EXPLANATORY MEMORANDUM TO

THE PUBLIC SERVICE PENSIONS REVALUATION ORDER 2018

2018 No. 338

1. Introduction

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

2. Purpose of the instrument

2.1 This Order specifies the annual percentage change in prices, and earnings, to be applied for the purposes of revaluation required by schemes under the Public Service Pensions Act 2013 ("the Act") in relation to the period 1 April 2017 to 31 March 2018.

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 subject to negative resolution procedure and has not been prayed against, 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 The Act provides for public service pension schemes to be established by regulations ("scheme regulations") under section 1 of the Act.

4.2 Section 9 of the Act applies in relation to pension schemes which require a member's pensionable earnings, or a proportion of them accrued as a pension, to be revalued by reference to a change in prices or earnings (or both). Section 9(2) requires the change in prices or earnings to be such percentage increase or decrease as is specified in an order made by HM Treasury. This Order fulfils that requirement.

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 subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

What is being done and why

7.1 Section 8 of the Act requires that a defined benefits public service pension scheme must be a career average revalued earnings ("CARE") scheme or a scheme of other such description as specified by the Treasury in regulations. Where a scheme under the Act is a CARE scheme, there needs to be a mechanism for revaluing the pensionable earnings or accrued pension of active members. The process is governed by the scheme regulations but carried out by reference to an annual order made by HM Treasury.

7.2 New CARE schemes were introduced for the main public service pension schemes from April 2015, with the Local Government Pension Scheme in England and Wales introduced a year earlier in April 2014. The scheme designs were negotiated by relevant departments and devolved administrations with the trade unions, employee representatives and employer representatives, and published as Proposed Final Agreements for each of the relevant schemes.

7.3 The Proposed Final Agreements included the revaluation metric to be used for each scheme. The majority of schemes rely on a prices metric, which is identified as the Consumer Prices Index ("CPI") in the Agreements. Some of these have plain CPI revaluation, whereas other schemes use a CPI plus revaluation rate, such as the NHS pension scheme which uses CPI plus 1.5%. Other schemes rely on an earnings metric, which is identified as Average Weekly Earnings in the Agreements.

7.4 The prices metric to be used for revaluation in the various scheme regulations for 1 April 2017 to 31 March 2018 inclusive is the September 2017 CPI figure, which represents an increase of 3%. As well as featuring in several schemes' Proposed Final Agreement, CPI is the Government's preferred measure of change in prices for the indexation of public service pensions in payment and deferment.

7.5 The earnings metric to be used for revaluation in the various scheme regulations for the same period is the whole economy (i.e. including both private sector and public sector), year on year change in average weekly earnings, non-seasonally adjusted (i.e. normal seasonal changes have not been discounted from the data), including bonuses and arrears, which represents an increase of 3%.

Consolidation

7.6 There are no plans to consolidate the provisions of this Order with any other instrument.

8. Consultation outcome

8.1 This instrument is an order made every year that does not require a consultation exercise.

9. Guidance

9.1 No guidance has been produced to accompany this instrument.

10. Impact

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

10.2 The impact directly on the public sector as a result of this Order. This Order, however, is used by scheme regulations as the order which presents the figure by which pensionable earnings or accrued pension of active members will be revalued.

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 This instrument is an order which HM Treasury must make annually. A new figure is specified in each year. The instrument is not subject to review and does not make regulatory provision in relation to qualifying activity by a business.

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 Order.