



SCOTTISH EXECUTIVE

PUBLIC SECTOR PAY IN 2007-08

POLICY FOR SCOTTISH PUBLIC SECTOR PAY GROUPS

**FINANCE PAY POLICY
JULY 2007**

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INTRODUCTION

1. Public Sector Pay Policy sets out the key considerations that Scottish public sector bodies should take into account in framing their pay proposals for 2007-08. Ministers expect to continue to see lower levels of settlement in 2007-08. The forthcoming Spending Review, tight financial outlook, the Consumer Price Index (CPI) inflation target of 2.0%, and the low headline increase of 1.4% for the Senior Civil Service all set the tone for pay increases, and underlines the commitment to constrained and sustainable settlements.
2. Public Sector Pay Policy applies to those public sector bodies whose pay requires the approval of Scottish Ministers. This includes the Scottish Executive and associated Departments which have their own pay bargaining units, Executive Agencies, NDPBs, Public Corporations and Nationalised Industries.
3. The policy for 2007-08 applies to all of the above bodies who require approval for proposed pay increases between May 2007 and April 2008 (inclusive).
4. The “Public Sector Pay Policy: Supporting Technical Guide” should be read in conjunction with this document. It contains details of the process for gaining approval for pay remits, including a checklist on the elements which should form part of any detailed business case. The Technical Guide also contains definitions of the terms used in the proformas which are required to be completed.

OUTCOMES OF THE 2006-07 PAY ROUND

5. 31 public bodies have had their negotiating remits approved, of these 10 had an average increase for staff in post within the upper pay band (3.5%-4.5%) and 21 in the lower pay band (2.5%-3.5%). Of the 10 in the upper pay band, 5 were NDPBs and 5 were Executive Agencies or associated Departments. The weighted average approved increase for staff in post (which takes into account the size of each body) was 3.58% for single year remits and 7.63% for two year remits with corresponding medians of 3.47% and 7.01% respectively.
6. **All** organisations must provide outturn information for last year’s pay round (see Supporting Technical Guide for details). In particular, you should provide detail (where appropriate) on how you met recruitment and retention difficulties, took forward reform or made changes to implement strategies following equality impact assessments. Where remits were approved with conditions, evidence that the conditions have been met, or are in progress with expected timescales for full implementation will also be required.
7. This information should be sent to the Finance Pay Policy Team by all organisations within 2 months of the end of the pay remit year **for all 2006-07** settlements including those which are part of a multi-year deal.

PRIORITIES FOR 2007-08

8. It is essential that each organisation's workforce is equipped with the necessary skills, expertise and that staff are sufficiently motivated in order to deliver high quality public services whilst ensuring that increases to their paybill are value for money and affordable within agreed provision.
9. Pay is a delegated matter and it is for each pay group to tailor a package that suits their own business needs, albeit within public sector pay policy constraints. The key priorities for 2007-08 are for all pay remits to deliver constrained, affordable, sustainable and non-inflationary pay settlements and for pay proposals to be:
 - tailored to the business needs of each individual organisation;
 - value for money;
 - set at the amount necessary to recruit, retain and motivate staff;
 - responsive to the relevant labour markets in Scotland; and
 - fair and non-discriminatory.

CRITERIA FOR ASSESSING REMITS 2007-08

Key Metrics

10. The following are the key metrics that will be used to judge the affordability of remits:
 - The size of the **Increase for Staff in Post** – as a measure of the average cost of the remit from the perspective of the employee;
 - The size of the **Basic Award** i.e. the consolidated amount for revalorisation of pay ranges or cost of living increase amounts – as a measure of any general inflationary uplift on pay;
 - Changes in the total paybill i.e. the **Headline Cost** or new money – as an overall measure of whether the remit is affordable within existing resources; and
 - Changes in the **Paybill per Head** – as a measure of the average cost of the remit from the perspective of the employer. It takes account of the settlement as well as other factors such as the change in the skill mix, the composition of staff across pay bands or increases to the levels of tax and NIC contribution etc.

