

Xpert HR

Cendex

Thank you for joining us

Reward planning: expectations and priorities for 2022



Speakers



Ed Cronin

Research manager,
employee reward,
XpertHR and Cendex



Sheila Attwood

Managing editor (Pay and
HR practice), XpertHR
Group, Cendex

Labour market trends

Ed Cronin

Research manager, XpertHR and Cendex

Part 1: the latest metrics and forecasts

Part 2: industries in the firing line

Part 3: putting it all together

Ed Cronin

Research manager, salary
surveys

The latest forecasts

GDP

- 2021: **+6.5%**
- 2022: **+6.0%**
- 2023: **+2.1%**

Unemployment

- 2021: **4.8%**
- 2022: **4.9%**
- 2023: **4.3%**

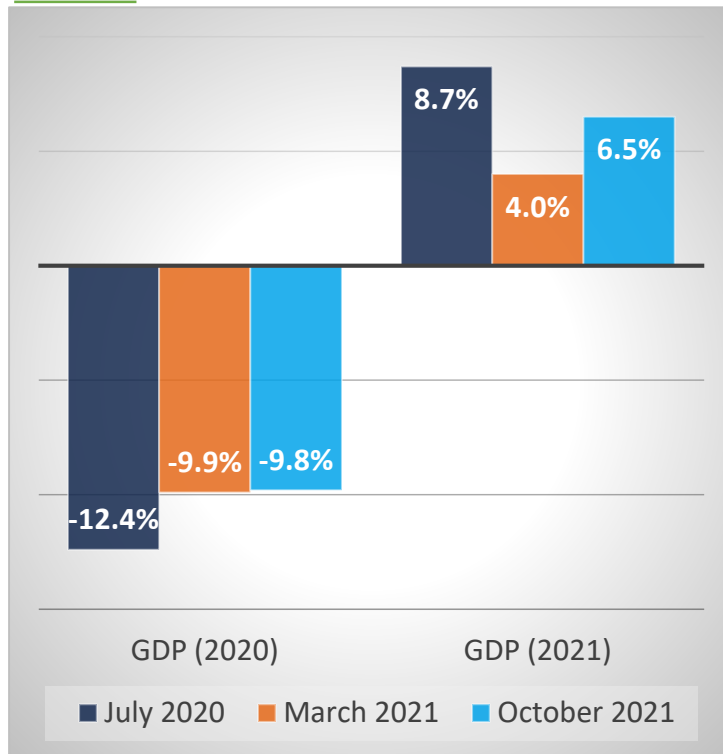
Inflation (CPI)

- 2021: **+2.3%**
- 2022: **+4.0%**
- 2023: **+2.6%**

The picture for the next 12-18 months is promising but future growth looks problematic

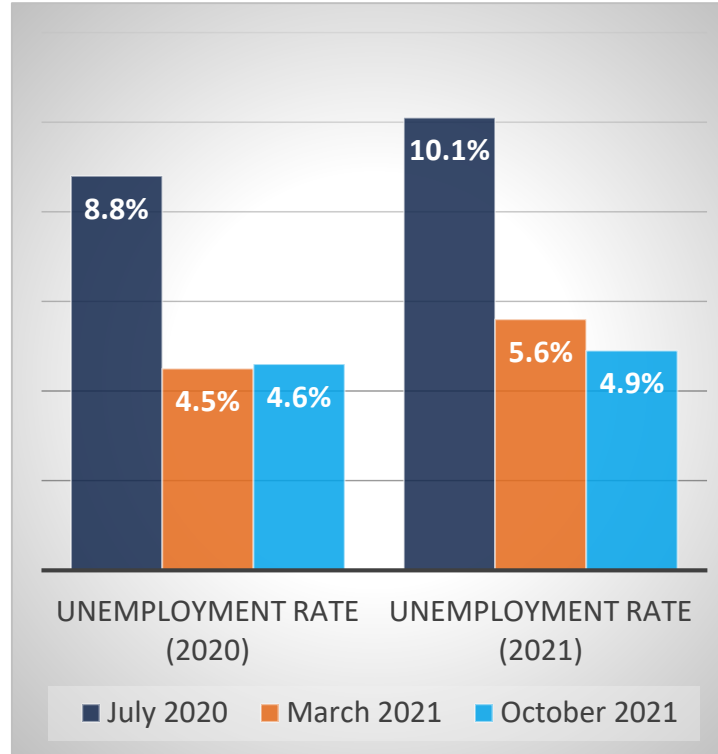
Source: OBR October 2021

Expected vs actual

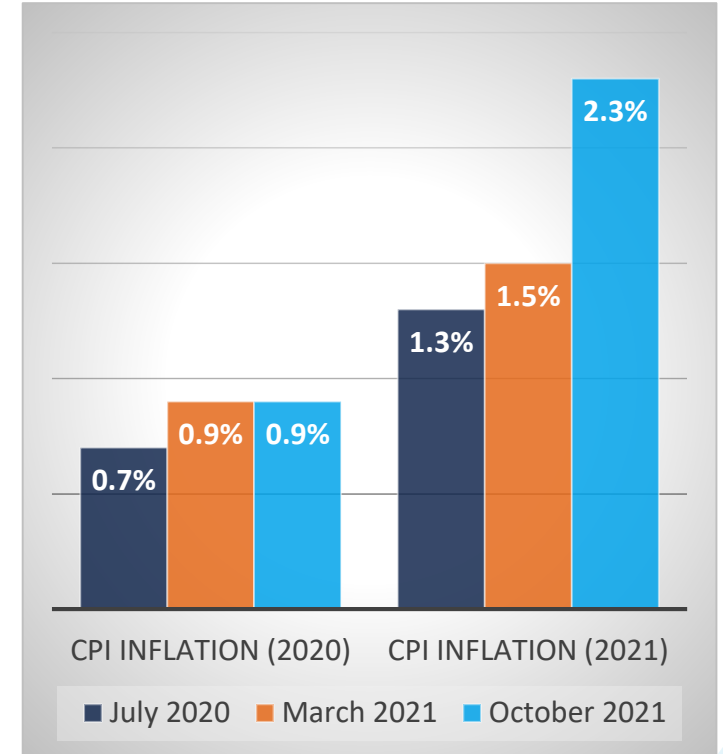


The actual 2020 decline in **GDP** was *slightly* more modest than expected but so is the forecast 2021 rebound

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Unemployment is much *lower* than expected in both years due to furlough and rapid job market rebound.



Inflation is likely to be a *higher* than expected and will exceed the Bank of England 2% target rate.

