Nicola Sturgeon
First Minister
St. Andrew's House
Regent Road
Edinburgh
EH1 3DG

Dear First Minister 15 November 2017

Scottish Budget

Since the General Election, the civil service unions have been in touch with you, the Cabinet Secretary for Finance and Scottish Government officials regarding public sector pay.

As part of an STUC delegation last week, I met with the Cabinet Secretary Derek Mackay in advance of the Budget to advise him that thousands of your workers across Scottish Government and related bodies want resources provided to their employers for above inflation increases, as well as supporting an end to the pay cap.

Whilst we recognise the departure from public sector pay policy of 1% and your recent agreement on earlier access to the pay settlement in 2018, there is an evident expectation amongst your staff that next year's pay award must be above inflation.

Furthermore, we appreciate your statement in May this year that the pay cap is "unsustainable" and that the new policy will need to take account of inflationary pressures on incomes of staff.
With RPI inflation at almost 4%, your workers have been suffering a "real term" pay cut, month by month for approximately a decade. As inflation continues to rise, the take home wages of your workforce is being eroded year on year.

Recently, I was pleased to hear your Cabinet Secretary for Finance tell delegates at SNP conference that "in Scotland, we know that high quality public services, rely on dedicated hard working public servants". I therefore hope you will reward the hard working public servants employed by Scottish Government and its associated bodies with a genuine pay rise this year, not another pay cut.

As you know, PCS held a UK-wide consultative ballot on public sector pay during October. The ballot, conducted independently by the Electoral Reform Services, produced a result with a record turnout and delivered a clear message from our members. Almost 99% want the 1% public sector pay cap to end and for funds to be provided for above inflation pay rises. Nearly 80% have said they are prepared to take strike action if your Government or the UK Government fails to deliver on such reasonable proposals.

There can only be one interpretation of these results: your staff feel strongly that they deserve a proper pay rise. Therefore, on their behalf, I call on you to use the Scottish Budget on 14th December to make the necessary resources available that would allow for negotiations with trade unions to deliver above inflation pay rises for all staff.

PCS wants a resolution to the growing crisis of public sector pay and to this end we will be making these points to the Cabinet Secretary when we meet him on 21st November.

I have no doubt that all parties wish to find meaningful solutions at this critical point for the future of civil and public services in Scotland.

I am also copying this letter to the Cabinet Secretary for Finance, Derek Mackay MSP.

Yours sincerely

Joy Dunn
National Officer

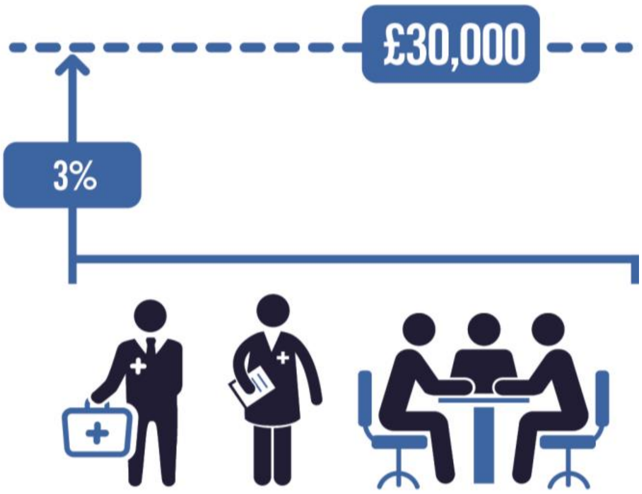
Scottish Government Pay Policy 2018-19
December 2017

Scottish Government
Riaghaltas na h-Alba
gov.scot

The Scottish Government has set a distinctive Public Sector Pay Policy for 2018-19. One that is focused on fairness, is affordable and progressive, protecting those on lower incomes, recognises the real life circumstances of public sector workers and delivers on the Programme for Government commitment to lift the 1% public sector pay cap in Scotland.

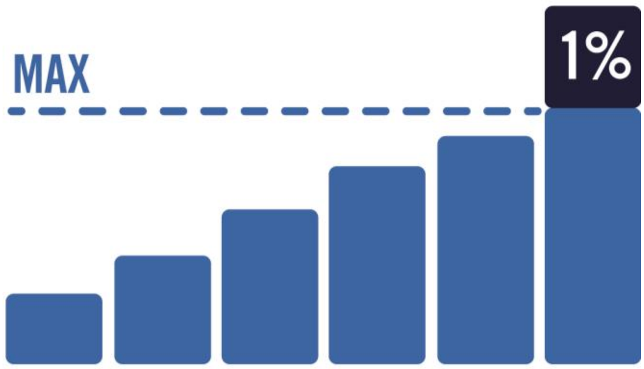
Guaranteed minimum 3 per cent pay increase for public sector workers earning £30,000 or less

- lift the pay cap by providing a **guaranteed minimum increase of 3 per cent** pay uplift for public sector workers **who earn £30,000 or less**
- set a limit of **up to 2 per cent on the increase in paybill** for those earning **above £30,000 and below £80,000**
- limit the pay increase for those earning £80,000 or more to £1,600.



Give employers greater choice on using paybill savings

- Extend flexibilities for employers to use up to 1 per cent of savings on baseline salaries
    a. to award a non-consolidated payment up to 1 per cent of salary, but **only for employees already on the maximum of their pay range** (who no longer benefit from progression)
    b. to consider affordable and sustainable changes to existing pay and grading structures where there is clear evidence of equality issues.



Retain discretion for individual employers to reach decision on pay progression for staff

- retain discretion for individual employers to reach their own decisions about pay progression (limited to a maximum of 1.5 per cent for Chief Executives)
- maintain the suspension of non-consolidated performance related pay (bonuses) and continue to expect a 10 per cent reduction in new Chief Executive remuneration packages
- support the requirement for employers to pay their staff the real Living Wage and maintain the policy position on **no compulsory redundancy.**

PUBLIC SECTOR PAY POLICY FOR STAFF PAY REMITS 2018-19

TECHNICAL GUIDE

Draft

December 2017

CONTENTS

1. INTRODUCTION

What is the Public Sector Pay Policy for staff pay remits?

1.1 The Public Sector Pay Policy for 2018-19 was announced in the draft Budget statement on 14 December 2017 and covers pay settlements in 2018-19. The policy sets the parameters for public sector pay increases for both staff pay and senior appointments within a range of public bodies in Scotland over the period 2018-19.

1.2 The policy is available on the Scottish Government website at: www.gov.scot/publicsectorpay

What are the key features of the pay policy for staff pay remits?

1.3 The key features of the policy are:

- applying a progressive approach to pay increases:
  - lifting the pay cap by providing a guaranteed minimum increase of 3 per cent pay uplift for public sector workers who earn £30,000 or less.
  - a limit of up to 2 per cent on the increase in paybill for those earning above £30,000 and below £80,000.
  - limiting the pay increase for those earning £80,000 or more to £1,600.
- continuing with the requirement for employers to pay their staff the real Living Wage.
- extending flexibilities for employers to use up to 1 per cent of savings on baseline salaries:
  - for non-consolidated payment 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) from paybill savings.
  - to consider affordable and sustainable changes to their existing pay and grading structures where there is clear evidence of equality issues.
- retaining discretion for individual employers to reach their own decisions about pay progression (limited to a maximum of 1.5 per cent for Chief Executives) outwith the 1 per cent cap of the baseline paybill.
- maintaining the suspension of non-consolidated performance related pay (bonuses).
- continuing to support the policy of No Compulsory Redundancy.

Who is covered by the pay policy for staff pay remits?

1.4 This Technical Guide supports the 2018-19 Public Sector Pay Policy and applies to staff in the following public bodies:

- The Scottish Government and its Associated Departments
- Agencies

- Non-Departmental Public Bodies (NDPBs)
- Public Corporations and
- NHS Scotland Executive and Senior Management posts (Grades A-C)

A full list of public bodies is available at: www.gov.scot/Topics/Government/public-sector-pay/staff-pay/public-bodies-covered.

1.5 There is a separate Technical Guide which applies to senior appointments. It covers the remuneration of Chief Executives of Scottish Non-Departmental Public Bodies and Public Corporations, Chairs and Board Members of public bodies in Scotland and NHS Scotland Executive and Senior Management posts. The relevant documents for senior appointments are available at: www.gov.scot/Topics/Government/public-sector-pay/senior-appointment-pay.

1.6 The remuneration of Senior Civil Servants is a reserved matter and operates within the UK Cabinet Office pay and performance management framework.

1.7 The information in these Technical Guides is for employers in the above public bodies, although their trade unions and employees may also find it of interest.

Who is involved in the pay remit process?

The public body

- **The public body** is responsible for determining the pay and conditions for its staff that are appropriate for its business needs and which take account of the Scottish Government's Pay Policy and processes. **Each public body is expected to submit its pay proposals to the Scottish Government in sufficient time to ensure that they can implement their pay settlement on the date in which it is due**. However, it is noted that for 2018-19 the majority of public bodies will have now moved to a 1 April settlement date and to assist in meeting the above requirement we will continue with the risk-based approach which was piloted in 2017-18. Based on some key indicators, each public body will be assigned a rating which will determine the approvals process required 3.1 to 3.5.

  Public bodies are expected to engage in early scoping discussions, with their staff and staff representatives in preparing their pay proposals where appropriate as part of a collaborative and constructive approach to the pay process.

- **The Chief Executive**, as Accountable Officer[1], has the responsibility to provide the assurance that the pay proposals are in line with the pay policy and any projections for paybill savings are realistic and will be delivered during the pay remit year.

  The Chief Executive also has the responsibility to confirm that the outturn for the previous pay year is within the approved remit. If the outturn is submitted before the end of pay year the Chief Executive is required to confirm that it is projected

[1] It is noted that in some circumstances that the Chief Executive is not the Accountable Officer, in such instances it would be either the Chief Executive or the Accountable Officer who would undertake the responsibility to provide the necessary assurances required.

to be within the approved remit and, in particular, that the assumptions made in respect of paybill savings to fund the pay award are still valid and achievable.

Trade Unions

- **Trade unions and/or staff representatives** are responsible for participating in early engagement with their public body as part of a collaborative and constructive pay dialogue. However, pay negotiations must not be concluded until the pay remit has been formally approved.

The Scottish Government

- The role of the **Finance Pay Policy team** is to ensure all pay proposals are in line with the Scottish Government's policy on public sector pay. Before a public body submits its pay remit, the team can advise on any issues that arise during the scoping discussions between public bodies and their staff representatives; and help in making sure the proforma and business case include all of the necessary information.

  The Finance Pay Policy team provides the main interface between public bodies and Remuneration Group. It is their role to advise senior officials, Remuneration Group and Ministers on all pay proposals.

- **The Remuneration Group** is chaired by a Non-Executive Director of the Scottish Government. The Group meets regularly throughout the year and its remit includes making sure a consistent approach is taken to approval of pay remits for both staff and senior appointments.

  When required, the Remuneration Group will consider pay proposals and will decide whether or not proposals need to be referred to Ministers. If Ministerial approval is required the proposals will need to be approved by the relevant Portfolio Cabinet Secretary or Minister and the Deputy First Minister.

  Full details of current membership of the Remuneration Group, meeting dates and the deadlines for papers are set out on the Scottish Government's Public Sector Pay webpages, available at: www.scotland.gov.uk/Topics/Government/public-sector-pay/RemunerationGroup.

- **The sponsor teams** of NDPBs and Public Corporations are responsible for making sure their public bodies are aware of the Scottish Government's Public Sector Pay Policy and the processes. It is their role to advise the Finance Pay Policy team on affordability and of any issues that they need to be aware of that may impact on the rating of the pay proposals.

- **Senior officials (Director / Director General / Permanent Secretary)**. For NDPBs and Public Corporations, the Director of the relevant sponsoring Directorate is responsible for ensuring good governance within public bodies in respect of the Public Sector Pay Policy and the processes and where appropriate approving proposals.

  The relevant Director General will take on this role in relation to Agencies and the Permanent Secretary for Associated Departments, the Scottish Government's Main Bargaining Unit and the Scottish Government Marine (off-shore) bargaining unit.

- **The Finance Business Partner**[2]. is responsible for providing comment on the affordability of the proposals within agreed budget allocations (taking into account delivery of efficiency savings) and on whether the proposals offer value for money.

What information is needed?

1.8 This Technical Guide explains the terms used in the policy and provides advice on application of the policy. Public bodies will also be issued with the relevant templates and guidance which set out the information they are required to provide to enable them to seek approval for their proposals.

1.9 A Glossary of terms can be found at Annex A.

When should a public body send in its remit proposals?

1.10 Each public body should send in its remit proposals in line with the submission date they agreed in advance with the Finance Pay Policy team (see timetable at www.gov.scot/Topics/Government/public-sector-pay/staff-pay). If for any reason a public body is unable to meet their agreed submission date it should contact the Finance Pay Policy team at the earliest opportunity to discuss an alternative date.

1.11 The Scottish Government Remuneration Group has highlighted the importance it attaches to individuals being paid on their recognised settlement date and for all parties taking forward the pay process to adhere to the agreed timscales. If a public body submits its proposals after its agreed submission date an explanation should be provided.

[2] If a public body has a sponsor team within the Scottish Government it will also have a Finance Business Partner who provides advice to sponsor teams on all budgetary matters.

2. KEY PAY POLICY PRIORITIES AND KEY METRICS FOR 2018-19

What are the key changes to this Technical Guide?