Coherence and Pay Bands

11. Pay delegation has been successful in allowing public bodies to design and implement pay systems that fit the needs of their individual businesses. However, where pay and conditions have diverged within the same relevant labour market, lower paying bodies may put forward proposals to reduce these differentials.
12. **Although a variety of pay metrics will be examined when assessing the remit for 2007-08 the expectation will be that pay remits will fall into one of two pay bands depending on the amount being sought. The bands will be defined and determined in terms of the Increase for Staff in Post:**
 - **For public bodies that are considered to be higher paying, relative to others in the same relevant labour market, the expectation will be an Increase for Staff in Post of between 1.5% and 3.5%; and**
 - **For public bodies who can demonstrate that they are lower paying, relative to those in the same relevant labour market and that this has a detrimental impact on the body to recruit and retain staff, the expectation will be an Increase for Staff in Post of between 3.5% and 4.0%.**
13. There will be an expectation that in the first instance public bodies look to the minimum in the relevant pay band and that a business case is required for a remit above this level. Similarly where a case is made for a higher remit public bodies should not exceed the maximum of the relevant pay band (3.5% or 4.0% as appropriate).
14. Pay remit proposals which deliver existing progression arrangements, the basic award and payment of bonuses only in any given year are expected to fall below 3.5% increase for staff in post.
15. In the case of multi-year remits it is possible to front-load (higher increase for staff in post in year 1 offset by lower increases in later year(s)) or rear-load remits (lower increase in the first year with higher increases in later year(s)) but **the maximum increase for staff in post for any year of a remit will not exceed 4.0%.**
16. Public bodies should not assume that a case made for a higher settlement in year 1 will automatically justify a higher settlement in subsequent years.
17. Any case for reducing or maintaining differentials between bodies needs to be supported by information on the benefits from doing so (such as helping to achieve efficiency plans; promoting the delivery of public services; improving recruitment, retention and motivation) and, if applicable, the time-frame over which it is anticipated any differences will be removed or reduced.

Market

18. Public Bodies should take into account the Total Reward package offered, when making market comparisons and consider whether they wish to make amendments to terms and conditions of employment such as annual leave entitlement (bearing in mind that any such changes will have to be costed in the remit proforma and form part of the increase for staff in post calculation).
19. In assessing relative market positioning, comparison of levels of basic pay offered will focus on the minima and maxima of pay ranges. The expectation in the first instance will be that workforce groups whose pay ranges are above the median pay ranges of those offered by other public bodies in Scotland subject to public sector pay policy will be “high paying”, and those whose pay ranges are below the median pay ranges of those offered “low paying”. The focus will be on both minima and maxima as both have important roles to play in recruitment, retention and motivation of staff.
20. The opportunity to provide market data to support a higher remit was introduced in 2006-07. In doing so, the public body was also expected to be able to demonstrate that the relatively low total rewards offered directly impacted on their ability to recruit, retain and motivate staff. However it is recognised that this placed significant burden on public bodies to collect market information (both in time and money).
21. To reduce this burden in 2007-08 the Finance Pay Policy team have created a database for all public bodies subject to public sector pay policy with the minima and maxima for each pay range (reflected as Civil Service equivalent grades (using the Scottish Executive’s pay range labels)). This data will be used in the first instance to assess whether a public body is lower or higher paying. The range and medians of the minima and maxima offered across the public sector in Scotland by grade is set out in Annex A. To ensure that comparisons are on an equitable basis (i.e. the same equivalent hourly rate) the data for each organisation has been standardised to a 37 and 35 hour working week. Each public body should consider the relevant data when making a business case.
22. This database will be accessible to all public bodies who have opted to share their data with other bodies.
23. It is however recognised that public bodies may have specialist staff who are recruited from a particular labour market. Where this is the case, bodies should define these workforce groups with reference to the relevant labour market in which they operate, and may provide additional market data in support of their business case. Public bodies should demonstrate how they intend to use their remit to address any particular problems or issues, whilst reflecting the relative position of these different staff.
24. Any bodies intending to reduce differentials with the Scottish Executive needs to demonstrate a common labour market for the relevant groups of staff.

