

PUBLIC SECTOR PAY POLICY 2018-19

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Foreword by Derek Mackay MSP, Cabinet Secretary for Finance and the Constitution



I am pleased to set out the Scottish Government's Public Sector Pay Policy for 2018-19. A distinctive pay policy for Scotland - one that continues our focus on fairness, sustainability, value for money and delivers on our Programme for Government commitment to lift the 1 per cent public sector pay cap.

As part of this Government's wider spending plans announced in the Scottish Budget, this pay policy recognises the rising cost of living experienced by our public sector workforce and balances this with affordability to the public purse. It is designed to support our economy, tackle inequality and demonstrate our commitment to investing in our high quality services for all - underlining our distinctly Scottish approach.

We are taking this approach in the context of the UK Government's damaging programme of austerity, which means the Scottish Government's discretionary budget from the UK Government will be around 8 per cent lower in 2019-20 than at the start of the decade. In spite of these financial constraints, this Government has formulated a pay policy that balances the need for fairness and consistency across all public sector workforces with the value to individual bodies of flexibility, and works to advance earnings growth, particularly for those on lower incomes.

With this in mind, I have taken a progressive approach to pay, delivering a 3 per cent increase to all those earning up to £36,500. This will benefit just over 75 per cent of staff covered directly by our Public Sector Pay Policy and has the potential to benefit over 75 per cent of our public sector workers in Scotland. The policy also provides the flexibility for individual employers to use their discretion to reach decisions on pay progression for staff.

The 2018-19 Public Sector Pay Policy is underpinned by our commitment to pay the real Living Wage and re-affirms our unique position on no compulsory redundancy which is protecting public sector jobs and front line services. While this is only a one year pay policy, it sets an important direction of travel and I hope, subject to available resources, to deliver a Pay Policy in future years that strikes the balance between affordability and offering a fair deal for staff.

I wish to acknowledge the contribution of public sector workers in helping us to achieve our ambitions and delivering on our priorities right across Scotland. I want to express my thanks for your efforts to ensure the effective delivery of public services at a time when budgets are being squeezed and other pressures are affecting household incomes.

This policy is about doing the right thing for Scotland's public services, which are a core part of achieving our ambitions for Scotland and fundamental to our growth and prosperity. As we take on new powers and become responsible for a wider range of public services, working together with our public bodies and our trade unions, we can build a better, stronger and more inclusive Scotland.

A handwritten signature in black ink, appearing to read 'D Mackay', written in a cursive style.

Derek Mackay

Cabinet Secretary for Finance and the Constitution

PUBLIC SECTOR PAY POLICY FOR 2018-19

Background

The 2018-19 Public Sector Pay Policy is a single year policy. It sets out the parameters for pay increases for staff pay remits and senior appointments and applies to public bodies with settlement dates in the year between 1 April 2018 and 31 March 2019 (inclusive).

Our Public Sector Pay Policy applies directly to 44 Public Bodies. A full list of public bodies to whom this policy applies is available on the Scottish Government's Public Sector Pay webpages: www.gov.scot/publicsectorpay.

This policy also acts as a benchmark for all major public sector workforce groups across Scotland including NHS Scotland, fire-fighters and police officers, teachers and further education workers. For local government employees, pay and other employment matters are delegated to local authorities.

Strategic Aims

The Scottish Government's Public Sector Pay Policy is based on the following principles:

- To invest in our public sector workforce which delivers top class public services for all, supports employment and the economy, while providing for sustainable public finances
- To provide a distinctive pay policy which is fair, affordable, sustainable and, through the targeting of resources, delivers value for money in exchange for workforce flexibilities
- To deliver a pay policy that reflects real life circumstances, protects those on lower incomes and recognises recruitment and retention concerns.

Key Pay Policy Priorities

This Pay Policy has been developed in recognition of Scottish Ministers' commitment in the Programme for Government to lift the 1 per cent public sector pay cap. In developing this policy, Ministers have taken into account the impact that rising inflation and social security cuts are having on working households, balancing this with what public sector employers can reasonably afford in the context of a Scottish Budget squeezed by a continued UK Government austerity policy.

In the face of these current financial challenges, to allow organisations to maintain staff numbers and employment opportunities, pay increases must continue to be carefully controlled. Ministers also acknowledge that maintaining employment and fair rates of pay in the public sector is crucial in ensuring Scotland's economy remains strong and that investment in Scotland's public services remains a priority.

The aim of this Pay Policy is to take a progressive approach to pay, allowing public sector employers to provide proportionate pay increases, combined with flexibilities to address

local circumstances. This Government will continue its commitment to the real Living Wage and maintain its position on no compulsory redundancy. It is also this Government's view that it is for employers to take their own decisions about pay progression as part of the overall package to deliver an affordable pay settlement which is fair and reflects the real life circumstances their employees face.

