



T: 0300 244 4000  
E: [scottish.ministers@gov.scot](mailto:scottish.ministers@gov.scot)

Ms Johanna Baxter, Drew Duffy and  
Willie McGonigle  
SJC Trade Union Joint Secretaries  
UNISON House  
14 West Campbell Street  
Glasgow  
G2 6RX

10 July 2018

Dear Joint Secretaries

Thank you for your letter of 28 June, following our meeting on 26 June regarding the COSLA pay offer for local government employees.

I was very happy to meet you and your colleagues, and appreciated the opportunity to hear your concerns directly. I confirm that I would be willing to attend a further meeting involving both you and COSLA if it was thought by both parties that this would be helpful. However, as I reiterated at our meeting, this would not be for the purpose of my taking part in negotiations since local government pay is negotiated between the unions and COSLA and the Scottish Government is not part of that negotiating framework.

Your letter asked me to respond on a number of specific issues that you raised at the meeting: my response is set out below.

### **Funding of local government**

I note your concerns about the level of local government funding and draw your attention to the facts as I set out in my letter of 22 May and at our meeting on 26 June. The increased central government funding plus the extra council tax income means that councils have almost £342 million more to spend this year than they had in 2017-18.

You also made reference to the recent SPICe report on local government finance but it is worth noting that the SPICe report provided an incomplete picture of local government funding. The analysis excluded the £355 million Health and Social Care funding and £150 million of local government revenue funding that is provided outwith the core local government settlement (£505 million total).

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As far as the reported Scottish Government under-spend is concerned you will know, the Scottish Government is not permitted to overspend its budget so we have consistently adopted a position of controlling expenditure to ensure we live within budget control limits. A carefully managed Scottish reserve is a key element of managing the financial uncertainties that can arise through the Fiscal Framework.

The cash variance from 2017-18 is being carried forward in full and includes the £125 million additional funding announced in the 2018-19 budget process that is being distributed to local authorities in this year. After accounting for this commitment, other planned carry forwards, surplus devolved taxes receipts and fees for guarantees the remaining cash variance is minimal. Deployment of the balance of the reserve will be considered as part of the on-going 2019-20 Budget process, including consideration of the local government funding position.

### **Public Sector Pay Policy**

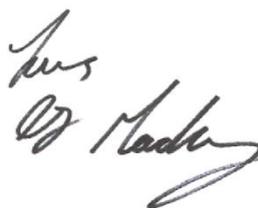
As I explained in my letter of 22 May, the GDP deflator is the default measure of inflation used by the Scottish Government in considering budget and spending aggregates. However it is not used as the basis for our 2018-19 public sector pay policy. In setting that policy, we recognised the impact of the rising cost of living experienced by our public sector workforce while ensuring increases remain affordable to the public purse. The CPI is the key inflation measure used in considering annual pay increases and we took into account the latest available inflation figures and forecast trends as well as the UK Government CPI target of 2%.

### **Parity Across the Local Government Bargaining Groups**

As I said in my letter of 22 May and again at the meeting on 26 June, while I recognise your aspirations as regards parity the Scottish Government is not part of the pay negotiation process for local government staff other than teachers and so this is a matter for negotiation between you and COSLA.

### **Consolidation of the Living Wage**

I explained in my letter of 22 May that all bodies covered by the Scottish Government's Public Sector Pay Policy for 2018-19 must pay their staff at least the Living Wage, and that all pay increases for those staff are awarded on a consolidated basis. However, since local government is not covered by our Pay Policy the issue of consolidation is a matter for negotiation between the trade unions and COSLA.



**DEREK MACKAY**

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