Caveats: events and policy interventions

Recent events

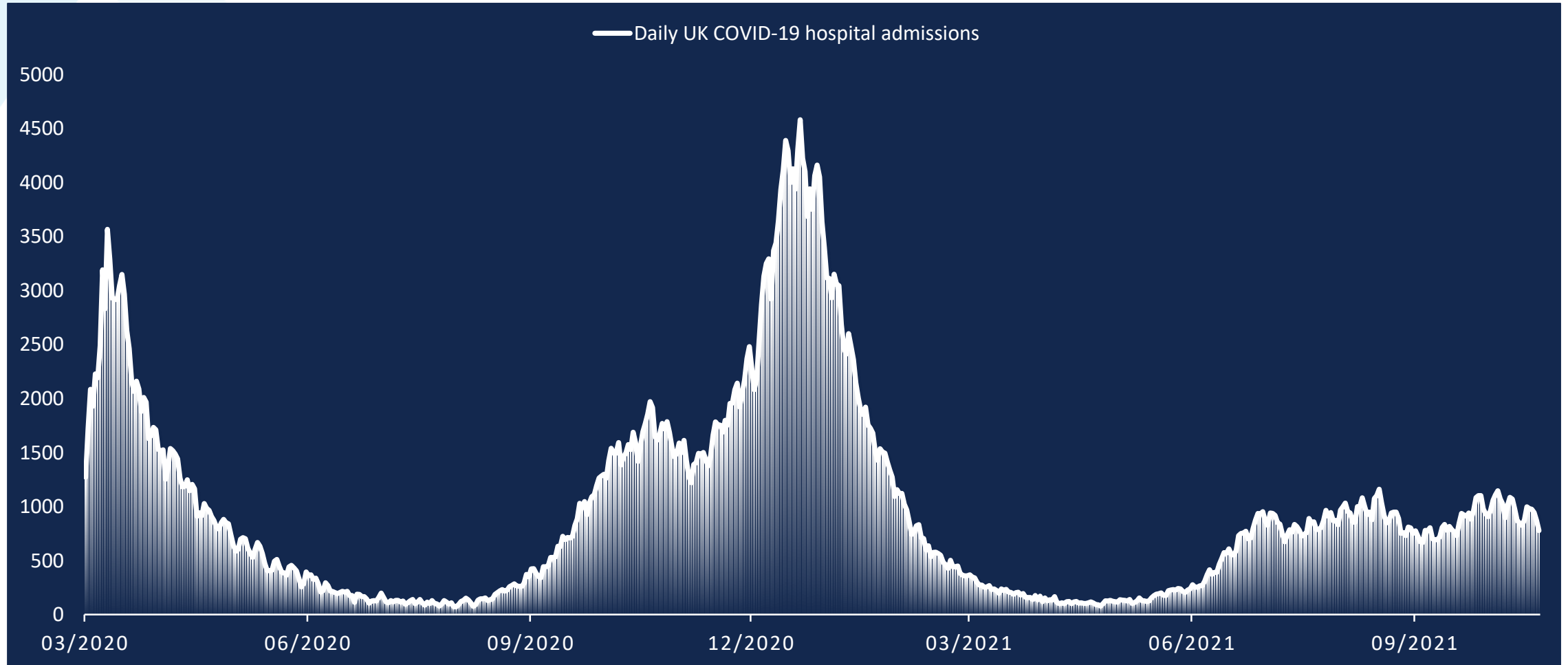
- Pandemic
- Brexit
- Energy price increases
- Disruption of supply chains
- Market sentiment

VS

Recent interventions

- Furlough scheme
- National minimum wage
- Universal Credit
- Taxation
- Public investment

Caveat: the current pandemic context



Caveat: the impact of Brexit

Labour force (active)

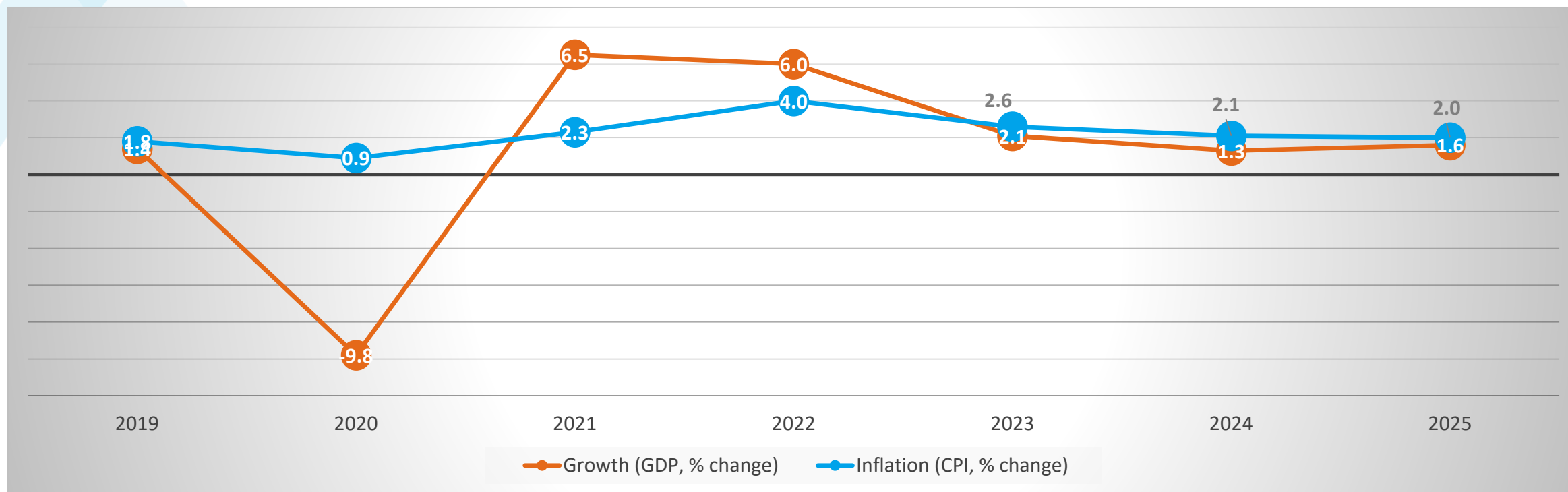
- UK: 35 million
- EU: 214 million

Market size (GDP)

- UK: \$2.7 trillion
- EU \$15.3 trillion

Source: [World Bank](#)