Basic Award

25. Public bodies determine what account, if any, to take of inflation when submitting their pay remits. The maximum inflationary increase or basic award within the increase for staff in post in each year of a remit approved in 2007-08 will be no more than 2.0%.

New features of the 2007-08 Policy

Baseline savings

26. Baseline savings are general savings within the paybill (e.g. from reduction or removal of allowances). To date where it was proposed that such savings be used elsewhere within the paybill the amount had to be included within the increase for staff in post calculation. From 2007-08 a business case can be made to recycle any such new savings to be made within the paybill to fund variable pay (non consolidated payments) without counting against the increase for staff in post. Any such proposals must not increase the paybill, in other words they must be cost neutral. An example of how such recycling would work is set out in the accompanying Technical Guide.

Non-consolidated bonus pot

27. Up to now it has been possible for organisations to create a non-consolidated bonus pot, used to pay non-consolidated bonuses to all staff within the organisation who out perform. When starting such a pot the costs are included within the increase for staff in post percentage but from then on the pot is carried forward year on year in the paybill and is used to fund such bonus payments without impacting on the increase for staff in post. Increases to the pot have to count in the increase for staff in post. Any other non-consolidated payments, such as those to staff on the maxima only, do not form part of the pot and were always included within the increase for staff in post every year.

28. From 2007-08 any non-consolidated payments to staff on the maxima will still count against the increase for staff in post in 2007-08 but may be added to the pot within the 2008-09 baseline paybill and so not score in the increase for staff in post again in future years. This will bring future benefit to those organisations with mature pay systems and consequently a large proportion of staff at the maxima receiving limited pay increases. All future increases to this pot will score in the increase for staff in post for that year before being added to the baseline paybill for future redistribution. Further detail on the treatment of bonuses in the proformas is set out in the accompanying Technical Guide.

29. Public bodies are encouraged to consider non-consolidated pay, for individuals and teams, as an integral part of their pay strategy to enable them to target performance and use their paybill more flexibly.

30. The following criteria will also be used to assess pay remits:

Recruitment, retention and motivation

31. Public bodies who wish to make a case for a pay remit to address problems associated with labour turnover will need to supply information on turnover in their business case and also demonstrate why their turnover is problematic. The degree of labour turnover deemed to be problematic will vary by public body and by grade and group of staff. In addition, bodies will need to demonstrate the degree to which any turnover problems are associated with pay rather than other wider organisational factors.

32. Where public bodies are experiencing staff motivation problems they will similarly need to demonstrate the degree to which these problems are associated with pay – such as evidence from surveys of staff.

Equal Pay/Age Discrimination

33. The Scottish Executive is committed to ensuring that pay systems in the public sector are fair and non-discriminatory, reflecting the contribution of the individual. Public bodies in Scotland should ensure that they have due regard to their duties under the public sector equality duties on race, disability and gender when considering their pay systems, including the legal requirement on listed public bodies to assess the impact of their policies and practices on people from different ethnic groups, disabled people and women and men. 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 reviews and the steps they propose to take to address any inequalities that have been identified.
34. It is important that organisations review their pay systems on an annual basis following implementation of pay awards and carry out a full equality impact assessment of their reward policies and practices every three years. Further information about equality impact assessment is available of the Executive's website at <http://www.scotland.gov.uk/Topics/People/Equality/18507/EQIAtool>. Public Bodies are encouraged to work jointly with their trade union side in undertaking their equal pay reviews.
35. When considering the impact of reward policies on equality groups, public bodies should be wary of arguments that five years must be the appropriate length for any pay range – for some jobs this may be too short, for others it may be too long. There is no substitute for a proper assessment of the pay arrangements for different groups/roles within each responsibility level.
36. Where public bodies have identified a potential pay inequality that they wish to address, they will need to provide evidence of the extent of this inequality and propose ways of tackling this in a cost-effective manner, subject to affordability constraints. Remits must remain affordable within policy parameters and public bodies may need to prioritise within the constraints of their remit and strike an appropriate balance between general pay increases for staff and addressing issues arising from equal pay/age discrimination legislation.
37. A full risk assessment, including an assessment of the likelihood of claims and the extent of potential liability as well as the costs of dealing with the issue, should accompany any business case based at least partly on addressing equal pay risks. Public Bodies should also specify what proportion of their pay remit, if any, they plan to devote to addressing issues associated with equality issues.

