EXPLANATORY MEMORANDUM TO

THE PENSIONS INCREASE (REVIEW) ORDER 2018

2018 No. 333

1. Introduction

1.1 This explanatory memorandum has been prepared by HM Treasury and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 This Order will come into force on 9 April 2018 and makes provision for the annual increase of official pensions (as defined in the Pensions (Increase) Act 1971). The Order provides for an increase of 3 per cent from 9 April 2018 for all official pensions, except for those which have been in payment for less than a year, which will receive a pro-rata increase.

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

Other matters of interest to the House of Commons

3.2 As this instrument is laid after being made, but is not subject to further parliamentary procedure, consideration as to whether there are other matters of interest to the House of Commons does not arise at this stage.

4. Legislative Context

4.1 Sections 59 and 59A of the Social Security Pensions Act 1975 ("the 1975 Act") provide that the Minister for the Civil Service shall, by order, provide that the annual rate of an official pension may be increased by the same percentage as that specified in the annual direction given by the Secretary of State for Work and Pensions pursuant to section 151 of the Social Security Administration Act 1992 ("the 1992 Act"). This enabling power was transferred to HM Treasury by virtue of the Transfer of Functions (Minister for the Civil Service and Treasury) Order 1981 (S.I. 1981/1670).

4.2 Under section 59(7) of the 1975 Act, section 59 of that Act has effect as if it were contained in the Pensions (Increase) Act ("the 1971 Act"). The 1971 Act defined certain terms, section 8(2) provides for when a pension "begins" for the purposes of the Act, and section 9 makes provision as to lump sums. The increase is the percentage (or fraction of the percentage) by which the Secretary of State for Work and Pensions has, by direction under the provisions of section 151(1) of the 1992 Act, increased the sums referred to in section 150(1)(c) of that Act. These are the additional pension entitlements accruing to employees in respect of earnings after 5 April 1978.

5. Extent and Territorial Application

5.1 The instrument extends to all of the United Kingdom.

5.2 The instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

6.1 As the instrument is not subject to parliamentary procedure, no statement is required.

7. Policy background

What is being done and why

7.1 Public service pensions in payment, preserved pensions and preserved lump sums are increased annually to take account of increases in the cost of living so that they maintain their purchasing power. This is done either under the statutory provisions, including the annual order, or under separate analogous arrangements.

7.2 The level of increase is equal to the percentage specified by the Secretary of State for Work and Pensions for the increase of additional pensions in long-term benefits (including State Second Pensions) in the annual direction made under section 151 of the 1992 Act. This increase is equal to the percentage rise in CPI in the twelve months to the preceding September. Since 1987 the increase of official pensions has taken effect from the first Monday of the tax year.

Consolidation

7.3 This instrument does not require a consolidation exercise.

8. Consultation outcome

8.1 This instrument is an annual uprating order that does not require a consultation exercise.

9. Guidance

9.1 Guidance documents on the HM Treasury public website have been updated to reflect the new rates: https://www.gov.uk/government/collections/public-service-pensions-increases.

10. Impact

10.1 There is no impact on business, charities or voluntary bodies.

10.2 The impact on the public sector is an increase in cash payments to pensioners across public service pension schemes. Public service pension schemes use forecast September CPI assumptions to factor in the uprating of public service pensions provided by the Pensions Increase (Review) Order and the cost impact of price increases is taken into account in forecasts of departmental spending used for the Budget, and in Central Government Supply Estimates.

10.3 An Impact Assessment has not been prepared for this instrument.

11. Regulating small business

11.1 The legislation does not apply to activities that are undertaken by small businesses.

12. Monitoring & review

12.1 The position is subject to review in each tax year (please see paragraph 4.1 above).

13. Contact

13.1 Oliver Feltham at HM Treasury (telephone 0207 270 2456 or email oliver.feltham@hmtreasury.gsi.gov.uk) can answer any queries regarding the instrument.