proposal has also been criticised as unsatisfactory by both the House of Lords Economic Affairs Committee and the Royal Statistical Society (RSS).¹ We believe that the Carli formula should continue to be used for RPI, but that **methodological changes should be introduced to address any issues with price quotes for clothing.**

Background to the Consultation

4. The trade union movement has consistently opposed the attacks made on the RPI over the past decade. In line with the TUC's written evidence to the House of Lords Economic Affairs Committee in 2018², the CWU rejects the idea that the RPI is fundamentally flawed.

¹ Responding to the UK Statistics Authority Plan to sabotage the RPI, TUC, 1st April 2020, accessed at: <https://www.tuc.org.uk/blogs/responding-uk-statistics-authority-plan-sabotage-rpi>

² Trades Union Congress (TUC) Written Evidence to the House of Lords Economic Affairs Committee (2018) - <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/economic-affairs-committee/the-use-of-rpi/written/86883.html>

The final House of Lords *Measuring Inflation* report of 2019 laid out a similar position and stated that “periodic methodological improvements [to the RPI] should be resumed.”³

5. The UK Statistics Authority (UKSA) believes that there is a problem with the RPI which is an unintended consequence of a routine methodological improvement to the collection of price quotes for clothing since 2010. Independent experts have argued that this change to the method for collecting clothing prices is the only serious issue with RPI.⁴ There is also widespread agreement that the Carli formula only produces substantial upward bias when used with the new clothing data.⁵ The Office for National Statistics said that the change to clothing price collection was responsible for almost all of the overall formula effect.⁶ UKSA acknowledges this, as shown in Sir David Norgrove’s⁷ response to the House of Lords report in 2019, “*We agree that the interaction between the Carli index and the collection of clothing prices created an increase in the rate of RPI inflation in 2010.*”⁸ UKSA has a statutory duty to promote and safeguard the quality of official statistics. Despite this, UKSA has refused repeatedly to correct this. Against this backdrop, the CWU does not accept the decision of UKSA and the National Statistician to ignore the House of Lords recommendation to recommence improvements to the RPI.
6. UKSA’s proposal to bring the methods and data sources from the CPIH into the RPI would mean the introduction of a contentious measure of owner occupiers’ housing costs (CPIH) into RPI. It would also mean switching to the Jevons (geometric) formula which is guaranteed to produce a lower inflation rate, and has been criticised for downward bias.⁹
7. The Lords Economic Affairs Committee has raised concerns with both of these changes. On the former the Lords said “*We are not convinced by the use of rental equivalence in CPIH to impute owner-occupier housing costs*”. On the latter, the Lords rejected the UKSA position that the formula effect debate was resolved. Instead, the Lords reported a lack of consensus on the issue saying they were “*not in a position to reach a conclusion on whether the Carli [arithmetic] formula is problematic in areas other than clothing*”.¹⁰

³ House of Lords Economic Affairs Committee *Measuring Inflation Report* (2019) - <https://publications.parliament.uk/pa/ld201719/ldselect/ldeconaf/246/246.pdf>

⁴ See for example evidence from written evidence from Jill Leyland to House of Lords Economic Affairs Committee, 20th August 2018, accessed at:

<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/economic-affairs-committee/the-use-of-rpi/written/87660.html>

⁵ See para 87 in House of Lords Committee *Measuring Inflation Report* 2019

⁶ See para 62 in House of Lords Committee *Measuring Inflation Report* 2019

⁷ Sir David Norgrove was appointed Chair of the UK Statistics Authority in March 2017

⁸ UK Statistics Authority response to the House of Lords report (2019) -

https://uksa.statisticsauthority.gov.uk/wp-content/uploads/2025/09/20190904_Response_to_LEAC.pdf

⁹ TUC written evidence 2018, *ibid*

¹⁰ The statistical authorities abandon their duty to protect RPI, TUC, 5th September 2019, accessed at:

<https://www.tuc.org.uk/blogs/statistical-authorities-abandon-their-duty-protect-rpi> ; and House of Lords Economic Affairs Committee *Measuring Inflation Report* (2019) -

<https://publications.parliament.uk/pa/ld201719/ldselect/ldeconaf/246/246.pdf>

Question 6: Are there any other issues relevant to the proposal the Authority is minded to make of which the Authority or the Chancellor ought to be aware?

