

# Public Sector Pay Strategy for 2023 to 2024



Scottish Government  
Riaghaltas na h-Alba

# Public Sector Pay Strategy 2023-24

## Foreword by the Deputy First Minister and Cabinet Secretary for Covid Recovery

I am pleased to set out the Scottish Government's Public Sector Pay Strategy for 2023-24. Our intention is to balance the fairness, affordability, and fiscal sustainability of pay awards in recognition of a tight financial outlook. It reflects the need for public service reform, where decisions on pay and the size and shape of the public sector workforce must be connected to the effective delivery of public services.

The exceptional economic turmoil over the past year and the associated fiscal pressures sets an important context for pay decisions for 2023-24. The Pay Strategy reflects the Scottish Government's limited funding position as set out in the 2023-24 Scottish Budget. It also takes account of the impact that high inflation has had on households and governments whilst balancing the need for sustainable public services.

These challenges have led to a level of industrial unrest on a scale not witnessed for over a decade. The 2022-23 pay negotiations have underlined the value of a partnership approach: one that is based on trust, collaboration, and open and meaningful dialogue between employers, trade unions and government. Pay deals are stronger when underpinned by Fair Work principles and collective bargaining arrangements. This Pay Strategy advocates that pay negotiations continue in this way and deliver progressive pay awards. Delivery of further measures for the low paid including cash underpins and pay caps for high earners should form part of a progressive, affordable, and sustainable solution. The Scottish Government has supported payment of the real Living Wage since 2011.

This Pay Strategy supports our commitment to tackle poverty, including our commitment to the real Living Wage of £10.90, across the devolved public sector in Scotland. In balancing fairness, sustainability and flexibility, this Pay Strategy sets a range for pay awards for 2023-24 to be agreed between employers and Trade Unions and sets an expectation that business efficiencies and workforce changes will be required for public bodies to go beyond the 2% pay assumption set in the Resource Spending Review. This Government remains committed to our no compulsory redundancy position, which has been in place since 2007.

The Pay Strategy builds on changes to working practices over the past two years because of the COVID-19 pandemic. It strengthens the direction set

previously for employers to work towards standardising to a 35-hour working week. It also maintains our commitment to a four-day working week public sector pilot to determine our future policy. The Pay Strategy goes further to support the public sector workforce by implementing a Right to Disconnect policy – providing a balance between the opportunities and flexibility offered by technology and our new ways of working, while supporting the need for staff to feel able to switch off from work.

I would like to acknowledge the vital contribution of public sector workers in Scotland. The high-quality services provided by the public sector workforce are at the centre of improving outcomes for the people of Scotland. I value the strong working relationships I have with Trade Unions and employers and remain committed to building on these as we continue our journey towards building a stronger, fairer, and more prosperous Scotland.

**John Swinney MSP**

Deputy First Minister, and Cabinet Secretary for Covid Recovery

# Public Sector Pay Strategy for 2023-24

## Section 1: Strategic Aims, Priorities and Partnership

### Background

This 2023-24 Public Sector Pay Strategy sets out the framework for pay increases for staff pay remits, senior appointments -and all public appointments<sup>1</sup> (Chairs and Members to Scottish Public Bodies). It applies to public bodies with settlement dates in the year between 1 April 2023 and 31 March 2024 (inclusive).

It applies to core Scottish Government (except senior civil servants, for whom pay is a reserved matter) and 70 public bodies including non-departmental public bodies, public corporations and agencies (a total of around 52,000 staff). A full list of public bodies to which this strategy applies is available on the Scottish Government's Public Sector Pay webpages: [www.gov.scot/publicsectorpay](http://www.gov.scot/publicsectorpay).

This Pay Strategy also acts as a reference point for all major public sector workforce groups across Scotland including NHS Scotland, firefighters and police officers, teachers, and further education workers. For local government employees, pay and other employment matters are delegated to local authorities.

### Strategic Aims

The 2023-24 Public Sector Pay Strategy sets the framework to deliver fair, affordable pay awards and a sustainable workforce to enable the delivery of innovative and efficient public services. The Scottish Government's Public Sector Pay Strategy is based on the following principles:

- To invest in our public sector workforce which delivers top class, person-centred public services for all, supports employment and the economy, while providing for sustainable public finances.
- To provide progressive pay awards that are fair, affordable, deliver value for money and consider workforce and service reform.
- To protect those on lower incomes, continue the journey towards pay restoration for the lowest paid and recognise recruitment and retention concerns.

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<sup>1</sup> Non-Executive Directors of the Scottish Government and its Agencies and Associated Departments; Chairs and Board Members of NHS Bodies; Appointments to Tribunals, Appeals Boards, Advisory Committees and Inquiries and Ad hoc review or working groups, etc. under the auspices of Ministers.

## **Key Pay Strategy Priorities - Workforce, Public Service Reform and Wellbeing**

This Government's commitment to create a greener, fairer, and more resilient Scotland recognises the continuing contribution of public sector workers in Scotland. The 2023-24 Pay Strategy has been developed in the context of the cost of living crisis which has eroded spending power for people and governments and led to increased industrial relation tensions.

Scottish Ministers remain committed to delivering fair wage growth. However, we recognise the relative size of the public sector workforce in Scotland is higher than the rest of the UK and this creates a fiscal challenge as a large part of the Scottish Government's funding is determined by spending elsewhere in the UK.