2.1 The information in this guide follows that set out in the 2017-18 Technical Guide taking in to account the key policy changes introduced this year. You will wish to note in particular the following sections:

- The pay thresholds – paragraphs 2.3 to 2.5.
- Application of the real Living Wage – paragraphs 2.30 to 2.36.
- Application of the pay award for those below the lower pay threshold – paragraphs 2.39 to 2.42.
- Application of the pay award for those between the lower and upper pay thresholds – paragraphs 2.46 to 2.51.
- Application of the pay award for those above the upper pay threshold – paragraphs 2.52 to 2.53.
- The flexibility to use paybill savings to address pay inequalities – paragraphs 2.11, 2.62 to 2.65.

What are the key metrics that will be used to assess pay remits?

2.2 In 2018-19, each remit will be assessed on the following:

- affordability and sustainability - the financial impact of the pay remit proposals
- meeting the measures for addressing the lower paid
- application of the increases within the pay thresholds
- the use of paybill savings to address inequalities

What are the pay thresholds for 2018-19?

2.3 The policy sets a lower and upper pay threshold to continue to target higher increases for lower earners. The lower pay threshold is set at a point which provides a guaranteed increase that recognises the real life circumstances for as many staff as possible while ensuring public sector budgets remain in balance, sustains public sector jobs and protect public services.

2.4 For 2018-19, the Lower Pay Threshold (LPT) is set at £30,000. The threshold includes all staff earning a full-time equivalent base salary of £30,000 <u>or</u> less. Setting the threshold at this level will ensure nearly 60 per cent of employees subject to the pay policy will directly benefit from a guaranteed 3 per cent increase.

2.5 For 2018-19, the Upper Pay Threshold (UPT) is set at £80,000. The threshold includes all staff earning a full-time equivalent base salary of £80,000 <u>or</u> more.

What is the limit on the increase to the paybill?

2.6 The policy sets no metrics relating to the overall increase in paybill. Each body covered by the policy must ensure that their pay proposals are affordable within their financial settlement for 2018-19. The aim of the policy is to assist public bodies to reach effective pay settlements that help them to fairly reward staff and manage their staffing numbers to deliver services within constrained budgets.

2.7 The amount a public body can add to its paybill as a result of its pay proposals will be determined by their agreed[3] financial settlement. Public bodies will need to include the cost of all elements of their proposals to determine the total value of the proposed increase in pay and benefits for staff in the organisation. The public body must confirm the total value of their pay proposals are affordable within their agreed[3] financial settlement. They must also demonstrate, particularly where there are proposed changes to existing pay and grading structures, that their pay proposals are sustainable.

2.8 It is a matter for individual public bodies and their staff representatives to make decisions on their proposed pay remit and how they will meet the cost within the agreed financial settlement. Such decisions should take into account the policy requirements staff below the Lower Pay Threshold, any progression commitments; maintain headcount and the provision of services. Where there are affordability pressures, the public body must in the first instance address the low pay measures and equality issues prior to taking decisions on paying progression and paying a basic pay award increase for staff earning above the Lower Pay Threshold.

2.9 Public bodies have the choice to submit proposals to vary the levels of basic pay increase across their workforce to take account of local pay issues. For staff earning between the Lower and Upper Pay Thresholds the cost will require to be met from within the 2 per cent limit in the increase in paybill for such staff. The cost of pay proposals for staff earning below the Lower Pay Threshold or above the Upper Pay Threshold are outwith this 2 per cent limit, but it is the responsibility of each organisation to ensure their full paybill costs can be met from within their agreed[3] budget provision.

Can paybill savings be used to part-fund the pay award?

2.10 Public bodies can use paybill savings to part fund their proposals. Such savings include those arising from staff turnover (recyclable savings), reductions in staffing and the removal of allowances or reductions in overtime.

2.11 Paybill savings should not be used to off-set increases that would otherwise result in the pay proposals exceeding the 2 per cent limit for the increases in paybill for staff earning between the Upper and Lower Pay Thresholds. However, public bodies may use paybill savings: to fund 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 or to

[3] Where the financial settlement has not yet been agreed, the public body will be required to demonstrate the cost of their proposals can be delivered within their provisional financial settlement.

make changes to their existing pay and grading structures to address evidenced equality issues. For further detail refer to paragraphs 2.62 to 2.71.

2.12 Where a public body proposes to part fund their pay award from an in-year non-recurring saving they will be required to confirm that future baseline paybills are affordable.

2.13 The proposals should detail how the proposals will be funded and include confirmation from the public body that they will deliver the specified savings during the period of the proposed remit. Public bodies should provide a risk assessment on their likelihood of achieving the projected savings. The Chief Executive/Accountable Officer will be expected to confirm in the outturn proforma that the proposed savings were delivered.

What costs must be included in the pay remit?

2.14 The pay remit costings must include the cost of all[4] proposed increases in pay and benefits as well as with the consequential increases to allowances, overtime rates, employer’s pension and National Insurance contributions that directly relate to the pay remit proposals. This is the Total Increase for Staff in Post of the proposals and reflects the aggregate value of the increases in pay and benefits existing staff will receive.

2.15 The pay remit costings should also include the costs of any changes to existing allowance rates[5], the buy-out of existing allowances or the introduction of new allowances[5] that will form part of the negotiations. Changes in overtime rates or proposals for new allowances will only be considered where these can be demonstrated to be cost neutral. If your proposals include any changes to existing terms and conditions you will be expected to consider the impact on the overall remuneration package particularly in regard to delivering the pay policy expectations for the lower paid.

2.16 Proposals which carry a notional cost (such as, for example, changes in the qualifying period for annual leave) must also be included in the remit proforma. There should be a supporting business case which sets out the current arrangements as well as the benefits and the read across for other public bodies. The additional benefit for staff will not add an actual cost to the paybill and will therefore not impact on the Net Paybill Increase. However, if the proposals result in ancillary costs such as additional staffing, overtime or any other staffing costs these costs will require to be included in the remit proforma with confirmation the costs can be met within the agreed budget for the period. Such costs are not required to be included within the pay policy limits (paragraph 2.54).

2.17 The Scottish Government encourages employers to offer staff childcare vouchers or assistance with green transport initiatives. Where a public body proposes to introduce such initiatives, the detail should be set out in the business

[4] This will include progression (if proposed), the measures for lower paid; basic pay increases; as well as any other proposed changes to existing pay and benefits.
[5] Public bodies are reminded that all new allowances must be non-pensionable. If a public body wishes an existing or new allowance to be made pensionable this will require separate approval.

case and the associated costs for setting-up and maintaining the scheme should be included within the pay remit costings as well as an indication of the value to staff with confirmation the costs can be accommodated within the agreed budget for the period. Such costs are not required to be included within the pay policy limits (paragraph 2.54).

2.18 Proposals to introduce non-pay rewards such as salary sacrifice schemes also fall under this category. As above, the financial proforma should include the administrative costs of setting-up and maintaining any such schemes as well as an estimate of the value to the individual. Public bodies should provide evidence to support any proposals in their business case.

2.19 Salary sacrifice proposals which aim to reduce employee's pension contributions to a public service pension scheme with off-set increases to the employer contribution will not be considered acceptable.

2.20 As noted in paragraph 2.8, where there are affordability pressures, the public body must ensure they address any equal pay risks and target resources at staff earning below the Lower Pay Threshold, balanced with decisions on paying progression.

2.21 Once these decisions have been taken, to ensure consistency in assessing individual proposals, the expectation is that each public body should model the paybill costs of their proposed pay award in the following order:

- progression (if proposed)
- Scottish Living Wage
- the pay uplift for staff earning below the Lower Pay Threshold
- the pay increase for staff earning between the Lower and Upper Pay Threshold
- the pay increase for staff earning above the Upper Pay Threshold
- flexibilities or pay bargaining measures
- associated increases in the costs of overtime, allowances

Public bodies must also include the employer's pension and National Insurance contributions that result from the increases in pay and benefits that are proposed.

What costs are excluded from the pay remit?

2.22 Any changes to the baseline paybill such as: mandatory increases to the employer's pension and/or National Insurance contributions; or increases related to ensuring the financial health of the pension fund; or any other changes to terms and conditions directly outwith the control of the public body are not to be treated as increases within the annual pay award. Such costs however should be included in the baseline paybill. Where the actual costs are not known, at the time of preparing the remit costings, then an estimate should be provided along with a note of the methodology for the calculation.

2.23 The costs of paying the employer’s Apprenticeship Levy should be included in the baseline paybill as the cost could have a potential impact on the affordability of the annual pay award.

What is the position on progression?

2.24 Nothing in the policy is intended to interfere with existing pay progression arrangements nor to constrain discussions between employers and staff on this issue.

2.25 It remains a matter for individual public bodies and their staff representatives to agree a pay settlement that is affordable. In doing so decisions may be required on whether to either meet existing progression commitments, cap progression increases, or suspend progression in order to maintain headcount and services and meet the policy requirements for low paid staff within the agreed financial settlement. Where necessary, public bodies must ensure they have sought legal advice as to the extent of contractual obligations in relation to paying progression.

2.26 Where there is no contractual commitment to pay progression, bodies may continue to pay progression if they choose to. Decisions taken to pay progression should be based on business needs, maintaining headcount and affordability.

2.27 The cost of paying progression under existing arrangements is costed outwith the pay policy limits (see paragraph 2.54) and as with all pay increases, will require to be met fully from within the agreed budget provision. Where a public body proposes to make a change to existing progression arrangements, such as reducing journey times, the cost of introducing the change will require to be included from either within the 2 per cent limit for the increases in paybill for staff earning between the Upper and Lower Pay Thresholds or under the 1 per cent flexibilities allowed to address pay inequalities.

2.28 The cost of progression should be based on a full 12 month cost regardless of whether or not a public body awards increments to staff based on individual anniversary dates. Therefore the cost should not be scaled down to the cost payable within the pay remit period if that is different. Any savings arising from paying staff on individual anniversary dates should take in to account the residual progression costs from the previous year. The savings may be noted for affordability of the pay remit but may not be used to off-set the costs of any proposals which seek to address pay inequalities as detailed in paragraphs 2.66.

What are the measures to support lower paid staff?

2.29 Employers covered by the policy are required to:

- apply the Scottish Living Wage
- ensure all staff earning below the Lower Pay Threshold receive a guaranteed increase of 3 per cent and this is expected to be in addition to any entitlement to progression.

Further details are set out below.

What is the policy position on the real Living Wage?

2.30 The policy intention is that the employer of every worker whose pay is controlled directly by the Scottish Government will be paid at least the real Living Wage rate set out in paragraph 2.34.

2.31 While not a pay policy requirement, public bodies are encouraged, if they have not already done so, to demonstrate their support of the Scottish Government's commitment to lower paid staff by becoming Accredited Living Wage employers.

How should the real Living Wage be applied?

2.32 To meet the Scottish Government's commitment to support the real Living Wage, the pay policy expectation is for the real Living Wage to be applied as an annualised rate, **referred to as the Scottish Living Wage**.

2.33 For 2018-19 pay remits, the Scottish Living Wage is set at an annual gross salary of **£16,900**[6].

2.34 The Scottish Living Wage is the minimum annual full-time equivalent salary for all employees in public bodies covered by the pay policy regardless of the number of conditioned hours worked. The 2018-19 Scottish Living Wage is based on an hourly rate of £8.75 which is consistent with the increase announced during the 2017 Living Wage week.

When is the Scottish Living Wage applied?

2.35 **All public bodies will be expected to apply the new Scottish Living Wage rate on 1 April 2018 regardless of each public body's individual settlement date**. The only exception to this is where a public body has just received Living Wage Accreditation[7] and requires to apply the living wage rate at an earlier date.

2.36 The cost of applying the uprate should be included in the pay remit proposals based on the 12 month cost (i.e. as if the increase had been applied on the settlement date).

How does the pay policy apply to Modern Apprentices and Interns?

2.37 The pay policy supports the Government's target for Modern Apprentices, recognising the importance of providing opportunities for youth training and employment, and as such it does not provide a barrier to delivering on this. Where a public body takes on a Modern Apprentice in a:

- recognised/existing job role - then the public body is expected to pay them the rate for that grade.

[6] The gross annual salary is used as this is consistent with the Joseph Rowntree Foundation definition of the living wage (i.e. the annual amount an individual must earn, before tax, to afford a basic but acceptable standard of living). The annual gross salary is calculated on a 37 hours working week as this is the most common length of week for pay negotiations among public bodies covered by the pay policy. This is then multiplied by the hourly rate and 52.2 weeks per year to calculate the annualised figure.

[7] http://scottishlivingwage.org/accreditation

- specific training role - they are expected to pay at least the Scottish Living Wage unless it is the lowest pay point in the existing pay and grading structure and there is a need to create a differential between established roles and the training role. In such circumstances the public body would be expected to pay at least the adult National Minimum Wage rate rather than the statutory Youth Development or Apprentice rates. Where a public body pays a Modern Apprentice at a lower rate than the Scottish Living Wage they would be required to provide details of the rates paid. The public body would be required to pay the Modern Apprentice the established rate for the job on completion of the agreed training period.

2.38 The pay policy does not apply directly to interns who are on short-term, developmental placements. However, public bodies are encouraged to consider best practice when offering an internship. Where it is appropriate and where they can afford to do so, employers should pay the Scottish Living Wage, particularly where the intern is undertaking a job equivalent to other staff within the organisation.

What is the increase for staff earning below the Lower Pay Threshold?

