SCOTTISH PARLIAMENT SALARIES SCHEME

Executive summary

1. The Scottish Parliament Salaries Scheme is the mechanism used in the Scottish Parliament to determine MSP salaries. The SPCB will however be aware that at Westminster, IPSA has issued its latest consultation on MP pay and pensions on 11 July 2013. This paper discusses the IPSA proposal as it impacts on MSP salaries and considers a way forward on this matter.

Background

2. MP pay, pension arrangements and expenses are determined by IPSA. IPSA has now issued the second and final consultation on Westminster pay and pension arrangements, which has been widely reported in the media. The consultation is scheduled to close on 20 October and thereafter IPSA will set out its final decisions on the new remuneration settlement before the end of 2013, with the proposals implemented after the General Election in May 2015.

3. These proposals cover future arrangements for Members of the House of Commons and much of IPSA’s review work has been undertaken based on the responsibilities of MPs and looking at their historical pay and pensions data.

4. In the Scottish Parliament, separate arrangements exist, provided for by the Scotland Act 1998, as amended. Under this Act, the Parliament has made provision for salaries by way of the Scottish Parliament Salaries Scheme in 2002; for pensions and grants by way of the Scottish Parliamentary Pensions Act in 2009 and for expenses under the Reimbursement of Members’ Expenses Scheme, which has been independently reviewed twice since 2008.

5. The IPSA review therefore has no direct bearing on the arrangements that exist in the Scottish Parliament. Indirectly, however, the SPCB will be aware that the pay of Members, as set by the Scottish Parliament Salaries Scheme, is currently linked to the pay arrangements at Westminster.

6. At present, the salary arrangements for MSPs are set at the equivalent of 87.5% of MP pay. This linkage was established in 2002 on the basis that it provided a relevant, independent benchmark against which MSP salaries could be automatically uprated annually, without a requirement for MSPs to vote each year on their pay arrangements.
**Issues**

7. Over the summer, the SPCB has met informally to discuss the proposals for pay proposed by IPSA. Given the importance of this matter, the Presiding Officer has also had discussions with Party Leaders.

8. Given the review initiated by IPSA, the SPCB has, throughout the summer and early autumn, been considering the most appropriate mechanism for determining MSPs pay going forward. We now believe this is a sensible time for the SPCB to reach a view on the future arrangements for determining MSP pay.

9. We would strongly recommend that the principle of Members not voting on their own pay on an annual basis should continue and any scheme should therefore be uprated automatically each financial year, based on an appropriate independent benchmark. Using this principle, the SPCB has 2 options:

   - The SPCB could retain the current link with MP pay of 87.5%.
   - The SPCB could switch to a new benchmark under a revised Salaries Scheme for consideration by the Parliament.

10. The current link has been in place since March 2002 and it has worked effectively in relation to salary increases over this period. If the SPCB determines to retain the link, it would mean that the current Salaries Scheme would not need to be amended and uprating could continue on an annual basis.

11. On the other hand, it is clear that a number of changes have taken place in Scotland since 2002 and there is now a strong argument that the link to pay at Westminster is no longer appropriate for future uprating.

12. The SPCB will have noted that IPSA proposes that future movements in pay should be linked to the index produced by the Office for National Statistics (ONS) measuring the annual percentage changes in total weekly pay for the whole economy in Great Britain and is seasonally adjusted. However, IPSA also proposes to first of all increase the baseline salary for MPs to £74,000, a rise of over 9%.

13. Maintaining the current linkage with Westminster would therefore mean an MSP salary with effect from May 2015 of £64,750, based on the 87.5% link. This would be an increase of £6,653 (11.5%) on the comparative 2013-14 salary of £58,097 (or an increase of 9.26% above what it would have been in 2015 under the current arrangements).

14. Since 2010, Members have had a 2 year pay freeze followed by continuing pay restraint. The SPCB has been actively reducing its budget given the current economic climate and over the 4 years of the Comprehensive Spending Review it will have reduced its budget by 11% in
real terms. Pay in the public sector has remained fairly static during this period with a 1% increase in the current year.

15. In the light of this, the feedback from soundings with Party Leaders (who have considered the matter with their Members) is that, in the current economic climate, it would be inappropriate to accept the significant one-off pay increase proposed by IPSA for MPs in 2015, were the linkage to be retained.