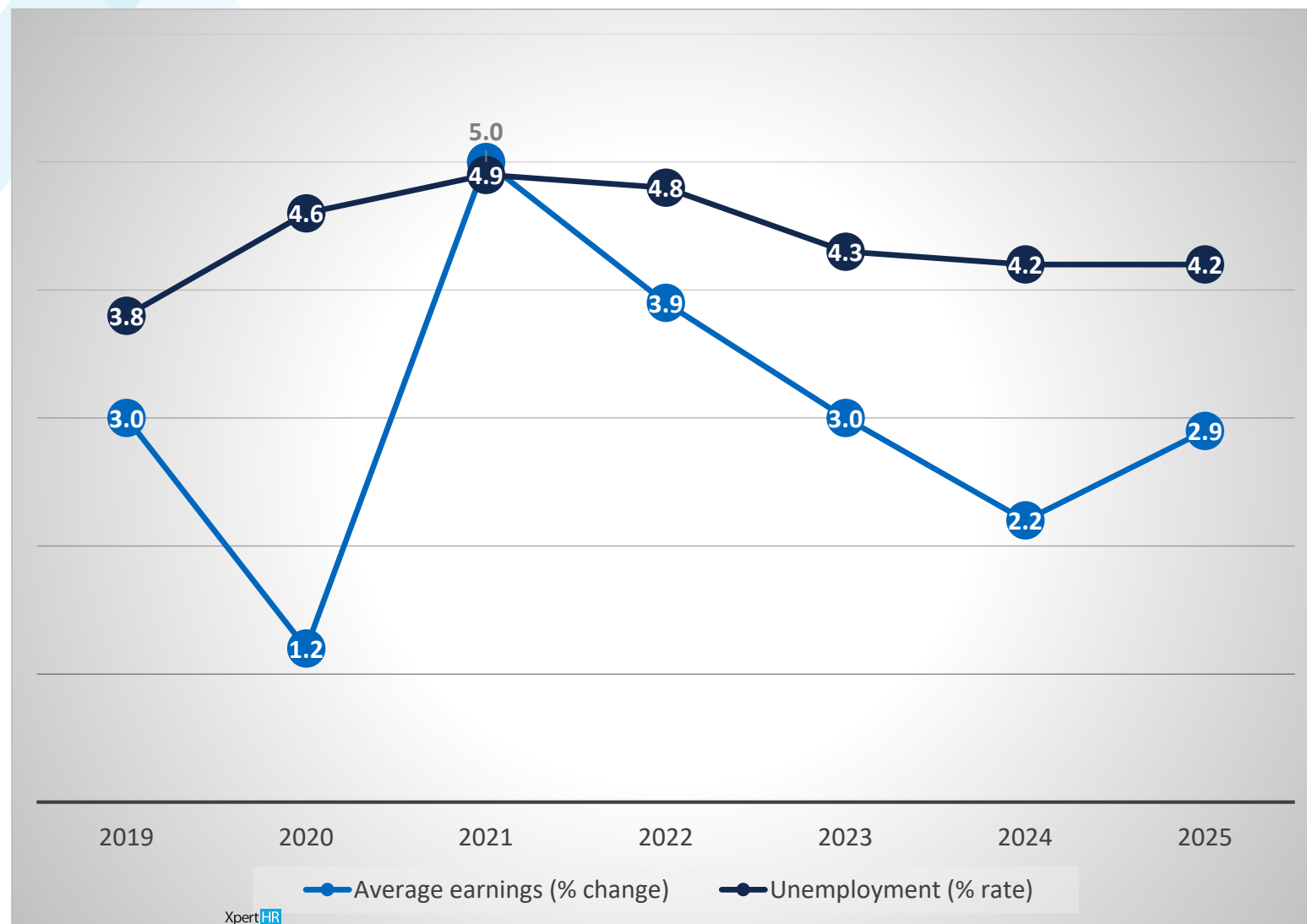
Growth and inflation over the next five years



- High levels of economic growth 2021-22 will take the economy back to where it was pre-pandemic and will then stabilize at a below-par level
- Inflation is expected to keep increasing well into 2022 before levelling off

Source: OBR (October 2021)

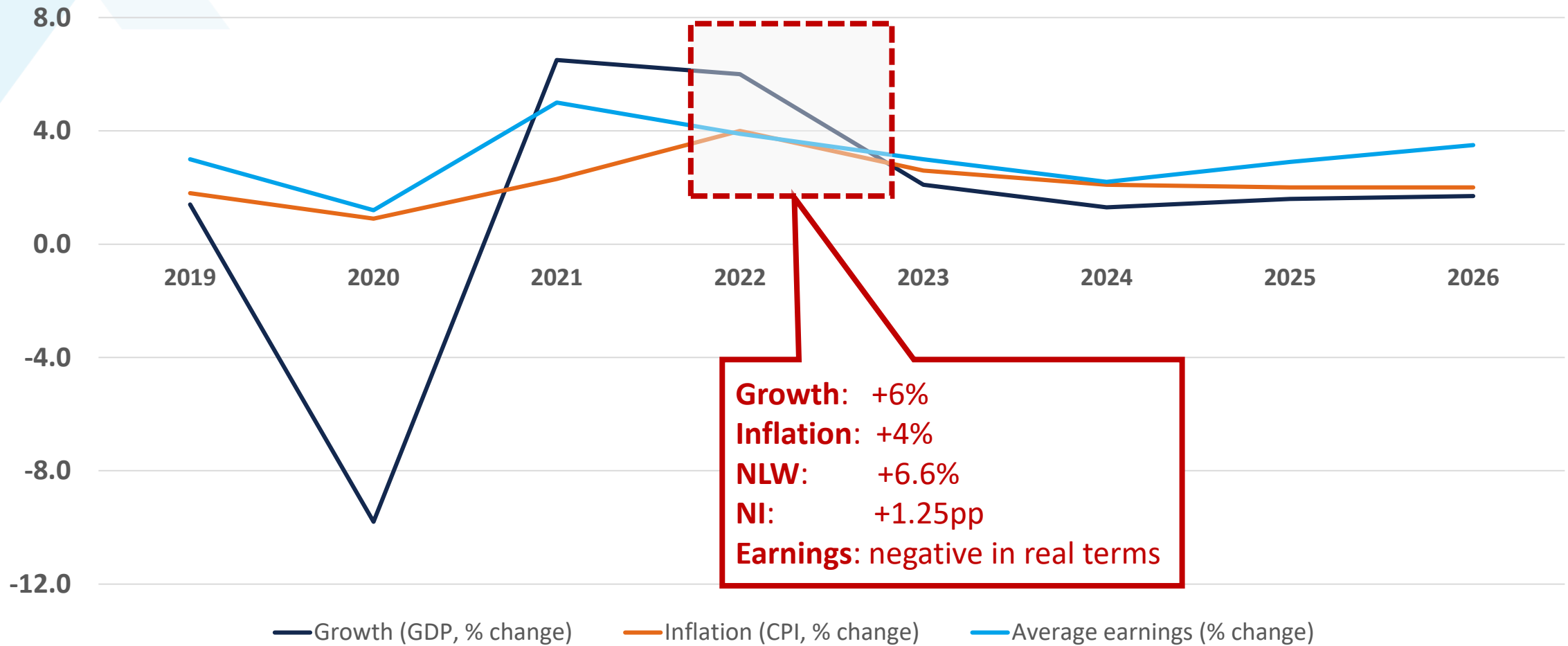
Unemployment and earnings over the next five years



- Unemployment is set to remain low over the next few years
- Average earnings metrics are problematic but apparent increases are expected to ease beyond 2022.

Source: OBR (October 2021)

April 2022: a high-water mark?



