EXPLANATORY MEMORANDUM TO

THE PUBLIC SERVICE PENSIONS REVALUATION ORDER 2024

2024 No. 290

1. Introduction

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

2. Declaration

2.1 Laura Trott MBE MP, Chief Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Nick Donlevy, Director for Public Spending, at HM Treasury confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Liam Claughton at HM Treasury Telephone: 07977 487800 or email: Liam.Claughton@hmtreasury.gov.uk can be contacted with any queries regarding the instrument.

<u>Part One: Explanation, and context, of the Instrument</u>

4. Overview of the Instrument

What does the legislation do?

4.1 This Order specifies the annual percentage change in prices and earnings to be applied for the purpose of revaluation required for schemes made under the Public Service Pensions Act 2013 ("the Act"), in relation to the period 1 April 2023 to 31 March 2024.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 Where a scheme made under section 1 of the Act is a career average revalued earnings ("CARE") scheme, there needs to be a mechanism for revaluing the pensionable earnings or accrued pension of active members. The process is governed by scheme regulations but carried out by reference to an annual order made by HM Treasury.

5.2 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 agreed by relevant departments and devolved administrations following discussions with trade unions, employee and employer representatives, and published as "Proposed Final Agreements" for each of the relevant sections.

5.3 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 understood as the Consumer Prices Index ("CPI") in the Agreements. Some of these schemes revalue according to CPI alone, whereas other schemes revalue using CPI plus some percentage. Other schemes rely on an earnings metric, which is understood as Average Weekly Earnings in the Agreements.

5.4 The prices metric to be used for revaluation in the various scheme regulations for 1 April 2023 to 31 March 2024 inclusive is the September 2023 CPI figure, which represents an increase of 6.7%. As well as featuring in the Proposed Final Agreement for several schemes, CPI is the Government's preferred measure of change in prices for the indexation of public service pensions in payment and deferment.

5.5 The earnings metric to be used for revaluation in the various scheme regulations for the same period is the September 2023 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 season changes have not been discounted from the data), including bonuses and arrears, which represents an increase of 7.7%.

5.6 For the Local Government Pension Scheme for England and Wales, the Local Government Pension Scheme for Scotland, NHS Pension Scheme 2015 and NHS Pension Scheme (Scotland) 2015, this Order will have effect from 6 April 2024. This means that the revaluation of accrued pensions of active members up to 31st March 2024 will occur on 6th April 2024.

What was the previous policy, how is this different?

5.7 This Order follows established precedent and does not change the policy towards revaluation of CARE scheme benefits.

5.8 The change of effective revaluation date for the schemes listed in paragraph 5.6 was made in 2023 and aimed to move revaluation to the start of the tax year, thereby aligning the CPI measure used for revaluation purposes with that used for the purposes of calculating a member's Pension Input Amount for the calculation of the pension tax Annual Allowance. This Order maintains that effective revaluation date for the schemes indicated in paragraph 5.6.

6. Legislative and Legal Context

How has the law changed?

6.1 The Act establishes the legal framework for setting up and running public sector pension schemes, and other types of benefit schemes, via scheme regulations.

6.2 Where scheme regulations made under the Act require revaluation of pensionable earnings, or a proportion of them accrued as pensions, to be by revalued by reference to a change in prices and/or earnings in a given period, section 9(2) of the Act requires the change in prices or earnings to be such a percentage increase or decrease as is specified in an order made by HM Treasury.

6.3 This Order fulfils that requirement by specifying the percentage change to be applied covering the period 1 April 2023 – 31 March 2024. In relation to schemes specified at paragraph 5.6, the revaluation does not take effect until 6 April 2024.

Why was this approach taken to change the law?

6.4 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 This instrument is an annual instrument that prescribes figures as required by legislation. It does not require a consultation exercise.

8. Applicable Guidance

8.1 No guidance has been produced to accompany this instrument.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because of the lack of impact on business.

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies because this legislation does not increase the costs of activities that are undertaken by business, charities or voluntary bodies.

9.3 The legislation does not impact small or micro businesses.

9.4 The impact on the public sector is that the prices and earnings metrics specified in this Order will be used by schemes made under the Act to revalue the pensionable earnings or accrued pensions of active members.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 This is an annual order. The approach to monitoring this legislation is that the Government will respond to any issues arising as part of this instrument's operation as required.

10.2 The instrument does not include a statutory review clause.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 Laura Trott MBE MP, the Chief Secretary to the Treasury has made the following statement regarding Human Rights:

"In my view the provisions of the Public Service Pensions Revaluation Order 2024 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").