Local Pay

38. There are different labour markets for different staff, depending on factors such as location, grade and occupation. Remits will be judged on the extent to which levels of pay for particular groups of staff reflect, and are responsive to, the relevant labour markets in which they operate. (In this context, pay levels need to be compared after allowing for the fact that pay is one individual element of an overall remuneration and Total Reward package.) Where a public body has multiple locations or sites, they should use the data and information that is available and group together staff as appropriate.
39. All public bodies operating across different locations who are submitting pay remits in 2007-08 will be expected to demonstrate that they have considered local pay differentiation as part of their pay strategy.
40. The Scottish Executive expects public bodies to demonstrate how they intend to target pay awards to where they are most needed to address particular problems or issues, and restraining pay where staff are relatively well placed in their relevant labour market, within the overall affordability envelope that is agreed.

Total Reward

41. Pay systems should be designed to motivate and reward performance recognising pay as one element of a broader reward package offered to staff. A package which takes account of the interrelationship between tangible (pay, pension provision, leave) and intangible (work environment and learning and development). “Total Reward” schemes offer a range of benefits designed to demonstrate that staff are valued and improve staff recruitment and retention.
42. Pensions make up a substantial proportion of the total remuneration package across the public sector. The recent agreement on public sector pensions means that staff in post will be unaffected by any increases in Scheme Pension Age, whilst new workers will continue to benefit from a pension which will be of more value than many offered in the private sector.
43. Public Bodies will be expected to outline their strategy with regard to Total Reward in their business case, including any proposed changes to key conditions of service, and any proposals to make employees better informed about the total value of their remuneration package.
44. The Scottish Executive, associated Departments and Executive Agencies should take into account the Civil Service Reward Principles launched by the Cabinet Office in October 2006 (http://www.civilservice.gov.uk/management/performance/reward_principles/index.asp). The Principles set out the key principles within which relevant, effective and affordable reward systems for the civil service can be developed.

Multi-Year Proposals

45. Multi-year deals can provide public bodies, and individual employees, with greater certainty over their pay levels for the period of the deal and a way to ensure that increases are paid on time. Public bodies may submit multi-year proposals of up to three years. If a public body wishes to submit proposals for more than three years they should speak to Finance Pay Policy in the first instance.
46. The 2007 Spending Review will set the affordability envelope that public bodies will need to operate within for the years 2008-9 to 2010-11. As this affordability envelope is currently unknown, public bodies seeking multi-year deals will be expected to confirm that proposals are affordable within existing resources or clearly set out the additional resources that would be required over the duration of the remit. The views of portfolio finance teams will be sought on all remit proposals.

Scope of the remit process

47. All increases to basic pay including the affects of increases to pay range minima, maxima, reference points and milestones should be costed as part of a remit. In addition, the following elements should similarly all be costed:
- Increases to **annual leave**, including maternity leave and associated entitlements.
 - Reduction in working hours.
 - **Allowances** including the introduction of new allowances, increases to existing allowances, and the consolidation of allowances into basic pay.
 - **Buy-outs** including the costs of payments used to buy-out existing entitlements to allowances, overtime rates, or working practices.
 - Increases to the **Non-Consolidated Performance Pot.**
 - **Non-pay Rewards** such as child care vouchers, etc.
 - **Salary Sacrifice Schemes** – where introduced these will have administrative costs and need to be presented in the remit.
48. Definitions and guidelines on completing the relevant proformas can be found in the accompanying Technical Guide.

