



NHS Pay Review Body

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Thirtieth Report 2017 Scotland Supplement

Chair: Jerry Cope

Executive Summary

SG/2017/30

NHS Pay Review Body

The NHS Pay Review Body (NHSPRB) is independent. Its role is to make recommendations to the Prime Minister, the Secretary of State for Health, the First Minister and the Cabinet Secretary for Health and Sport in Scotland, the First Minister and the Cabinet Secretary for Health, Wellbeing and Sport in Wales, and the First Minister, Deputy First Minister and Minister for Health in Northern Ireland, on the remuneration of all staff paid under Agenda for Change and employed in the National Health Service (NHS).¹

In reaching its recommendations, the Review Body is to have regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified staff;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- the funds available to the Health Departments, as set out in the Government's Departmental Expenditure Limits;
- the Government's inflation target;
- the principle of equal pay for work of equal value in the NHS;
- the overall strategy that the NHS should place patients at the heart of all it does and the mechanisms by which that is to be achieved.

The Review Body may also be asked to consider other specific issues.

The Review Body is also required to take careful account of the economic and other evidence submitted by the Government, Trades Unions, representatives of NHS employers and others.

The Review Body should take account of the legal obligations on the NHS, including anti-discrimination legislation regarding age, gender, race, sexual orientation, religion and belief, and disability.

Reports and recommendations should be submitted jointly to the Prime Minister, the Secretary of State for Health, the First Minister and the Cabinet Secretary for Health and Sport in Scotland, the First Minister and the Cabinet Secretary for Health, Wellbeing and Sport in Wales, and the First Minister, Deputy First Minister and Minister for Health in Northern Ireland.

Members of the Review Body are:

- Jerry Cope (Chair)
- Bronwen Curtis CBE
- Patricia Gordon²
- Joan Ingram
- Shamaila Qureshi³
- Professor David Ulph CBE
- Professor Jonathan Wadsworth²
- Lorraine Zuleta

The secretariat is provided by the Office of Manpower Economics.

¹ References to the NHS should be read as including all staff on Agenda for Change in Health and Social Care Trusts in Northern Ireland.

² Professor Jonathan Wadsworth was appointed to the NHS Pay Review Body in April 2016 Patricia Gordon was appointed to the NHS Pay Review Body in November 2016.

³ Shamaila Qureshi was unable to take part in consideration of this year's report but remains a full Member of the Review Body

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Our 2017/18 recommendation on the pay uplift is:

- **We recommend a 1 per cent increase to all Agenda for Change pay points in Scotland from 1 April 2017.**

In addition:

- **We note the additional elements of public sector pay policy in Scotland of a £400 pay award for all staff whose full-time equivalent basic salary is £22,000 or under. We are concerned about the cost pressures that this creates for Health Boards given the pressures facing the NHS in Scotland.**

A list of our additional observations is included at the end of this summary

Our remit

1. The Scottish Government asked us to make recommendations in relation to the remuneration in 2017/18 of the 150,000 Agenda for Change staff employed by the NHS in Scotland.
2. Our report and recommendations are produced in the context of considerable affordability pressures facing the NHS in Scotland, as in the rest of the UK, with increasing demand for healthcare being accommodated within a tight budget. Health Boards in Scotland are attempting to meet demanding efficiency targets and cope with day-to-day service requirements at the same time as delivering transformational change through service redesign and introducing new models of care.
3. Public sector pay policy has been set out by the Scottish Government for 2017/18 only.
4. The Scottish Government provided us with its remit and evidence very late in the process due to the postponement of their Draft Budget for 2017/18. As a result, we were unable fully to consider pay recommendations for Scotland during the UK pay round. This short supplement includes our consideration of the Scottish Government's remit, including the evidence which they submitted to us. It should be read alongside our UK-wide 30th Report, which includes coverage of factual evidence on the situation in Scotland, including workforce data, as well as the UK-wide evidence submitted by several of the parties.
5. While we understand the factors that led Scotland to postpone submitting evidence to us, we are aware that this, combined with the Scottish Government's desire to receive recommendations in time to make a pay award in April 2017, has had an impact in constraining the time available to us and, importantly, for other parties to consider, reflect upon and respond to the evidence. We welcome the aim of the Scottish Government that late evidence from Scotland will not become routine.

