UNISON Scotland consultation response: Scottish Government Public Sector Pay Policy – stakeholder consultation

Introduction

UNISON Scotland is the largest trade union in Scotland with members impacted directly by the pay policy in NDPB's, public corporations and in the fire and police services. The pay policy also indirectly impacts on our members in the wider public sector, through its influence on budget allocations. We welcome the opportunity to submit our views on the development of the 2018-19 policy.

Overview

UNISON Scotland has welcomed the announcement that the Scottish Government will remove the 1% pay cap. This is a welcome response to our campaign for a new approach to pay in the public sector. We will also continue to make this case to the UK Government. UK pay policy directly impacts on public sector workers in Scotland, most notably in NHS Scotland, and indirectly through the Barnett consequentials of their budget allocations.

We will argue that the new pay policy should recognise the damage that has been done by the real terms cut in public sector pay since the freeze and subsequent 1% pay cap. This has had a major impact on the living standards of public sector workers and undermined service delivery through lower morale and on the recruitment and retention of staff.

UNISON Scotland also welcomes the Scottish Government's commitment to the Scottish Living Wage, a policy that UNISON Scotland has promoted for many years. This has been important in raising living standards for the lowest paid, including those working for contractors providing adult social care. However, the Scottish Living Wage is set at a level that only provides for the most basic needs and staff above this level also need a pay rise. We make the case in this submission for a minimum pay rate of £10 per hour.

While we understand that the funding for the pay policy will depend on budget decisions, we would urge the Scottish Government to prioritise pay in next year's budget allocations. Pay flexibility without the commensurate funding will do little to deliver better public services. Government should also take into account the net cost of public sector pay as calculated in the IPPR economic model. This means the real cost of a pay increase is almost half the budgeted cost.

In this submission, we do not argue for specific pay and conditions provisions as this is properly falls within the scope of the bargaining units. Instead we make the case for a substantial increase in the headline pay award – an increase of at least 5% can easily be justified. We also argue for greater flexibility for those bargaining units to respond to specific local issues rather than the current highly prescribed pay process.

1. **The opportunities presented by removing the 1% pay cap and the options you would like to be considered for next year.**

The case for a significant increase in pay

UNISON Scotland conducts a wide range of membership surveys each year. There is a consistent message from these surveys that the current pay policy has had a damaging effect on living standards and is driving workers away from public sector employment. This is at a time when staff are being asked to do more, often unpaid, to plug the gaps created by austerity cuts. It is also having an impact on sickness absence, particularly stress related illness.

"Staff stressed feel they can't say no in certain situations, can't say they are stressed because no one listens or asks how you feel - only a number." (School staff member)

If real terms pay cuts were not bad enough, some employers have sought to make savings by cutting pay and conditions - including pay allowances and other benefits. Such changes can turn a real term pay cut into a cash pay reduction.