APPROVALS PROCESS

49. The following summarises the approvals process for non-contentious pay proposals:
- Band 3 bodies: NDPBs with relatively small numbers of staff and resources whose pay remit is non-contentious will be approved by the relevant Director and the Head of the Finance Pay Policy Team. Ministers would then be informed of the approved remit. However, where proposals are considered to be contentious approval is escalated to the Scottish Executive's Remuneration Group;

- Band 2 bodies: NDPBs which are larger in size and whose pay remit is non-contentious will be approved by the relevant Director and the Executive's Remuneration Group. Submission of a non-contentious remit to the Remuneration Group by the Director will constitute portfolio approval. Ministers would then be informed of the approved remit. However, where proposals are considered to be contentious approval is escalated to Ministers; and
- Band 1 bodies: the largest NDPBs, The Scottish Executive Main Bargaining Unit, Crown Office and Procurator Fiscal Service, Executive Agencies Nationalised Industries and Public Corporation must be approved by Ministers (relevant Portfolio Minister and the Cabinet Secretary for Finance and Sustainable Growth). Proposals must first be considered by the Executive's Remuneration Group. All submissions from Executive Agencies are required to be made by the Chief Executive and should contain the views of the relevant Director.

50. The criteria on which each and every pay remit will be assessed and the definitions of what constitutes a contentious pay remit is set out in Annex B.

BREACHES OF THE PAY REMIT PROCESS

51. There continues to be a number of occasions when in implementing the settlement public bodies have gone beyond the approved increase for staff in post percentage or where changes to working hours/annual leave have been negotiated but which have not featured or been costed into pay remit proposals considered by Ministers.
52. Where public bodies have implemented settlements beyond that which they have approval for or deviated from the basis on which the remit was approved or introduced components that have cost implications but did not feature in the pay remit for which approval was sought, this will be treated as a serious breach of the pay remit process. There is an expectation that public bodies adhere to the basis on which their remit has been approved, including any key features of the remit involving the deployment of resources to meet particular issues. The basis of approval of the remit will be made very clear and any breach will require the sponsor branch and accountable officer to justify the matter to the Portfolio Minister and the Cabinet Secretary for Finance and Sustainable Growth and could result in punitive action being taken, such as capping of future pay remits or a governance review of the body.

GENERAL PAY PRINCIPLES

Legal Commitments

53. All existing legally binding commitments should take into consideration affordability and financial constraints in current and future years. All public bodies are advised to take legal advice on the drafting of pay commitments to ensure that these are affordable and consistent with the pay remit process.
54. 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).

Negotiations

55. Public bodies should not enter into formal negotiations with Trades Unions until their remit has been approved. Public Bodies are encouraged to work constructively with their relevant Trades Union/s on the development of their overall pay and reward strategies prior to their remit being submitted.

TIMING OF REMITS

56. A large number of remits were submitted months after their settlement date in 2006-07 and placed significant pressure on approvals process. The expectation is that remits should be submitted in sufficient time to allow approval to be approved and negotiations with Trade Unions to be concluded to enable staff to be paid as near as possible to the settlement dates. A timetable which sets out the settlement date and expected submission date for all public bodies which are due to submit pay remit proposals between May 2007 and April 2008 (inclusive) is set out in Annex C. If a body submits their pay remit after their settlement date, it must provide an explanation.
57. It should be borne in mind that the process from submission of remit proposals to the pay policy team to remit approval can take up to 3 months to complete depending on the complexity of the business case. Where proposals fully adhere to Public Sector Pay Policy approval will take much less time.
58. Pay remit proposals (proformas and business case) should be submitted direct to financepaypolicy@scotland.gsi.gov.uk and copied to the sponsor branch (where relevant). The role of sponsor branches remain important but in order to simplify and streamline the approvals process Finance Pay Policy will communicate directly with public bodies to clarify proposals and resolve any issues. Sponsor branches will remain part to all communications and will retain responsibility of submitting proposals for the Remuneration Group / Ministerial approval.
59. Public bodies should allow time for the approvals process when planning meetings with the Trade Unions. The Finance Pay Policy Team will aim to provide any substantive comment on remits within ten working days for receipt. Where this is not possible, we will advise public bodies immediately.
60. Submissions for Scottish Executive Remuneration Group consideration and then Ministerial clearance should be marked by sponsor branches as “**Routine**” and **at least 1 week** should be allowed for approval. This should be extended where the proposals are complex or cover more than one year.

