

Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
Scottish Parliament

15 January 2024

Dear Convener

Thank you for the opportunity to provide evidence on our Scotland's Economic and Fiscal Forecasts (SEFF) December 2023 report on 20 December 2023.

During our session, I said I would follow-up on two issues: our figure on median income in Scotland and our modelling of public sector pay and employment.

Median income

Ms Smith asked for clarification on our median income figure.

In our report, we published an estimate of the median income of Scottish taxpayers in 2024-25 of £28,200.¹ This figure is derived from our income tax forecasting model, which uses detailed data on the income of Scottish taxpayers from HMRC. Our model includes all sources of income subject to Scottish NSND income tax, including employee income, self-employment income, pension income, and income from property.

There are other ways of looking at median income in Scotland. The Office for National Statistics (ONS) Annual Survey of Hours and Earnings (ASHE) data shows the median earnings of all employees in Scotland was £29,675 in 2023.²

The difference in the figures is primarily explained by the different populations of individuals being looked at. For example, our lower figure of £28,200 will include some individuals with income from pensions only, and this group is likely to have lower average incomes than employees only.

Public sector pay and employment

As part of our report we produce projections of Scottish public sector pay and employment. We do this to help inform our forecasts of the Scottish economy and income tax revenues.

¹ Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023 ([link](#)). See paragraph 4.57.

² Office for National Statistics (2023) Employee earnings in the UK: 2023 ([link](#)). See Table 3.7a.

We have a high-level approach based on some broad-brush judgments. It is not our objective to create a definitive or detailed forecast of Scottish public sector employment.

We base our projections of public sector pay growth on information provided to us by the Government on pay awards, and make our own judgements on pay growth where this information is not available. As we said in our report, we have assumed devolved public sector pay growth of 4.5 per cent in 2024-25, which includes an average basic pay award of 3.0 per cent.³

Given the projections we have of the Scottish Government and UK Government's funding and pay growth, and assumptions that other factors remain stable, we create a mechanical and internally coherent projection of employment in Scotland's public sector. We publish this series in Supplementary Figure S3.5.⁴ We used the latest available publication of the Scottish Government's Public Sector Employment statistics – which, at the time of closing our forecast on 27 November 2023, was up to and including the second quarter of 2023 – and we projected this forward based on the funding and pay growth projections.

During our session, Mr Marra asked for an exact figure on the size of public sector employment in 2024-25. As shown in Figure S3.5, based upon our assumption of pay growth set out in our report, we project Scotland's public sector employment to be 562,000 in 2024-25, a fall of 4,700 or 0.8 per cent when compared to the previous year.

There are a number of factors that could lead to a different outcome for Scottish public sector employment. The Scottish Government's funding is uncertain, the Scottish Government can make choices about how it allocates funding to staff and non-staff costs, and changes in grade structure can also affect the relationship between staff costs and headcount. We do not model these factors in detail, and make a broad-brush assumption they remain stable.

I hope this additional information is useful.

Yours sincerely

A handwritten signature in black ink that reads "Graeme Roy".

Professor Graeme Roy

³ Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023 ([link](#)). See paragraph 3.40.

⁴ Scottish Fiscal Commission (2023) Scotland's Economic and Fiscal Forecasts – December 2023 ([link](#)). See Chapter 3 – Economy – Supplementary Figures.