

Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
Scottish Parliament
Edinburgh
EH99 1SP

13 September 2023

Dear Convener

Thank you for the opportunity to provide evidence on our Forecast Evaluation Report (FER) and paper on Productivity and Fiscal Sustainability at our evidence session on 5 September 2023.

During our session, I said I would provide the Committee with an update on earnings and employment trends in the North East of Scotland in relation to our income tax net position analysis (Annex B of our [FER](#)). In paragraph B.8 we stated “The long-term structural decline in North Sea oil and gas activity feeds through to lower activity in the onshore oil and gas supply *chain and has acted as a drag on Scotland’s overall pay growth.*”.

I referred to Box 3.2 of our May 2022 forecast [report](#) where we showed that the North East of Scotland has been a significant driver of Scotland’s slower mean pay growth since 2016-17 compared to the UK. Box 3.2 focuses on average earnings growth, but a similar point applies to employee growth. As with earnings, Scotland had slower employee growth since 2016-17 and this can be explained in part by the relative underperformance of the North East of Scotland.

Figures 1 and 2 below provide an update of this analysis using the most recent data from the [HMRC Pay As You Earn \(PAYE\) Real Time Information \(RTI\)](#). In July 2023, mean pay growth since 2016-17 in the North East of Scotland was 24 per cent, compared to 31 per cent in Scotland and 34 per cent in the UK.



Figure 1: RTI mean pay growth since 2016-17

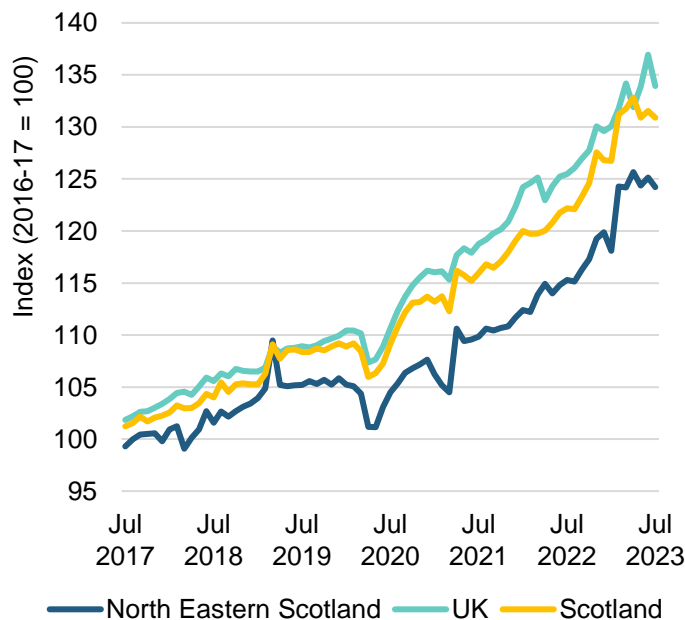
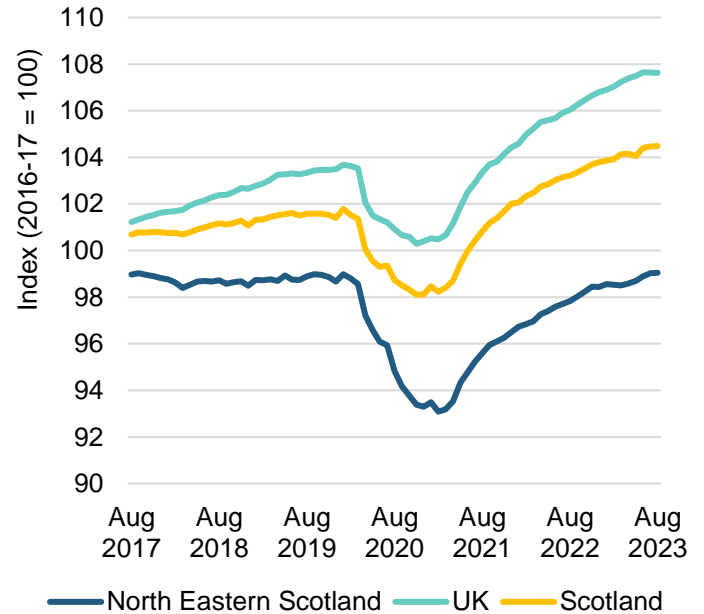


