

Scottish Government Public Sector Pay Policy 2024-25

May 2024

SCOTTISH GOVERNMENT PUBLIC SECTOR PAY POLICY 2024-25

Foreword by the Cabinet Secretary for Finance and Local Government



I am pleased to set out the Scottish Government's pay policy for 2024-25. The Scottish Government is proud to support our public services and are committed to maintaining high quality services that people in Scotland need.

The most valuable and important asset of public services is the public sector workforce. Spending on workforce pay now accounts for over half of the entire Scottish resource budget. That reflects the importance we place on having a highly skilled and remunerated workforce.

This pay policy balances flexibility with fairness and affordability, and offers multi-year pay metrics above forecast levels of inflation from 2024-25 to 2026-27. A multi-year, above inflation approach provides certainty for the public sector workforce and an opportunity for Scottish Government, employers and Trade Unions to plan for and transform our public services to improve outcomes for the people of Scotland.

I am proud that our approach to public sector pay in recent years means that people in key public sector roles in Scotland are now paid more than in the rest of the UK and that we have supported public sector workers during the cost of living crisis. This framework for a multi-year pay policy continues our commitment to the public sector workforce with pay metrics set above forecasted inflation rates and continues our journey to build and boost the Scottish economy and create the prosperity necessary to support people in Scotland.

This pay policy sets a framework which individual bargaining units can use to take forward negotiations on pay and non-pay elements relevant to their sector and workforce.

The Scottish Government operates on an effectively fixed budget, limiting what can be delivered through pay policy. Changes to the settlement received from the UK Government will be required to deliver any change to Scottish public sector pay policy.

Shona Robison MSP

Cabinet Secretary for Finance and Local Government

Background

The 2024-25 Public Sector Pay Policy sets out the framework for pay increases for staff pay remits, senior appointments and all public appointments (Chairs and Members to Scottish Public Bodies).

The Public Sector Pay Policy for 2024-25 applies to public bodies with settlement dates in the year between 1 April 2024 and 31 March 2025 (inclusive).

It applies to core Scottish Government (except senior civil servants, for whom pay is a reserved matter) and 71 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 policy applies is available on the Scottish Government's Public Sector Pay webpages: www.gov.scot/publicsectorpay.

This Pay Policy 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.

Fiscal Context

The Scottish Government is proud to support our public services and are committed to maintaining the high quality services that people in Scotland need.

Our view is that the most valuable and important asset is the public sector workforce. Spending on workforce pay now accounts for over half of the entire Scottish resource budget. That reflects the importance we place on having a highly skilled and remunerated workforce. In Scotland, people in key public sector roles are now paid more than in the rest of the UK.

The introduction of the new Advanced rate of Income Tax has increased the progressivity of our tax system. It is paid only by those earning above £75,000. In return, people in Scotland have access to a range services and social security payments that are not available elsewhere, such as the Scottish Child Payment, free prescriptions, and free higher education. Everyone benefits from our approach to public sector services that are Scottish by nature, design, and delivery.

However, for as long as the Scottish Government operates on a fixed budget, there are limits to what we can achieve. We are now at a point

where the Scottish Public Sector Paybill has increased to a record high and is forecast to rise faster than the Block Grant received from the UK Government, which is the main source of funding for the Scottish Government. Audit Scotland published a report in October 2023 entitled [“The Scottish Government's workforce challenges”](#) which highlighted the unsustainable nature of the public sector paybill.

The current UK Government Spending Review settlement ends in 2024-25 and there are no detailed department level spending plans beyond that. Consequently, the Scottish Government does not have confirmed figures for the Barnett block grant. However, the Office for Budget Responsibility (OBR) has forecast that the growth in UK resource spending, which determines the size of the Scottish block grant, will grow at around 1% real terms each year over the next three years.

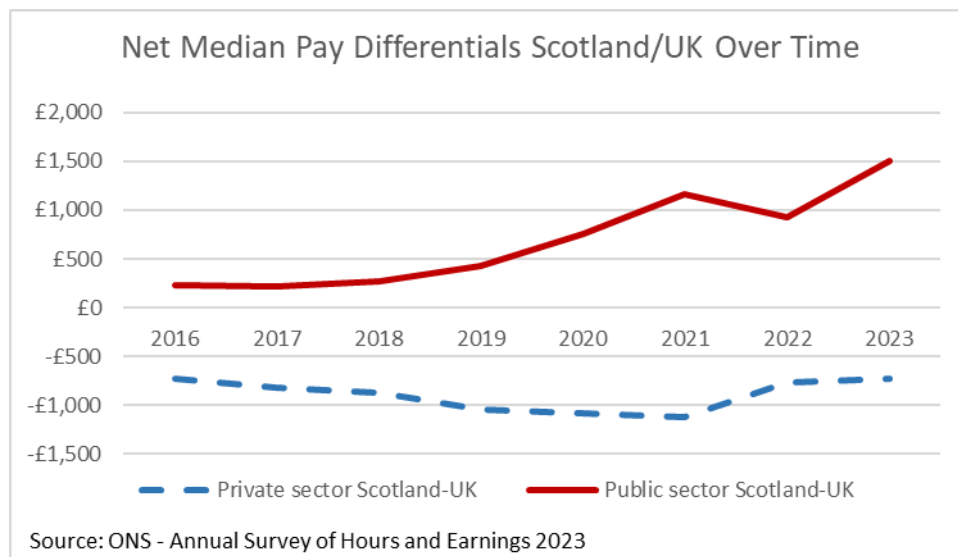
| Annual real terms growth in resource spending (RDEL) at UK level | | | | |
|--|---------|---------|---------|--------------------|
| Year | 2024-25 | 2025-26 | 2026-27 | 2024-25 to 2026-27 |
| OBR forecast (March) | 0.9% | 0.9% | 1.0% | 2.9% |