2007-08 TIMETABLE

61. In summary you should submit the following information:

- Within 2 months after the end of the remit year - outturn information for all years of the previous approved remit using the outturn pro forma;
- Pay remit and supporting business case in accordance with the timetable in Annex C;
- Within 1 month of the award being implemented – completed proforma setting out the outcome of the settlement.

FINANCE PAY POLICY CONTACTS:

The Scottish Executive
Finance - Pay Policy
Area 3B
Victoria Quay
EDINBURGH
EH6 6QQ

Enquiries can be made to:

Nicola Paterson: 0131 244 0804
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This guidance and supporting technical guide will be available under “P” on the Publications section of the Scottish Executive Website <http://www.scotland.gov.uk/publications/recent.asp>.

PUBLIC SECTOR PAY POLICY 2007-08: MARKET DATA

37 hours working week

Table 1: Data on range of minima offered by public bodies in Scotland 2006-07

	Civil Service equivalent grades									
£	A1	A2	A3	A4	B1	B2	B3	C1	C2	C3
min	10449	10802	13000	13261	15684	19377	24314	26240	37142	42448
median	11405	12300	14000	16316	18205	22718	28000	36203	43723	50367
max	12400	14161	16005	17864	21608	28987	34379	47571	58143	63429

Table 2: Data on range of maxima offered by public bodies in Scotland 2006-07

	Civil Service equivalent grades									
£	A1	A2	A3	A4	B1	B2	B3	C1	C2	C3
min	11819	12274	14709	17274	19925	23830	31010	35875	48937	55045
median	13567	14427	16947	19677	23459	29156	37111	47144	58031	62691
max	14020	17701	20379	22922	28987	35023	47982	63429	74000	85629

35 hours working week

Table 3: Data on range of minima offered by public bodies in Scotland 2006-07

	Civil Service equivalent grades									
£	A1	A2	A3	A4	B1	B2	B3	C1	C2	C3
min	9884	10218	12297	12544	14836	18330	23000	24822	35134	40154
median	10789	11635	13243	15434	17221	21490	26486	34246	41360	47645
max	11730	13396	15140	16898	20440	27420	32521	45000	55000	60000

Table 4: Data on range of maxima offered by public bodies in Scotland 2006-07

	Civil Service equivalent grades									
£	A1	A2	A3	A4	B1	B2	B3	C1	C2	C3
min	11181	11611	13914	16340	18848	22542	29334	33936	46291	52070
median	12834	13647	16031	18614	22191	27580	35105	44595	54894	59302
max	13262	16744	19277	21683	27420	33130	45388	60000	70000	81000

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APPROACH TO THE ASSESSMENT OF PAY REMITS

1. This approach to the assessment of pay remits sets out the questions that will be asked of every pay remit and seeks to clarify what would constitute a contentious pay remit requiring the approval of Ministers. It is subject to ongoing revision.