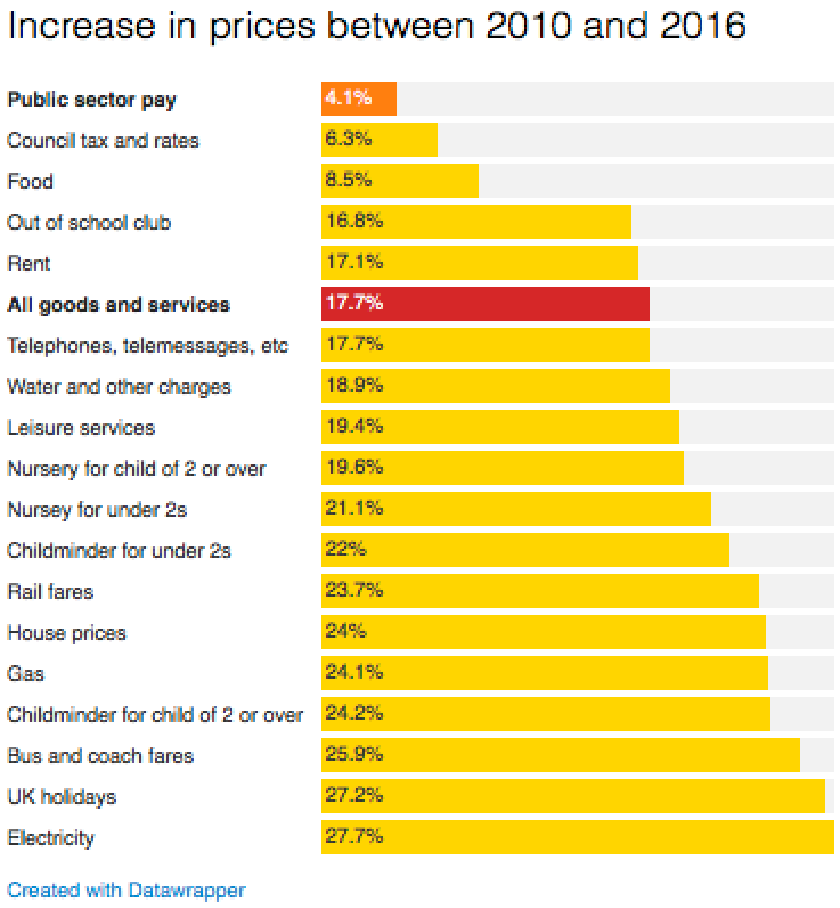
"After having our salary cut its left very low morale as I'm a very diligent hard-working member of staff who always goes the extra mile. To be awarded a decrease in salary was degrading and humiliating." (FE college worker)

For the vast majority of workers impacted by the current pay policy, their pay has fallen far behind the cost of living as the chart below shows. Between 2010/11 and 2016/17 this constitutes an 18.2% real terms pay cut for most public sector workers.

	Public sector pay limits Scotland	RPI	CPI
2010/11	1%	5.0%	3.5%
2011/12	0%	4.8%	4.3%
2012/13	0%	3.1%	2.6%
2013/14	1%	2.9%	2.3%
2014/15	1%	2.0%	1.0%
2015/16	1%	1.2%	0.2%
2016/17	1%	2.3%	1.3%
Cumulative	5.1%	23.3%	16.2%

Sources: Scottish Government 2016 and OBR 2015

The chart below shows how the price of everything has increased far below UK public sector pay.



(This data was taken from the RPI indices from Office of National Statistics Consumer Prices Inflation data, except house price data which is taken from ONS House Price Index and childcare costs which is from the Family & Childcare Trust Surveys, with the costs based on 25 hours of care).

In our surveys, members describe the impact of this on their household budgets. Here are just a few examples.

"Just day to day living - if kids want to do school trips etc it is sometimes difficult to find the money!" (Police staff)

"Each month we are in our overdraft, without any frivolous spending. Constantly living on the edge, always juggling money around, and living on credit cards." (NHS Worker)

"I tell my colleagues I'm on a diet to hide it or pretend I used the wrong card to pay if they see me use a credit card. It's embarrassing and demoralising." (anonymous)

The household budgets of many public sector workers have also been impacted by cuts to social security benefits. The much discussed 'working poor' include many public sector workers.

Pay cuts also impact on the recruitment and retention of staff. The shortage of social care staff has been widely reported and the recent Audit Scotland report highlighted vacancy rates in NHS Scotland.

Less widely reported is the impact on posts that have private sector comparators. Private sector pay is increasing faster than the public sector and this, when coupled with a tightening labour market, means staff are attracted out of the public sector. For example, in June we published a survey of building control staff who highlighted growing number vacancies and colleagues who were being ‘poached’ by the private sector on higher salaries. And the fieldwork for this was done before the Grenfell Tower tragedy.