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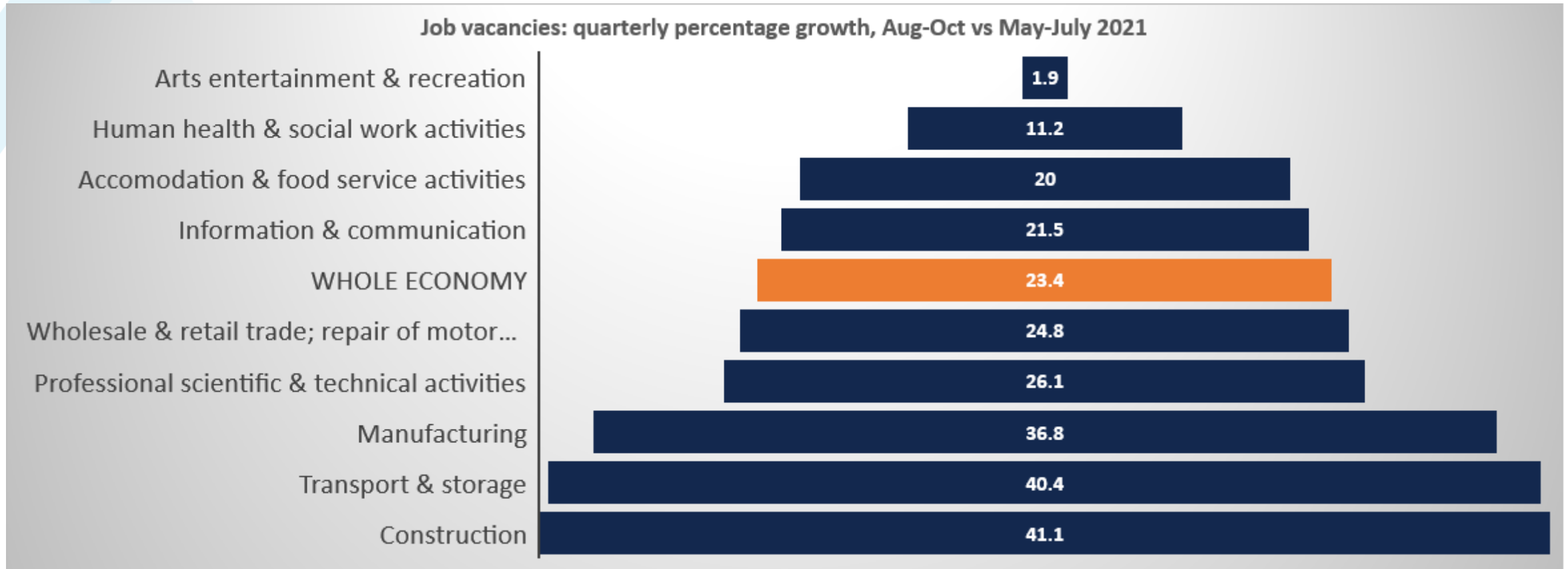
Demand for labour in the UK



- **1.2 million job vacancies in the three months to October**
- **Growth in vacancies has slowed to 23%, down from 43% in previous quarter**

Source: [ONS](#) (November 2021)

Job vacancy growth by sector



[Source: ONS](#)

Largest number of vacancies are in health (183K) and accommodation (151K)

Labour supply constraints

Recent events

- Pandemic
- **Brexit**
- Energy price increases
- Disruption of supply chains
- Market sentiment

VS

Recent interventions

- Furlough scheme
- **National minimum wage**
- Universal Credit
- Taxation
- Public investment

Scorecard: UK labour market pressures

Sector	Employment (thousands)	Vacancies vs employment (%)	% EU employees (2019)	% low pay (2021)	Economic growth contribution
Accommodation & food service activities	1,600	9%	14%	63%	0.67
Administrative & support services	1,446	6%	10%	23%	0.14
Professional scientific & technical activities	2,663	4%	7%	6%	0.03
Information & communication	1,595	4%	7%	4%	0.01
Real estate	438	4%	3%	9%	-0.02
Human health & social work activities	4,527	4%	5%	13%	0.24
Wholesale & retail trade	3,816	4%	8%	25%	-0.28
WHOLE ECONOMY	32,543	4%	7%	14%	1.25
Transport & storage	1,505	4%	13%	7%	0.09
Arts entertainment & recreation	936	3%	5%	29%	0.26
Manufacturing	2,718	3%	11%	10%	-0.03
Financial & insurance activities	1,416	3%	7%	2%	0.02
Construction	2,199	2%	9%	9%	-0.1
Education	3,381	2%	4%	6%	0.03
Public admin & defence; social security	2,396	1%	3%	1%	0.01

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Conclusions

- **Economic growth** has returned to the UK but longer term projections paint a decidedly mixed picture
- **Inflation** has unexpectedly reared up, will cause short term pain for individuals and employers without pricing power
- **Employment** in the UK is in flux now that the safety valve of EU labour has been well and truly cut off

What this means for employers (1)

April 2022 may represent a **high-water mark** for labour market pressures and employers need to balance resourcing demands against long-term cost implications



What this means for employers (2)

Unfortunate employers may face a vicious circle where some employees leave, replacements are not forthcoming, and workloads for incumbents climb and lead to further employee exits



What this means for employers (3)

Careful resource planning will be required to meet the ongoing and long-term transition forced by Brexit



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Pay rises, salary planning and reward priorities 2022

Sheila Attwood

Managing editor (Pay and HR practice), XpertHR Group, Cendex

Agenda

Pay awards in 2021:

Data for the first 10 months

Pay awards in 2022:

Forecast pay awards

Key influences

Other influences on employee attraction and retention

Hybrid working

Benefits

Fairness

Pay review outcomes in 2021

The year to date – Jan-Oct 2021

Pay awards in first 10 months of 2021

Whole economy

- Median 1.7%
- LQ 0.9%; UQ 2.2%
- Higher 25.5%
Lower 53.3%
Same 21.2%
- Freezes 23.1%

Manufacturing and production

- Median 2%
- LQ 1%; UQ 2.2%
- Higher 28.5%
Lower 48.6%
Same 22.9%
- Freezes 18.9%

Private sector

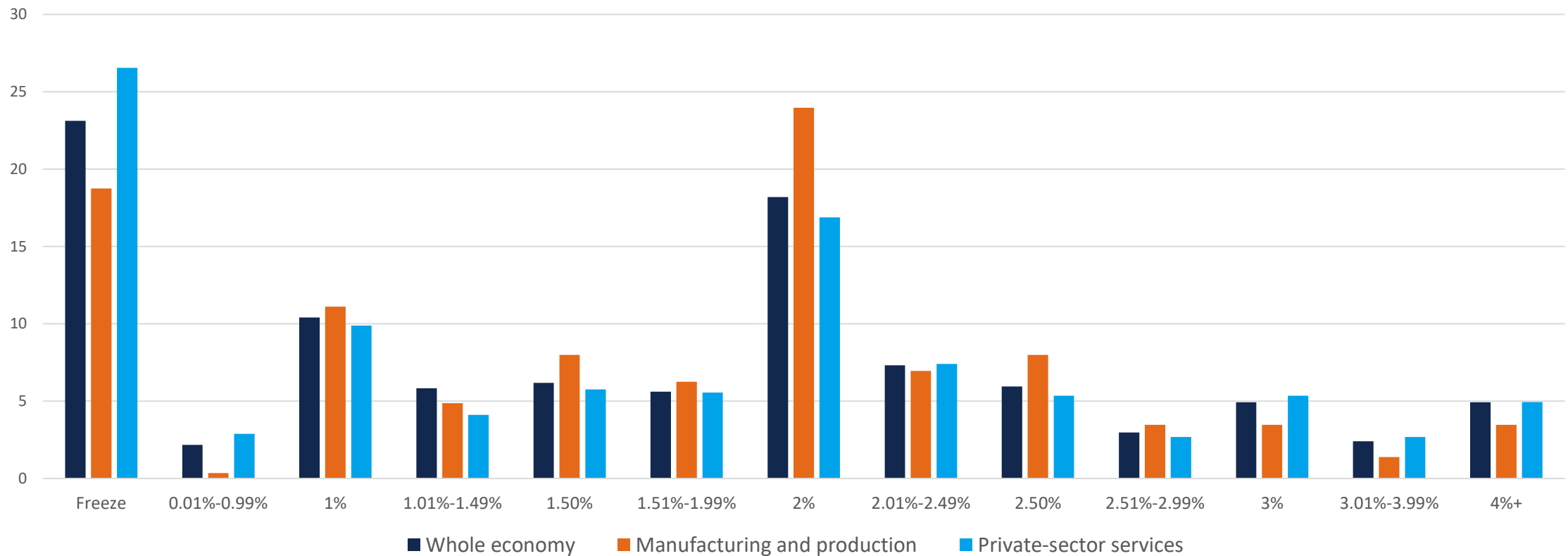
- Median 1.8%
- LQ 0.9%; UQ 2.2%
- Higher 26.6%
Lower 51.0%
Same 22.4%
- Freezes 23.6%