2.39 The policy intention is that every worker earning £30,000 or less and whose pay is controlled directly by the Scottish Government should receive a guaranteed increase of 3 per cent. For 2018-19, the policy expects employers to provide an increase of 3 per cent to staff if their **current**[8] full-time equivalent base salary is within the Lower Pay Threshold. **The policy position is that this payment should be in addition to any progression increase (where eligible)**.

2.40 While the policy sets a limit on the level of increase that can be applied for this staff group, this is costed outwith the 2 per cent limit. The level of increase remains at the discretion of individual employers and is determined by affordability and local business circumstances. Where a public body proposes to offer an increase above 3 per cent this would require to be costed from the flexibility allowed in the 2018-19 pay policy to address evidenced equality issues (see paragraphs 2.66 and 2.68).

2.41 The policy encourages public bodies **to apply the 3 per cent pay increase as a consolidated basic pay award**. The exceptions being:

- where an existing pay point is aligned to the Scottish Living Wage, then the differential for employees, who are expected to remain on that pay point, between the increase in the Scottish Living Wage and the 3 per cent pay uplift should be awarded as a non-consolidated payment.
- where there are demonstrable affordability, structural pay or equality issues, then a public body may seek to pay part of the 3 per cent as a non-consolidated payment. In such circumstances the expectation is that the consolidated increase for such staff should take into account what is proposed

[8] Current salary is an individual's salary prior any uplift including progression (where eligible). For example if an individual's current salary was £29,750 and their progression increase was 1.5% taking them to £30,196, under the policy, the individual would still be entitled to the 3 per cent uplift in addition to progression, although part of this could be paid as a non-consolidated payment depending upon what is proposed for pay points in the same range above the Lower Pay Threshold.

for staff above the Lower Pay Threshold. Any remit proposing this approach may be considered by the Remuneration Group.

2.42 If a public body has an established policy on pay protection (sometimes known as “red-circled staff”) and/or linking pay to performance, this may be taken into account in developing pay proposals and may be used to determine whether or not an individual is entitled to the minimum pay uplift. The public body would be required to set out the details of their relevant remuneration policies and the number of staff affected in their business case.

What can a public body do if they have staff whose base pay is currently just above the Lower Pay Threshold?

2.43 A public body may propose to pay a higher increase of up to 3 per cent pay to staff who are currently on a base salary that is just over Lower Pay Threshold to address any possible “leapfrogging” and to maintain the integrity of their current pay systems. In such circumstances, the proportion of the cost of which is above 2 per cent is included under the costs for those within the lower pay threshold and not within the 2 per cent limit[9].

2.44 A public body can choose to pay the difference as either a consolidated or a non-consolidated payment, taking into account affordability and the impact on their pay and grading structure.

2.45 Where a public body proposes to apply more than the 3 per cent for lower paid staff then the additional amount above the 3 per cent would require to be costed from the 1 per cent flexibility allowed in the 2018-19 pay policy to address evidenced equality issues (see paragraphs 2.66 and 2.68)[10].

How will the cost of the increase in basic pay be applied for staff earning between the Lower and Upper Pay Thresholds?

2.46 Public bodies may propose a basic pay increase for staff who currently earn between the Lower and Upper Pay Threshold. The level of increase for individual employees or groups of staff within a public body is a matter for individual employers subject to the limit of a 2 per cent increase in the cost of base salaries (net of on-costs) for all staff earning between the Thresholds. Within this limit, a public body can choose either to pay up to a 2 per cent across-the-board basic pay award or to vary the level of basic award between grades to take account of local issues, such as recruitment, retention and motivation issues; or to make changes to existing terms and conditions. See Annex B for a worked example on the application of differential increases in basic award.

[9] For example, if it is proposed to award staff on a current pay range maxima of £30,500, a 3 per cent increase (£915) in line with the increase for staff within the Lower Pay Threshold, this would result in an additional £305 compared with applying a 2 per cent increase. In such circumstances, the 2 per cent (£610) would be costed within the 2 per cent limit as normal and the additional £305 would be included under the costs for those within the lower pay threshold.

[10] For example, if it is proposed to award staff on a current pay range maxima of £30,500, a 3.5 per cent increase (£1,068) in line with that proposed for staff below the Lower Pay Threshold, this would result in an additional £458 compared with just applying 2 per cent increase (£610). Of this additional £458: £305 would be include under the costs for those within the lower pay threshold; and the remaining £153 would be costed from the 1 per cent flexibility allowed in the 2018-19 pay policy.

2.47 Where the proposals result in a pay range minima and maxima increasing by more than 2 per cent then the public body should consider the wider read across to other public bodies. The policy expectation remains that any proposal to increase a pay range maximum by more than 2 per cent should not result in the pay range maximum being more than 5 per cent above the median of the maxima in the relevant labour market.

2.48 While there is no similar expectation for the pay range minima, public bodies nevertheless should ensure that any proposed increases to a pay range minima will not result in paying above the relevant market for that grade or build in future paybill pressures as a result of paying new recruits and/or promotees a higher starting salary.

How should the basic pay increases for staff earning above the Lower Pay Threshold be applied?

2.49 The basic pay increase is normally consolidated. The exception to this is where there are: budgetary pressures; structural issues; equality issues; or where a public body has an established policy on pay protection for employee’s outwith the recognised pay ranges.

2.50 While public bodies can identify savings to part-fund their pay award (see paragraphs 2.10 to 2.13) they cannot use any such savings to make a case to exceed the policy limits.

2.51 A public body’s policy on pay protection may be taken into account in developing pay proposals and used to determine whether or not an individual is entitled to the minimum basic pay increase. Depending upon local arrangements some staff may receive a non-consolidated payment in line with the basic award for other staff in the same grade or for others their pay may be frozen. In all circumstances, the public body would be required to set out the details of their relevant remuneration policies and the number of staff affected in their business case.

What is the increase for staff earning above the Upper Pay Threshold?

2.52 The policy limits the basic pay increase for those earning £80,000 or more to £1,600. This limit will also apply to all pay points which are £80,000 and above.

2.53 In determining the level of increase for those staff earning above the Upper Pay Threshold, each public body should take in to account the progressive approach set out in this pay policy and what they propose for other staff.

What is included within the pay policy limits?

2.54 All increases to pay must be included within the specified policy limits unless they are specifically identified to address evidenced equality issues and it is proposed to seek to use the flexibilities within the pay policy outlined in paragraphs 2.62 to 2.68. Increases within the limits will include:

- the basic award
- any costs arising from proposed changes to existing terms and conditions that are not covered by the additional flexibility for addressing equality issues (see paragraphs 2.68 and 2.69)
- the cost of any payment to staff on pay protection

What are outwith the pay policy limits?

2.55 The following costs are all outwith the respective pay policy limits:

- progression
- applying the Scottish Living Wage
- changes to existing pay structures to address inequalities
- introducing staff child care vouchers or assistance with green transport initiatives
- costs directly related to harmonisation under the Simplification Agenda
- proposals which carry a notional cost (where there is no actual cost to the employer)
- the ancillary increases to allowances, overtime, employer's pension and National Insurance Contributions as a result of the pay proposals

2.56 For costs that are outwith the pay remit refer to paragraphs 2.22 and 2.23.

What is the policy position on Fair Pay and pay inequalities?

2.57 The Scottish Government recognises the importance of treating people fairly in the work place and encourages best practice among its public bodies as set out in the Fair Work Framework[11]. This recognition is embedded in Scotland's Labour Market Strategy[12]

2.58 The Scottish Government is committed to ensuring pay systems in the public sector are fair and non-discriminatory. Each public body should make sure it has due regard to its obligations under the public sector equality duties when considering its pay systems. This must include the legal requirement on public bodies to assess the impact of their policies and practices on people from different ethnic groups, disabled people and gender. In terms of pay proposals, public bodies are expected to have carried out equal pay reviews and set out in their business case the results of such

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[11] http://www.fairworkconvention.scot/framework/FairWorkConventionFrameworkFull.pdf

[12] http://www.gov.scot/Publications/2016/08/2505

reviews and the steps they propose to take to address any inequalities they have identified.

2.59 Public bodies should carry out a proper assessment of the pay arrangements for different groups or roles including considering the impact of reward policies on equality groups. This should also consider the appropriate length and progression journey time for all jobs, in line with equalities legislation.

2.60 Where a public body has identified a potential pay inequality they wish to address, they will need to provide evidence of the extent of this inequality. A full risk assessment, including the likelihood of claims and the extent of potential liability as well as the costs of dealing with the issue, should form part of the business case which supports all proposals to address inequalities. They will also need to propose ways of tackling this in a cost-effective way, subject to affordability constraints and policy limits.

2.61 It is important public bodies meet their public sector equality duty and review their pay systems on an annual basis after they have implemented pay awards, and ensure they carry out a full equality impact assessment of their reward policies and practices in line with the recommended time scales. Public bodies are encouraged to work jointly with their trade union(s) in undertaking their equal pay reviews. Further information about equality impact assessment is available on the Scottish Government's website at: www.gov.scot/Topics/People/Equality/18507/EQIAtool

Does the pay policy provide flexibility for public bodies to use paybill savings to address inequalities?

2.62 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 to employees already on the maximum of their pay range or those on spot rates.
- consider affordable and sustainable changes to their existing pay and grading structures or terms and conditions to address evidenced equality issues.

What is required if a public body is seeking to award a non-consolidated payment to staff?

2.63 The 2018-19 pay policy has introduced the provision for public bodies to be able to use paybill savings to award a non-consolidated payments to employees either on the maximum of their pay range or those on spot rates. This is to recognise that these staff, many of whom will have been on the same point for several years, will have faced the greatest detriment from the pay restraint.

2.64 The payment only applies to either those staff who are on their maxima prior to the recognised settlement date or those on spot rates of pay.

2.65 Public bodies have the flexibility to award non-consolidated payments of up to 1 per cent of salary for eligible employees, on the basis that they can demonstrate:

- the cost of applying the non-consolidated payment can be wholly funded from paybill savings.
- a risk assessment of being able to deliver the identified paybill savings.
- the proposed changes are sustainable (that they do not create pressure on future baseline paybills).

What is required if a public body is seeking to use paybill savings to address inequalities?

2.66 The following sets out some examples of the types of proposals that public bodies might submit to address inequalities:

- reviewing existing pay and grading structure, including:
  - reducing progression journey times (removing minima and/or recalibrating pay steps)
  - recalibrating existing pay steps
  - reducing and/or removing overlaps between grades
- equalising contractual and working hours.
- removing / changing out-dated allowances.
- changes to wider HR policies, including:
  - increases to maternity, paternity and adoption leave
  - changes to recruitment/promotion policies to encourage greater uptake of individuals with a protected characteristic where they are under-represented in a specific grade or grades.
  - reviewing service related benefits such as reducing the qualifying time for maximum annual leave entitlement
- future-proofing for the real Living Wage and National Living Wage
- providing higher increases for lower paid staff above the 3 per cent to help reduce overall income inequality.

2.67 To assist public bodies in framing their proposals, the following sets out some guiding principles/benchmarks:

- public bodies should aim to have journey times of no more than 5 years for all grades.
- the proposed changes should not result in terms and conditions becoming more generous than the majority of other public bodies.
- any increases to existing band maxima of more than the limits set out in the 2018-19 pay policy should not result in the band maxima exceeding the median of the equivalent market maxima by more than 5 per cent.
- public bodies should aim to have a qualifying time for maximum annual leave entitlement to be no more than 5 years
- any increases solely based on market erosion will require to be costed from within the pay policy limits.

2.68 Where a public body provides clear evidence of significant and business critical equality issues and that they can demonstrate:

- the cost does not exceed 1 per cent of base salaries (net of on-costs).
- the proposals can be evidenced to show a tangible improvement (such as reducing the overall gender pay gap).
- the cost of making the changes can be wholly funded from paybill savings. However where a public body has difficulty in meeting the full cost from paybill savings, but meets the other criteria outlined, they are invited to contact the Finance Pay Policy team to discuss options.
- a risk assessment of being able to deliver the identified paybill savings.
- the proposed changes are sustainable (that they do not create pressure on future baseline paybills).

then the proposed changes can be costed from paybill savings and as such are outwith the pay policy limits.

2.69 However, proposals which seek to make changes to pay structures to address recruitment and retention issues only, such as increasing pay range minima or maxima, would require to be costed from within the 2 per cent limit for staff earning between the Lower and Upper Pay Thresholds.

2.70 See Annex B for a worked example on using paybill savings to address equality issues.

Can a public bodies use paybill savings to make a non-consolidated payment to staff on their maxima as well as making changes to existing structure to address evidenced inequalities?

2.71 Each public body can submit proposals to use paybill savings to make a non-consolidated payment to staff on their maxima (or on spot rates of pay) as well as introducing any other changes to their existing pay and grading structures or terms and conditions to address identified inequalities. This is on the condition that the total cost does not exceed 1 per cent and can be wholly funded by paybill savings in line with the details set out in paragraph 2.68.

What is required if a public body submits proposals for amending or restructuring their pay and reward system?

2.72 If a public body is developing proposals that make any changes to their existing pay and grading structure it should take into account the following:

- the wider read across of their proposals for other public bodies
- the policy expectation is that any new pay range maxima should not result in it being more than 5 per cent above the median of the maxima in the relevant labour market. In most instances the expectation is for the relevant labour market to be the other public bodies subject to the public sector pay policy and public bodies should ensure any job evaluation scheme they use enables them to fully utilise this data

- there is no similar expectation for the pay range minima - however public bodies should ensure that any proposed increases to a pay range minima will not result in paying above the relevant market for that grade or build in future paybill pressures as a result of paying new recruits and/or promotees a higher starting salary
- affordability - the costs arising from changes to an existing pay and reward structure must be included within the remit proforma along with confirmation they are affordable within the agreed settlement
- sustainability - the changes are affordable and sustainable in the years following the implementation of the restructuring. To demonstrate this public bodies are expected to projected annual progression costs for the 3 years following implementation of the restructuring

2.73 Where a public body is considering proposals which include restructuring their existing pay and grading system they should discuss them with the Finance Pay Policy team at the earliest opportunity.