Market

2. The guidance for public sector pay groups in Scotland makes it clear that the comparison, between the total reward offered by the public body and those offered by organisations with which they compete for jobs, is key to determining which pay band the pay award should fall into. Key questions therefore are:

- ◆ Has factual evidence of where the public body has recruited staff from or lost staff to been provided?
- ◆ Does this evidence tie up with the comparator organisations quoted in the business case? Are there gaps which potentially indicate the “cherry picking” of the most advantageous comparators? Is the Sponsor division satisfied that comparator organisations are fully representative of their active labour market?
- ◆ Do comparators reflect the local labour market? Remits will be judged on the extent to which levels of pay for particular groups of staff reflect, and are responsive to, the relevant labour markets in which they operate.
- ◆ If the Executive has been included as a comparator organisation has evidence of a common labour market been provided?
- ◆ Are comparator bodies principally in the private sector? If so is this appropriate?
- ◆ Are comparator bodies based elsewhere in the UK? Does the body offer regional allowances? Are the bodies comparable in terms of workload and responsibility? It is for this reason, for example, that the salary of MSPs is 87.5% of that of MPs.

A contentious pay remit would not provide evidence of the active labour market or makes a business case based on inappropriate comparisons.

Total Reward

3. Where the appropriate market has been identified, attention then needs to be turned to what the market data is illustrating:

- ◆ Have comparisons been based on total reward, not just pay?
- ◆ Are the proposals out of step with the minima and maxima offered by other public bodies in Scotland whose remits require Ministerial approval?

- ◆ If above the market, the presumption is that the body should be seeking approval for a remit in the range of 1.5-3.5% increases for staff in post, and would need to make a robust case for more than 1.5%.
- ◆ If below the market, the presumption is that the body should be seeking approval for a remit in the range of 3.5-4.0%, and would need to make a robust case for more than 3.5%.
- ◆ Does the market identify particular issues with specific grades, bodies of staff, specialisms or locations?
- ◆ Is there evidence that local pay differentiation has been considered as part of the pay strategy?
- ◆ Is the remit targeted in line with the particular issues identified? Does it demonstrate how they intend to use their remit to address the particular problems or issues?
- ◆ Evidence to support increases in minima or maxima for certain grades does not justify across-the-board increases.
- ◆ Is there evidence of restraint for those staff in the organisation who are relatively well placed in their relevant labour market?
- ◆ Is the case for reducing or maintaining the differentials supported by information on the benefits from doing so (such as helping to achieve efficiency plans; promoting the delivery of public services and improving recruitment and retention and motivation (see below))?

A contentious pay remit would not take account of the total reward package; seeks approval for proposals with across the board increases; submits proposals that are not targeted in line with the evidence provided; where no consideration has been given to local pay differentiation; has proposals which are out of line with the expected pay band for the body; provides no evidence of restraint for those staff whose remuneration is market facing; or does not clearly demonstrate the benefits of reducing the differentials.

Recruitment, Retention and Motivation

4. One of the key factors for approving a pay remit in the upper band is the existence of recruitment and retention issues resulting from the body being uncompetitive in the market place. Key questions here are:

- ◆ Has information on the level of turnover in the organisation been provided?
- ◆ Have reasons of why the level of turnover is problematic been demonstrated?
- ◆ Has evidence of actual recruitment and retention difficulties been provided?
- ◆ Has evidence of why staff have left the organisation been provided? Retention may be affected by a number of reasons including organisation behavioural factors.
- ◆ There should be no automatic presumption that pay is either the cause or the cure for issues that have been identified.
- ◆ Evidence of recruitment difficulties could indicate that pay band minimas are uncompetitive.
- ◆ Evidence of retention difficulties may indicate that progression arrangements or pay band maxima are uncompetitive.

- ◆ Motivation issues raised in support of a business case should include evidence that the cause of such issues lie with the rewards offered (such as evidence from staff surveys).

A contentious pay remit would not provide evidence of real and actual recruitment and retention or motivation issues but is nonetheless seeking to rely on a business case based solely on uncompetitiveness in the market in light of pay differentials identified.

Basic Award

5. This is the cost of living or inflation increase and relevant questions/points to note are:
- ◆ The policy states that this element of the pay remit will be no more than 2.0%.
 - ◆ There should be no expectation that the full 2.0% basic award applies.
 - ◆ The pay remit proposal as a whole should be considered (some organisations seek to argue that progression and the basic award are separate and that staff perceive the basic award element as their pay award).
 - ◆ It is possible to revalorise all of the progression spine points except the maxima where the maxima is already significantly above the market.

