Association of Accounting Technician's response to the House of Lords Economic Affairs Committee call for evidence into the use of the Retail Price Index (RPI)

The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to this call for evidence.

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?

AAT agrees that the use of RPI is becoming increasingly untenable. This situation can be improved by switching to a more accurate, more stable and internationally recognised measure of inflation (CPI) as soon as is practicable.

For many years AAT has called upon Government to switch from RPI to CPI with regard to business rate calculations and it recently did so. Similarly, in 2011, the Government changed the inflation measure from RPI to CPI for state benefits, including the state pension and tax credits. Public sector "final salary" schemes, such as the NHS pension scheme were also moved to CPI-based increases. CPI has been the measure used for the Bank of England's 2% inflation target for more than a decade. All of which demonstrates that Government already recognises that RPI should no longer be used.

The desire for change is widespread with even the Office for National Statistics (ONS) publicly stating earlier this year, *"Our position on the RPI is clear: we do not think it is a good measure of inflation and discourage its use. There are other, better measures available and any use of RPI over these far superior alternatives should be closely scrutinised.[1]"*

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

Yes. This would probably be best achieved by carefully analysing the impact for each area still currently covered by RPI and suggesting a timeframe for change rather than adopting a big bang type scenario which could have unintended consequences.

The use of both measures concurrently (because of RPIs historical relevance) should also be discouraged as this not only complicates matters but can provide a false impression that both are of equal status and acceptability and reliability.

If not, how should the retail price index be changed? If so, how should that be achieved?

As stated above, AAT believes that the best possible outcome would be for RPI to be replaced with CPI. That said, AAT recognises that improvements to RPI, not least undoing some of the 2010 changes that led to a problem with clothing calculations, might be helpful. However, making such changes would suppose RPI being maintained for a lengthy period of time and ignores the incremental moves towards CPI over the past decade or so.

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

A change to CPI would present some difficulties from a continuity perspective but these are not considerable and certainly do not outweigh the benefits of change. As the Economic Affairs Committee has rightly questioned before, why continue with something that is consistent rather than correct?

The continued use of a widely discredited inflation measure negatively impacts millions of people in the UK. For example, RPI is used as the inflation measure for annual rail fare increases and student loan repayments affecting millions of British residents. As a result, increases are higher than they would be under CPI. A reduction in such increases would clearly benefit commuters and former students repaying their loans.

Replacing RPI with CPI would also benefit taxpayers by reducing interest payments on hundreds of billions of public debt.

Given alcohol and tobacco duty is calculated using RPI, a switch to CPI here, may bring in less money than desired. This could be relatively easily solved by increasing such taxes by a certain rate of pounds or pence or by using a fixed percentage instead of using an inflationary measure.

Given RPI is ordinarily higher than CPI it is, as the TUC openly acknowledge, often the starting point for wage increase negotiations and so there could be a small impact on wage growth.

Index-linked gilts are a problematical area, especially as they continue to be issued on the basis of RPI. This could be addressed by ensuring all future gilts are issued on the basis of CPI. Those issued in the past could continue as they are for a reasonable period, say 5-10 years, before then making the switch.

In essence, there would be winners and losers from a change to RPI. It does appear that there is an element of what Lord Forsyth recently described as "*inflationary shopping*[2]" i.e. picking the measure that best suits the Governments purpose and whilst that may be understandable to a degree, from an economic perspective a stable, credible, accurate, internationally recognised measure of inflation should take precedence.

About AAT

AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 400,000 British businesses.

AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

Further information

If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy, at:

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[1] ONS, 18 March 2018:
https://www.ons.gov.uk/economy/inflationandpriceindices/articles/shortcomingsoftheretailpricesindexasameasureofinflation/2018-03-08

[2] House of Lords Economic Affairs Committee, January 30, 2018:
http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/economic-affairs-committee/governor-of-the-bank-of-england-2017/oral/77776.html