What is required to extend a No Compulsory Redundancy agreement?

2.74 The statutory definition of "redundancy" encompasses three types of situation: business closure, workplace closure, and reduction of workforce. The dismissal of an employee will be by reason of redundancy if it is "wholly or mainly attributable to" the employer:

- Ceasing or intending to cease to carry on the business for the purposes of which the employee was employed by it (business closure) (*section 139(1)(a)(i), ERA 1996*);
- Ceasing or intending to cease to carry on that business in the place where the employee was so employed (workplace closure) (*section 139(1)(a)(ii), ERA 1996*); or
- Having a reduced requirement for employees to carry out work of a particular kind or to do so at the place where the employee was employed to work (reduced requirement for employees) (*section 139(1)(b), ERA 1996*).

2.75 The intention behind the Ministers No Compulsory Redundancy commitment is to ensure that, in any of the above circumstances, the employer works closely with affected staff and their unions, to identify suitable alternative employment opportunities.

2.76 This pay policy continues to support the Scottish Government's position on No Compulsory Redundancy. The Government believes this commitment creates 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.

2.77 Public bodies will be expected to negotiate extensions to their No Compulsory Redundancy agreements for the duration of their 2018-19 pay settlement as part of constructive and collaborative discussions between employers and their trade unions to make the most effective use of the funding available for the pay award, within the bounds of the pay policy.

2.78 The details will be for agreement between employers and their staff groups as part of collective bargaining negotiations for 2018-19. The key aim remains for public bodies to manage costs and protect staff numbers to deliver the quality of services within constrained budgets. The Scottish Government expects all public bodies to engage with this framework.

2.79 The No Compulsory Redundancy agreement extends to all directly employed staff and public bodies would be expected to look at all appropriate measures to avoid compulsory redundancy such as transfer to other areas of work both within the organisation or to another public body (if agreed arrangements are in place); reviews of working practices such as reducing overtime; restricting promotions/recruitments; or restricting the use of temporary workers or fixed-term appointments etc. The No Compulsory Redundancy agreement does not apply to the termination of a temporary appointment or the end of a fixed term contract where staff are recruited for a limited period.

What does the suspension of non-consolidated performance payments mean?

2.80 The policy position remains that all non-consolidated performance payments remain suspended. This approach allows public bodies to maximise the resources available to them to address fair pay issues. The suspension[13] applies to all non-consolidated performance payments (normally based on performance in the preceding year).

2.81 The suspension does not apply to non-consolidated payments awarded to staff on their maxima or on spot rates of pay; or where part of a basic pay award is proposed to be paid as non-consolidated; nor does it apply to allowances and supplements[14]. Such payments will need to be considered as part of delivering a pay remit within the overall financial settlement.

2.82 Although existing non-consolidated pots may be available for payment under future policy, ‘earned’ performance in the current and previous performance years will not be taken into account in future payments. Any future payments will require to be paid from agreed budget provision at that time. The value of all suspended non-consolidated pots is based on the percentage of baseline paybill and not the monetary value and is recorded in the financial proforma.

[13] With the exception of Scottish Water, where such payments are made to staff only if Scottish Water outperforms the demanding efficiency targets set by its independent economic regulator.
[14] The expectation is that allowances and supplements are not consolidated.

Can a public body align to another public body's pay proposals or submit joint pay proposals?

2.83 The 2018-19 policy continues to encourage smaller[15] bodies to make a business case to align with another appropriate existing pay system (such as the Scottish Government or another Agency / Non-Departmental Public Body). Where a case is approved, the public body would just be expected to complete the settlement proforma providing the details and the costs of implementing the settlement.

2.84 Thereafter, a brief review of each alignment would be required every three years to ensure it remains fit for purpose and continues to allow the body to recruit, retain and motivate its staff.

2.85 Public bodies wishing to put forward a case to align to another public body's pay system should speak with the Finance Pay Policy team in the first instance and well in advance of their 2018-19 settlement date.

2.86 While the alignment arrangements continue to be available only for the smaller public bodies, there is no restriction on larger public bodies seeking to submit joint remit proposals where there are clear business benefits of doing so. Where two or more bodies propose to submit a joint pay remit they should seek early discussions with the Finance Pay Policy team.

Can pay remit proposals be submitted that cover more than one year?

2.87 This is a matter for public bodies, subject to affordability. The pay policy for 2018-19 applies to public bodies with settlement dates for the year between 1 April 2018 and 31 March 2019 (inclusive). Where a public body wishes to submit pay proposals for more than one year they should contact the Finance Pay Policy team and their Sponsor Team (where applicable) at the earliest opportunity.

2.88 A settlement covering more than one year may provide certainty for employers and their staff; help to ensure annual pay awards are paid on time and reduce the administrative burden and costs associated with the pay process. It may also provide public bodies with the opportunity to take a phased approach to addressing evidenced workforce or structural pay issues ensuring affordability and sustainability. It may also help to provide for meaningful pay negotiations between employers and staff representatives.

2.89 While it is for the public body to decide how the award may be packaged, taking account of their specific circumstances, the total increase must not exceed the equivalent annual average of the parameters set in the 2018-19 pay policy.

[15] A smaller public body, for this purpose, is defined to be one which employs around 100 staff (FTE) or less. This limit is based on capturing all public bodies in the lowest quartile for the number of staff employed in each of the public bodies directly subject to the policy.

What happens if a public body is legally committed to elements of the pay award?

2.90 There may be rare occasions when a public body is contractually obliged to pay progression or where the pay award is legally linked to that of another group of staff (such as local government employees), for example after the transfer of staff or the creation of a new public body. Where this is the case and the commitment is not compatible with meeting the requirements of the pay policy, the public body should set out in its business case: the basis of the contractual obligations; whether or not they have sought legal advice; how it intends to resolve the situation; the potential impact with other employees and the timeframe for its resolution.

2.91 Public bodies should note the basis of approval of pay remits in paragraphs 4.5 and 4.8 and ensure they do not create any new contractual obligations.

3. APPROVALS PROCESS

What further changes are there to the pay remit process in 2018-19?

3.1 The introduction of a risk-based approach to the pay remit process following the 2017-18 piloted. Based on some key indicators, each public body will be assigned a rating which will determine the approvals process required:

Fast-track process	The public body only required to provide settlement information.
Streamlined process	The public body can go ahead and work up detailed proposals in conjunction with their Trade Unions but would require to seek formal approval prior to concluding formal pay negotiations.
Full pay remit process	The public body requires to have their pay proposals approved by the Scottish Government prior to engaging in formal negotiations.

3.2 The Finance Pay Policy Team, and where relevant in conjunction with the Sponsor Team, will determine the risk rating of each public body based on their 2017-18 outturn; 2018-19 baseline paybill information and outline proposals.

3.3 For the purpose of the 2018-19 risk assessment, the rating for ~~your~~ the 2017-18 remit will be based on the following criteria:

Green

The 2017-18 remit will **Green** if either of the following apply:

a) the remit was assigned to the fast-track process

b) the was assigned to the streamlined process as it included proposals to use paybill savings to address pay inequalities.

Amber

The 2017-18 remit will be rated as **Amber** if either of the following apply:

a) the 2017-18 remit was assigned to the streamlined process because of issues other than addressing pay inequalities.

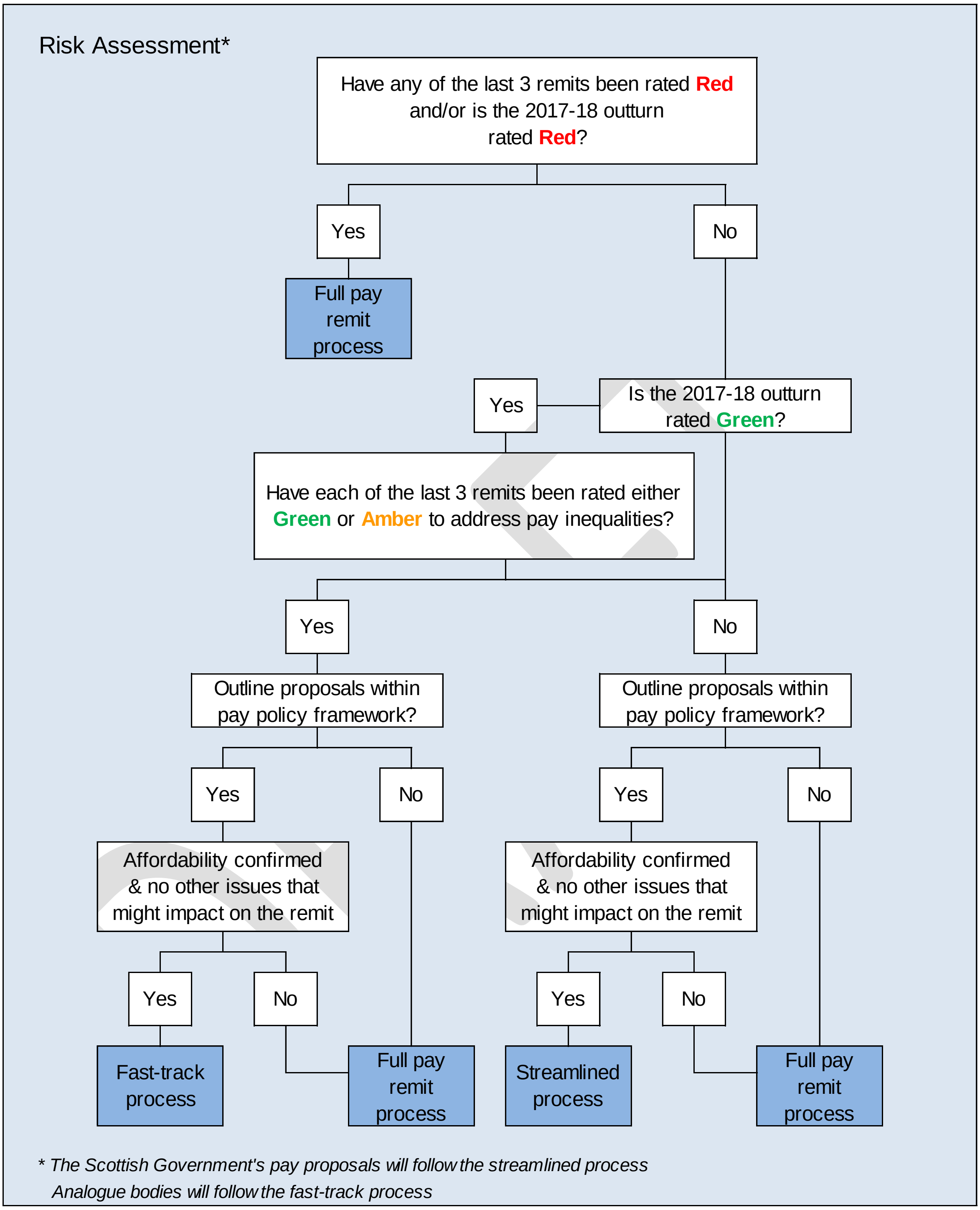
b) the 2017-18 remit was assigned to the full remit process because it included proposals for restructuring but the proposals were otherwise in line with pay policy.

Red

The 2017-18 remit will be rated as **Red** if the following applies:

a) the 2017-18 remit was assigned to the full remit process for reasons other than restructuring as set out above.

3.4 The following chart summarises the 2018-19 risk assessment process:



3.5 This change to the process provides greater autonomy to public bodies and reduce the resources both for public bodies and Scottish Government officials required in the current process. The change also underpins the pay policy expectation for public bodies to actively engage with their staff representatives/Trade Unions as early as possible in the pay round as part of a positive partnership approach to pay negotiations. Regardless of the risk rating the policy expects public bodies and their Trade Unions to have constructive and collaborative pay scoping discussions prior to the public body submitting their outline proposals.

What should a public body provide for the risk assessment of their draft pay proposals?

3.6 All public bodies will be required to complete an assessment proforma in which they are asked to provide: 2017-18 Outturn information; the 2018-19 baseline position; indicative costs for progression and savings; as well as a brief outline of their pay proposals, in particular details of any changes proposed to existing pay and grading structures or terms and conditions to address pay inequalities.

3.7 The sponsor division and Finance Pay Policy team will comment on the proposals. It will be the responsibility of the sponsor division to highlight any issues or affordability pressures and along with the Finance Business Partner approve the optimum funding envelope. The Finance Pay Policy team will advise on the risk rating of the proposals and provide guidance to ensure they remain in line with pay policy. This will then provide the framework for public bodies to engage in scoping discussions or pay negotiations with their Trade Unions.

How will the outturn be assessed?

3.8 The Finance Pay Policy team will rate the outturn for the previous year as follows:

Green

The outturn will be rated as **Green** if all of the following apply:

a) the settlement information for 2017-18 has been provided and confirms the pay award was implemented within the approved remit.

b) the outturn is fully in line with the approved remit (it did not exceed the limits of the approved remit; all changes to pay structures were implemented as approved; all conditions placed on approval had been met; and where appropriate, all assumptions about paybill savings are still valid) and this has been confirmed by the Chief Executive.

c) any paybill changes are attributable to factors not directly related to the approved remit.