8. The CWU is of the strong opinion that the CPIH methodology should not be imposed on the RPI. Given the concerns about the use of rental equivalence in CPIH to impute owner-occupier housing costs, it makes little sense to impose a methodology on the RPI that in itself has problems. Instead, the RPI should be improved and reinstated as a national statistic. We support the Lords Economic Affairs Committee in disagreeing with the UK Statistics Authority that RPI does not have the potential to become a good measure of inflation.¹¹

The need for different price indices for different purposes

9. The CWU supports the Royal Statistical Society's view that different inflation indices are needed for macroeconomic purposes and measuring the impact of inflation on households.¹² The need for more than one type of consumer price index is also internationally recognised.¹³ The CPI and CPIH were designed to measure the impact of inflation for macroeconomic purposes, whilst the RPI was intended primarily to measure the impact of inflation on a typical household. Its original use was as a guide for wage and salary increases. This shows that there is a role to play in public policy for the CPI, the CPIH and the RPI.

The relevance of RPI for workers

10. When looking at the calculation of the CPI, CPIH and RPI, it is clear the RPI is the best measure of inflation for working households. The weighting for CPI and CPIH is based on total expenditures in the economy on each product measured. They therefore give more weight to higher spending (normally wealthier) households. The RPI, on the other hand, excludes the top 4 per cent of households by income as well as pensioner households and, as such, better reflects the experience of most working households.

The threat to occupational pension schemes

11. It is also of particular concern that the switch from RPI to CPI will affect defined benefit pension schemes which are heavily invested in RPI-linked gilts. These occupational pensions represent deferred pay which workers build up over the course of their working lives. The CWU has thousands of members in such schemes and strongly opposes any changes that will leave them out of pocket. Any such changes would disproportionately affect women, who have a longer average life expectancy, and younger pensioners who will experience a compounding effect throughout their retirement.¹⁴

¹¹ House of Lords Economic Affairs Committee Measuring Inflation Report (2019) -

<https://publications.parliament.uk/pa/ld201719/ldselect/ldeconaf/246/246.pdf>

¹² Royal Statistical Society (RSS) Written Evidence to the House of Lords Economic Affairs Committee (2018) -

<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/economic-affairs-committee/the-use-of-rpi/written/85622.html>

¹³ Consumer Price Index Manual, Theory and Practice (2004) - http://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/presentation/wcms_331153.pdf

¹⁴ Women and younger pensioners to get large pension reduction (2020) -

<http://www.actuarialpost.co.uk/article/women-and-younger-pensioners-to-get-large-pension-reduction-18063.htm>

12. If RPI is amended in line with the Government's proposal then there will be a massive transfer of wealth from workers' pensions. Royal Mail has done some rough calculations which highlight the significant impact of this on pension benefits. As an example, they estimate that an average 55-year-old member in Section C of the Royal Mail Pension Plan – which has over 100,000 members in total - would see a loss in value to their pension of around 12 per cent under the proposals.
13. Members of the BT Pension Scheme, which supports 205,000 pensioners and almost 81,000 people yet to draw their pensions, will also see a significant reduction in the value of their pensions if the proposals go ahead. A report sponsored by the BT Pension Scheme found that the change could reduce the value of RPI index linked pension benefits by nearly 10 per cent. It also said that around two thirds of defined benefit pension schemes uprate pensions each year in line with RPI.¹⁵ With over 5 million pensioner members and 1.1 million active members of private sector DB schemes in the UK, these changes will reduce income in retirement for millions of individuals, leading to higher levels of pensioner poverty and hardship.¹⁶