A contentious pay remit would seek approval for revalorisation in excess of 2.0% or would automatically seek to apply a 2.0% revalorisation across- the- board.

Progression

6. The costs of progression form a significant element in any pay award for most organisations and therefore careful consideration has to be given to the progression system in operation:
- ◆ Any pay remit (including proposals for progression and the basic award) is only approved for its duration, be that single or multi-year. In pay policy terms therefore progression arrangements can and should be subject to scrutiny on application of a new pay remit.
 - ◆ What is the longer term affordability and sustainability of the progression proposals?
 - ◆ The pay policy guidelines have required bodies to ensure that all legally binding commitments take into consideration affordability and financial constraints in current and future years. Any arguments that progression is guaranteed should be challenged.
 - ◆ The general expectation is that progression steps should be around 2.5%. Anything significantly above this makes it difficult for the organisation to submit a remit below 3.5% once the basic award has been included.
 - ◆ If progression is accounting for a significant percentage of the increase for staff in post then consideration has to be given to how the costs of progression might be reduced.
 - ◆ An increasing number of public bodies have introduced “guaranteed” journey times from minima to maxima. Are the journey times reasonable? However, care has to be taken in considering the equalities implications of any amendment to journey times.

A contentious pay remit would seek approval for proposals where progression accounts for a large proportion of the increase for staff in post particularly where this is attributable to large percentage progression steps; or progression is unaffordable or unsustainable in the period beyond the agreed pay remit.

Fair Pay

7. Public Bodies have in the past been asked to undertake equal pay audits:

- ◆ Public bodies are expected to manage their equal pay risk within the Public Sector Pay Policy parameters.
- ◆ Where there is a specific pay inequality which the body wishes to address they will need to provide evidence of the extent of this inequality and propose ways of tackling it in a cost-effective manner, subject to affordability constraints.
- ◆ Has the proportion of the remit, if any, devoted to addressing issues associated with tackling equalities issues been specified?
- ◆ Pay remits should adhere to the current status of employment law in all respects, not just in terms of equal pay.

A contentious pay remit would seek approval for additional increases for staff in post as a result of potential equal pay cases without evidence of any actual inequality or would seek approval outwith Public Sector Pay Policy parameters.

Other factors

8. A number of other factors may be also require to be taken into account when considering individual pay proposals:

- ◆ Changes to terms and conditions: all proposals should detail and provide costs for all proposed changes to terms and conditions. Even when the costs are argued to be notional they will still count in the increase for staff in post. Public Bodies should state that they do not propose to make any changes where relevant.
- ◆ Restructuring: All restructuring costs require to be costed within the remit. Whilst it is recognised that there could be some costs associated with restructuring it does not imply automatic approval to a higher award. Proposals must provide evidence of any market displacement.
- ◆ Affordability: all proposals should confirm that the remit can be afforded within existing budget provision.
- ◆ Baseline savings: has consideration been given to identifying savings to off-set the new money that would have otherwise been required? This would reduce the cost to the public purse.
- ◆ Performance related pay: the pay system should be based on rewarding performance, including out-performance.

A contentious pay remit would seek approval for changes to terms and conditions that are not fully costed in the increase for staff in post; would seek a higher award for restructuring that is not supported by the market or is not affordable within existing budget provision.

Summary

9. In brief a pay remit is non-contentious if it is supported by a business case which:
- ◆ provides evidence of the appropriate market;
 - ◆ identifies market differentials;
 - ◆ provides evidence of recruitment or retention difficulties arising as a result of the uncompetitiveness of the rewards offered;
 - ◆ targets resources at the specific issues that have been evidenced;
 - ◆ contains progression and basic award proposals which are justified (as opposed to defensible); and
 - ◆ falls within the expected pay band for the body.

FINANCE PAY POLICY

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