Amber

The outturn will be rated as **Amber** if either of the following apply:

a) the outturn exceeded the approved limits and there is insufficient information to determine that any other paybill changes are attributable to factors not directly related to the approved remit and the increase in paybill per head indicates proposals were implemented as approved.

b) the savings identified in the approved remit have not been fully realised but were sufficient to cover the costs of implementing any changes to address inequalities.

Red

The outturn will be rated as **Red** if any of the following apply:

a) the settlement information for 2017-18 has not been provided.

b) the implemented pay award differs from the basis of the approved remit.

c) the outturn exceeded the approved limits; there is insufficient information to determine that any other paybill changes are attributable to factors not directly related to the approved remit and/or the increase in paybill per head is higher than the approved remit.

d) the savings identified in the approved remit have not been fully realised and were insufficient to cover the costs of implementing any changes to address inequalities.

e) the public body did not comply with any conditions placed on approval.

~~3.8~~3.9 If the outturn is rated as **Red**, the public body must provide an explanation as to why the outturn was exceeded and the current remit and outturn must be considered by the Remuneration Group.

~~3.9~~3.10 Where a public body has exceeded the approved remit and the increase cannot be explained by changes in staffing over the year or has moved away materially from the basis of that remit then the Remuneration Group may refer the outturn and the current remit proposals to Ministers. The Remuneration Group expect Ministers will take action where the explanation is not adequate. The potential consequences of significantly exceeding a remit in such circumstances are set out in paragraphs 5.5 to 5.7.

What is required under the fast-track process?

~~3.10~~3.11 Where a public body has been assigned the fast-track process then the pay remit would be signed off by their Board or Remuneration Committee and they would only be required to submit a settlement proforma once the pay award has been implemented.

What is required under the streamlined process?

~~3.11~~3.12 Where a public body has been assigned to the streamlined process they would be required to obtain approval to their pay remit proposals prior to concluding pay negotiations and implementing their pay settlement. The pay remit proposals will be rated as set out in paragraphs 3.14 and 3.15 and this will determine who approves the pay remit (paragraphs 3.16 – 3.21).

What is required under the full pay remit process?

~~3.12~~3.13 Where a public body has been assigned to the full pay remit process they would be required to submit their pay proposals for approval prior to engaging in formal pay negotiations following the process set out in paragraphs 3.13 to 3.29 below.

Who is required to submit a settlement proforma?

~~3.13~~3.14 All public bodies are required to complete a settlement proforma to confirm that the implemented settlement is wholly in line with pay policy. This confirmation will form an important part of the process to determine the risk rating for 2018-19.

What should a public body do before it submits full remit proposals?

~~3.14~~3.15 Public bodies are encouraged to use the checklist in the costings proforma to make sure they have included all of the information necessary for their remit to be assessed fully and rated. If a public body has any questions or wants to clarify anything they should speak to the Finance Pay Policy team at the earliest opportunity. The team is happy to have early discussions with each public body on any issues arising during their preparation stages and before they submit their remit.

~~3.15~~3.16 For a flow chart setting out all the steps of the full remit process see Annex C.

How will a pay remit proposal be assessed where Approval is required?

~~3.16~~3.17 The Finance Pay Policy team assesses all pay proposals against the policy and will provide a rating for the current pay remit proposals as follows:

Green

The proposals will be rated as **Green** if all of the following apply:

a) they fully meet the requirements for the 2018-19 public sector pay policy.
b) the public body has provided confirmation of affordability and this is supported (where appropriate) by the sponsor team / finance business partner.
c) they are fully supported by a robust business case.

Amber

The proposals will be rated as **Amber** if either of the following apply:

a) they are not fully in line with 2018-19 public sector pay policy.
b) they propose changes to existing pay and reward systems or terms and conditions.

Red

The proposals will be rated **Red** if any of the following apply:

a) they do not address the low pay measures set out in the 2018-19 pay policy.
b) they exceed the cap for increase in basic award.
c) the cost of the additional flexibilities exceeds the cap and/or insufficient evidence of inequalities has been provided to support the proposed changes.
d) they include non-consolidated performance payments.
e) they are not confirmed as affordable and sustainable by the public body and supported (where appropriate) by the sponsor team / finance business partner.
f) they do not clearly set out how they will be funded.
g) they do not include the costs of all proposed increases in pay and benefits.
h) they do not set out how the public body intends to resolve an existing contractual or legal commitment to pay elements of the pay award or the timeframe involved to resolve the issue.

~~3.17~~3.18 If the current remit proposals are rated **Red** the public body will be required to revise its proposals to bring them in line with public sector pay policy before they can be given further consideration and before they can be submitted for approval.

Who approves the pay remit proposals?

~~3.18~~3.19 Ministers have decided some remits may be delegated to be approved by the Scottish Government's Remuneration Group or senior officials depending upon their rating.

Senior Officials

~~3.19~~3.20 Senior officials may approve proposals where the current remit is rated **Green** and the outturn is rated either **Amber** or **Green**. All other proposals will be considered by the Remuneration Group who will decide whether they can be approved or need to be brought to the attention of Ministers. This is summarised in the following table:

Outturn	Current remit proposals	Decision
Green or Amber	Green	Senior officials
Red	Green or Amber	Remuneration Group
Green or Amber	Amber	Remuneration Group
Green or Amber or Red	Red	Not able to be approved

~~3.20~~3.21 Who approves the remit at senior official level will depend upon whether the public body is a NDPB / Public Corporation, Agency or Associated Department:

Public body	**Portfolio approval**	**Finance approval**
NDPB or Public Corporation	Director of the relevant Sponsor Directorate[16]	Director of Financial Strategy
Agency	Director General[17] of the relevant Sponsor Directorate	
Associated Department	Permanent Secretary	

~~3.21~~3.22 Senior officials will consider the proposals and on the basis of the information provided will decide whether to approve the proposals or to seek further information or to refer them to Remuneration Group.

Remuneration Group

~~3.22~~3.23 All proposals that require Remuneration Group consideration need to have the support of the relevant portfolio senior official.

Public body	**Relevant senior official**
NDPB / Public Corporation	Director[10] of the relevant Sponsor Directorate
Agency	Director General[11] of the relevant Sponsor Directorate
Associated Department	Permanent Secretary

~~3.23~~3.24 The Remuneration Group will consider the proposals, which will include the Chief Executive's foreword to the business case, the advice from the sponsor team (where applicable), the Finance Business Partner (where applicable), the Finance Pay Policy team and the views of the portfolio senior official. On the basis of this information, the Remuneration Group will decide whether to approve the proposals or to seek further information or to refer them to Ministers.

[16] The Director may delegate this responsibility to a Deputy Director in specific circumstances where the Deputy Director has a closer working relationship with the public body or when known leave commitments would result in the time required for senior official approval to be more than 2 weeks.

[17] The Director General may delegate this responsibility to the Sponsor Director when known leave commitments would result in the time required for senior official approval to be more than 2 weeks.

Ministers

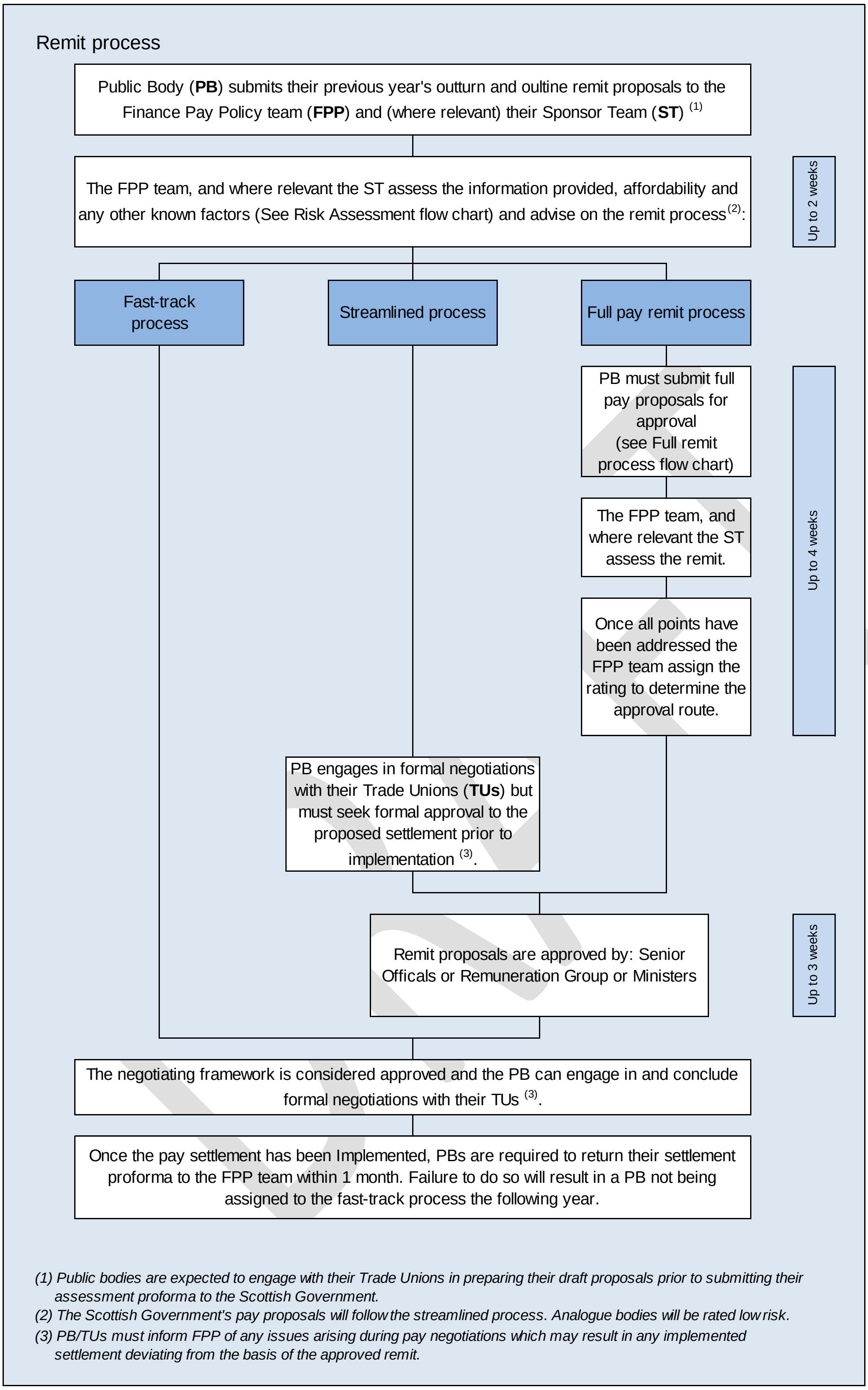
~~3.24~~3.25 Examples of proposals that may be referred to Ministers include those where the outturn is rated as red and the Remuneration Group consider the supporting explanation to be inadequate; or where the current remit is novel or contentious; or where the remit is of particular interest to Ministers. Each decision will be made on a case-by-case basis but the Remuneration Group expects to approve most proposals under the delegated approval arrangements. If Ministerial approval is required it will be the approval of the Deputy First Minister and the relevant Portfolio Cabinet Secretary or Minister.

~~3.25~~3.26 The pay remit proposals for the Scottish Government's main bargaining unit require to be approved by Ministers regardless of its rating.

How long will approval take?

~~3.26~~3.27 If a public body submits its pay proposals to the Finance Pay Policy team in line with the date agreed in the timetable (www.gov.scot/Topics/Government/public-sector-pay/staff-pay) then they will be given priority.

~~3.27~~3.28 The following flow chart summarises the expected length of time which will be taken at each stage of the process:



~~3.28~~3.29 Where a public body is required to submit a full pay remit the aim will be to approve these pay remit proposals **within 7 weeks**:

- this provides for up to 4 weeks for assessing the outturn and remit proposals and resolving queries with the Finance Pay Policy team. The aim is to conclude this assessment within a couple of weeks but this will depend upon the complexity of the proposals and the number of other remits submitted to the team at the time.

- it will then take up to 3 weeks for the formal approval of proposals. During these 3 weeks, the formal submission will be prepared and submitted to either senior officials or Remuneration Group for approval.

~~3.29~~3.30 Remit proposals that are straightforward and can be approved at senior official level should take less than 7 weeks to approve. Proposals that are more complex may take more time to resolve and where the Finance Pay Policy team considers this might be the case they will make it clear from the outset. Please note that if the proposals require to be approved by Ministers then this may take a little longer.

~~3.30~~3.31 The Remuneration Group meets regularly throughout the year (the dates of meetings are published on: www.gov.scot/Topics/Government/public-sector-pay/RemunerationGroup). If the deadline for the submission of papers is missed, the proposals will be put on the agenda of the next available meeting of the Remuneration Group. However, in exceptional circumstances, the submission may be put to the Remuneration Group in correspondence at the agreement of the Remuneration Group Secretariat and/or Chair.

~~3.31~~3.32 To achieve the above timescales, it is important that, the proposal each public body submits to the Finance Pay Policy team includes all the necessary information; are submitted on time and the public body responds to any queries raised quickly. If a public body submits its proposals in line with the timetable, the Finance Pay Policy team will aim to provide initial feedback within 5 working days.

How will public bodies be notified of the outcome of the approval process?

~~3.32~~3.33 After senior officials, Remuneration Group or Ministers have considered the pay proposals; a letter will be issued to the public body setting out the decision made and where appropriate any requirements or conditions made in respect of that decision. The public body can, if it wishes, request a meeting with Scottish Government officials to discuss the submission and the subsequent decision made.