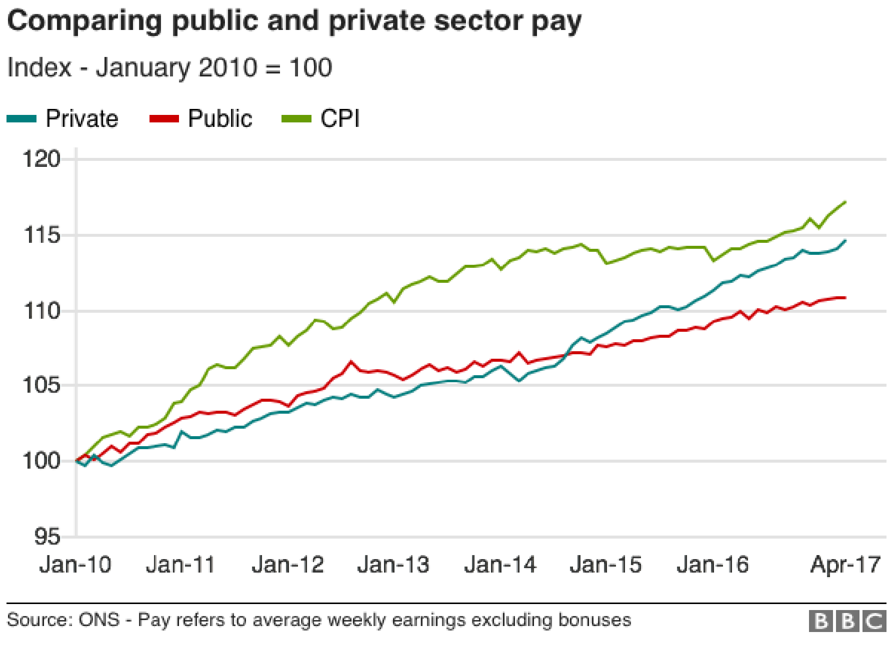
*“Pay is low compared to private sector in similar roles and gap is increasing” (*Building Control worker)

In other sector like ICT, vacancies are plugged by bringing in expensive consultants and contractors.

Contractors being brought in on high day rates (compared to full time staff) hurts staff morale and damages the organisation. (IT Worker)

Overall comparators between pay in the public and private sector are difficult to make because the workforces are very different. Better pensions are often quoted, while ignoring the rise in contributions (plus the NI increase) and the savings these contributions bring to the social security system. The same commentators also ignore private sector bonus payments, share schemes and other benefits that are not available to most public sector workers.

What is not in dispute is that in recent years average earnings have been going up faster in the private sector. And more importantly, all pay is falling behind inflation, dragging the economy behind it.

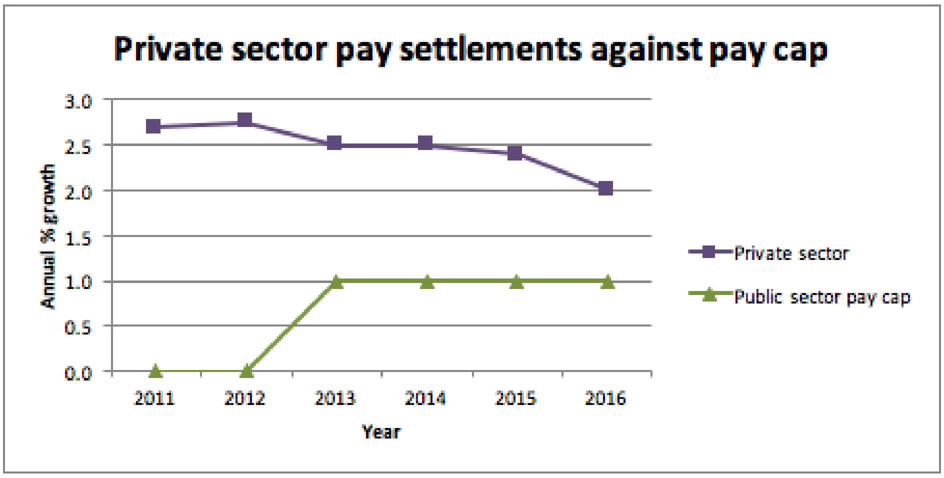


The same is true for pay settlements.