Changes to clothing price collection

14. The only significant issue that has been highlighted in the recent discussions around the RPI methodology relates to changes to the collection of price quotes for clothing¹⁷, which has caused the 'formula effect'¹⁸ to widen. As former RSS Vice Chair Jill Leyland has said, much of the criticism of the RPI other than on this point comes from those who consider that all such indices should be designed to be appropriate for economic purposes (as opposed to how it affects households).¹⁹
15. The *Measuring Inflation* report is clear that UKSA should seek to resolve the issue with the measurement of clothing inflation instead of abandoning the RPI altogether. The CWU is

¹⁵ Switch away from 'flawed' RPI inflation measure in 2025 would cost BT pension scheme £1.7bn – and thousands of its workers nearly 10 per cent of their retirement income, This is Money, 13th April 2020, accessed at: <https://www.thisismoney.co.uk/money/pensions/article-8214047/Switch-away-flawed-RPI-inflation-2025-cost-BT-1-7bn.html> ; and How could changes to price indices affect DB schemes? Pensions Policy Institute, April 2020, accessed at: <https://www.pensionspolicyinstitute.org.uk/media/3466/20200401-how-could-changes-to-price-indices-affect-db-schemes.pdf>

¹⁶ Occupational pension schemes survey, UK: 2018, Office for National Statistics, 20th June 2019, accessed at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensionssavingsandinvestments/bulletins/occupationalpensionschemessurvey/2018#pensioner-members-in-receipt-of-occupational-pensions-estimated-at-102-million-in-2018>

¹⁷ In January 2010, the ONS implemented a number of methodological changes to the measurement of clothing prices in both the CPI and the RPI. These changes were made as measured clothing inflation prior to 2010 was considered to be too low. From 1987 to 2009, the average annual price change in women's outwear as measured by the RPI was a 2.5 per cent decrease; from 2010 to 2017, the average change was an 11.1 per cent increase. It is implausible that such a large swing is due to actual price rises since 2010. The change in measurement of clothing also affected the CPI but to a lesser extent due to the different formulas used in their calculation. See the following excerpt from the House of Lords *Measuring Inflation* report for more detail - <https://publications.parliament.uk/pa/ld201719/ldselect/ldeconaf/246/24605.htm>

¹⁸ The formula effect is the difference in the annual rate of change in the RPI compared to the CPI due to the way in which price averages are calculated.

¹⁹ Jill Leyland, written evidence to House of Lords Economic Affairs Committee, 20th August 2018, accessed at: <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/economic-affairs-committee/the-use-of-rpi/written/87660.html>

concerned that UKSA has not taken on board the recommendations of the Lords Committee to request a fix to this. We support the Committee's view that the Authority's position is untenable and that the Statistics and Registration Act 2007 requires it to request a fix to this, which the Chancellor should approve.²⁰ In claiming their position on imposing the CPIH methodology on RPI was supported by the Advisory Panel on Consumer Prices, UKSA misrepresent the panel who only went as far as agreeing the government should address the issue with clothing prices.²¹

Index shopping by Government

16. The formula effect, particularly after its widening in 2010, has allowed the Government to engage in blatant 'index shopping' to suit its own interests at the expense of the public who have had no say or influence on the matter. Where the Government collects money they use RPI, such as on rail fares and student loan repayments. Where they make payments they use CPI, such as on benefits and state pensions. Benefits, tax thresholds and public sector and state pensions were all switched from being uprated by RPI to CPI in 2011. This was a cynical move which has severely damaged public trust in Government statistics.