Public sector

- Median 1.4%
- LQ 1%; UQ 2.5%
- Higher 15.5%
Lower 73.2%
Same 11.3%
- Freezes 18.8%

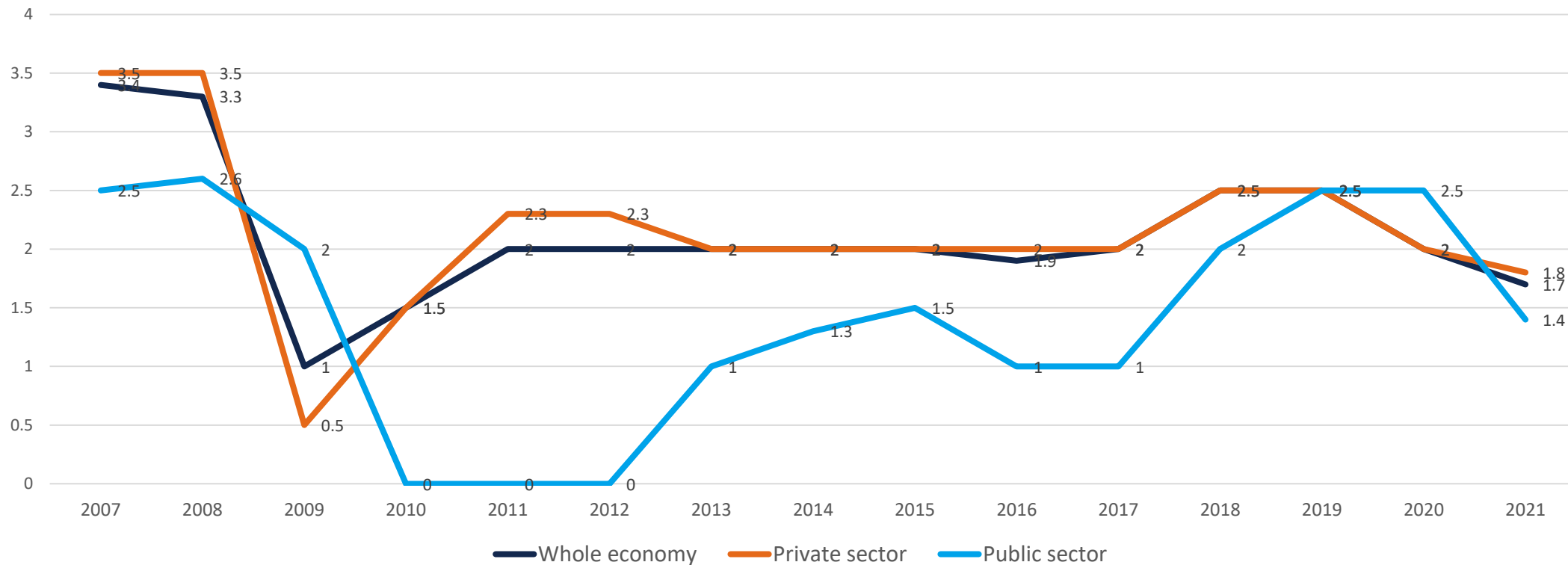
The year to date – Jan-Oct 2021

Pay awards in first 10 months of 2021



How does this compare historically

Not experienced the sustained lows seen in the 2008/2009 recession



Pay award forecasts 2022

Poll question

What is the expected value of your organisation's 2022 pay increase for employees?

- Freeze = 4.3%
- Less than 1% = 1.0%
- 1%–1.9% = 21.4%
- 2%–2.9% = 29.5%
- 3%–3.9% = 18.6%
- 4%+ = 11.0%
- Don't know = 14.3%