Those leading pay negotiations in the public sector need to balance pay awards with affordability, including a financially sustainable workforce which ensures we have people with the right skills, in the right roles, delivering for the people of Scotland.

Reform of Scotland's public services is a priority. Pay and the public sector workforce are key levers to deliver a fair economic recovery with affordable, person-centred public services that support wellbeing and follow our Fair Work principles.

### **Our Strategic Partnership**

Our strategic partners – Trade Unions and employers across the devolved public sector in Scotland – are central to the delivery of fair, affordable pay awards. Ministers expect pay negotiations to reflect:

- a focus on flexibility (supporting local issues);
- employee wellbeing (building resilience); and
- constructive dialogue between employers and Trade Unions that takes account of workforce and wider public service reform to ensure fiscal sustainability.

The work of our strategic partners and the underpinning pay negotiation mechanisms are complemented by a strategic, co-ordinated, and controlled approach to pay across government.

## **Affordability**

The Pay Strategy sets the framework for public sector bodies to develop effective pay settlements that reward staff fairly and deliver sustainable services within constrained budgets.

Each public body covered by the Pay Strategy must ensure their pay proposals are affordable and sustainable within their financial settlement for 2023-24, drawing as appropriate on business efficiencies and workforce changes as part of ongoing public service reform.

## **Section 2: Economic and Fiscal**

### **Economic Context**

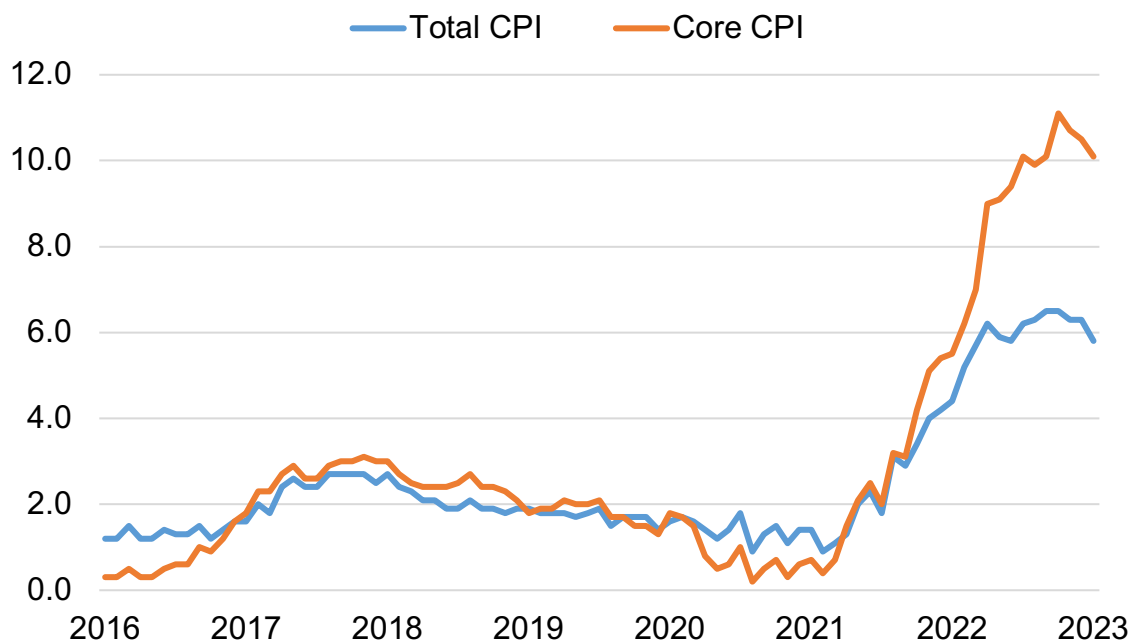
The Scottish Government's approach to public sector pay for 2023-24 must take account of a wide range of factors, including the economic context in which we operate.

### **Inflation**

Scottish households are experiencing significant pressures on their finances due to inflation, as the economy faces a challenging outlook. The Scottish Consumer Sentiment Index fell to its lowest level in the last quarter of 2022, with households' assessment of their financial security also at record lows. Sentiment has strengthened slightly in January; however, it remains significantly negative overall.

The UK inflation rate fell to 10.1% in January, down for a third month from 11.1% in October which was its highest rate since 1981 and indicates that inflation may have peaked. The fall over the month was driven by a further fall in the price of transport, particularly motor fuels. The largest upward contribution over the month came from alcohol and tobacco.

Figure 1: UK CPI Inflation Rate – Total and Core.