4. PAY DISCUSSIONS AND NEGOTIATIONS

When should a public body engage with its trade union(s)?

4.1 The policy encourages all public bodies to have constructive and collaborative pay discussions with their relevant trade union(s) on the development of their overall pay and reward strategies prior to submitting their assessment proforma and where necessary their remit for formal approval.

4.2 However, while informal discussions can take place, public bodies must not enter into formal negotiations with their trade union(s) until their remit has been formally approved. Trade unions should note that points considered in informal discussions cannot be treated as agreed until the public body's pay remit is approved.

4.3 The approved pay remits sets out the public body's maximum negotiating position within the pay policy limits, taking account of affordability and sets the parameters for detailed negotiations with their recognised trade union(s).

4.4 If during pay discussions or negotiations any points arise regarding the application of the pay policy, public bodies and/or their Trade Unions are encouraged to speak with the Finance Pay Policy team in the first instance to help provide clarification.

What is the policy on legal commitments?

4.5 Approval of pay remits is on the basis that a public body does not enter into any legally-binding contractual agreements in trade union negotiations that effectively commits it to automatic costs in the future (i.e. beyond the duration of the approved remit).

4.6 All existing legally-binding commitments should take into consideration affordability and potential financial constraints in current and future years. All public bodies are advised to take legal advice on the drafting of pay commitments to ensure these are affordable and consistent with the pay remit process.

Can a public body make changes to its approved remit during negotiations?

4.7 If, during negotiations, a public body is considering: entering into an agreement that exceeds the key pay metric percentages approved in its remit; or deviates substantially from the basis of approval (such as the pay structure proposed) then the public body will need to contact the Finance Pay Policy team in the first instance. As a result, it may need to revise its proposals and seek further approval from the Scottish Government. Changes proposed within the limits approved are a normal part of negotiations and need not be referred for further approval unless they are considered novel or contentious.

4.8 Where a public body proposes to make any changes to its existing pay and grading structure, or any of its terms and conditions, at any time during the year and had not included the detail within the pay remit, they should contact the Finance Pay Policy team to discuss. The team will be able to advise if the changes require formal approval from the Scottish Government. Failure to notify the Finance Pay Policy team will result in the public body's outturn being rated **Red** when considered as part of the following year's pay remit process and may result in further action as set out in paragraphs 5.5 to 5.7.

5. PAY SETTLEMENTS

What information is a public body required to provide once it has implemented its pay settlement?

5.1 It is important that public bodies provide confirmation that they have implemented their pay settlement and met all the conditions made as part of their approved remit in the settlement proforma. The settlement proforma must be completed and returned to the Finance Pay Policy team within one month of a public body's settlement being implemented.

5.2 For single year pay remits the outturn information will be provided as part of the following year's pay proposals. The Chief Executive will be required to provide a brief statement of assurance that the outturn is within the approved remit and the assumptions made in respect of savings to fund the pay award were met.

5.3 For multi-year pay remits, outturn information is required to be provided within two months of the end of the pay remit year to which it applies. The Chief Executive will be required to provide a brief statement of assurance that the outturn is within the approved remit and the assumptions made in regard of savings to fund the pay award were met and are still valid for the remainder of the period of the approved remit.

5.4 Public bodies should contact the Finance Pay Policy team if they require any assistance in providing any of the above information.

What happens if a public body exceeds its pay remit?

5.5 Ministers expect all public bodies to adhere to the basis on which their remit has been approved. If a public body exceeds the key pay metrics in their approved remit; or deviates from the basis on which the remit was approved; or negotiates changes to pay and conditions without detailing or costing them in their pay remit proposals then they will be considered to have exceeded their approved pay remit.

5.6 There may be circumstances that could not have been foreseen at the time the public body submitted its remit for approval. If this means the public body will exceed or deviate from its approved remit, they must contact the Finance Pay Policy team at the earliest opportunity.

5.7 Remuneration Group will consider whether the issue needs to be brought to the attention of Ministers. It will then be the responsibility of the sponsor team and Accountable Officer to justify the matter to the Portfolio Minister and the Deputy First Minister. Examples of this would be where the public body has significantly exceeded the approved remit or has materially moved away from the basis of that remit. In such instances, the Remuneration Group expect Ministers will take action such as the capping of future pay remits or a governance review of the body.

6. CONTACTS

Who should you contact for help?

6.1 If you need help at **any** stage in the process or require information on any aspects of the policy and its application, please contact your designated contact in the Finance Pay Policy team in the first instance to discuss or to set up a meeting:

Lesley Doherty	0131 244 7345
Neil Ramage	0131 244 7052
Geoff Owenson	0131 244 7346

or

Email: FinancePayPolicy@gov.scot

6.2 For further information on public sector pay: www.gov.scot/publicsectorpay

ANNEX A

A. GLOSSARY OF TERMS USED IN THE PUBLIC SECTOR PAY POLICY DOCUMENTS

Baseline paybill: The cost of employing staff for the full 12 months of the pay remit year *before* implementing the pay award. It should include mandatory increases in employer's pension or National Insurance contributions (NIC) but exclude the costs of increases in pay and benefits for which approval is being sought. The baseline paybill may also include other paybill increases that are not directly a result of the proposed pay award such as the changes to paternity pay and leave entitlement (or holiday pay) etc.

Basic award: This is normally, the inflation or cost of living element of the pay award. It is one element of a standard remit. The basic award has different meanings in different pay systems. For public bodies with a step or spine based system it refers to the revalorisation of steps/spines. For those without step or spine based mechanisms for pay progression the basic award will normally be defined as the consolidated increase to the pay range minima, maxima, milestones and/or individual employee's base salaries within the pay range.

Business case: The document which contains information and evidence that supports the proposals that are being made.

Buying-out: The offering of a one-off non-consolidated payment in return for agreeing to the removal of a particular pay or non-pay reward.

Coherence: The principle of aligning levels of pay towards a market median with the aim of making sure individuals undertaking similar roles in different public bodies receive similar levels of pay.

Consolidated performance payments: Payments that reward exceptional or outstanding performance and are consolidated into individual employees' basic pay.

Financial proforma: Excel spreadsheets that set out: what was actually paid as a result of the last pay award; the costs of the increase in pay and benefits proposed and details of the pay and reward structure as well as details of current and projected staffing.

Harmonising: A process of equalising the pay and benefits of two or more groups of staff usually following a merger.

Hourly rate: The hourly rate should be calculated on the same basis as the National Minimum Wage as defined by HM Revenue and Customs.

Increase for staff in post (ISP): This is the cost of the proposed increase in pay and benefits to an average member of staff as a percentage of the baseline paybill.

Increase in paybill per head: The result of comparing the paybill per head for the current remit with the paybill per head for the last remit. It is expressed as a percentage of the paybill per head for the last remit.

Lower Pay Threshold: set at £30,000 the level at which approximately 50 per cent of all public sector employees earn below.

Maximum / maxima: The highest point on a pay range, sometimes known as the rate for the job. Staff are not normally paid above the maximum of their pay range. Where a member of staff is paid above the maximum and eligible for a pay increase, the award should be non-consolidated. There should also be arrangements to move such staff onto their pay range maximum within a defined time scale. Such staff are often referred to as “red-circled”.

Minimum / minima: The lowest point on a pay range. Staff are not normally paid below the minimum of their pay range. Where a member of staff is paid below their pay range minimum there should be arrangements to move them onto their pay range minimum within a defined time scale. Such staff are often referred to as “green-circled”.

Net Base Salary: This is an individual’s salary excluding allowances and on-costs (pension and NIC).

Net Paybill Increase: This is the percentage increase to the baseline paybill as a result of the pay proposals. The New Money is the monetary value of the proposed increase in pay and benefits added to the existing paybill.

Non-consolidated performance payments: Payments that are not consolidated into basic pay. These are normally payments such as bonuses or performance payments or payments to staff on their maxima (subject to satisfactory performance). They are not pensionable and are awarded to staff based on performance at an individual, team or organisational level. Such payments are re-earnable and do not have associated future costs. Currently such payments are suspended.

Non-consolidated pot: Percentage of consolidated baseline paybill used to make non-consolidated performance payments. Once established, the percentage is carried forward in the baseline paybill each year for the use of making non-consolidated payments.

Notional cost: These are costs which have a benefit to the individual but with no actual cost to the employer. This could for example include changes to the working week, annual leave or public holiday entitlement.

Pay ranges: The pay scale for each grade or role within a public body, with a minimum and a maximum or target rate and through which staff progress as they develop in knowledge, skills, experience and performance. It is not normal for staff to be paid at a level either below the pay range minimum or above their relevant pay range maximum.

Pay remit: Pay proposals made by public bodies that seek approval for increases in pay and benefits for staff.

Paybill: The full annual cost of employing the staff subject to the pay remit, including employer’s pension and National Insurance contributions (NIC).

Paybill per head: This is calculated by dividing the total paybill by the number of staff (full time equivalent).

Paybill savings: Savings in the Paybill that can be used to part fund a pay award.

- <u>Permanent savings</u> such as recyclable savings; savings resulting from the removal of outdated allowances; reductions in overtime costs and reductions in staffing. These will all have an impact on future baseline paybills.
- <u>In-year non-recurring savings</u> such as deferring filling vacant posts which result in a saving only in the year in which they are implemented.

Progression: The movement an individual makes from the minimum of a pay scale to the maximum or target rate. For example if a pay range had 6 spine points an individual would expect to progress from minima to target rate in 5 years. The policy expects the movement to be dependent on performance or competency.

Progression journey times: The number of years it takes to move from the minimum of a pay range to the maximum or target rate.

Public sector labour market: The labour market data provided by the Finance Pay Policy team. This covers the public bodies in Scotland subject to Scottish Government policy on public sector pay.

Recyclable savings: Savings which are a consequence of a more highly paid member of staff being replaced by a lower paid individual (see Paybill Savings).

Relevant labour market: The Scottish public sector labour market or a more appropriate specific or specialist labour market for specific workforce groups, specialisms or locations.

Salary Sacrifice Scheme: HM Revenue and Customs define a salary sacrifice as "when an employee gives up the right to receive part of the cash pay due under his or her contract of employment. Usually the sacrifice is made in return for the employer's agreement to provide the employee with some form of non-cash benefit. The 'sacrifice' is achieved by varying the employee's terms and conditions of employment relating to pay".

Scottish Living Wage: this is the annual amount an individual must earn, before tax, to afford a basic but acceptable standard of living. The annual gross salary is rate based on a 37.5 hours working week as this is the most common length of week for pay negotiations and is the figure used in the Joseph Rowntree Foundation funded Minimum Income Standard project. This is then multiplied by the hourly rate and 52.2 weeks per year to calculate the annualised figure.

Standard remit elements: The elements which form part of almost all pay remits: progression, the basic award, non-consolidated payments (over and above the existing non-consolidated pot included the baseline paybill), consolidated performance payments and the resulting increases in the costs of overtime, allowances, employer's pension and National Insurance contributions (NIC).

Submission: The paper to senior officials, the Remuneration Group or Ministers which seeks approval for the proposed increases in pay and benefits.

Target rates: The points in a pay system that reflects competence in a role, often the maxima of the pay ranges.

Total increase for staff in post (TISP): This is the full cost of the proposed increase in pay and benefits to an average member of staff, regardless of whether or not they add costs to the paybill, as a percentage of the Baseline Paybill.

Total reward: All rewards for staff, including base pay, performance related pay, bonuses and employee benefits, such as flexible working and training & development opportunities.

Turnover: The movement of staff out of and into the organisation in a year.

Upper Pay Threshold: set at £80,000 for 2018-19.

B. WORKED EXAMPLE

1. Varying the level of the basic award within the 1 per cent cap

The following example illustrates how a public body can chose to vary the levels of basic award within the 1 per cent cap set by the pay policy. The example is based on a public body with 105.0 (FTE) across 9 grades and includes seasonal staff:

Current pay structure for staff (£)

Grade	Min	Min+1	Min+2	Min+3	Min+4	Max
A	16,320	17,300	18,050			18,800
Seasonal						18,900
B	18,900	19,900	20,900	21,900		22,725
C	22,725	23,609	24,493	25,376		26,260
D	27,270	28,381	29,492	30,603	31,714	32,825
E	32,825	34,138	35,451	36,764	38,077	39,390
F	40,400	42,016	43,632	45,248	46,864	48,480
G	56,560	58,782	61,004	63,226	65,448	67,670
H	70,000	72,500	75,000	77,500	80,000	82,500

Staff profile (FTE)

Grade	Min	Min+1	Min+2	Min+3	Min+4	Max
A	2.0	2.5	3.0			8.5
Seasonal						3.5
B	3.0	2.5	4.0	3.0		8.5
C	2.0	1.5	2.0	2.5		9.0
D	1.0	1.0	2.0	1.0	3.0	5.0
E	2.0	1.5	2.0	1.5	2.0	6.0
F	1.0	1.0	1.5	2.0	0.0	5.0
G	0.0	1.0	0.0	1.0	1.0	3.0
H	0.0	1.0	0.0	1.0	0.0	1.0

Base salary costs

Total for all staff, of which:	£3,298,161
Below the Lower Pay Threshold	£1,349,166
Between the Lower and Upper Pay Thresholds	£1,866,495
Above the Upper Pay Threshold	£82,500

Illustrative costs for applying differing levels of basic award to staff between the Lower and Upper Pay Thresholds within the 2 per cent cap

Basic award proposal options		Cost of basic award increase(1)	Cost as a percentage of the base salary cost
i.	2% across the board	£38,040	2.04%
ii.	3% on Grade D pay points >£30k & Grade E min. 2% on remainder of Grade E & Grade F. 1.2% on Grade G & H below UPT	£38,146	2.04%
iii.	An across-the-board increase (of £875)	£37,913	2.03%

(1) the costs are after applying the progression increase

2. Using the flexibility to use paybill savings to address equality issues - to be updated

The following example illustrates how a public body can choose to use the additional flexibility in the policy to use paybill savings to address pay inequalities. This example includes a higher increase to lower paid staff and a reduction in progression journey times without increasing the pay minima.

