

**EXPLANATORY MEMORANDUM TO
THE SOCIAL SECURITY BENEFITS UP-RATING ORDER 2014**

2014 No.

1. This Explanatory Memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of Her Majesty¹.

2. Purpose of the instrument

The Social Security Benefits Up-rating Order 2014 (“the Order”) fulfils the statutory duty on the Secretary of State to review the rates of social security benefits and provides for the up-rating of certain benefits.

3. Matters of special interest to the Joint Committee on Statutory Instruments

None

4. Legislative Context

4.1 The Order provides for the annual up-rating of social security benefits under sections 150 and 150A of the Social Security Administration Act 1992 (“the Act”). Personal Independence Payment and Universal Credit will be up-rated for the first time.

4.2 This year, most of the main rates of working-age benefits and UC are subject to the Welfare Benefits Up-rating Act 2013 (WBUA) committing them to be increased by 1 per cent, thereby removing the Secretary of State’s discretion over these benefits. These benefits covered by the WBUA are up-rated by means of the Welfare Benefits Up-rating Order and so are not included in the Social Security Benefits Up-rating Order 2014.

4.3 With respect to benefits not covered by the WBUA, the Secretary of State is required to review the levels of benefits annually with a further requirement to up-rate certain contributory, non-contributory and extra-costs disability benefits at least in line with prices. The Secretary of State has discretion over how to measure changes in the general level of prices. The Secretary of State has measured the increase in the general level of prices in the appropriate period using the CPI.

4.4 The Secretary of State has determined that those benefits have not maintained their value in relation to prices as measured by the CPI over the period October 2012 to September 2013².

4.5 Section 150A(1) and (2) of the Act requires the Secretary of State to review and up-rate the standard minimum guarantee element of Pension Credit, the basic State

¹ This Order is laid and will be debated alongside the draft “Guaranteed Minimum Pensions Increase Order 2014”.

² The Consumer Prices Index (all items) for the 12 month period to end September 2013 showed growth of 2.7 per cent

Pension and widow's (apart from the initial rate) and widower's pension in Industrial Death Benefit at least in line with earnings.

- 4.6 The Secretary of State has determined that those benefits have not maintained their value in relation to earnings as measured by annual growth in the Average Weekly Earnings statistic for the quarter ending July 2013³. The Secretary of State has further decided that the basic State Pension will be up-rated by CPI at 2.7 per cent under the 'triple lock' commitment. The standard minimum guarantee in Pension Credit is being increased beyond the statutory minimum of earnings to give an equivalent to the cash increase in the basic State Pension, with the cost off-set by an increase in the Savings Credit threshold.
- 4.7 The Secretary of State may also, if he considers it appropriate, having regard to the economic situation and any other matters which he considers relevant, increase other benefits not covered by the WBUA by a percentage as he thinks fit.
- 4.8 The premiums payable to pensioners with working-age benefits will be up-rated in line with Pension Credit rates. Premiums paid to disabled people receiving working-age benefits, the Support Group component of Employment and Support Allowance and the Limited Capability for Work and Work-Related Activity element of UC, will be up-rated by the CPI at 2.7 per cent. Carer premiums in working-age benefits and the Carer element in UC will also be up-rated by CPI at 2.7 per cent. Personal allowances and premiums specified for children or young persons in the working-age benefits, including UC will be up-rated in line with Child Tax Credit and Child Benefit elements.
- 4.9 In accordance with the Act a draft of this Order is laid before Parliament for approval by resolution of each House together with a copy of the report of the Government Actuary giving his opinion on the likely effect on the National Insurance Fund of the making of this Order.

5. Territorial Extent and Application

The Order applies to Great Britain. Separate but corresponding provision will be made for Northern Ireland.

6. European Convention on Human Rights

Steve Webb MP, Minister for Pensions, has made the following statement regarding Human Rights:

"In my view the provisions of The Social Security Benefits Up-rating Order 2014 are compatible with the Convention Rights".

7. Policy background

What is being done and why

³ The Average Weekly Earnings revised statistic, whole economy, including bonuses, seasonally adjusted showed annual growth of 1.2 per cent for the quarter ending July 2013.

- 7.1 The annual review has been performed on the social security benefit rates not covered by the WBUA. The Up-rating Order provides for certain benefits to be increased by the amounts set out in the following paragraphs. A full list of the proposed social security benefit rates for 2014-15 can be found on the Parliament website at: <http://www.parliament.uk/documents/commons-vote-office/December%202013/9%20December%202013/7.DWP-Social-security-up-rating.pdf>

Basic State Pension and Industrial Death Benefit

- 7.2 The statutory minimum increase to the basic State Pension is based on average earnings (see 4.5). However, the Government has given a commitment, known as the ‘triple lock’, to increase the basic State Pension by the highest in growth in average earnings, the growth in prices, or 2.5 per cent. As the relevant increase in average earnings (1.2 per cent) is lower than both CPI (2.7 per cent) and 2.5 per cent, the basic State Pension will increase by CPI at 2.7 per cent in 2013, increasing the rate of Category A Retirement Pension from £110.15 to £113.10 a week.
- 7.3 Certain elements of Industrial Death Benefit are increased by 2.7 per cent to maintain parity with the rate of basic State Pension.