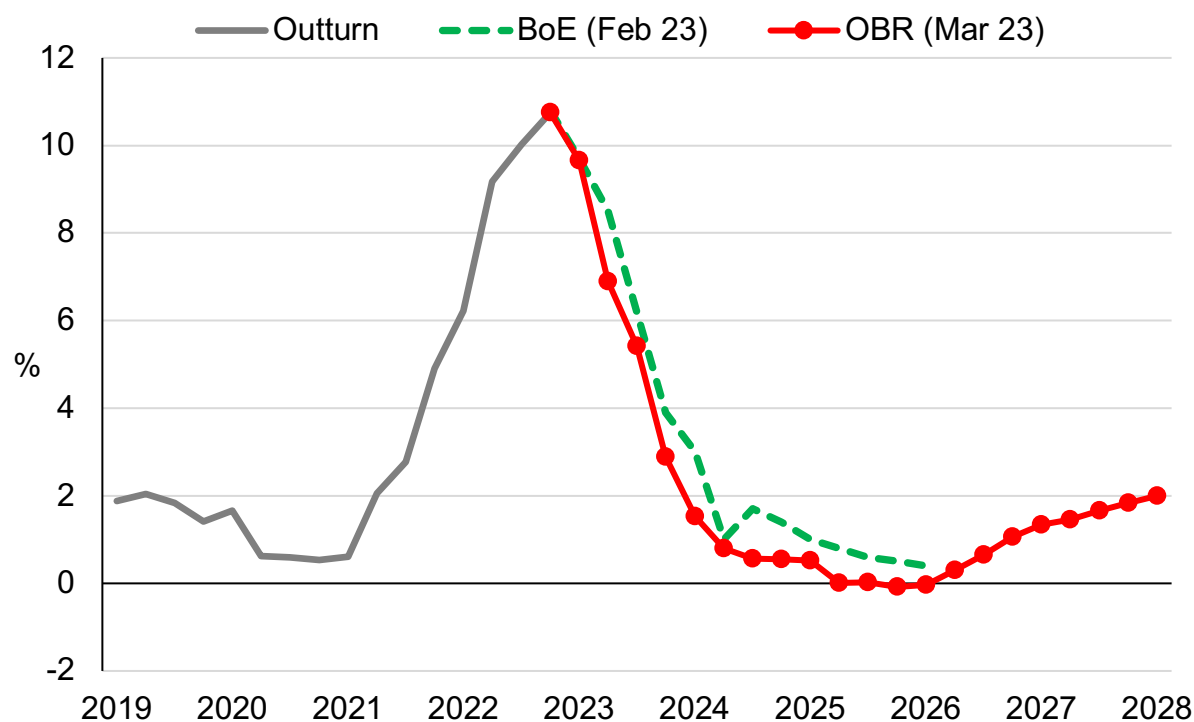


Source: Macrobond, U.K. Office for National Statistics (ONS)

Both the Office for Budget Responsibility (March 2023) and Bank of England (February 2023) forecast inflation to fall significantly over 2023, with forecast rates of inflation at the end of 2023 of 2.9% (Office for Budget Responsibility) and 3.9% (Bank of England) (see Figure 2). On average, independent forecasters expect inflation of 3.7% at the end of 2023.

The OBR forecast inflation to *average* 4.1% across 2023-24 as a whole and more broadly prices in 2023-24 will be around 20% higher than they were in 2020-21.

Figure 2: UK Inflation: Data and Forecasts.



Source: Bank of England, Office for Budget Responsibility and ONS.

The potential for quicker falls in inflation may in part reflect the fact that the Office for National Statistics have increased the importance of gas and electricity prices, which means these will feed through to quicker falls in inflation than previously estimated.

Further detail on public and private sector earnings growth and labour market earnings outlook is provided in **Annex A**.

## Fiscal Context

### UK Public Finances and Public Sector Pay

Following the improvement in economic data since the autumn, there has been a strengthening in the underlying public sector finances and economic outlook. However, in his Spring Budget the Chancellor used the improvement to fund reforms that were aimed at supporting the economy, particularly increasing childcare and tax incentives for business investment, rather than providing additional funding for public sector pay.

The UK Government announced on 22 February that they have recommended that judges, police officers, teachers, nurses, doctors, and



dentists to be offered a 3.5% pay increase. These recommendations will be considered by the UK independent pay review bodies.

The 2023-24 Scottish Budget defines the budgetary envelope and affordability for public sector pay deals. In the 2022-23 pay round this Government spent around £900 million over and above what was budgeted for on pay deals at the expense of other priorities. These choices were made in part because the Scottish Government has no capacity to borrow to fund additional day to day public expenditure.

Under the fiscal framework agreement, the Scottish Government may only undertake resource borrowing to address forecast variances in devolved tax and social security. Resource Borrowing is further constrained by the annual restrictions and short repayment periods and therefore there is no capacity to increase Scottish Budget funding availability in-year.

## **Section 3: Pay, Workforce and Public Service Reform**

The 2023-24 Pay Strategy strongly signals pay decisions are connected to workforce and reform to deliver top class, person-centred public services for the people of Scotland. The Scottish Government's Resource Spending Review provides financial certainty in the medium term (to 2026-27), providing a platform and setting the conditions for achieving public service reform with a focus on improving outcomes for people, places, and communities across Scotland.

### **Pay and Workforce**

For most public bodies, the pay bill is a significant element of their budget. Public bodies must satisfy themselves of the affordability and sustainability of the pay awards within existing budget allocations. As a result, bodies may need to consider the size and shape of the workforce to ensure affordability, alongside opportunities around, for example, digital reform, revenue generation, estates rationalisation and improved procurement. In some cases, pay awards may require public bodies to reform their operating models to remain within budget allocations and ensure fiscal sustainability.

Where a reduction in workforce is required, we would expect this to be through natural turnover wherever possible and we restate our commitment to No Compulsory Redundancies. In line with promoting mainstreaming of equality and Fairer Scotland considerations, individual public bodies must ensure their policies and practices and systems comply with relevant requirements.