There continues to be a legitimate public interest in the pay and conditions of senior public appointments in Scotland. The Scottish Government believes that alongside the general requirement for constraint in public sector pay, there is also a need for the most senior leaders in the public sector to take a lead in demonstrating restraint in their pay settlements. The Pay Policy parameters for 2018-19 are therefore set in the context of the need for on-going pay constraint for senior staff.

Key Features of Pay Policy

The key features of the 2018-19 Pay Policy are:

- lifting the pay cap by providing a guaranteed minimum increase of 3 per cent for public sector workers who earn £36,500 or less;
- continuing the requirement for employers to pay staff the real Living Wage;
- a limit of up to 2 per cent on the increase in baseline paybill for those earning above £36,500 and below £80,000;
- limiting the maximum pay increase for those earning £80,000 or more to £1,600;
- extending flexibilities for employers to use up to 1 per cent of paybill savings on baseline salaries –
 - for non-consolidated payments amounting to no more than 1 per cent of salary, but only for employees already on the maximum of their pay range (who no longer benefit from progression) or on spot rates; and
 - to consider affordable and sustainable changes to their existing pay and grading structures where there is clear evidence of equality issues.

In addition, the Pay Policy:

- retains discretion for individual employers to reach their own decisions about pay progression (limited to a maximum of 1.5 per cent for Chief Executives), which continues to be out with the Pay Policy limits;
- maintains the suspension of non-consolidated performance related pay (bonuses);
- continues the expectation to deliver a 10 per cent reduction in the remuneration packages for all new Chief Executive appointments; and
- continues the policy commitment to No Compulsory Redundancy.

Affordability

The Pay Policy sets the framework within which bodies can develop effective pay settlements that help them reward staff fairly and manage staffing numbers to deliver services within constrained budgets. This Pay Policy sets no metrics relating to the overall increase in the paybill of staff pay remits. Each body covered by the Pay Policy must ensure that their pay proposals are affordable within their financial settlement for 2018-19.

Single-year pay policy

There is an expectation that public bodies will submit pay proposals which cover one year, given that budget allocations are for a single year, although this is not a mandatory requirement of the Pay Policy. There may be circumstances where a public body chooses to submit proposals that cover more than one year and in such instances they are asked that they discuss this in advance with the Scottish Government Finance Pay Policy team.

STAFF PAY REMITS

Pay Metrics

The following sets out details of each of the key pay metrics which apply in 2018-19.

Support for Lower Paid Staff

The Scottish Government recognises the importance of supporting lower paid staff within the public sector and the Pay Policy continues our commitment to meeting the requirements of the new real Living Wage rate.

Pay increases and thresholds

Lifting the 1 per cent pay cap to provide a guaranteed minimum 3 per cent pay increase for public sector workers who earn £36,500 or less.

There will be a 2 per cent limit on the increase in baseline paybill for those earning above £36,500, but limited to those earning less than £80,000. Within those limits, public bodies will have discretion to submit proposals to vary the levels of basic pay increases across this cohort of staff to take account of local circumstances, such as the impact of the £36,500 threshold, staff and trades unions priorities and affordability. The Technical Guide will detail smoothing arrangements around the £36,500 threshold to avoid any 'leapfrogging'.

The increase for those earning £80,000 or more will be limited to £1,600.

Progression

Nothing in this Pay Policy is intended to interfere with pay progression arrangements for staff in the pay remit nor to constrain discussions between employers and staff and/or their

representatives on this issue. Decisions taken to pay progression should be based on business needs, maintaining headcount and affordability.

Additional flexibility

Public bodies will be able to use paybill savings of up to an additional 1 per cent of baseline salaries, beyond those limits set out above to:

- make non-consolidated payments amounting to no more than 1 per cent of salary for employees already on the maximum of their pay range (and who no longer benefit from progression) or those on spot rates.
- consider affordable and sustainable changes to their existing pay and grading structures to address evidenced equality issues.

Non-consolidated performance related pay

All access to non-consolidated pots for payments linked to performance (bonuses) continues to be suspended for 2018-19.

SENIOR APPOINTMENTS

The Pay Policy for Senior Appointments governs the remuneration (salary, pay range, annual increase or review, non-consolidated performance payment (bonus) and other non-salary rewards, etc.) of:

- **Chief Executives** of Non-Departmental Public Bodies (NDPBs) and Public Corporations, etc.
- **NHS Scotland Executive and Senior Management posts.**

This Pay Policy also governs the remuneration (daily fee rates, annual uprates or reviews and any pension arrangements, etc.) of:

- **All public appointments (Chairs and Members)** to Scottish public bodies; Non-Executive Directors of the Scottish Government and its Agencies and Associated Departments; Chairs and Board Members of NHS Bodies; appointments to Tribunals, Appeals Boards, Advisory Committees and Inquiries, and ad hoc review or working groups, etc. under the auspices of the Scottish Ministers.

