

4 October 2011

Dear Colleague

### **Public Sector Pensions**

I am writing to set out the way in which we are handling the first phase of the UK Government's pension reform agenda and to explain the reasons behind it.

The UK Government has decided to increase pension contributions for public sector workers from April 2012. They intend to raise £2.8 Billion by this means across the UK by April 2015. This equates to an average increase in pension contributions of 3.2% of salary.

Public sector workers are entitled to pensions that are affordable, sustainable, and fair both to workers and to taxpayers. We are strongly opposed in principle to the UK Government's policy of increasing contributions. At a time of pay freezes, significant increases in national insurance contributions, higher VAT, rising inflation and fuel costs, we believe it is wrong to require public servants to have to increase their pension contributions.

The UK Government has made it crystal clear that if we do not implement the increase in pension contributions then they will reduce the amount of money in the Scottish Budget. This applies to everyone in the Scottish NHS, Teachers, Police and Fire pension schemes. The impact of that would be to reduce the Scottish Budget by over £100m in 2012-13 and by more than £550 million over the next three years. This would have an immediate, significant and detrimental impact on public services and the size of the public sector workforce.

We will continue to argue for the UK Government to change its course. But given the fact that we face a deduction to our funding in April 2012 by the UK Government if we do not act, we have no option other than to commence a consultation exercise to determine how the increase in contributions are implemented across these four pension schemes. We do this with great reluctance.

We will be issuing our consultation for the NHS, Teachers, Police and Fire schemes later this week. These will set out proposed member contribution increases for 2012-13 only. We will consult on proposals for potential second and third year increases at a later date. We are

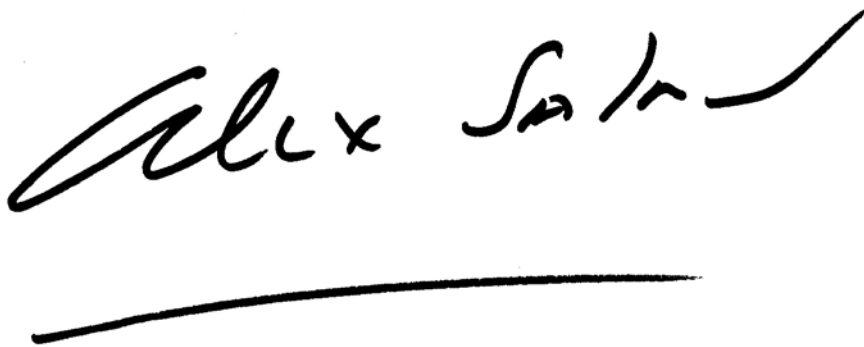
committed to genuine engagement with all our stakeholders on these proposals and I would encourage you to contribute actively to that process.

The responsibility for civil service pensions is reserved to the UK Government. They have already announced a consultation on the application of this policy for all civil servants including those working in Scotland.

We are extremely aware of the challenges faced by public sector workers during these difficult times. We are taking a number of positive steps to address these. In light of the UK Government's decision on pensions, the Scottish Government has given an agreement to extend our existing no compulsory redundancies policies for a further year for the bodies which are covered by the public sector pay policy, subject to the agreement of flexibilities which protect workforce numbers. We have also extended our commitment to pay the increased Scottish Living Wage of £7.20 an hour to all staff under the Scottish Government's responsibility in the same period, and in the pensions discussions we will do all in our power to protect the position of the low-paid.

I deeply regret that this action has been forced upon us. Scotland is very proud of the dedication and professionalism of its public sector workforce. I know that, irrespective of your views on this issue, you will continue to focus on doing what you do best – delivering world class services to the people of Scotland.

Yours for Scotland.

A handwritten signature in black ink that reads "Alex Salmond". The signature is written in a cursive, flowing style. Below the signature is a thick, solid black horizontal line.

**ALEX SALMOND**