### **Multi-year approach**

To support employers in delivering wider Government priorities, the Pay Strategy includes the option for employers, in discussion with their Trade Unions, to take a multi-year approach to pay awards enabling them to support achieving public service reform, particularly with reference to delivering genuinely joined up, holistic, person-centred services. This allows employers to apply increases outwith the set metrics but within an overarching framework subject to affordability and sustainability.

Employers seeking to take this optional, public service reform approach to pay will be required to submit a comprehensive business case. More detail will be available in the Technical Guide.

## Section 4: Key Features of the 2023-24 Pay Strategy

Pay metrics must balance flexibility with fairness and affordability, which may mean taking decisions on the size and shape of the workforce.

The key features of the 2023-24 Public Sector Pay Strategy are:

- the implementation of the real Living Wage rate of £10.90 per hour, including it being applied for internships and Modern Apprentices;
- a suggested cash underpin of £1,500 for public sector workers who earn £25,000 or less;
- Pay uplift for Chief Executives is capped at the same cash amount as the lowest paid;
- setting a pay award floor of 2%; and
- recommending a central metric of 3.5% and setting both an award ceiling and pay envelope maximum of 5% on business efficiencies and/or pay bill savings.

In addition, the 2023-24 Public Sector Pay Strategy:

- continues our commitment to No Compulsory Redundancy.
- strongly encourages employers to work towards standardising to a 35-hour working week;
- introduces the requirement for employers to implement a Right to Disconnect;
- commits to delivering a 4 Day Working Week public sector pilot;
- retains discretion for individual employers to reach their own decisions about pay progression (limited to a maximum of 1.5% for Chief Executives), which continues to be outwith the pay strategy limits but should be considered when considering affordability;
- maintains the suspension of non-consolidated performance related pay (bonuses);
- continues the expectation to deliver a 10% reduction in the remuneration packages for all new Chief Executive appointments; and
- commits to a review of the Chief Executive framework.

### Progression

Nothing in this Pay Strategy is intended to interfere with pay progression arrangements for staff in the pay remit, or to constrain discussions between employers and staff and/or their representatives on this issue. Decisions taken on pay progression should be based on business needs, considering headcount and affordability.

## Wellbeing

The Scottish Government is committed to promoting wellbeing in the workplace and a healthy work-life balance. This Pay Strategy strongly encourages employers to work towards standardising to a 35-hour working week, with the expectation any reduction in the working week should not impact negatively on productivity and be delivered through normal negotiations as part of a progressive and agreed package of measures, including terms and conditions that support new ways of working.

This Pay Strategy expects all employers to have implemented a Right to Disconnect for all staff, discouraging an “always on” culture. More background information about the Right to Disconnect will be included in the Technical Guide.

## No Compulsory Redundancy

Since 2007 a key strand of the Scottish Government’s approach to pay is the commitment to No Compulsory Redundancy (NCR). The commitment has continued in recent years and was originally intended to off-set the impact of significant pay restraint during the years of UK Government austerity and promote job security.

An unintended consequence of this commitment is that employers can find it difficult to reshape their organisations in line with delivery priorities, and some continue to employ people they no longer need. This situation can result in employees being locked into jobs that are unsatisfying and potentially no longer required.

Public sector leaders and trade unions may need to engage on matters relating to the reduction of reprofiling of the workforce as part of pay negotiations. While the strategic position remains that public bodies should work with their staff representatives to negotiate extensions to their no compulsory redundancy agreements for 2023-24, proposals to change (extend or reverse) the NCR through the application of the [Severance Policy for Scotland](#), will be considered on a case-by-case basis.

Where public bodies are seeking to re-structure, particularly as part of a multi-year reform option, full consideration must be given to redeployment and retraining.

## Section 5: Equality Impact Assessment (EQIA)

The Equality Impact Assessment (EQIA) of the proposed Pay Strategy concludes that as the proposed pay negotiation principles set the framework for individual employers to draw up their own pay proposals, there are no identified direct or indirect discrimination consequences on any of the protected characteristics.

From the data available there is a higher proportion of women, disabled people, individuals from a minority ethnic group, younger employees, or a combination of one or more of these protected characteristics as well as part-time workers, among lower paid employees. Therefore, any individual pay proposals may help protect these employees from pay restraint and in many cases provide a positive benefit - underpinning Ministerial objectives for a wealthier and fairer Scotland, as well as helping to reduce the impact of Cost-of-Living crisis on these individuals.

As employers are expected to take a progressive approach, this should also help to reduce overall income inequality. It may also help in positively working towards reducing the gender pay gap within the public sector as it should increase the overall base levels of pay for those at the lower end where historically women are overly concentrated, and any restraint applied to higher earners where there are higher proportions of men.

The Pay Strategy sets the overarching framework and public bodies have the flexibility to draw up their own pay proposals which consider workforce planning and local pay issues such as recruitment and retention, equality, and the impact of the low pay measures on other staff. The pay negotiation principles within the Pay Strategy actively encourage employers to consider their own staffing profile, local evidence, views of staff and unions, and equality issues in framing their pay proposals.

We are satisfied that the risk of any direct or indirect discrimination by removing prescribed increases can be justified by the overarching aims of the Pay Strategy. It is for individual public bodies to submit pay proposals and to ensure that they do not create new or perpetuate existing pay inequalities in doing so. Individual employers are expected to undertake their own equality impact assessment of their pay proposals prior to submitting them to the Scottish Government.