Comparison of private sector pay settlements against pay cap

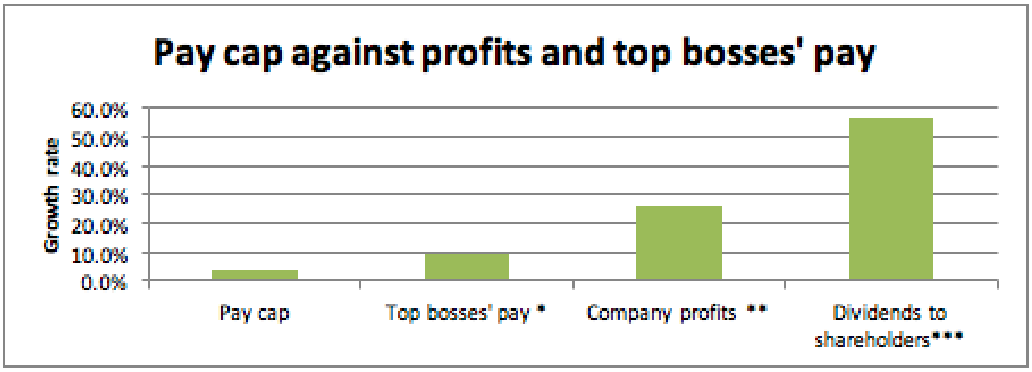
Year	Private sector	Public sector pay cap
2011	2.7	0.0
2012	2.8	0.0
2013	2.5	1.0
2014	2.5	1.0
2015	2.4	1.0
2016	2.0	1.0
Average 2011-16	2.5	0.7

Source: Incomes Data Research



Since the pay cap was introduced, private sector pay settlements have been running at an average of 2.5% - more than three times the average pay cap increase

The comparisons are even starker if we look at top bosses pay, profits and dividends.



- Over the duration of the public sector pay cap, operating surpluses among UK corporations have grown at six times the rate of the cap, FTSE 100 chief executives have seen their remuneration grow by more than double the cap and the dividends paid out to shareholders across the UK has been escalating at more than 13 times the pay cap rate.

Support for the lowest paid

UNISON Scotland has welcomed the Scottish Government's commitment to the Scottish Living Wage in its pay policy and the support for efforts to promote its adoption with contractors and in the wider economy through the accreditation initiative. We also recognise that successive pay policies have provided for some underpinning of pay at the lower end of the pay scales.

We now believe that the Scottish Government should go further by moving to a pay structure with a minimum pay point equivalent to £10 per hour. This would send a very clear message that the Scottish Government values its staff and is serious about tackling poverty pay in Scotland. Such a policy would also send an important signal that the government is serious about tackling inequality in Scotland. This policy would also provide a much-needed economic boost because low paid workers spend most of their earnings locally.

Funding a pay increase

UNISON Scotland recognises that the pay policy has to be set in the context of the Scottish Government's spending plans. The budget for the coming year will be dependent on the UK autumn budget and the extent of any Barnett revenue consequentials. The other half of the budget is dependent on the Scottish Government's decisions on devolved taxation and we understand that a discussion paper will soon be published on this issue. UNISON Scotland will be making the case for a progressive tax policy to fund public services and for a pay policy that supports the staff who deliver those services.

The Scottish Government will then have to decide what priority it will give to pay within the budget. We would argue that for too long cutting public sector pay has been viewed as the easy option to balance the books. This has to stop, and budget allocations have to include an assumption that pay will increase this year by a significant amount.

While all pay increases generate economic growth and government revenues, public sector pay comes at a cost to the public purse. The traditional approach is to focus on the gross revenue consequences. UNISON Scotland commissioned the IPPR, who using their tax-benefit model, showed us that this isn't the whole picture. They calculate that under the traditional approach a 10% pay rise would cost £1.880m. However, when tax, benefits and other multipliers are taken into account that cost almost halves to £950m. The table below models very modest increases in pay.