Overall reflections

6. While pressures on NHS pay appear to be lower in Scotland than in some other parts of the UK, in part due to the fact that pay of Agenda for Change staff in Scotland is higher than elsewhere, there are emerging supply shortages for some staff groups and in some geographical areas. These have attracted concern from Audit Scotland, among others, especially given that the NHS workforce in Scotland is ageing with many staff set to retire over the next decade. Inflation is set to increase during 2017 compared to what was forecast when policy was framed, leading to bigger cuts in real pay than previously anticipated. Local pay flexibilities to address recruitment and retention issues are not being used to alleviate the shortages they were designed to address. Our judgment is that we are approaching the point when pay policy within Scotland will require some modification, and greater flexibility, to support the needs of NHS Scotland.
7. Pay matters for the attractiveness of the service. Take-home pay is important for existing NHS staff and many in Scotland, like in the rest of the UK, saw a cut in their take-home pay in cash terms in 2016/17, whilst at the same time their workloads were increasing.
8. There is a gap in medium-term workforce planning in Scotland, with a lack of clarity about how future demand for, and supply of, NHS staff will evolve over time. We hope the introduction of National Workforce Planning and the development of the National Health and Social Care Workforce Plan will start to fill this gap.
9. The scale of efficiency savings that the NHS is required to make appear to be bigger in Scotland than in other parts of the UK, with the Scottish Government telling us that Health Boards will be expected to make 3 per cent efficiencies in 2017/18. We are therefore concerned about the cost pressures that would be introduced by the additional uplift to pay points 3-14 implied by the Scottish Government's public sector pay policy, especially given the lack of evidence that such an addition would improve recruitment and retention. This additional uplift will also impact on differentials, and the incentive to progress.

The economy, labour market and pay

10. As in the rest of the UK, the overarching economic context for this pay round is the outcome of the EU Referendum and the uncertainty this has brought. Economic growth in Scotland has slowed over the past year, with lower private sector earnings growth than in the UK as a whole. There is also evidence suggesting the pay premium enjoyed by those working in the public sector is higher in Scotland than the average across the UK. This will reduce pressures on NHS pay in Scotland relative to some parts of the UK.

Affordability, efficiency and productivity

11. There remains a big affordability challenge in Scotland, as there is elsewhere in the UK. There is evidence from Audit Scotland of increasing strain on healthcare providers. We were given little evidence as to how the required efficiency savings and productivity improvements will be achieved in order for good quality patient care to be delivered within the funding envelope.

Recruitment, retention and vacancies

12. There are few short-term nationwide recruitment and retention issues in Scotland. The Agenda for Change workforce is growing in every occupational group and the vacancy rate appears generally manageable. However, there are emerging shortages of professional staff in some occupations, especially in the North of Scotland. There are also signs of increasing difficulties in retaining ambulance staff. While usage of and expenditure on agency staff is increasing rapidly, it is still low compared to other parts of the UK.

Motivation, satisfaction and staff engagement

13. The Scottish Government was unable to present any no new evidence on the morale and motivation of Agenda for Change staff. This hampered our ability to make effective recommendations. It is crucial that the Review Body has evidence on recent trends in staff motivation in NHS Scotland to consider as part of next year's pay round.

Workforce planning, future supply and the people strategy

14. We were pleased to hear from the Scottish Government about the improvements that are being made to workforce planning arrangements in Scotland via the introduction of National Workforce Planning and the development of a National Health and Social Care Plan. This could support better-informed workforce and service planning decisions and improve the ability of NHS Scotland to take early action to mitigate future risks of staff shortages. We consider it important that Scottish Government and Health Boards look carefully at the workforce and pay aspects of health and social care integration.

Pay recommendations for 2017/18

15. The Scottish Government told us that their Public Sector Pay Policy – a 1 per cent pay award for all staff with an additional uplift for those whose full-time equivalent basic salary is £22,000 or under – is funded because they are uplifting the budgets to Health Boards by 1.5 per cent. It is clear that a pay award higher than this would require trade-offs in terms of service levels, investment decisions and potentially staff numbers, with associated implications for workload and pressures on staff and service delivery unless accompanying actions were taken to manage demand.
16. The evidence we received on the financial pressures facing NHS Scotland left us with serious question marks about whether public sector pay policy – which we estimate requires a 1.3 per cent increase in the paybill – is truly affordable for the NHS. There is a lack of evidence of immediate Scotland-wide recruitment issues, staff shortages or motivation issues and growing evidence of increasing workload pressures on staff. The economic evidence we received points to fewer external pressures on NHS pay in Scotland than there are in the UK as a whole. In general, Agenda for Change staff in Scotland get paid more than their peers elsewhere in the UK.
17. This evidence made us give serious consideration to the case for a nil pay award. However, as we have said before, public sector pay policy sets staff expectations and it is not clear that the likely negative impact on staff morale of a pay award below 1 per cent will be worth the financial benefit. We also recognise that many NHS staff in Scotland saw a cut in their take-home pay in 2016/17 due to the end of contracting out and we are very aware that, with RPI inflation currently running at 2.6 per cent, CPI inflation at 1.8 per cent and private sector wage settlements at 2.6 per cent, a nil award would represent a further sizeable cut in the real and relative value of NHS pay. This led us to rule this option out.

18. The Scottish Government targeted their pay proposal on staff at pay point 14 and below, with staff at pay point 3 (the lowest pay point in use in Scotland) receiving a 2.5 per cent award and staff at pay point 14 receiving a 1.8 per cent award. We have received no evidence of recruitment and retention reasons for targeting the pay award in this way. We are concerned about the cost pressure of this on Health Boards given the pressures facing the NHS in Scotland.
19. Implementation of the Scottish Government's public sector pay policy would exacerbate existing compression at the bottom of the pay distribution. This could risk adverse effects on the motivation of staff and incentives for staff to progress. We seriously considered the case for an equal flat-cash award for all staff to help mitigate these issues. However, ultimately we decided against this as we did not receive any evidence on these proposals and more time is needed to give sufficient thought to the merits of further changes to pay relativities in the Agenda for Change pay structure.