Figure 2: RTI employee growth since 2016-17



Source: ONS (2023) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted ([link](#))

More recently, we have seen a small catch-up happen. Figures 3 and 4 below show average earnings and employee growth in the latest 12 months compared to the previous 12 months. These show that, since early 2022, Scottish earnings and employee annual growth has been more in line with the UK, and this appears to be driven by average earnings and employee growth in the North East of Scotland returning to higher levels.



Figure 3: RTI mean pay, annual (12 month on 12 month) growth

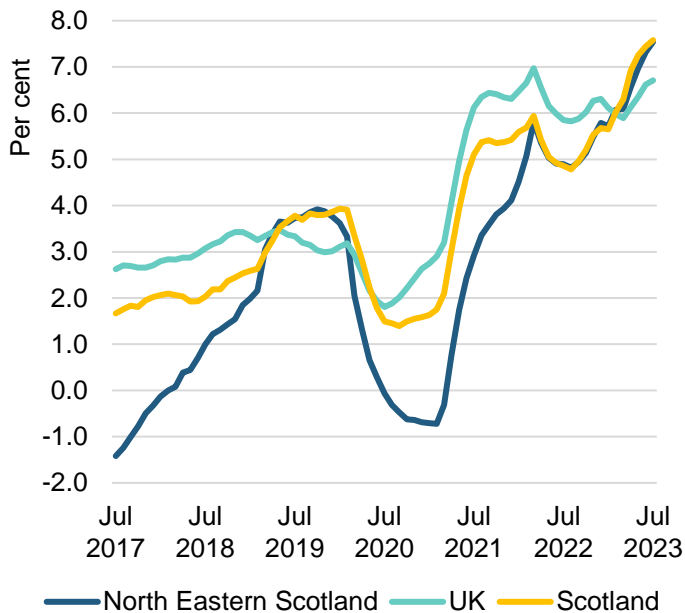
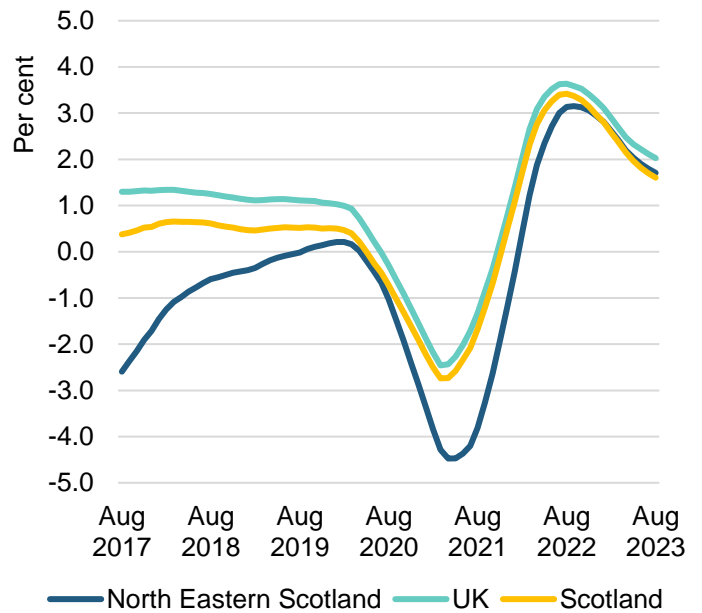


Figure 4: RTI employees, annual (12 month on 12 month) growth



Source: ONS (2023) Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted ([link](#))

Given the interest from the Committee, we will include a fuller update on earnings and employment trends in the North East of Scotland in our next Scotland's Economic and Fiscal Forecasts report in December 2023.

In the meantime, I hope this additional information is useful.

Yours sincerely

Professor Graeme Roy