Index shopping by employers

17. Some employers also game the inflation measures used for uprating purposes, by relying on CPI in wage increases whilst using RPI to uprate the price of their own products and services. It is wrong for the workforce to pay RPI but receive CPI. Trade unions are able to challenge this where strong collective bargaining structures exist, but too many workers are being penalised in this way. As Unison has said, statisticians have provided "ammunition for some employers in seeking a considerably lower reference point for pay bargaining – worth about £350 a year to the average full-time UK worker."²²

18. This unjustifiable situation is having a damaging impact on the wage negotiation process. Pay discussions are commonly fraught by disagreements over the relevant measure of inflation rather than the appropriate increase relevant to that inflation. This is by no means a trivial issue when workers have just undergone the longest period of wage compression since the Napoleonic era.²³

Addressing the problem of index shopping

19. Index shopping should be stopped as a matter of urgency. This must involve correcting the clothing problem to deal with the widening of the formula effect so that there is less incentive for governments and employers to engage in this form of arbitrage. It must also include reinstating the RPI as a national statistic so that employers cannot so easily attempt to dismiss the RPI as irrelevant. There should be rules in place that establish a principled approach to uprating and prevent the Government from arbitrarily picking and

²⁰ House of Lords Economic Affairs Committee Measuring Inflation Report (2019), para 119, 2019 - <https://publications.parliament.uk/pa/ld201719/ldselect/ldeconaf/246/246.pdf>

²¹ Responding to the UK Statistics Authority Plan to sabotage the RPI, TUC, 1st April 2020, accessed at: <https://www.tuc.org.uk/blogs/responding-uk-statistics-authority-plan-sabotage-rpi>

²² TUC written evidence 2018, *ibid*

²³ 17-year wage squeeze the worst in two hundred years, Geoff Tily (2018) - <https://www.tuc.org.uk/blogs/17-year-wage-squeeze-worst-two-hundred-years>

choosing inflation measures at the expense of groups who are often already economically disadvantaged, such as pensioners and benefit claimants. The Lords Committee has proposed that in future there should be one measure of general inflation that is used by the Government for all purposes, in order to prevent index shopping. We support the Committee's view that with improvements, RPI would be a viable candidate for this single general measure of inflation.²⁴

Expert support for RPI and the Carli formula

20. Whilst accepting that the issue with clothing prices should be addressed, many respected economists have argued the relative merits of RPI based on its current methodology. This includes Dr. Mark Courtney who has advised that the CPI is likely to understate inflation by more than the RPI overstated inflation. The TUC has reported that Dr. Courtney has recently catalogued the opinion of genuine experts in the field to evidence further the invalidity of the UKSA position.²⁵

21. It is also worth noting that the influential 2015 Johnson Review's recommendation to make no further improvements to the RPI was predicated on the measure being phased out. Author of the review, Paul Johnson, has since changed his mind on the issue, stating in oral evidence given to the Lords Committee in 2018 that "you should consider asking [the Office for National Statistics] to correct the RPI rather than stick with its current policy of leaving it as it is... my mind has changed over the past several years."²⁶

Household Cost Index

22. We note that the Households Cost Index (HCI) currently being developed by the Office for National Statistics has the potential to help make any necessary methodological improvements to the RPI.²⁷ This is being designed as an uprating rather than macroeconomic measure. The template being used for the HCI has a number of desirable features such as a 'payments' approach to owner-occupied housing costs that aims to more accurately capture households' experience.²⁸ Before any change to RPI along these lines could happen however, a programme of work would be needed to ensure that HCI would not affect the Carli formula in an unbiased way.

²⁴ House of Lords Economic Affairs Committee Measuring Inflation Report (2019) - <https://publications.parliament.uk/pa/ld201719/ldselect/ldeconaf/246/246.pdf>

²⁵ TUC, 1st April 2020, *ibid*

²⁶ Uncorrected Oral Evidence: The use of RPI, House of Lords Economic Affairs Committee (2018) - <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/economic-affairs-committee/the-use-of-rpi/oral/85520.html>

²⁷ National Statistician's statement on the future of the Household Cost Indices (2019) - <https://www.ons.gov.uk/news/statementsandletters/nationalstatisticiansstatementonthefutureofthehouseholdcostsindices>

²⁸ Measures of owner occupiers' housing costs, UK: October to December 2019 - <https://www.ons.gov.uk/economy/inflationandpriceindices/articles/understandingthedifferentapproachesofmeasuringowneroccupiershousingcosts/octobertodecember2019>

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