Recommendation 1 - We recommend a 1 per cent increase to all Agenda for Change pay points in Scotland from 1 April 2017.

Observation – We note the additional aspects of public sector pay policy in Scotland of a £400 award for all staff whose full-time equivalent basic salary is £22,000 or under. We are concerned about the cost pressures that this creates for Health Boards given the pressures facing the NHS in Scotland.

Observation – If the Scottish Government intends to continue with higher percentage increases to low paid staff, which is compressing some pay differentials, then there is a need to evaluate the effects, if any, on motivation, progression and promotion within the Agenda for Change structure.

20. The Scottish Living Wage appears to be causing few issues in Scotland given the changes that have been made to the pay structure to accommodate it. However, there is limited evidence on whether the changes have been successful in improving productivity or on whether employers have responded to bigger percentage increases in wages at the bottom of the pay structure by hiring fewer staff than they otherwise would have done. The National Living Wage will have no direct impact on the NHS in Scotland until April 2020 at the very earliest.

Pay policy over the medium term

21. In our 30th Report, we highlighted serious concerns about the sustainability of public sector pay policy for continued 1 per cent pay awards in the NHS over the next few years due to rising inflation, the erosion of the public sector pay premium and changes to the funding system for nursing, midwifery and allied health students in England.
22. While we have similar concerns in Scotland, there are a number of factors which are likely to reduce pressures on pay compared to elsewhere. Economic growth and employment growth is different than in the UK as a whole. Private sector pay growth is relatively subdued. There is, at first glance, a bigger public sector pay premium. Agenda for Change staff in Scotland are paid more than their peers in England, Wales and Northern Ireland. This may give the Scottish Government more room for manoeuvre in adjusting more gradually to changes in the wider economic environment over the next few years.

23. However, the Scottish Government needs to ensure that its approach is aligned to the needs of the service, including planned reforms and the financial challenges that the NHS faces, to ensure that pay policy can effectively be used to support its objectives for the NHS. The one-size-fits-all approach towards public sector pay policy has undoubtedly helped the Scottish Government in controlling pay over the last few years but is now looking increasingly less sustainable. Greater flexibility to adjust pay policy to the needs of the NHS could help drive gains for patient outcomes by, for example, using it as an opportunity to reform Agenda for Change, incentivise productivity improvements and efficiency savings, or to respond to potential equal value issues arising from the integration of health and social care.

Observation – The Scottish Government needs to develop a medium-term pay approach which supports the needs of NHS Scotland. This is in order to ensure that pay is aligned to the needs of the service as well as the financial challenges that it faces, and that it is supportive of service reform and integration.

JERRY COPE (*Chair*)
BRONWEN CURTIS
PATRICIA GORDON
JOAN INGRAM
DAVID ULPH
JONATHAN WADSWORTH
LORRAINE ZULETA

21 March 2017

Our additional observations

- It is important to understand and monitor trends over time in **take-home pay** as well as in gross pay as this conditions the impact of pay awards on recruitment, retention and motivation. We would welcome evidence on this matter in future submissions.
- We repeat our request from last year for an improvement in the **evidence on the drivers of pay bill trends** over time, not only to support the pay review process but to help understanding of the cost drivers facing the service.
- While progress has been made, more work needs to be done to provide a robust set of **workforce data** covering fill rates, vacancies and attrition rates by staff group and geographical area, not only to allow us to develop a sophisticated picture about what is happening to inform our recommendations but also to enable effective national and local planning.
- As last year, we note that the **process for approving RRP**s is centralised in Scotland and that greater flexibility to use RRP>s could help Health Boards tackle local recruitment issues.
- Consideration of the need to recruit, retain and motivate suitably able and qualified staff is part of our Terms of Reference. Not having evidence about recent **trends in staff motivation** hampers our ability to make effective recommendations. We ask the Scottish Government to ensure that the Review Body has evidence on recent trends in staff motivation in NHS Scotland to consider as part of next year's pay round.
- The Scottish Government should take action to understand and tackle the drivers of dissatisfaction and increasing leaving rates among **ambulance staff** in Scotland to get ahead of any recruitment and retention issues that could emerge in the future.
- If the Scottish Government intends to continue with higher percentage increases to lower paid staff, which is **compressing some pay differentials**, then there is a need to evaluate the effects, if any, on motivation, progression and promotion within the Agenda for Change structure.
- The Scottish Government needs to develop a **medium-term pay approach** which supports the needs of NHS Scotland. This is in order to ensure that pay is aligned to the needs of the service as well as the financial challenges that it faces, and that it is supportive of service reform and integration.