Using the pay structure and staffing example in 1 above, the proposals are:

- to apply a £500 consolidated increase to all pay points below £22,000.
- to apply £400 to the maximum of Band B plus a £100 non-consolidated payment.
- to remove the Min+3 pay point in Grades B and C and apply a further increase above 1 per cent to the Min+1 and Min+2 points to equalises the pay steps.

Proposed pay structure

Grade	Min	Min+1	Min+2	Min+3	Min+4	Max
A	16,320	17,400	18,150			18,900
Seasonal						19,000
B	19,000	20,300	21,600			22,900
C	22,725	23,903	25,082			26,260
D	27,270	28,381	29,492	30,603	31,714	32,825
E	32,825	34,138	35,451	36,764	38,077	39,390
F	40,400	42,016	43,632	45,248	46,864	48,480
G	56,560	58,782	61,004	63,226	65,448	67,670

Summary of costs and as a percentage of baseline paybill:

Increase applied	Cost (£)	As a percentage of Baseline paybill
Progression	55,175	1.89%
Low pay measures (£400)	14,288 (1)(2)	0.49%
Additional Increase for Living wage	(3)	0.00%
Increase above the Low Pay Threshold (1% across the board)	23,643 (1)	0.81% (= 1.02% of baseline paybill for staff earning greater £22,000)
Flexibilities	13,290 (4)	0.45%
Total	**106,396**	**3.64%**

(1) the costs are after applying the progression increase

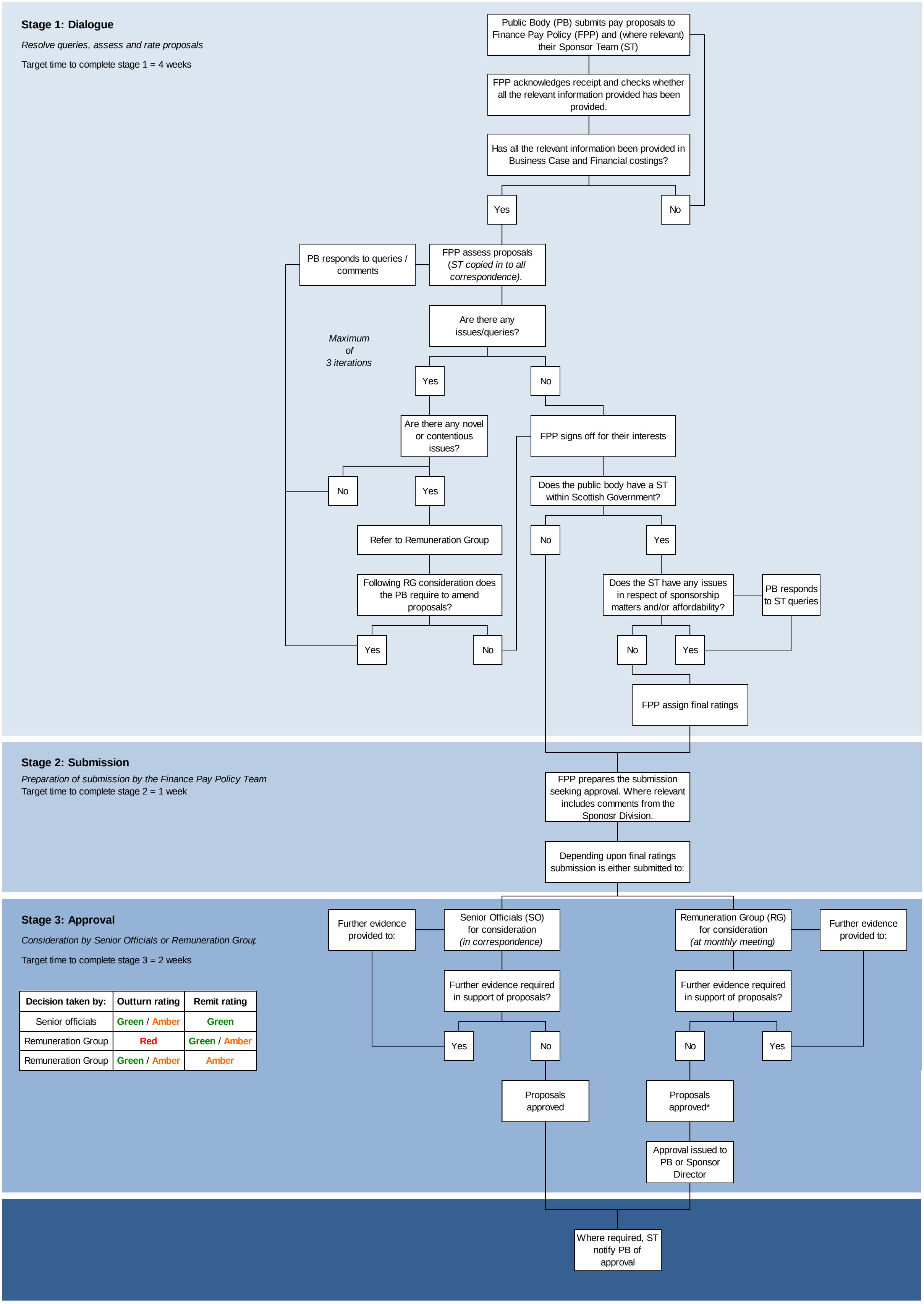
(2) The costs include the consolidated increase on Grade B maxima

(3) As the increase in the Living Wage is less than £400 there is no additional increase applied in this example

(4) The flexibilities are costed as follows:

Flexibility	Cost (£)
Additional £100 to all staff below the Low Pay Threshold	2,800
Additional non-consolidated £100 to staff at the minimum of Grade A	100
Additional non-consolidated £100 to staff on the maximum of Band B	1150
Removing Min+3 pay point in Grade B and equalising pay steps	6,000
Removing Min+3 pay point in Grade C and equalising pay steps	3,240
Total	**13,290**

C. FULL REMIT PROCESS



Decision taken by:	Outturn rating	Remit rating
Senior officials	Green / Amber	Green
Remuneration Group	Red	Green / Amber
Remuneration Group	Green / Amber	Amber

Scottish Government's pay proposals require to be approved by Ministers regardless of their rating. Remuneration Group may refer proposals to Ministers if they consider them novel or contentious and where there is a potential read-across to other public bodies or if there is insufficient evidence to support an outturn which has been rated red.

Derek Mackay MSP
Cabinet Secretary for Finance and Constitution
Scottish Government
St Andrew's House
Regent Road
Edinburgh
EH1 3DG

31 January 2018

Dear Derek

Scottish Budget- Public sector Pay Policy 2018/19

Since the Scottish Budget announcement on 14 December 2017 we have been working with officials on the detail of the pay policy and the draft technical guide for 2018/19. We are also acutely aware that we have not given you our formal reaction.

As you know we have welcomed the engagement that we had had with you and officials during the six months in the run up to the budget. We welcomed the commitment you gave to move pay settlement dates forward to 1st April 2018 so that our members get earlier access to pay increases. You also encouraged others to follow your lead and we are pleased to say that now every employer where we have collective bargaining rights has agreed to do this.

Cost of living

In terms of the headlines in the pay policy we are glad the 1% cap has gone. As you know when we met our very clear lines were that we were looking for above inflation increases in order to make a real terms difference in our members take home pay. Therefore the increase to the lower pay threshold to £30k is welcome in this regard. However the removal of any underpin to the lowest paid is disappointing as it is generally understood that inflation hits lower paid staff disproportionately and that there needs to be additional measures to address this, usually in the form of a cash underpin.

This was addressed in previous years' pay policy through a minimum increase of £400. The omission of an underpin from the 2018-19 policy could mean staff on £17,000 only receive a pay increase of £510. That is only £110 pa more than in 2017 (or £9:17 per month) when inflation is much higher than last year.

Clearly this is not going to go far in terms of making a difference to the quality of life of this group. We have also noted that the rate for the lower paid threshold in the technical guide (para 2.39) suggests that these are fixed at 3% when the policy clearly states this is a minimum. This needs to be fixed as it restricts our options particularly with regards to negotiating a minimum cash underpin.

We are therefore looking for you to reinstate an underpin of £1500 whilst the budget bill is still going through the Parliamentary process.

We have also raised concerns with officials about the 2% for those earning between £30K and £80K, the pay policy allows a limit of up to 2% on the increase in paybill for these staff. This has been interpreted by us as 2% of the whole paybill, which is what the policy states, but it is now being restricted to 2% of the proportion of the pay bill which places a 2% cap on this group. This needs to reflect the latter and new guidance issued to employers as soon as possible.

In summary moving from a 1% cap to a minimum 3% and 2% cap does not go far enough to offset rising pressure in the cost of living for public sector workers from our point of view.

Progression
We have noted that that progression payments now appear to be conditional on "workforce flexibilities". We have also advised officials that there is a direct contradiction between the pay policy and the technical guide – the policy clearly states "nothing in this policy is intended to interfere with pay progression". On that basis we want the "strings" removed given that we are firmly of the view that progression is contractual.

It should also be noted that paragraph 2.67 of the Technical Guide, states that progression journey times should not exceed 5 years. Capping or suspending progress would increase the journey times which would contradict this paragraph and could also trigger legal issues based on a previous employment tribunal judgement. It would also be at odds with the Equality Age Regulations.

Living Wage
I understand that your officials have drawn your attention to what we believe to be an unintended consequence around the rates for the National Living Wage and the National Minimum Wage where you could have a situation because of the formula that SG applies that you could be paying less to this group than the UK Government so we are looking for that change to be reflected here as well.

We look forward to hearing from you

Yours sincerely

Joy Dunn	**Richard Hardy**	**Allan Sampson**	**Andy Hogg**
PCS	**PROSPECT**	**FDA**	**POA(s)**

PCS Scotland, 145 West Regent Street, Glasgow G2 2SG
Tel: 0141 225 5150 Fax: 0141 221 4065
www.pcs.org.uk/Scotland

Scottish Government Pay Policy 2018-19
Key Fact Sheet

Scottish Government
Riaghaltas na h-Alba
gov.scot

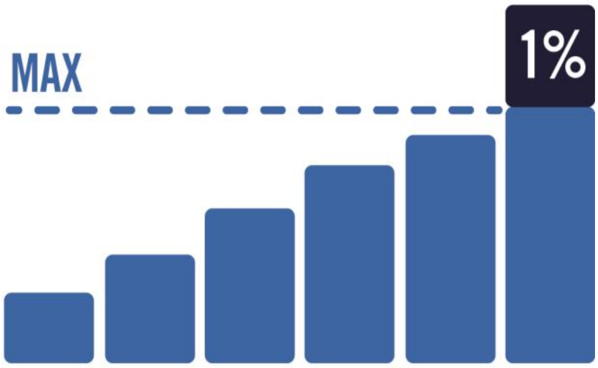
The Scottish Government has set a distinctive Public Sector Pay Policy for 2018-19. One that is focused on fairness, is affordable and progressive, protecting those on lower incomes, recognises the real life circumstances of public sector workers and delivers on the Programme for Government commitment to lift the 1% public sector pay cap in Scotland.

Guaranteed minimum 3 per cent pay increase for public sector workers earning £36,500 or less

- lift the pay cap by providing a **guaranteed minimum increase of 3 per cent** for public sector workers **who earn £36,500 or less**
- set a limit of **up to 2 per cent** on the cost of baseline salaries of those earning **above £36,500 and below £80,000**
- limit the pay increase for those earning £80,000 or more to £1,600.

Give employers greater choice on using paybill savings

- Extend flexibilities for employers to use up to 1 per cent of baseline salaries funded by savings
    a. to award a non-consolidated payment up to 1 per cent of salary, but **only for employees already on the maximum of their pay range** (who no longer benefit from progression)
    b. to consider affordable and sustainable changes to existing pay and grading structures where there is clear evidence of equality issues.



Retain discretion for individual employers to reach decision on pay progression for staff

- retain discretion for individual employers to reach their own decisions about pay progression (limited to a maximum of 1.5 per cent for Chief Executives)
- maintain the suspension of non-consolidated performance related pay (bonuses) and continue to expect a 10 per cent reduction in new Chief Executive remuneration packages
- support the requirement for employers to pay their staff the real Living Wage and maintain the policy position on **no compulsory redundancy.**

Cabinet Secretary for Finance and the Constitution
Derek Mackay MSP

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Scottish Government
Riaghaltas na h-Alba
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Joy Dunn
Public and Commercial Services Union
145 West Regent Street
Glasgow
G2 2SG

20 February 2018

Dear Joy

Scottish Budget and Public Sector Pay Policy 2018-19

Thank you for your letter of 31 January 2018. As I indicated when we last met, I welcome the constructive way in which the Civil Service Unions continue to engage on matters relating to pay. I also recognise Trade Union concerns regarding the impact of the rising costs of living on working households.

