EXPLANATORY MEMORANDUM TO

THE PUBLIC SERVICE PENSIONS REVALUATION ORDER 2026

2026 No. 254

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 James Murray MP, Chief Secretary to the Treasury at HM Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Rebecca Molyneux, Deputy Director for Workforce, Pay and Pensions, at HM Treasury confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Adam Blissett at HM Treasury can be contacted by email at the following address with any queries regarding the instrument: adam.blissett@hmtreasury.gov.uk Alternatively, the department can be contacted by telephone: 0207 270 5000.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 Accrued pension rights in career average revalued earnings ("CARE") pension schemes must be revalued each year as a way of ensuring they maintain their value as against a specified metric based on either price or earnings. The Public Service Pensions Act 2013 ("the Act") requires that HM Treasury make annual orders to allow schemes introduced by the Act to perform this revaluation. This Order specifies the annual percentage change in prices and earnings for revaluation to be applied to the period 1 April 2025 to 31 March 2026.

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 Members of CARE schemes in active employment accrue a set amount of pension benefits in a year. If these benefits are not adjusted to account for inflation in prices or earnings then their purchasing power will be eroded over time before members cease active employment. Revaluation is the process of adjusting the value of accrued pension benefits in CARE schemes for this purpose.

5.2 If a CARE scheme is made under section 1 of the Act, then the Act specifies that there needs to be a mechanism to perform revaluation governed by each scheme's regulations, but carried out by reference to an annual order made by HM Treasury.

5.3 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 designs of these new schemes were agreed by the relevant departments and devolved administrations following discussions with trade unions, employee and employer representatives. These were published as Proposed Final Agreements ("the Agreements") for each of the relevant new schemes or scheme sections.

5.4 The Agreements each included a metric of prices or earnings for that scheme to use for revaluation. The Agreements of most schemes chose a prices metric, specifically the Consumer Prices Index ("CPI"). Some of these schemes revalue according to CPI alone, whereas other schemes revalue using CPI plus another percentage. The Agreements of some other schemes chose an earnings metric, specifically Average Weekly Earnings.

5.5 This Order specifies that the prices metric to be used for revaluation in scheme regulations for 1 April 2025 to 31 March 2026 inclusive is the September 2025 CPI figure, which represents an increase of 3.8%. As well as featuring in the Agreements for several schemes, CPI is the Government's preferred measure of change in prices for the indexation, or yearly uprating, of public service pensions in payment and deferment.

5.6 This Order also specifies that the earnings metric to be used for revaluation in scheme regulations for the same period is the September 2026 whole economy (i.e. including both private sector and public sector), year on year change in average weekly earnings. This earnings measure is non-seasonally adjusted (i.e. normal seasonal changes have not been discounted from the data), and includes bonuses and arrears. Up to September 2024 this represents an increase of 4.8%.

5.7 Some schemes introduced by the Act chose to change their effective date of revaluation from 1 April to 6 April. These are 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 come into force on 6 April 2026 for those schemes.

What was the previous policy, how is this different?

5.8 This Order does not change the established policy towards revaluation. It specifies the new measures of the change in prices and earnings to apply for the period 1 April 2025 to 31 March 2026.

5.9 In 2023 the schemes listed in paragraph 5.7 chose to change their effective revaluation date to the start of the tax year. This was done to align the CPI figure used for revaluation with the one used to calculate a member's Pension Input Amount for the pension tax Annual Allowance.

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 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 a percentage 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 2025 – 31 March 2026. In relation to schemes specified at paragraph 5.7, the revaluation does not take effect until 6 April 2026, which is when the Order comes into force for those schemes.

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 change existing policy and therefore 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 this Order maintains existing policy and therefore has minimal 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 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 2026 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").