Forecasts for the year ahead

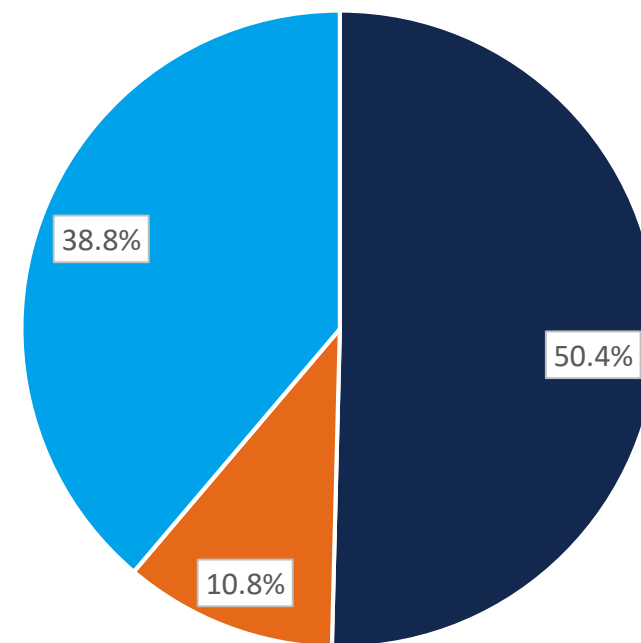
Pay rises expected to be awarded



Pay rise
84.9%



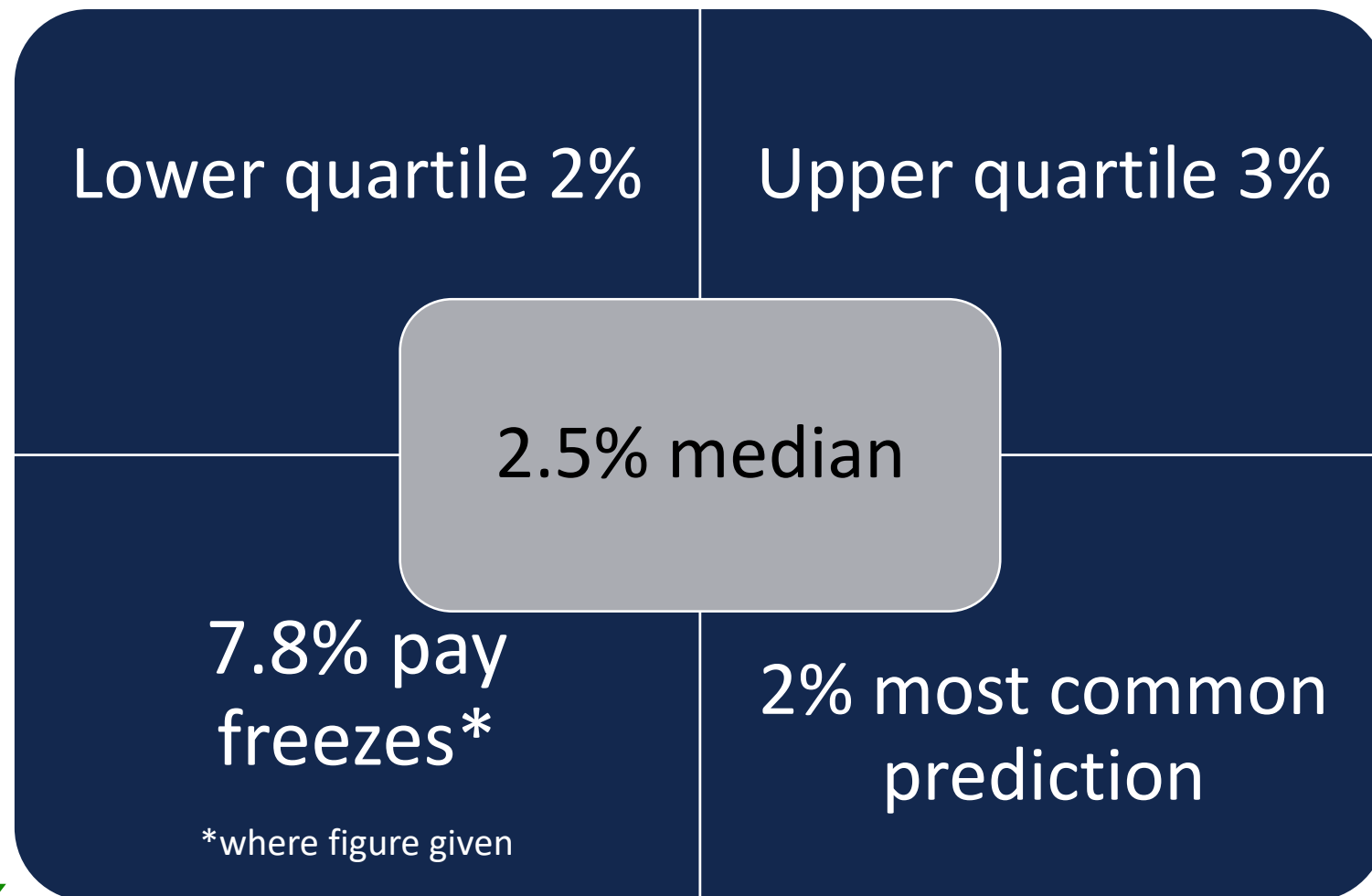
Pay freeze
6.8%



■ Higher ■ Lower ■ Same

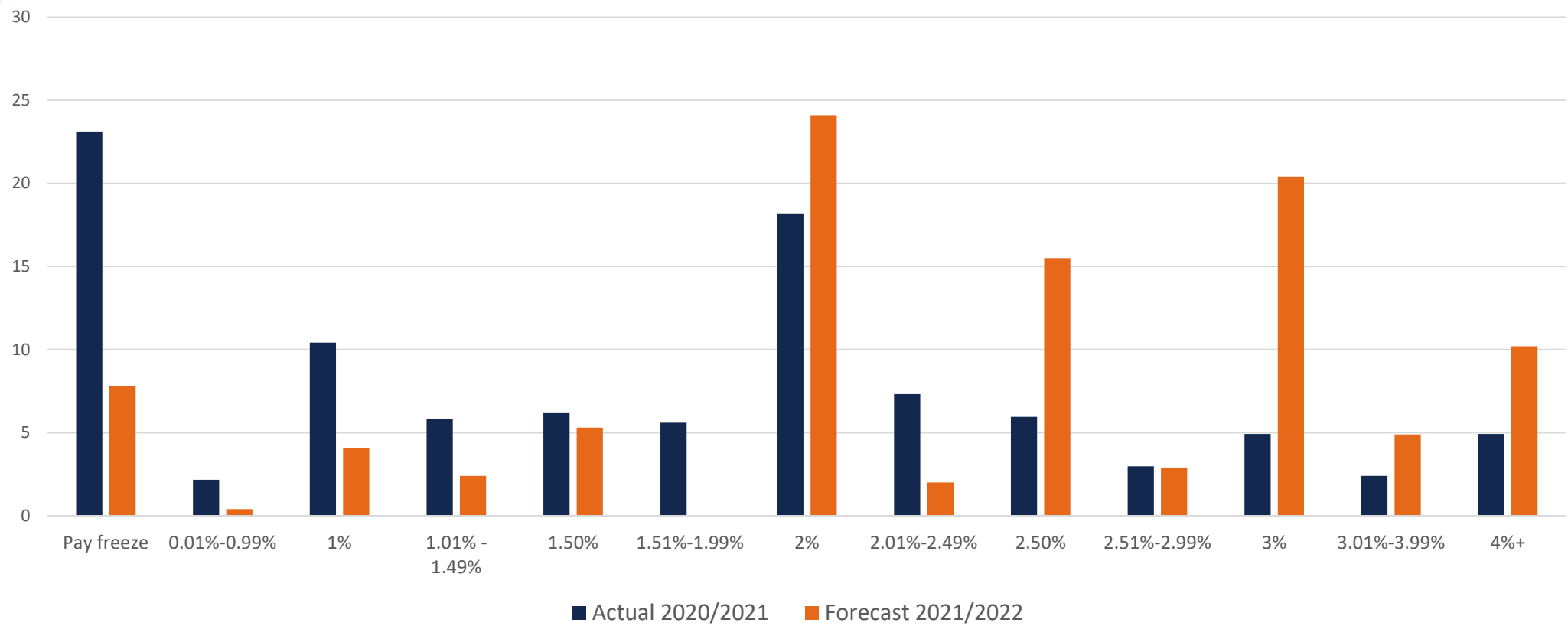
Forecasts for the year ahead

Forecasts suggest things may pick up over the next year



Pay award forecasts 2022

Pay forecast figures in detail



Planning for 2022

Upward influences (95% cited an upward pressure):

- Inflation/cost of living (cited by 74.5% of respondents)
- Skills shortages (72%)
- Pay levels in the same occupational group (68%)
- Organisation performance/business volumes (66%)

Downward influences (46.5% cited a downward pressure):

- Ability/inability to raise prices of products/services (23.5%)
- Organisation performance/business volumes (21%)
- Brexit (12%)
- Pension costs (11.5%)

Challenges:

- Rewarding staff through COVID
- “Catching up”
- Responding to the market

Inflation

Use of inflation in pay setting:

- consumer prices index (CPI) – 53.5% of organisations
- retail prices index (RPI) – 47%
- consumer prices index including owner-occupied housing (CPIH) – 18.5%