Switching the link

16. We would recommend that, if the SPCB considers it appropriate to switch from the current link, it should propose to the Parliament a revision to the Salaries Scheme with any future annual increases to be based on a recognised pay index.

17. We further recommend that the salaries scheme specify the baseline salaries to be paid with effect from 1 April 2014 under the current arrangements (i.e. incorporating the 1% uplift previously announced) and that subsequent annual uprating, with effect from 1 April 2015, is based on a recognised pay index.

18. We have identified possible approaches:

- The annual survey of hours and earnings (ASHE) for public sector workers in Scotland.
- The annual survey of hours and earnings (ASHE) for full-time workers in Scotland.
- The average weekly earnings index (AWE) for UK workers.

19. Both ASHE and AWE are produced by ONS and so are credible, reliable sources on which we can rely. ONS is also widely recognised as a source to provide data for both the public and private sector for pay purposes. More details are provided at Annex A.

20. The main differences for both indices are:

(i) ASHE can be produced to show annual earnings for public sector workers only or all full-time workers in Scotland, and is available on an annual basis (mid-November).

(ii) AWE is produced on a UK basis (without separate Scottish figures), and is available on a monthly and quarterly basis

21. Given the current economic climate there have not been any significant differences between the indices. It is therefore a matter for the SPCB to consider what would be the most appropriate index. Our recommendation is
that ASHE survey data for the public sector be used as this would put Members on an equal footing with public sector employees in Scotland.

**Governance Arrangements**

23. The pay mechanism for MSPs is determined by a resolution of the Parliament.

**Publication**

24. This paper can be published under the SPCB publication scheme.

**Conclusion**

25. The SPCB is invited to consider:

- Retaining the link with MP pay of 87.5%.
- Switching the link and to a revision to the Salaries Scheme for consideration by the Parliament.
- The index to be used if a new Scheme is to be proposed.

Clerk/ Chief Executive
October 2013
UPRATING INDICES

1. The Annual Survey of Hours and Earnings (ASHE) is a survey produced by the UK Office for National Statistics (ONS) and provides data for Scotland and other UK regions for annual, weekly and hourly earnings.

2. The data is available for public & private sector workers, industry, occupation, gender and full-time and part-time workers.

3. ASHE is widely used by government departments and by trade unions for various purposes, including supporting pay negotiations, collective agreements on wages and research into issues such as the gender pay gap and pay distributions in the public and private sectors.

4. The data is produced annually (usually in mid-November) referencing the current year and at the same time making any revisions if necessary to results from the previous year. ASHE data for 2013 will be published in mid-November this year with a revised set of statistics for 2012.

5. The following table provides an example of the ASHE data for the public sector in Scotland:

<table>
<thead>
<tr>
<th>Year</th>
<th>Average* Value</th>
<th>Index (2010=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>£31,162</td>
<td>100.0</td>
</tr>
<tr>
<td>2011</td>
<td>£31,537</td>
<td>101.2</td>
</tr>
<tr>
<td>2012</td>
<td>£31,582</td>
<td>101.3</td>
</tr>
</tbody>
</table>

*Mean figures for public sector full time workers

6. The following table provides an example of the equivalent ASHE data for all full time workers in Scotland:

<table>
<thead>
<tr>
<th>Year</th>
<th>Average* Value</th>
<th>Index (2010=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>£29,616</td>
<td>100.0</td>
</tr>
<tr>
<td>2011</td>
<td>£29,985</td>
<td>101.2</td>
</tr>
<tr>
<td>2012</td>
<td>£30,803</td>
<td>104.0</td>
</tr>
</tbody>
</table>

*Mean figures for full time workers

7. The alternative to ASHE and what IPSA has proposed is the Average Weekly Earnings data. This is produced at a UK level and we understand IPSA is looking at the annual percentage changes in total weekly pay
(including bonuses) for the whole economy in Great Britain and seasonally adjusted. IPSA proposes to use the 3 month average figure for January each year.

8. Indices are used to update Members’ Expenses under the Reimbursement of Members’ Expenses Scheme. The indices used in recent years have been the January All Items RPI figure for Office costs while the Staff Cost Provision has been increased by the Average Weekly Earnings Headline Rate (AWE), for the period October to December of the current financial year. All other expenses provisions were increased in line with the RPI figure.

9. Linking MSP pay to Scottish public sector working would appear to be the most appropriate route. The key requirement therefore should be to link to the ASHE survey for public sector workers.