EXPLANATORY MEMORANDUM TO

THE PENSIONS INCREASE (REVIEW) ORDER 2012

2012 No. 782

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 2012 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 5.2 per cent from 9 April 2012 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 the Joint Committee on Statutory Instruments

3.1 None.

4. Legislative Context

4.1 Sections 59 and 59A of the Social Security Pensions Act 1975 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. 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).

5. Territorial Extent and Application

5.1 This Order 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

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 Social Security Administration Act 1992. This increase is equal to the percentage rise in the Consumer Price Index (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.

8. Consultation outcome

8.1 This instrument is an annual uprating 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: http://www.hm-treasury.gov.uk/tax_pensions_increases.htm.

10. Impact

10.1 This instrument imposes no costs 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 produced for this instrument.

11. Regulating small business

11.1 This instrument does not apply to small business.

12. Monitoring and review

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

13. Contact

Daniel Roff at HM Treasury Tel: 020 7270 4466 can direct any queries regarding the instrument.