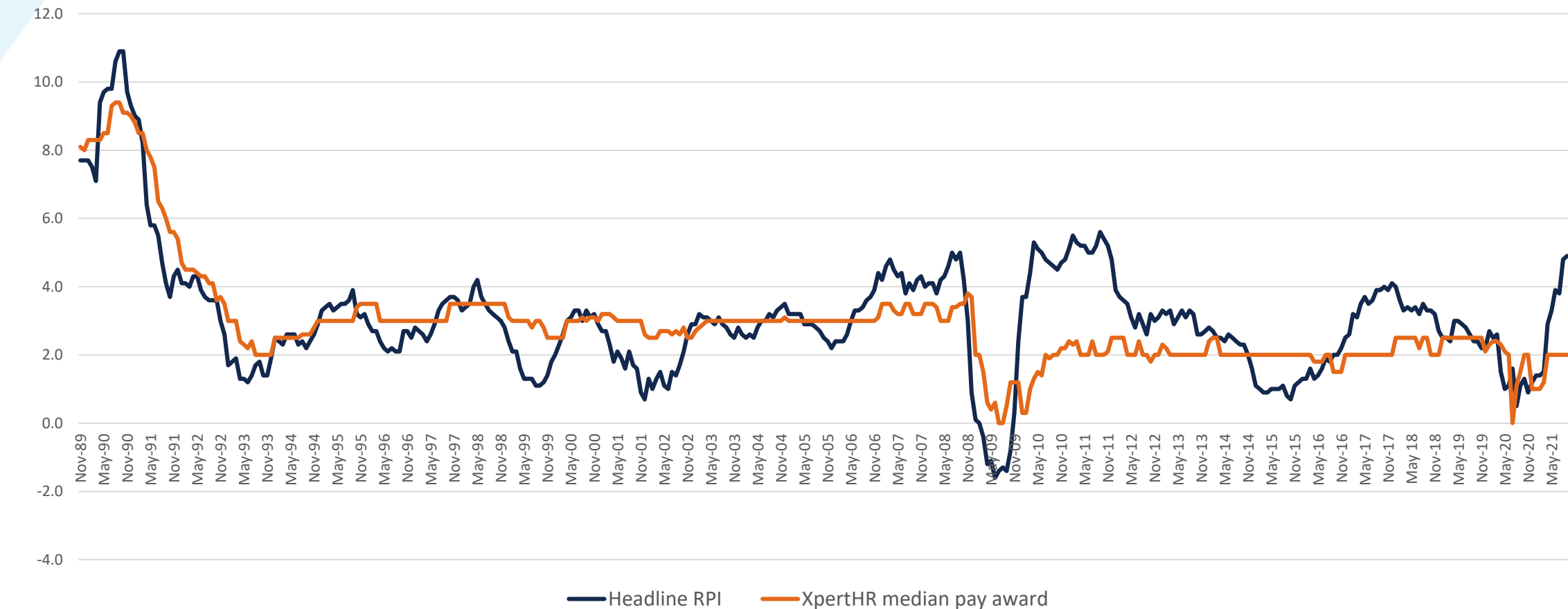
Taken into
consideration

Used as a
guide

Direct link
to pay
award

Forecasts	RPI
Q4 2021	5.6%
2021	3.7%
Q1 2022	5.5%
Q2 2022	5.6%
Q3 2022	4.8%
Q4 2022	3.8%
2022	5.1%

Inflation vs pay awards



Responding to the market

Additional increases to salaries

Factor	% of organisations
To address retention issues	55.8%
To address internal salary anomalies	51.3%
To address recruitment issues	50.3%
To bring salaries in line with market rates	47.2%
Due to changes in the grading structure	22.6%
Other	7.5%



National living wage

Comparison of 2.2% 2021 NLW increase with other pay awards at your organisation:

Workers paid NLW received:

- a higher award: 65.8%
- the same award: 15.8%
- a lower award: 1.3%

Impact on differentials from NLW:

- No impact – 50%
- Pay differentials squeezed – 40.8%
- Pay differentials increased – 5.3%

Should an "emergency brake" be applied to national minimum wage increases in light of the coronavirus (COVID-19) pandemic and its impact on businesses?

2022 increases:

NLW (23 yrs +) – 6.6%

NMW (21-22 yrs) – 9.8%

18-20 and 16-17 – 4.1%

Apprentice rate – 11.9%

Employee priorities 2022



EVP

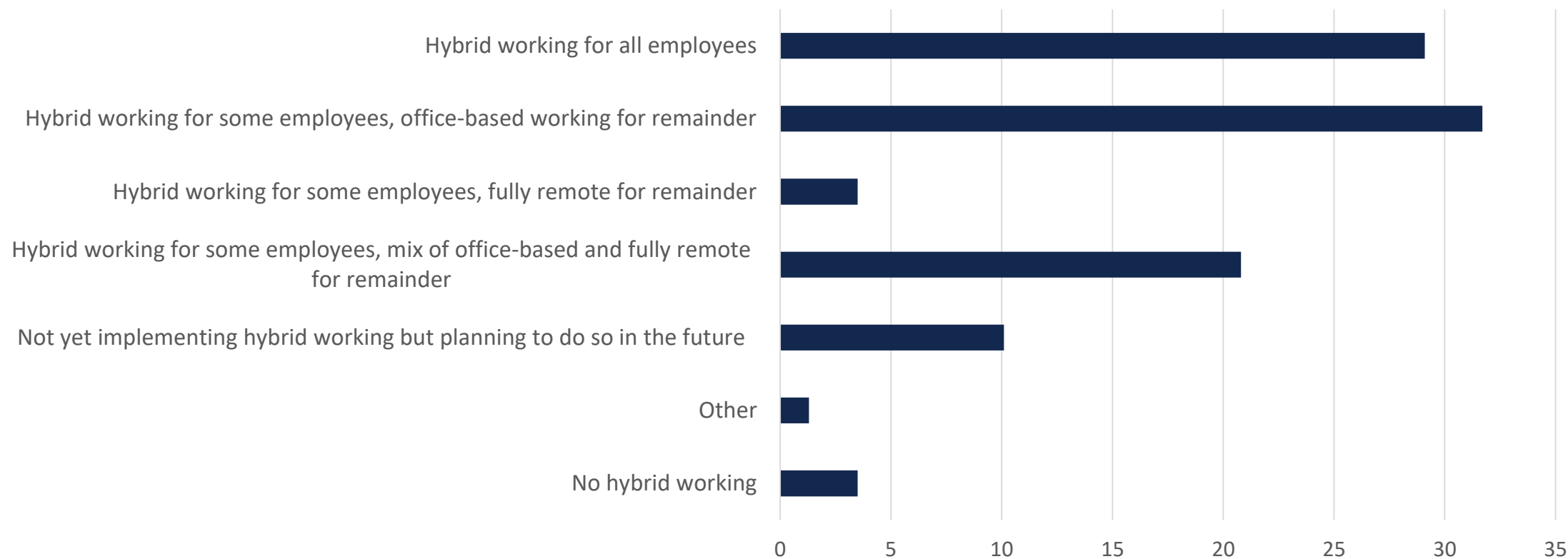
Thinking about what attracts and retains in your organisation

