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Rt Hon Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
LONDON
SW1A 2HQ

04 July 2017

Dear Philip,

The Scottish Government has always sought to offer a distinctive Pay Policy – one that is fair, supports those on the lowest incomes and protects jobs and services while delivering value for money. We were the first government to pay the living wage and have ensured within the confines of recent austerity that we have been able to provide higher increases for those on lower salaries.

We recognise the valuable contribution public sector employees make, working hard to ensure the effective delivery of public services at a time when budgets are being squeezed. Furthermore, we are acutely aware of the impact that rising inflation and social security cuts are having on working households. This is why we will bring to an end the 1 per cent pay cap by taking into account rising living costs in setting pay in 2018-19 and in future years.

As we work towards the next Scottish budget, we are engaging with trade unions on a Pay Policy for 2018-19 that reflects both inflationary pressures and the need for affordable public finances. Where independent pay recommendations are set at UK level, such as in the NHS, we have already approached workforce representatives to discuss our submission to the independent pay review body.

We have had a 1 per cent pay cap in place, subject to a minimum uplift for those on the lowest pay, in recent years to protect jobs and maintain public services through the extended period of austerity which has seen the Scottish Budget fall by around 9 per cent in real terms since 2010-11. While there is obviously a need for sustainable public finances, we believe the UK Government position of persisting with the same austerity plan as set out in the last budget will not just harm the economy and public services, but risks household budgets - which in turn threatens consumer confidence and spending power. Taking a more measured approach to deficit reduction would allow investment to deliver pay increases without further reductions in vital public services.

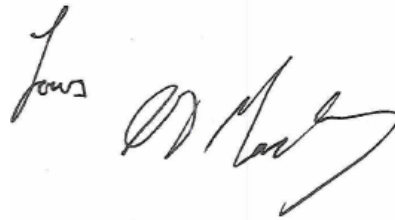


I have seen the debate around public sector pay that is taking place across the UK and the divisions within the Cabinet on this subject. It is also clear that there are instances – such as the agreement for Northern Ireland – where the Treasury is able to identify additional resource to ease the austerity imposed by successive budgets.

It is now imperative that you commit to ending unnecessary and ideological austerity. I believe this can be done within sustainable limits and the Scottish Government would be happy to share our proposals with you.

As a first step toward increasing investment in public services I urge you to lift the 1 per cent pay cap for public sector workers in public bodies reserved to the UK Government and to urge the independent pay review for NHS staff to do the same, just as I intend to do for the NHS and other employees of devolved public sector bodies in Scotland.

I am copying this letter to Mark Drakeford and to David Mundell.

A handwritten signature in black ink, appearing to read 'Derek Mackay', written over a light blue grid background.

DEREK MACKAY