Pension Credit standard minimum guarantee and Savings Credit

- 7.4 The standard minimum guarantee element of Pension Credit is increased by 2.0 per cent, which is more than the statutory minimum based on growth in average earnings, to ensure that the poorest pensioners obtain the full value of the increase in their basic State Pension. The rate for single people is increased from £145.40 a week to £148.35 a week, and for couples from £222.05 to £226.50 a week.
- 7.5 The Savings Credit thresholds are increased by 4.4 per cent in order to fund the additional increase in the standard minimum guarantee. The threshold for a single person will increase from £115.30 to £120.35, and the couple’s threshold will increase from £183.90 to £192.00. This concentrates spending on pensioners at the lower end of the income scale.

Additional Pension, Graduated Retirement Benefit, Increments to State Pension, Attendance Allowance, Carer’s Allowance, Disability Living Allowance, Personal Independence Payment, Industrial Injuries Benefit, Bereavement Benefits, Support Group component of Employment and Support Allowance, Disability premiums, Carer premiums, Incapacity Benefit, Severe Disablement Allowance, Carer element of UC and Limited capability for work and work-related activity component of UC

- 7.6 These benefits are all increased by 2.7 per cent in line with the growth in the CPI for the 12 months to September 2013.
- 7.7 Pensioner premiums may be paid with Income Support, Jobseeker’s Allowance and Employment and Support Allowance when a claimant or their partner has reached State Pension age for women⁴. These premiums will be increased so that overall the

⁴ On 6 April 2010, the state pension age for women started to increase gradually from 60 to 65, to match men’s. For further information on State Pension age changes, please see <https://www.gov.uk/changes-state-pension>

rate of benefit for a claimant over that age, or for a couple with a member over that age, will reflect the new standard minimum guarantee in Pension Credit.

- 7.8 In Housing Benefit the personal allowance when a claimant (or their partner if they have one) has reached State Pension age for women will be increased so that the personal allowance will equal the new standard minimum guarantee in Pension Credit. Where a claimant (or their partner if they one) is aged 65 or over, the personal allowance will reflect the new standard minimum guarantee plus the new savings credit maximum.

Non-dependant deductions from income-related benefits

- 7.9 Deductions may be made from Housing Benefit, as well as from the housing support provided within the income-related benefits such as mortgage interest costs, to reflect the presence of non-dependants (such as adult relatives) living in the household of people claiming those benefits. There is an expectation that these non-dependants should contribute to the household expenses of the accommodation in which they live. Non-dependants who are in employment have a deduction applied which reflects their gross weekly income. In UC, in order to simplify the system, there is a single flat-rate contribution.
- 7.10 Following the last three years of staged increases in the rates of non-dependant deductions, by April 2014, those rates will have caught up to the level they would have been had they been up-rated since 2001. For 2014, the rates are increased by the Housing Benefit eligible rent forecast which was 3.9 per cent for 2014/15⁵. The income bands used to determine which rate of non-dependant deduction applies will be up-rated in 2014 by increases in average earnings.
- 7.11 The housing cost contribution in UC is increased by 1 per cent to ensure consistency with the up-rating for the main rates of Universal Credit.

Deductions for service charges

- 7.12 Where a service charge is included in a rental agreement a deduction is made to reflect the fact that this is a living expense that Housing Benefit is not intended to cover. Deductions for service charges will be up-rated by the CPI rate for fuel, which was 7.7 per cent in the year to September 2013⁶.

Commencement

- 7.14 The Order provides for the increases to take effect, in most cases, in the week commencing 7 April 2014. Increases take effect on various dates because of differences in the prescribed payday of the benefit or payment and depending on whether the benefit or payment is a daily, weekly or monthly benefit.

Consolidation

⁵ The Housing Benefit eligible rent forecast for 2014/15 is 3.9% as stated in the Office for Budget Responsibility's December economic and fiscal outlook.

⁶ The CPI rate for electricity, gas and other fuels showed growth of 7.7 per cent between September 2012 and September 2013.

7.15 Informal consolidation of the instrument will be addressed by updating the relevant values in the appropriate statutory instruments in due course in the Department's "the law relating to Social Security" (the Blue Volumes). This publication is available at no cost to the public on the internet at: <http://www.dwp.gov.uk/publications/specialist-guides/law-volumes/the-law-relating-to-social-security/>

8. Consultation outcome

The Order forms part of the regular annual up-rating requirements, and is therefore not subject to consultation requirements.

9. Guidance

Public information products will be updated to reflect the new rates in due course and guidance bulletins have been issued to operational staff to advise them of the new rates.

10. Impact

The Order imposes no new costs on the public sector: the annually recurring costs are already provided for in the Government's expenditure plans.

11. Regulating small business

The legislation does not apply to small business.

12. Monitoring & review

The position is subject to review each tax year (please see paragraphs 4.2 and 4.4).

13. Contact

For any queries regarding this instrument, please contact Yuin Chin on telephone number: 020 7449 5362 or e-mail: STATE.PENSIONS@DWP.GSI.GOV.UK