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

The results of the EQIA will be available on the Scottish Government's Public Sector Pay webpages at: [www.gov.scot/publicsectorpay](http://www.gov.scot/publicsectorpay).

### **Technical guidance**

A Technical Guide providing further detail to assist public bodies in the preparation of their Staff and Senior Appointment pay remit proposals under this Pay Strategy will be published separately. This will be available on the Scottish Government's Public Sector Pay webpages at: [www.gov.scot/publicsectorpay](http://www.gov.scot/publicsectorpay).

### **CONTACTS**

Any queries on this Pay Strategy should be directed to the Scottish Government's Public Sector Pay Strategy team by emailing [financepaypolicy@gov.scot](mailto:financepaypolicy@gov.scot).

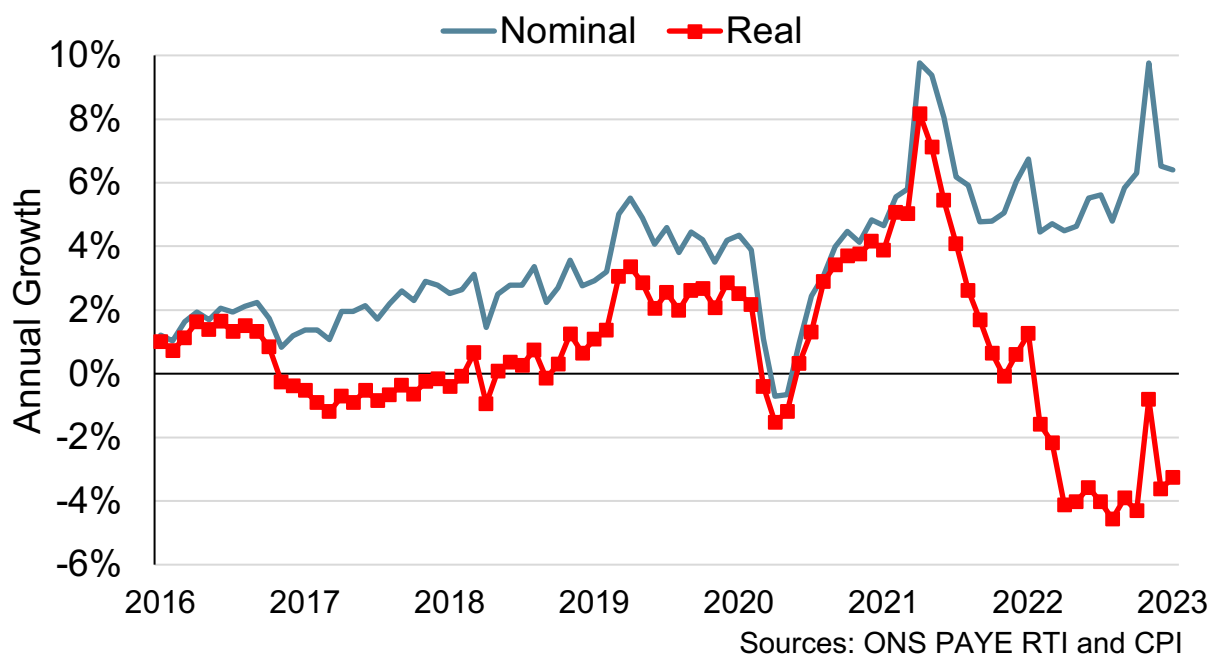
**The Scottish Government**  
**March 2023**

## Annex A Economic Context

### Earnings and inflation

Nominal median monthly earnings in Scotland grew 0.8% in January 2023 to £2,225. The monthly figures can be volatile, and over the past year earnings have grown 6.4%. However, adjusting for inflation, which was 10.1% in January, real median earnings fell 3.3% on an annual basis. This is the twelfth consecutive month of negative real terms growth, emphasising the cost-of-living challenges that continue to face individuals and households.

Figure A: Scotland Median Earnings Annual Growth (HMRC PAYE (Pay as You Earn) data)

