

## PAPER FOR CABINET OFFICE POLITICAL MEETING

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Cut ups to be sent to	
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Title	<i>Response to Consultation on the Future of the Manx RPI</i>
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### Summary of Responses to Consultation on the Future of the Manx Retail Prices Index (RPI)

#### Purpose

Between 6<sup>th</sup> April 2016 and 18<sup>th</sup> May 2016, Economic Affairs went out to public consultation to seek views on the future of the Manx RPI. This document sets out a summary of the responses received and seeks a decision on the way forward, bearing in mind the views aired by respondents.

#### Overview

Full details regarding the need for review of the RPI are available within the consultation document itself, which is set out as **Appendix One** to this paper. The consultation document also provides an overview of the differences between the RPI, Consumer Prices Index (CPI) and Retail Prices Index Jevons (RPIJ) and the merits and drawbacks of each.

Economic Affairs felt that there were three broad options for the RPI, namely:

- 1) Stop publishing RPI due to the limitations set out in the consultation document and rely solely on CPI.
- 2) Continue to publish RPI but calculate it in line with UK RPIJ to remove the "formula effect".
- 3) Continue to publish RPI but publish RPIJ alongside it so that the formula effect can be clearly identified.

#### Results

In total, ten responses were received to the consultation document. Each of the available options is considered in turn. A high level summary of responses is provided immediately below, but full responses as quoted by the respondents are set out in separately.

### **Option One: Stop publishing RPI due to the limitations set out in the consultation document and rely solely on CPI**

- 1) G4S Ltd. responded that there is a need for clarity from Government and that CPI is understood internationally. G4S agreed that RPI is artificially high and as such the linking of contracts, benefits and wages to RPI creates a strain on resources. For these reasons, CPI was the preferred inflation measure.
- 2) Peel Commissioners indicated that it felt the RPI should be published alongside the CPI to allow existing agreements to be fulfilled, but that there should be a move to CPI in the longer term, once there is evidence that the CPI is a true measure of Manx inflation.
- 3) The Communications Union was strongly opposed to this option.
- 4) Tynwald Mills stated that no longer publishing RPI would have a significant impact on a number of its commercial leases and performance of future property business
- 5) Cains Advocates Ltd. found this to be the most disruptive option and the least attractive. In particular, if RPI was ceased it would need to renegotiate an inflation measure with its scheme members and felt that CPI was significantly different due to components within it. Due to CPI tending to be lower than RPI, it felt it would be less likely to receive support from its members.
- 6) The Isle of Man Steam Packet Company responded that it has over 20 long term contracts linked to RPI and considers it essential that RPI continues to be published. It therefore is opposed to this option but did not specify a preference for option 2 or 3.
- 7) Douglas Borough Council considered option 1 the most favourable, provided there is a lead in period of no less than 5 years to allow for natural expiration of current contract links. It noted that CPI should be as closely based on UK CPI methodology as possible. It also had a concern that UK companies may request to use UK CPI in place of Manx CPI, so felt it important that the RPI should continue to be measured even if no longer published.

### **Option Two: Continue to publish RPI but calculate it in line with UK RPIJ to remove the "formula effect".**

- 1) The Communications Union was opposed to this option.
- 2) Cains Advocates Ltd. identified that this method would be less disruptive than option one in terms of administration and requiring trustee involvement. Whilst there may be a change to benefit levels over time, there is no immediate need for remedial action.

**Option Three: Continue to publish RPI but publish RPIJ alongside it so that the formula effect can be clearly identified.**

- 8) The Isle of Man Office of Fair Trading responded that its preferred option would be to run all three indicators, due to RPI being the more well-known measure with many contract links. It suggested that RPI be discontinued in the future, once RPIJ becomes a more accepted measure and data has been built up.
- 9) The Communications Union identified that option 3 was the most appropriate as it allowed the formula effect to be identified. It felt that the CPI understated inflation for most households due to excluding some items from its basket, such as mortgage interest payments, bearing in mind 66% of households on the Island are owner occupiers. It also felt that the RPI was more representative of costs faced by workers due to the household spending it represents. It believes that having more than one measure is appropriate as different measures are applicable for different uses. It identified that the Jevons formula could understate inflation by around 0.9 percentage points and may make unrealistic assumptions about consumer behaviour. The response disagreed with an ONS claim that RPI is inflated upwards and instead argued that living costs for working people have increased above RPI. In attempt to remove some confusion around having several measures, Government could adopt one main measure, whilst continuing to publish the others. Whilst the UK ONS has delisted its RPI measure, it is still compiled and published due to its importance with contract links etc.
- 10) The Manx Utilities Authority supported the idea of implementing an RPIJ measure of inflation. However, it recognises that renegotiation of its existing contracts which are currently linked to RPI would increase its operating costs, hence it would wish for RPI to continue to be published alongside the RPIJ. As an example, Tynwald has agreed to increase Water Rates by RPI through to March 2019.
- 11) Tynwald Mills responded by outlining how it has rental agreements linked to RPI and feels that the history of the statistic is beneficial. It was most concerned that RPI continued to be published, but noted that the UK publishes RPIJ alongside the CPI and RPI.
- 12) Unite Union commented that it supported option three, but did not provide further explanation.
- 13) Cains Advocates Ltd. also identified option 3 as being less disruptive than option 1. There is no preference at this stage between options 2 and 3 for the trustees as they had not fully considered the options and impacts. The employer preferred option 3.

## **Conclusion**

Overall, there are very mixed views on the best way forward. Option 2 received very little support, whilst option 1 received some heavily opposed but also some favourable views. Whilst option 3 provides the least clarity, it may be the least disruptive method and feedback seems to indicate that it would be the least disruptive to business. If Option 3 is adopted it is recommended that the inflation report be rewritten to lower the profile of RPI and RPIJ.

It is recommended that a decision be made regarding the future of the Manx RPI, from the following options.

- 1) Stop publishing RPI due to the limitations set out in the consultation document and rely solely on CPI.
- 2) Continue to publish RPI but calculate it in line with UK RPIJ to remove the "formula effect".
- 3) Continue to publish RPI but publish RPIJ alongside it so that the formula effect can be clearly identified.

**The recommendation, based on the responses to consultation is that Option 3 be adopted, to be implemented from the September 2016 RPI report.**

**It is further recommended that the paper above, including the Appendix and recommendation be published as the formal response to consultation paper which is due within 3 months of the consultation close under the Code of Practice on Public consultations.**

**Carl Hawker**

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**11<sup>th</sup> July 2016**