Economic Context

Workforce Size and Pay relative to the UK

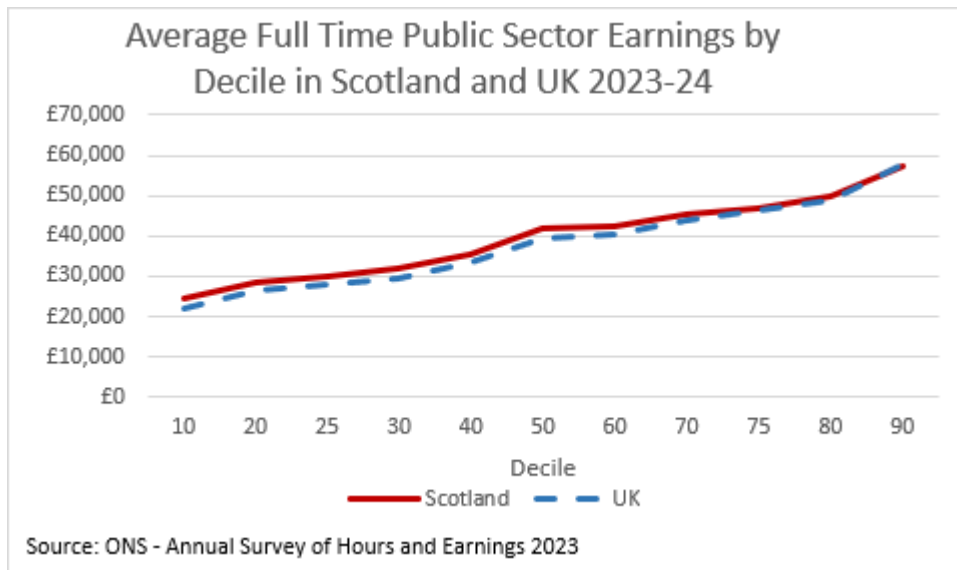
Scotland's public sector is larger and better paid when compared to the rest of the UK and has had a commitment to no compulsory redundancies since 2007. The larger size of the workforce is both in terms of the share of the economy and the share of total employment. The public sector accounts for 22.2% of employment in Scotland, compared to 17.8% across the UK.

Median average public sector pay is higher in Scotland than the UK, and the gap has been widening. After taxes, the average full-time public sector employee now earns around £1,500 more than the UK public sector average, up from around £430 prior to the pandemic. Before tax, the figure is around £2,400 higher in Scotland.



Public sector employees in Scotland also earn more than the private sector average. The gap with the private sector has also been growing over time, and is now around £4,000 after tax in Scotland, compared to less than £2,000 for the UK as a whole, although much of the differential can be accounted for by differences in skills, qualifications and experience. The gap widened during COVID-19 reflecting the impact of furlough on private sector income, although it has since narrowed again.

Public sector pay deals have provided relatively more support to the lower paid. The gap between public sector pay in Scotland and the UK is greatest in the lower half of the income distribution. In the upper half, there is less of a gap between Scottish and UK public sector pay.