You will be aware that we have gone further than any UK Government in lifting the 1% pay cap as announced in the 2018-19 Draft Budget in December 2017. In the Budget Bill statement on 31 January, I extended this commitment by increasing threshold from £30,000 to £36,500 for the guaranteed 3% pay increase, benefitting over 75% of public sector workers directly impacted by Scottish Ministers pay policy.

This policy is progressive, protects those on lower incomes, is affordable and sets an important direction of travel. It takes the first steps in moving on from a period of pay restraint. Scottish Ministers, subject to available resources, aim to deliver a Pay Policy in future years that continues to strike the balance between affordability, the cost of living and offering a fair deal for staff.

Cash Underpin

We appreciate that your members identify with the Cash Underpin approach from previous years. The inclusion of the underpin for the lowest paid served us well and met our priority of protecting the lowest paid during a period of significant financial constraint. However, it is now my view based on pay data evidence, that those who are the lowest paid will receive more than the cash underpin delivered in previous years.

For example: £400 on the current Scottish Government A3 maxima (£19,982) = 2.00% whereas 3% = £599. This represents a difference of £199 if the £400 cash underpin were to be re-instated. By guaranteeing a 3% increase for this group of staff, combined with the increase in threshold to £36,500 benefitting even more employees than before, we no longer require to take the approach of a minimum cash underpin for staff.

Introducing an underpin, as you suggest, of £1,500 would represent a 8.5% uplift in pay, for those at the lowest levels (A3 minima = £17,642) and 4.25% for those on the B3 minima (£35,269). This would have a significant impact in terms of cost.
Especially in those public bodies with higher proportions of front-line staff who tend to be lower paid. A pay increase of this level would jeopardise affordability for public bodies. Particularly when considered alongside our commitment to protect jobs through our policy of no compulsory redundancy.

Guaranteed minimum of 3%

The policy intention is that all staff earning £36,500 or less should receive a guaranteed 3% basic pay award.

The pay policy states that it is a "guaranteed minimum increase of 3% for public sector workers who earn £36,500 or less" to reflect that some staff will be eligible for progression increments. The use of the word minimum was to ensure it was clear that the 3% increase was over and above any progression increase and that both combined (where applicable) will result in an overall pay increase for such individuals of more than 3%.

We will ensure the latest version of the Technical Guide reflects this position.

2% increase in the pay bill

The published pay policy, which will be revised to reflect the new threshold, states that there would be a "limit of up to 2 per cent on the increase in the baseline pay bill for those earning above £30,000 and below £80,000". This is consistent with the pay policy intention, that the cost for a basic pay increase for all staff earning above £36,500 and below £80,000 should not exceed 2% of baseline salaries for that cohort of staff.

You may be aware that I clarified this at the Draft Budget Bill debate on the 31 January. This approach mirrors that taken in earlier pay policies, namely when we had the £22,000 threshold. It ensures equity across all public bodies to mitigate the impact of the varying proportions of staff within each of the thresholds.

Progression

The intention of the pay policy on the matter of workforce flexibilities and progression is that employers and their staff representatives should give consideration to securing productivity improvements and flexibilities to help them afford the overall pay settlement. At the same time, ensuring public services continue to deliver best value for the public purse.

We will amend the policy to make this clearer and reflect this in the supporting Technical Guide and FAQs.

The Technical Guide also maintains a reference to public bodies requirement to seek legal advice as to the extent of contractual obligations in relation to paying progression and where a public body proposes to make a change to existing progression arrangements, such as reducing journey times. The cost of introducing these changes should be included within the 1 per cent flexibilities allowed to address pay inequalities.

Living Wage

Scottish Ministers remain committed to the Living Wage a core element of their pay policy. I welcome the unions bringing to our attention the changes that the UK Government are making. I will ensure that the interplay between the National Living wage and real Living wage is considered as part of the 2019-20 pay policy development.

In the meantime we have revised the Technical Guide to say. “The Scottish Living wage is the minimum full-time equivalent salary for all employees in public bodies covered by the pay policy and employers have the responsibility to ensure that all salaries are at least the real Living wage rate of £8.75.”

I hope this response provides clarity on all the points raised in your letter. The attached FAQ will be issued to Employers to ensure the points you raised are understood by all concerned. The final Pay Policy and associated Technical Guides will be published on the 21 February 2018.

I would like to take this opportunity to thank you for your continued patience and collaboration in the implementation of the 2018-19 pay policy.

Yours
DJ Mackay

DEREK MACKAY

2018–19 Public Sector Pay Policy

Frequently Asked Questions

Q1. The 2018-19 policy document states that progression will not be automatic but in exchange for workforce flexibilities and productivity improvements, is this a new feature of the policy?

Ministers have again taken the decision to continue to allow employers and their staff and/or their representatives to take local decisions on paying 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.

Employers and their staff representatives should give consideration to securing productivity improvements and flexibilities to help them afford the overall pay settlement while ensuring public services continue to deliver best value for the public purse.

Q2. What consideration should be made in regard of meeting existing progression commitments?

Nothing in the policy is intended to interfere with existing pay progression arrangements nor to constrain discussions between employers and staff on this issue.

Where there is no contractual commitment to pay progression, bodies may continue to pay progression if they choose to. Decisions taken to pay progression should be based on business needs, maintaining headcount and affordability. The cost of paying progression continues to be outwith the metrics for basic pay increases,

However where there are affordability pressures, decisions may be required on whether to cap progression increases or suspend progression in order to maintain headcount and services and meet the policy requirements for lower paid staff within the agreed financial settlement. In taking such decisions, consideration is required to ensure that no direct or indirect discrimination is introduced or perpetuated, noting that the pay policy encourages public bodies continue work towards ensuring maximum journey times are no more than 5 years.

Where necessary, public bodies must ensure they have sought legal advice as to the extent of contractual obligations in relation to paying progression.

All proposals to cap or suspend progression will be considered by Remuneration Group. The supporting business case will require to include the rationale for the decision taking into account affordability and legal advice.

Q3 Is the 3% pay increase a guaranteed minimum increase?

The policy intention is that all staff earning £36,500 or less should receive a **guaranteed 3% basic pay award**.

The pay policy states that it is a *“guaranteed minimum increase of 3% for public sector workers who earn £36,500 or less”* to reflect that some staff will be eligible for progression increments which are in addition to the basic pay award and will result in an overall pay increase for such individuals of more than 3%.

Employers can use all or part of the 1% paybill savings allowed in 2018-19 for pay inequalities to provide a basic award increase of more than 3% in order to reduce any gender pay gap and/or the overall pay gap between the highest and lowest earners. Employers may also choose to use the 1% paybill savings to award up to a 1% non-consolidated payment to staff who were on their maxima prior to the pay award on the basis that such staff do not receive a progression increment. The normal expectation is that where it is proposed to award such a non-consolidated payment that it would apply to all grade maxima and any deviation from this would require to be considered by Remuneration Group.

Any such increases would be expected to follow the guiding principles/benchmarks set out in the 2018-19 Technical Guide and not exceed the 1% paybill savings threshold should employers choose to address both inequalities and make a non-consolidated payment to staff on their maxima.

Q4 What does a 2% limit on the increase in baseline paybill for those earning above £36,500 and below £80,000 mean?

The pay policy intention is that the cost for a basic pay increase for all staff earning above £36,500 and below £80,000 should not exceed 2% of baseline salaries for that cohort of staff.

This approach continues to mirror that taken in earlier pay policies as it ensures equity across all public bodies to mitigate the impact of the varying proportions of staff within each of the thresholds.

Public bodies have the choice to either pay an across-the-board basic pay award of 2% to all staff **earning above £36,500 and below £80,000** or to vary the level of basic pay award where there are local pay issues. Any increases to existing pay range maxima of more than 2% would be expected to follow the guiding principles/benchmarks set out in the 2018-19 Technical Guide.

Employers may also choose to award up to a 1% non-consolidated payment for staff who were on their maxima prior to the pay award on the basis that such staff do not receive a progression increment. The normal expectation is that where there it is proposed to award such a non-consolidated payment that it would apply to all grade maxima and any deviation from this would require to be considered by Remuneration Group.

Q5. What does "limiting the maximum pay increase for those earning £80,000 or more to £1,600" mean?

The limit of £1,600 refers to a limit on the increase in base pay. Where an individual is eligible, they may also receive a progression increment in addition to this, if this is proposed for other employees.

Employers may also choose to award up to a 1% non-consolidated payment for staff above £80,000 who were on their maxima prior to the pay award on the basis that such staff do not receive a progression increment. The normal expectation is that where there it is proposed to award such a non-consolidated payment that it would apply to all grade maxima and any deviation from this would require to be considered by Remuneration Group.

Derek Mackay MSP
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1 March 2018

Dear Derek

Scottish Budget and Public Sector Pay Policy 2018-19

Thank you for your letter of 20 February 2018.

While we recognise the improvements you have made to pay policy in 2018-19 and we share your desire that it should be seen as progressive, we still feel that there are serious concerns which undermine that aim.

The narrow interpretation of pay policy contained in your letter effectively imposes pay caps of 3% and 2% in place of the 1% pay cap of previous years. With RPI now standing at 4% we don't believe that reflects statements from yourself and the First Minister over the past few months that the pay cap would be removed in order to address the increasing inflationary pressures and declining living standards our members and their families face.

We believe there was scope within pay policy as originally explained to us to go some way to relieve these pressures and deliver the commitments our members heard from SG ministers.

Cash Underpin and the 3% minimum award

Your response to our request to reinstate a minimum cash award for the lower paid is very disappointing. Further it does not address the actual concerns we raised about the *relative* impacts of inflation on lower paid households. A progressive approach to pay awards should take account of the greater impacts of inflation on the lowest paid.

The extent to which households actually experience high inflation rates depends on the proportion of household expenditure spent on different household items.

Studies by organisations such as the Children's Society show that households that spend relatively more on those essential items for which prices are rising the fastest will experience a greater impact.

Items such as the cost of transport, food clothing, fuel and energy are rising faster than most other items of household expenditure. So the lower the income the higher the proportion is spent on these essential items. The result is that the impact of inflation is much higher for the lowest paid, (those who can least afford it) as they see their living standards reduced by more than the higher paid.

Many staff earn less than the SG A3 max you quote. Increases can be as low as £510 on a salary of £17,000 pa which equates to no more than £1:40 per day. While that may be more than the £400 underpin of previous years it has to be weighed against inflation at the time of its application. RPI in

2018 is already 4% compared to 1% to 3 % in previous years. So the relative protection afforded by pay policy to the lower paid in 2018 is less than in previous years.

While we would prefer a general application of an agreed underpin for lower paid staff individual employers should have the flexibility to do so where they can afford to.

The very narrow interpretation of “a guaranteed minimum of 3%” precludes the payment of an underpin even where employers might have been able to afford it. Early indications are that for most employers the additional cost of topping up a 3% increase for the lower paid with an underpin would be relatively small.

It is important that the Scottish Government allows employers to honour its commitment to those workers and their families that its pay policy will be fair to all workers and will address the inflationary problems they and their families are facing fairly and consistently taking account of the additional reductions in living standards relative inflation means for the lower paid. It is possible to allow employers to consider this approach without changing the substance of pay policy and we would want to discuss this with you.

2% increase in the pay bill

Again we would point to the SG commitment to address inflationary pressure on household incomes. The narrow reinterpretation of 2% of paybill means an average increase of 2% for these staff, half of the current rate of RPI at 4%.

Our interpretation would allow employers who can afford to pay more to do so without any radical change to the substance of the published pay policy. The qualification of “up to 2%” in the pay policy also allows for those employers who are not able to afford to pay more than 2% increases to these staff to make their case in negotiations. Again it is strange that you would not allow those employers who are able to do so to make increases which protect families against reducing living standards.

Progression

We welcome the clarification on progression in your letter which we understand now confirms that the pay policy has not changed in this respect from previous years.

We are requesting that we meet soon where we would be happy to discuss these important issues further as we move into formal negotiations with employers.

Yours sincerely

Joy Dunn	**Richard Hardy**	**Allan Sampson**	**Andy Hogg**
PCS	**PROSPECT**	**FDA**	**POA(S)**

Derek Mackay
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14 March 2018

Dear Derek

Pay 2018-19

Thank you for agreeing to meet colleagues next Monday (19th). As well as discussing our ongoing correspondence we would also like to take the opportunity to present our joint pay claim to you.

In summary the claim is as follows:-

- A cost of living rise in pay and allowances set at a level that enables members to at least maintain their standard of living and includes an element of restoration for previous lost spending power (PCS and FDA believe this would require an increase in pay and allowances of 6.5% with a cash underpin of £1500; Prospect believe the increase should be at least in line with RPI.)
- Payment of a Living Wage of £10 per hour (£19,314) from 1 April 2018 and to be extended to all Government contracts. All employers in the Scottish Government main bargaining unit should as a minimum attain Living Wage Accredited Status.
- Payment of progression and shorter journey times
- Confirmation of continuation of the No Compulsory Redundancy Guarantee
- 35 Hours Working Week (net) and 30 Days Leave on Entry
- Pay Coherence across the Scottish Sector (which would help reduce the risk of discrimination in pay and conditions across the sector
- Equality as Central Feature of Pay Determination with Regular Equal Pay Audits
- All service related benefits are available to all staff within 5 years or less

On that basis we look forward to jointly presenting this to you next week and look forward to engaging with you during the year.

Joy Dunn	**Richard Hardy**	**Allan Sampson**	**Andy Hogg**
PCS	**PROSPECT**	**FDA**	**POA(S)**

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