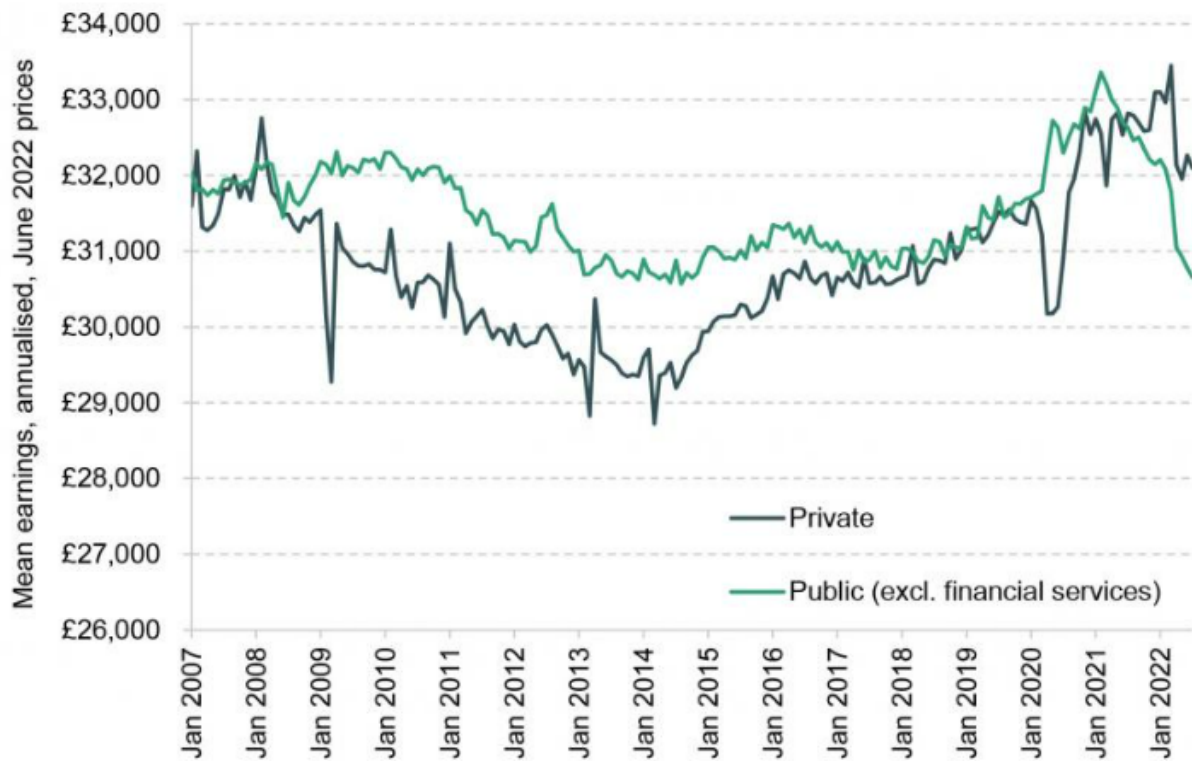


### Public and private sector pay comparisons

The last year has seen UK public sector pay growth fall behind that in the UK private sector, although this followed a period during the pandemic when private sector pay fell.

On average, the UK public sector pay is higher than in the UK private sector, this has tended to be the case since at least the early 2000s.. As shown in Figure B below, the gap closed in 2007 but then widened again after the financial crisis. The gap then narrowed again in the lead up to the pandemic, and in the latest year average public sector earnings have fallen below private sector earnings.

Figure B: UK Public and private sector earnings compared



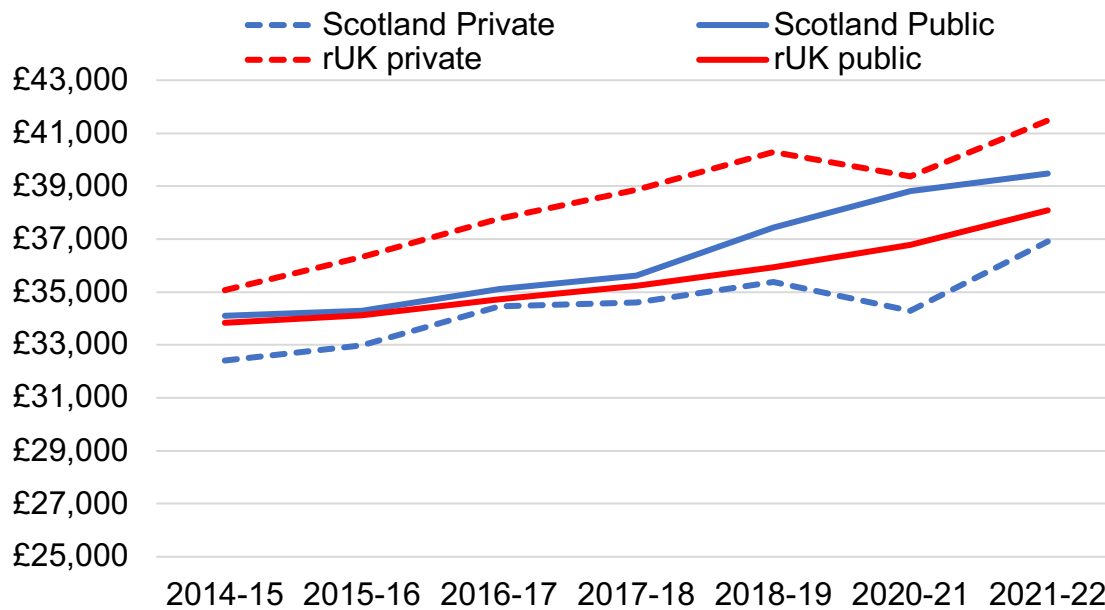
Source: IFS

In Scotland, public sector pay tends to be higher than in the UK and has a slightly different relationship with the private sector compared to the UK. The average full-time public sector worker in Scotland tends to earn more than the average private sector worker, even before controlling for factors such as age, qualifications, and experience.

Figure C shows comparative information on public and private sector average wages between Scotland and the rest of the UK (rUK), utilising the Annual Survey of Hours and Earnings dataset.



**Figure C: Public and private sector mean annualised wages between Scotland and rUK**



**Source: Annual Survey of Hours and Earnings**

In comparison to the rest of the UK, our approach to Public Sector Pay has resulted in Scottish public sector workers receiving between 4% and 6% higher salaries on average over the last 3 financial years. We expect that to increase once data from 2022-23 is released in 2023.