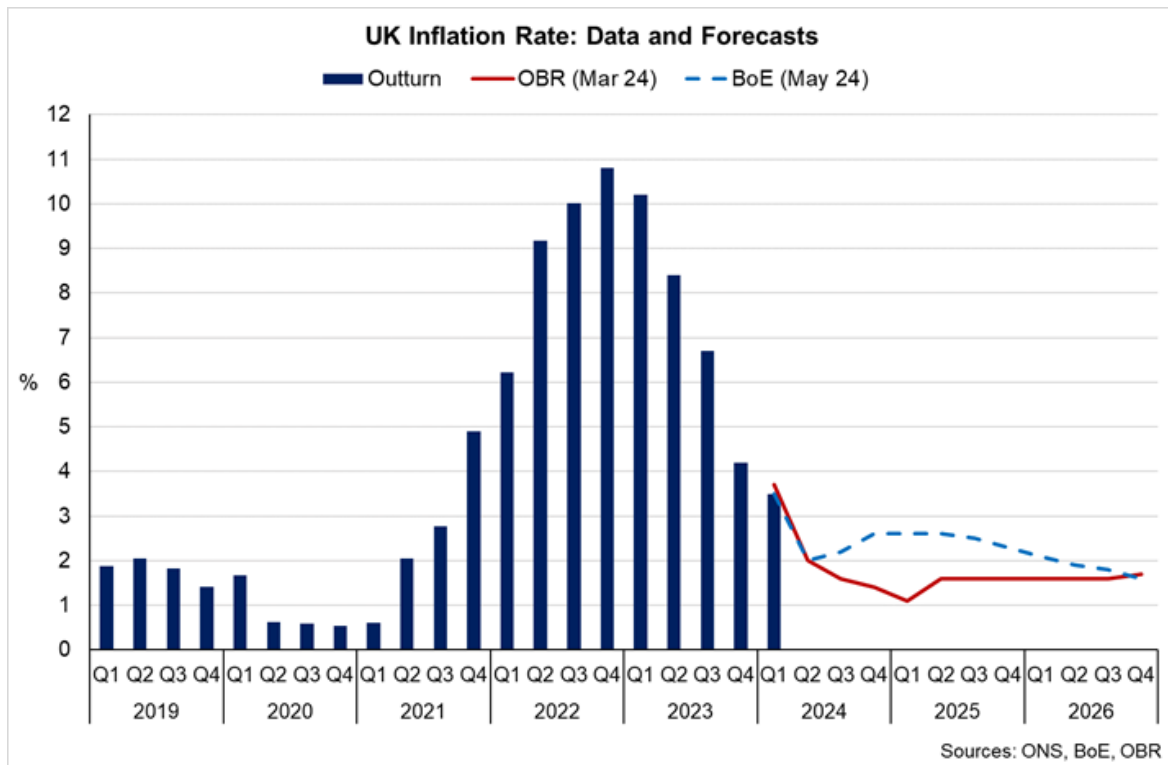


In summary, the Scottish public sector pay bill has increased significantly in 2023-24, now standing at around £25 billion. If the UK allocates additional spending for pay deals this would feed through to the Scottish budget via the Barnett formula and would result in additional consequential for Scotland. But with relatively more public sector workers in Scotland, as well as higher pay for public sector workers in Scotland on average, matching a UK pay deal in Scotland costs more than the consequential received. Moreover, providing more generous pay deals in Scotland increases the funding gap further.

Additional expenditure on pay deals in Scotland relative to UK must therefore be covered by cutting spending in other areas, services re-design, reduced headcount or increased taxes or charges.

Inflationary Outlook

Inflation data for April 2024 published on 22 May 2024 was 2.3% - slightly above the Bank of England and consensus forecast (2.1%). The Bank are still cautious about the inflation outlook but expect it to remain within this range for the remainder of 2024.



Overall, the outlook for inflation remains uncertain, although it is expected to remain close to the Bank of England’s 2% target. The Bank of England’s latest forecast from May shows inflation increasing slightly toward the end of 2024, and across 2024-25 as a whole, they expect inflation to average 2.4%. The OBR’s March forecasts suggest inflation will fall further and average 1.6% across 2024-25. Looking at the average of the latest independent forecasts for the UK economy reported by HM Treasury suggests inflation of 2.1% in 2024 and 2.2% in 2025. However, the forecasts range from 0.8% to 3.4%, emphasising the uncertainty.¹

The average of the Bank of England and OBR forecasts has been used for the inflation reference for this pay policy, as shown in the table below.

Financial year inflation forecasts

| | Bank of England (May 24) | OBR (March 24) | Average |
|---------|-----------------------------|-------------------|---------|
| 2024-25 | 2.4% | 1.6% | 2.0% |
| 2025-26 | 2.4% | 1.6% | 2.0% |
| 2026-27 | 1.7% | 1.7% | 1.7% |

¹ [Forecasts for the UK economy: May 2024 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/forecasts/forecasts-for-the-uk-economy-may-2024)

Multi-year Pay Policy Framework

Pay metrics must balance flexibility with fairness and affordability.

This pay policy sets out a multi-year framework from 2024-25 to 2026-27. This would offer pay metrics above forecasted levels of inflation.

Public Bodies covered by the Pay Policy have the option of following the metric for 2024-25, or agreeing a 2-year or 3-year pay deal in-line with the metrics outlined in the table below.

Pay Metrics Framework

| Year | 2024-25 | 2025-26 | 2026-27 |
|----------------------|--------------------------------|--------------------------------|--------------------------------|
| Pay Metric | 3% | 3% | 3% |
| Pay Metric Structure | 2% from April, 1% from January | 2% from April, 1% from January | 2% from April, 1% from January |
| CPI Inflation* | 2% | 2% | 1.7% |

*Source: Average of Bank of England May 2024 Monetary Policy Report and OBR March 2024 Economic and Fiscal Outlook

Agreeing a multi-year deal, where Scottish Government, employers and Trade Unions can utilise the certainty and opportunity afforded by a multi-year deal to plan for and transform our public services to improve outcomes for the people of Scotland.

The cumulative impact of the pay metrics over the 3 year period is 9.3%, compared to forecast CPI inflation of 5.7%.

Low Pay measures

The Pay Policy 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 Policy actively encourage employers to consider their own staffing profile, local evidence, views of staff and unions, and equality issues in framing their pay proposals.

Employers are encouraged to consider a progressive pay approach, which may include setting a cash underpin, a higher percentage uplift, or a non-consolidated cash payment.



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