

## Explaining the Income Differential between Moray and Scotland

- 1.1 The main source of regional income data in the UK is the Annual Survey of Hours and Earnings (ASHE) which consistently shows income levels in Moray as below the Scottish level. In the latest ASHE data (2013), Moray had the 7<sup>th</sup> lowest gross average income per week for all employees of all local authorities in Scotland.

### Comparison of ASHE Figures

- 1.2 ASHE is a sample survey of employee jobs, although information is collected from employers, based on a one per cent random sample of jobs on the HM Revenue and Customs' Pay As You Earn (HMRC PAYE) register. It covers all employee jobs in all industries and occupations across the whole of the United Kingdom. It has a reference date in April, asking about individuals who are employees at that time. Overall, around 180,000 employees are included in the sample. Figures for a small Local Authority Area such as Moray cannot be regarded as fully accurate and should be treated with caution. The sample size for the area is likely to be between 210 and 243 employees, and the coefficient of variation of the results can be up to 20%.
- 1.3 Since ASHE is a survey of employee jobs, it does not cover the self-employed or any jobs within the armed forces. Given the survey reference date in April, the survey does not fully cover certain types of seasonal work, for example employees taken on for only summer or winter work.
- 1.4 Comparing gross weekly income figures from ASHE, income in Moray from employment is generally between 86.1% and 88.7% of Scottish income levels, as shown below.

	Scotland (by residence)	Scotland (by workplace)
Full-time	£600.70	£598.50
Part-time	£200.30	£201.80
All employees	£486.40	£484.70

	Moray Income (by residence)	Moray Income (by workplace)	Moray's income as a proportion of Scotland's (by residence)	Moray's income as a proportion of Scotland's (by workplace)
Full-time	£529.30	£529.40	88.1	88.5
Part-time	£199.40	£174.30	99.6	88.7
All employees	£418.70	£419.50	86.1	86.5

- 1.5 Below, four reasons for the cause of the income differential between Moray and Scotland overall are discussed.

### The Rural Nature of the Area

- 1.6 Around half of Scotland's population work in the seven local authority areas where average pay is highest. These are: Glasgow, Edinburgh, Aberdeen, Aberdeenshire, the Shetland Islands, Renfrewshire and North Lanarkshire. Over a third of the population of Scotland (37%) works in the cities of Glasgow, Edinburgh or Aberdeen, where higher earnings to an extent are required to pay for relatively higher housing costs. Excluding these seven highest paid areas, the average gross weekly pay level in the rest of Scotland would drop from £484.7 to £432.1, significantly closer to the average pay in Moray (£419.5).
- 1.7 Generally speaking, most of the lowest paid local authority areas were amongst the most rural and remote areas, with the other four Highlands and Islands local authorities (excluding Shetland) in the 13 lowest paid local authority areas, along with other remote or rural areas such as Dumfries and Galloway, the Scottish Borders and Perth and Kinross. In the islands, average earnings are positively influenced by relatively high public sector employment (which pays more in the Highlands and Islands than private sector employment).

1.8 Therefore, a major reason for why pay levels in Moray are lower than in Scotland overall is because the Scotland average includes large cities where the pay levels are naturally higher and other areas where particular industries push the pay levels high (oil and gas in Shetland and Aberdeenshire, for example).

**Industrial Structure**

1.9 Moray’s industrial structure accounts for some of the pay differential. Moray has a high proportion of its workforce in the low paid sector of wholesale and retail trade (including repair of motor vehicles and motorcycles) and a low proportion working in the high paid sectors of mining and quarrying, information and communication, financial and insurance activities, and professional, scientific and support service activities.

1.10 In order to isolate the effect of Moray’s industrial structure, the average pay level by industrial sector in Scotland (ASHE) is applied below to the employment numbers by industrial sector in Moray (Business Register and Employment Survey). This would give the following pay rates for Moray:

	<b>Scottish pay rates applied to Moray’s employment structure</b>	<b>Moray’s income as a proportion of Scotland’s (Scottish pay on Moray’s structure)</b>
Full-time	£573.29	95.8
Part-time	£196.75	97.5
All employees	£433.60	89.5

1.11 Using this method, Moray’s income was close to the Scottish levels for full-time and part-time pay, although was lower for all employees. This is due to a higher proportion of Moray’s workforce being employed part-time (37.1% using the BRES method) than the proportion of Scotland’s workforce working part-time (28.7% using the ASHE method) and therefore lowering the average.

1.12 Thus, Moray’s industrial structure goes some way to explaining the lower pay rates in Moray than in Scotland overall.

**Occupational Structure**

1.13 Moray has a higher proportion of its workforce employed in the relatively low paid sectors of: caring, leisure and other service occupations; process, plant and machine operatives and; elementary occupations; and a relatively low proportion of its workforce in the relatively high paid sectors of professional occupations and associate professional and technical occupations. This therefore lowers pay in Moray.

1.14 As above, the Scottish pay levels (ASHE) were applied to Moray’s occupational structure (Annual Population Survey). If people in the different occupational categories were paid the same as in Scotland overall, Moray’s gross weekly average pay per employee would be £477.53. This is 98.5% of the average pay level for Scotland – suggesting that the occupational structure in Moray explains most of the income differential between Moray and Scotland.

**Military Personnel**

1.15 Currently, ASHE figures exclude HM forces, which are generally paid above average. The ASHE methodology therefore underestimates incomes in Moray as the area has a higher than average proportion of military staff in its workforce.

1.16 A report by Reference Economics in 2010 found that there were 1,890 regular personnel in RAF Lossiemouth. There were also 98 reservists, which were the equivalent of 29.4 FTEs (Full-Time Equivalents). The total gross

wage bill was £60,896,495, the equivalent of £31,727 per FTE. Applying RPI inflation of 13.56% between 2010 and 2013, the equivalent average income in 2013 would be £36,029.

- 1.17 Recent figures suggest around 2,800 military staff at RAF Lossiemouth. Assuming the same number of reservists, there would be 2,731 FTE staff working at the base, earning an annual average of £36,029, or a weekly average income of £692.87. Adding this to the income by occupational structure in 1.14 above (the income in Moray if the Scottish wage rates by occupation were applied to Moray's occupational structure) gives average weekly earnings for all employees in Moray of £489.74, higher than the comparable rate in Scotland (£484.70).
- 1.18 When doing this adjustment, the average income for all employees increased above the Scottish rate due to a greater proportion of these jobs being full-time than the average in Scotland and the average weekly income of £692.87 being higher than the average full-time income in Scotland as a whole (£598.50)
- 1.19 It is important to be aware, however, that the ASHE figures for Scotland still exclude HM Forces and therefore Scotland's income should be higher than the ASHE figures suggest. Adding 10,500 Regular Armed Forces (GOV.UK, 2014) earning an average of £692.87 to the ASHE data (*to be replaced with a more accurate figure for Scottish Armed Forces overall?*) would take the weekly average gross earnings for all employees in Scotland up to £485.70, still lower than the comparable figure for Moray.
- 1.20 Steve's paragraph about Kinloss not being applicable to this report.

#### **CACI Income Analysis**

- 1.21 CACI Paycheck data provides gross household income estimates for various different geographies across the UK. Analysis of figures from 2011 reveals that the gross annual household income in Moray was £32,868.81, which was higher than the Highlands and Islands overall (£31,767.82). Scotland figures are unavailable at this time.
- 1.22 Comparison of the annual household income from the CACI datasets between different areas needs to be treated with caution as other factors (such as household composition, and the proportion of pensioners or benefits claimants) can distort the average household income of an area.