### Private sector outlook on pay for 2023-24

Looking ahead, the Bank of England’s Agents’ pay survey suggests that private sector companies expect wage settlements in 2023 to be similar to those for 2022, at around 6%. Private sector employer benchmarking data of 384 employee groups from XpertHR suggests:

“Private-sector employers awarded a median 3.7% basic pay rise over the 12 months to the end of August 2022. Over the coming year, employers are predicting that pay awards will sit at 5%, 1.3 percentage points higher. The last time XpertHR’s headline measure of pay awards in the private sector was at 5% was in the year to the end of April 1992.”

### Labour market

The labour market remains tight, with vacancies in Scotland still above pre-pandemic levels. The latest labour market statistics for November 2022 to January 2023 in Scotland show there were 2.7 million people in employment with the employment rate rising by 2.0 percentage points over

the year to 76.5% and 88,000 people were unemployed with the unemployment rate falling 0.7 percentage points to 3.1%.

The RBS Report on Jobs for February signalled that growth in demand for staff remained positive (at 54.6 where above 50 represents growth) but had slowed to its softest rate in two years. For businesses seeking to recruit, supply side challenges in the labour market have also continued with candidate availability (labour supply) falling in February (39.6). Alongside underlying challenges of skills shortages and Brexit, recruiters cite the uncertain outlook, cost of living crisis and fear of recession as key factors weighing on the movement of labour.

## Annex B Employment in the Public Sector in Scotland

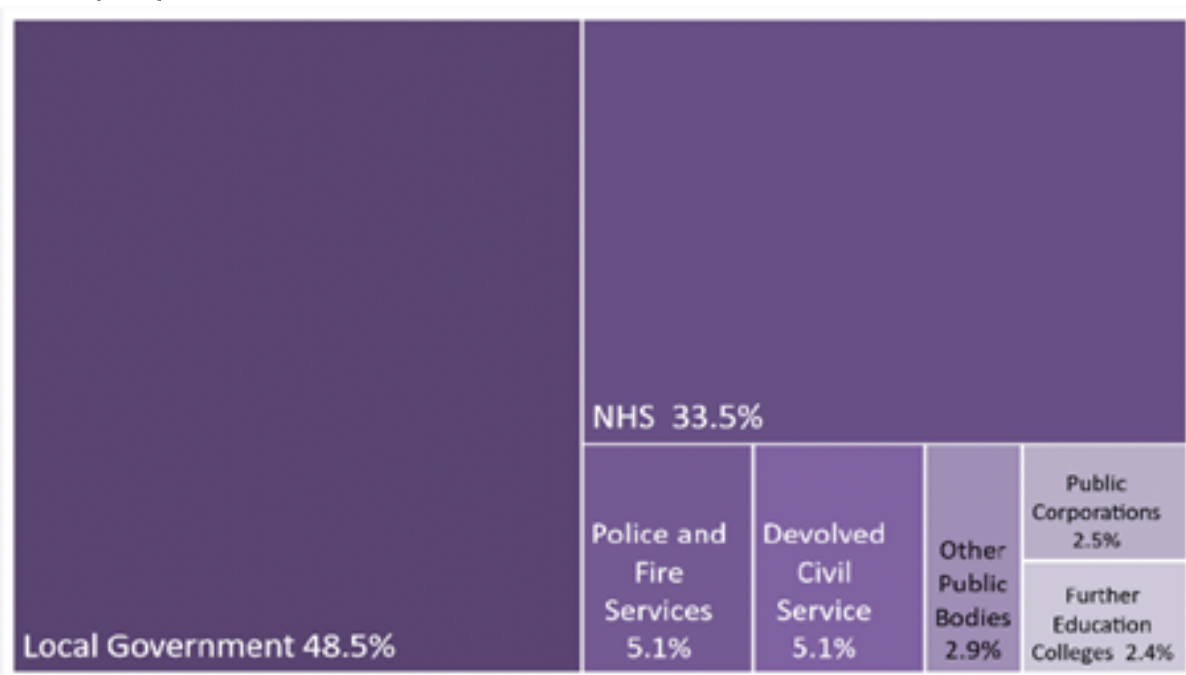
### Employment in the public sector in Scotland

Employment (headcount) in the public sector in Scotland was 594,500 as of December 2022, representing around a fifth (21.9%) of all employment in Scotland<sup>[1]</sup>. The proportion of people in employment in the public sector across the UK as a whole was 17.7%<sup>[2]</sup>.

Of the total 594,500 people employed in the public sector in Scotland, just over 90% are working in the devolved public sector.

The breakdown of the devolved public sector (headcount) is illustrated below. As can be seen, over 80% of people in the devolved public sector are employed in either Local Government or the NHS.

**Figure D: Percentage breakdown of Scottish devolved Public Sector, Q4 2022 (FTE).**



Note: Totals may not equal the sum of the individual parts due to rounding  
Source: Public Sector Employment in Scotland, Quarter 4 2022

<sup>[1]</sup> [Public Sector Employment in Scotland Statistics for 4th Quarter 2022 - gov.scot \(www.gov.scot\)](https://www.gov.scot) Estimates for total employment and private sector employment are based on the ONS Labour Force Survey.