Table 4.3
Gross and net fiscal costs (£m, 2015/16 prices) of public sector pay increases in Scotland, by size of increase

	1 per cent	2 per cent	3 per cent
Gross public cost	£190m	£380m	£560m
Net cost (after initial taxes and benefits)	£110m	£210m	£320m
Net cost (after multiplier taxes and benefits)	£100m	£190m	£290m

Source: IPPR calculations using IPPR Scotland tax-benefit model

A pay increase for the public sector is also a benefit to the economy as a whole. Research commissioned by UNISON in 2014 and conducted by Landman Economics found that, on average, every 1% increase in public sector pay:

- Generates between £710 million and £820 million for the government in increased income tax, National Insurance contributions, and expenditure tax receipts, and reduced benefit and tax credit expenditure. This reduces the net cost of a public sector pay increase to something in the region of £600 million;
- Injects between £470 and £880 million of extra value into the economy;
- Creates between 10,000 and 18,000 (fulltime equivalent) jobs, especially in sectors such as leisure and transport.

Contrasting the cost of raising public sector pay against the cost of corporation tax policy, the Institute of Fiscal Studies has stated that HMRC's most recent estimates (April 2017) suggest that a 1 percentage point increase in corporation tax for all companies would raise £2.6 billion in 2020–21,

The pay cap acts as a downward force on wages for all workers across the UK, by reducing the wages that employers must pay in order to compete for staff in the labour market. Although the public sector makes up 17% of all UK employment, the CIPD Labour Market Outlook survey in spring 2017 found that 45% of all employers who expect to pay less than 2% cite the pay cap as a factor in limiting pay settlements.

2. All aspects of the pay remit process, including the change to the risk based approach this year.

UNISON Scotland believes that the focus for the 2018-19 pay policy should be a significant increase in the headline pay figure, underpinned by a minimum wage of £10 per hour.

We have long argued that the Scottish Government's pay policy process is overly prescriptive and undermines collective bargaining. The Scottish Government rejected our proposals for sectoral bargaining across the NDPB sector yet it continues to prescribe, in considerable detail, how the individual employers bargain locally. The language in the guidance implies much greater flexibility than is the case in practice.

The pay policy should be limited to a broad framework for pay in the sectors directly covered. It should indicate what budget provision the government has made for pay in each sector and its policy objectives, including tackling low pay and broader fair work principles.

The process should be reformed on that basis with much less bureaucracy, placing the decision-making responsibility with the governance of the organisations concerned. This includes the risk-assessment of anticipated savings. This would enable proper collective bargaining to take place at local level. If the government wants to prescribe pay bargaining in the current level of detail, then it needs to revisit its approach to sectoral bargaining.

We accept it is reasonable for government to take a broad view on politically sensitive issues such as non-consolidated bonus payments and senior appointments pay.

We support the aims of the no compulsory redundancy policy, recognising that this supports organisational change and public service reform, rather than being linked to pay.

We can see no merit in limiting the use of paybill savings for pay to 0.5% - or limiting the deployment of these savings to pay restructuring. The introduction of gender pay gap reporting may well identify further pay structure issues that will need to be addressed. As women make up a large proportion of the public sector workforce, pay policy makes a significant contribution towards fair pay across Scotland.

Incremental progression and low pay measures should continue to be excluded from the pay cap on the basis that these do not apply to all staff. It is sometimes forgotten that the rate for the job is the top of the scale (where such scales are used) and incremental progression was introduced to reflect a learning period.

While the Scottish Government budget is set on a one year basis, we recognise the difficulties in adopting a long-term approach to pay. However, we believe such an approach is desirable in addressing the long-term pay gaps. This does not necessarily mean multi-year pay deals, but it could be part of a broader staffing framework that UNISON Scotland has proposed to government as part of public service reform policy.

Conclusion

UNISON Scotland welcomes the Scottish Government’s decision to take a new approach to pay in the public sector after years of pay restraint. We would urge the UK government to follow this approach for staff within their pay remit.

In this submission, we set out the case for a significant increase in headline pay, arguing that 5% can be justified, underpinned by a new minimum wage of £10 per hour. Such an approach would be fair to public sector workers and the services they deliver.

We also make the case for a more flexible pay process that would enable meaningful collective bargaining. A new pay policy also has to be properly funded.

UNISON Scotland
September 2017

For further Information contact:

Dave Watson
Head of Policy and Public Affairs
d.watson@unison.co.uk