Pay Metrics

The following sets out details of each of the key pay metrics which apply in relation to the Pay Policy for Senior Appointments in 2018-19.

Pay Increases and Thresholds

Up to a 2 per cent pay increase for all Chief Executive appointments, except where the current salary is £80,000 and above, in which case the pay increase will be limited to £1,600.

The 2 per cent pay increase will also apply to the daily fees for Chairs and Members of Scottish public bodies up to £307, above which a maximum increase in daily fee will be limited to £6 per day.

Progression

Progression increases for Chief Executives covered by this Pay Policy are limited to a maximum of 1.5 per cent.

Non-consolidated payments to those on the maximum of their pay range

Non-consolidated payments amounting to no more than 1 per cent of salary may be paid but only for those Chief Executives already on the maximum of their pay range (and who no longer benefit from progression) or on spot rates. No such non-consolidated payments may be made to Chairs and Members.

Non-consolidated performance related pay

Access to non-consolidated performance related pay (bonuses) is again suspended in 2018-19. The policy expectation is that any bonus arrangement in a Chief Executive's contract will be removed when an appropriate opportunity arises (on new appointment or following a review).

NO COMPULSORY REDUNDANCY

One of the key strands of Scottish Government policy is the commitment to no compulsory redundancy and this is reflected in the Pay Policy. The Government believes this commitment has created the right environment to provide staff with job security while enabling employers and their staff representatives to take a range of steps to manage their headcount and budgets to realise the necessary savings to deliver efficiencies.

The policy position remains that public bodies will be expected to negotiate extensions to their no compulsory redundancy agreements for the duration of their pay settlement as part of constructive, collaborative discussions to make the most effective use of the funding available for the pay award, within the bounds of the Pay Policy.

EQUALITIES ASSESSMENT

The primary aims of the Scottish Government's Public Sector Pay Policy are to set pay increases in a way that are fair, reflect the real life circumstances people face, help sustain public sector jobs and protect public services while ensuring public sector budgets remain in balance to ensure that that pay rises are affordable now and in the future.

To help employers work towards delivering the policy aim that pay is fair and non-discriminatory, the 2018-19 policy continues to provide public bodies with the flexibility to use paybill savings address evidenced equality issues.

Our equality impact assessment concluded that the progressive measures proposed in the 2018-19 Pay Policy can be seen to positively benefit lower paid staff. From the data available, there is a higher proportion of women, disabled people, individuals from a minority ethnic group, younger employees or a combination of one or more of these protected characteristics as well as part-time workers among lower paid employees. Therefore, the measures proposed in the Pay Policy help protect these employees and in many cases provide a positive benefit - underpinning Ministerial objectives for a wealthier and fairer Scotland.

The progressive approach proposed for the 2018-19 Pay Policy will also help to reduce overall income inequality. It may also help in positively working towards reducing the gender pay gap within the public sector as it should increase the overall base levels of pay for those at the lower end where women are overly concentrated. This is further supported by the continued restraint applied to higher earners, including senior appointments, where there are higher proportions of men.

The Pay Policy sets the overarching framework within which public bodies can make individual choices on the impact of the policy on their own circumstances. Public bodies have the flexibility to draw up their own pay proposals to take into account local pay issues such as recruitment and retention, equality and the impact of the lower pay measures on other staff. The Pay Policy actively encourages employers to take into account their own staffing profile, local evidence, views of staff and unions and equality issues in framing their pay proposals.

While we are satisfied that no discrimination exists at the level of the policy proposals outlined above, it will still be necessary for individual employers to ensure that they do not introduce or perpetuate any direct or indirect discrimination for individuals in their application of the policy. Employers covered by this Pay Policy are also subject to the equality duties and are expected to undertake their own assessment of their pay proposals prior to submitting them to the Scottish Government.

The supporting Technical Guides to the Pay Policy will continue to remind public bodies of their duty to ensure their pay systems are fair and non-discriminatory and that they have due regard to their obligations under public sector equalities duties in considering their pay proposals.

The results from the equality impact assessment of the 2018-19 Public Sector Pay Policy are available on the Scottish Government's Public Sector Pay webpages at: www.gov.scot/publicsectorpay.

Technical Guides

A Technical Guide providing further detail to assist public bodies in the preparation of their staff pay remit proposals under this policy alongside the Technical Guide for Senior Appointments will be published in February 2018. These will be available on the Scottish Government's Public Sector Pay webpages at: www.gov.scot/publicsectorpay.

CONTACTS

Any queries on this policy should be directed to the Scottish Government's Finance Pay Policy team by emailing financepaypolicy@gov.scot or by telephoning:

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