<sup>[2]</sup> [Public sector employment, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

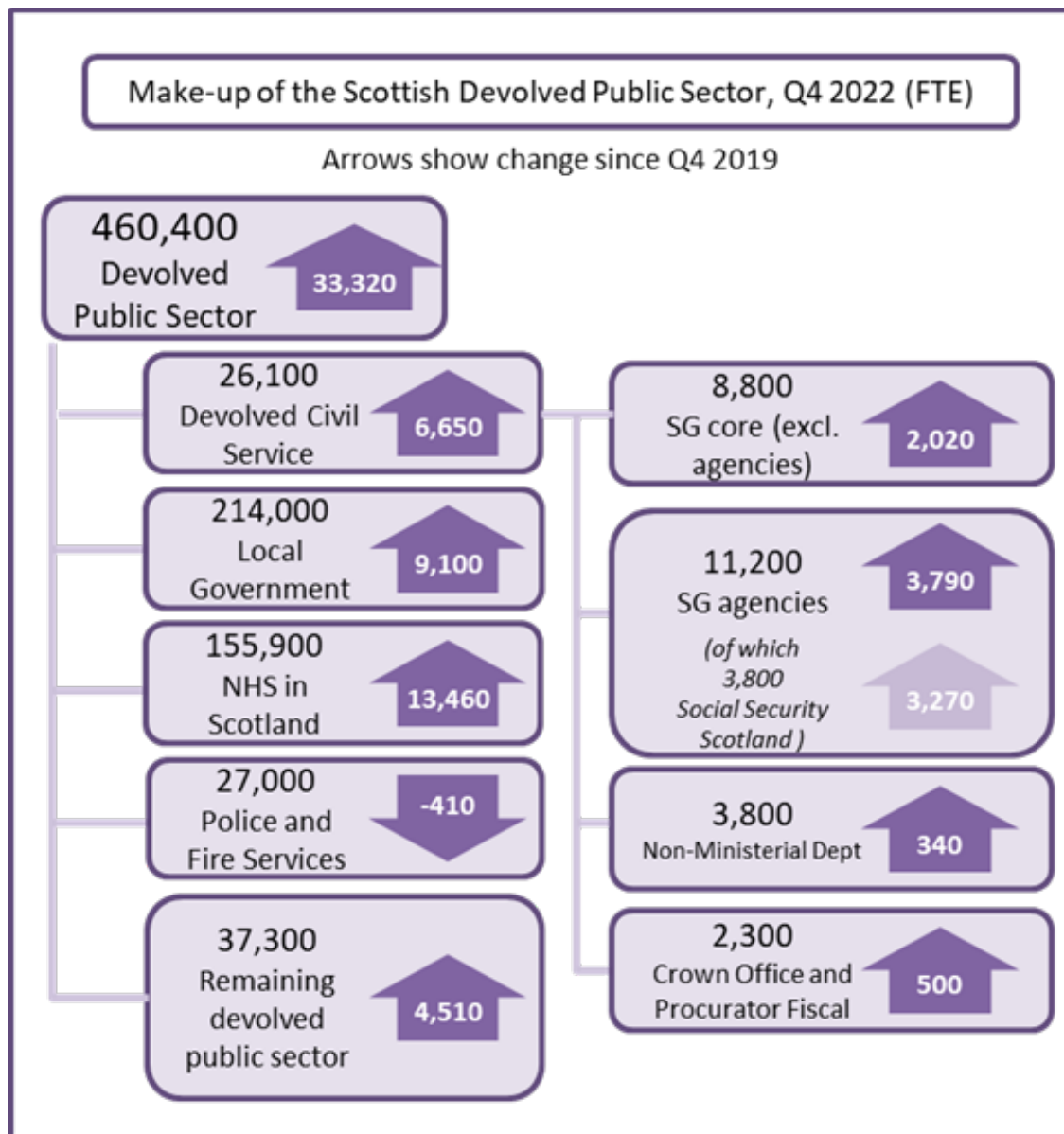
Since December 2019, employment (headcount) in the devolved public sector in Scotland has increased by 34,460 (6.8%) to 538,700 in December 2022. This compares with the private sector which was estimated to have increased by 45,980 (2.2%) to 2,125,700 over the same period.

The Resource Spending Review included commitments to hold the total public sector pay bill (excluding Local Government) at around 2022-23 levels whilst returning the overall size of the public sector (excluding Local Government) broadly to pre-COVID-19 levels. The overall aim was to ensure sustainable public bodies. Following further analysis and engagement, our proposal on how we achieve sustainable public bodies evolved and in the 2023-24 Budget, we set out that it is for individual public bodies to locally determine the target operating model for their workforces and to ensure workforce plans and projections are affordable in 2023-24 and in the medium term.

This change recognised the relative size of public bodies within the devolved public sector – in particular, almost two-thirds of employment (FTE) in the devolved public sector, excluding Local Government, is in the NHS which has grown by almost 13,500 FTE (around 10%) since 2019. It also recognised the accountability of public bodies to deliver efficiently and effectively within their budget and that budget allocations reflect our priorities.

The chart below shows a further breakdown of the devolved public sector in Scotland (FTE) including change since December 2019.

Figure E: FTE breakdown of Scottish devolved Public Sector, Q4 2022 (FTE)



Source: [Public Sector Employment in Scotland, Quarter 4 2022](#), [Social Security Scotland - workforce information: December 2022](#)

Note: Totals may not equal the sum of the individual parts due to rounding. Remaining devolved public sector includes other devolved public bodies, public corporations, and further education colleges.



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