- Work environment
- Benefits mix
- Fairness



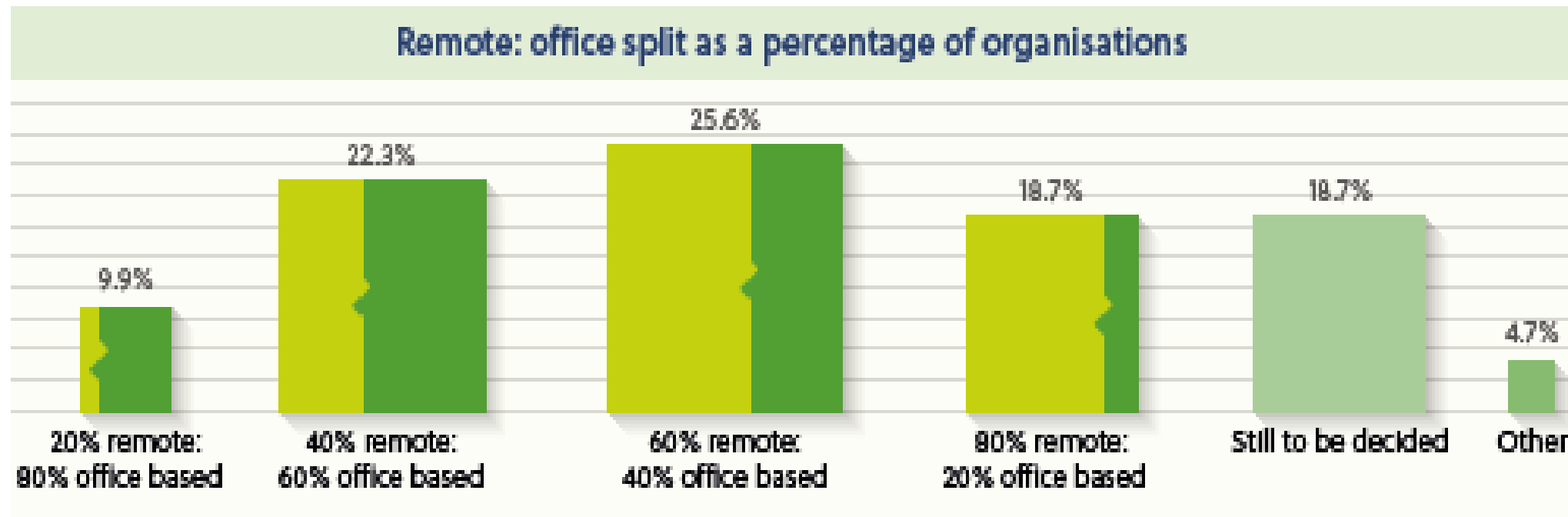
Hybrid working

Hybrid is THE new working model



Hybrid working

Balance likely to be 60/40



Hybrid working

Making a success of hybrid working

The following are important steps to take to ensure a successful shift to hybrid working:

- implementing a phased return to the workplace, and/or a trial period of new arrangements;
- consulting with and listening to staff and maintaining communications throughout;
- ensuring that the technology is in place to enable remote working;
- working with managers on the switch to hybrid working and embedding the culture change; and
- creating a culture of trust that employees can work in different locations, and avoiding a one-size-fits-all approach.

Benefits

Strategic focus has changed

- Recruitment and retention
- Cost control
- Meets current and future workforce needs
- Post-pandemic
- Flexibility
- Wellbeing

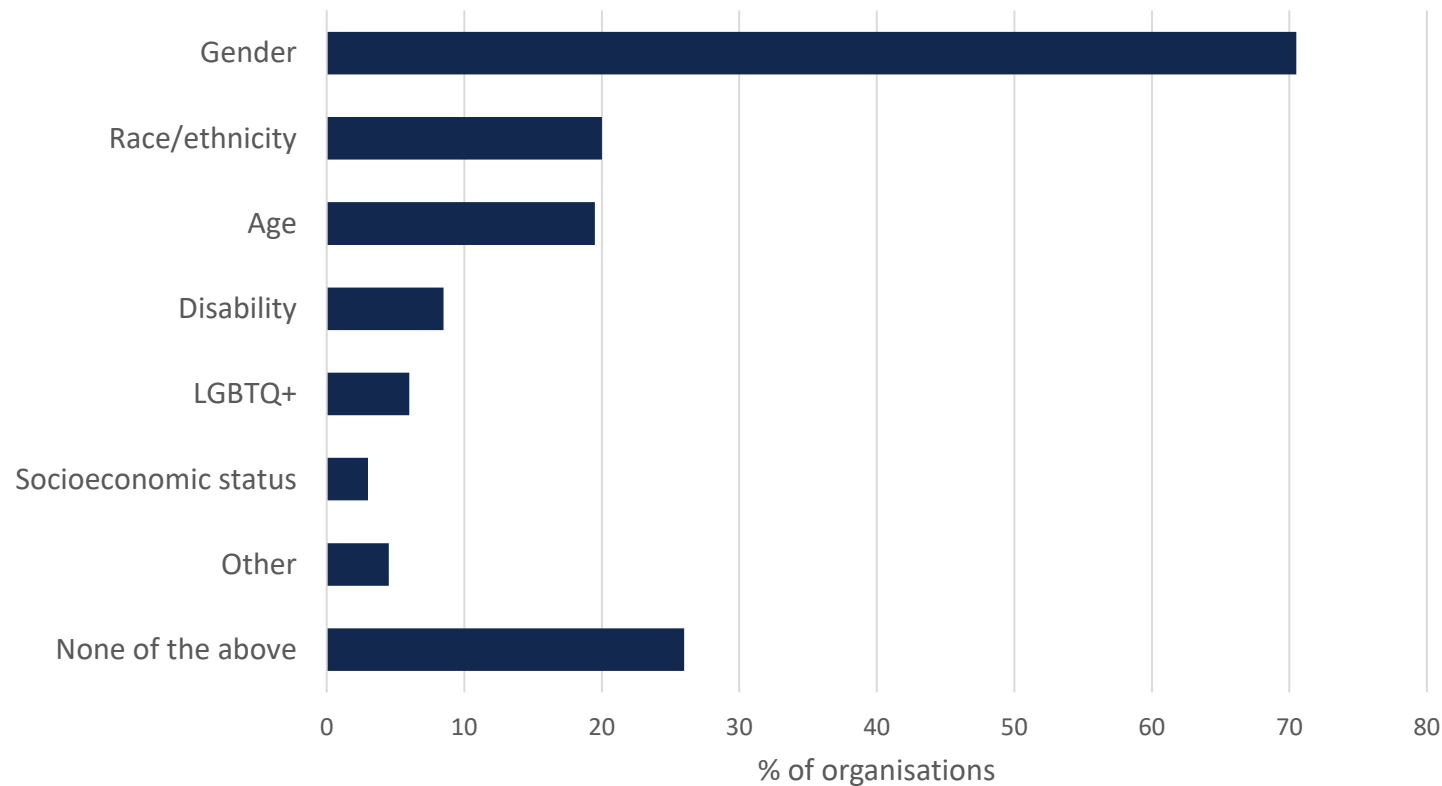
We want to create a more flexible benefits package which allows the employee to select which benefits matter more to them

With limited money to spend on benefits, it's important we spend it the right way - on what people find useful or attractive and on what might aid recruitment and retention

We are developing a strong package, which is in line with the post-pandemic needs of the organisation and the new agile working model

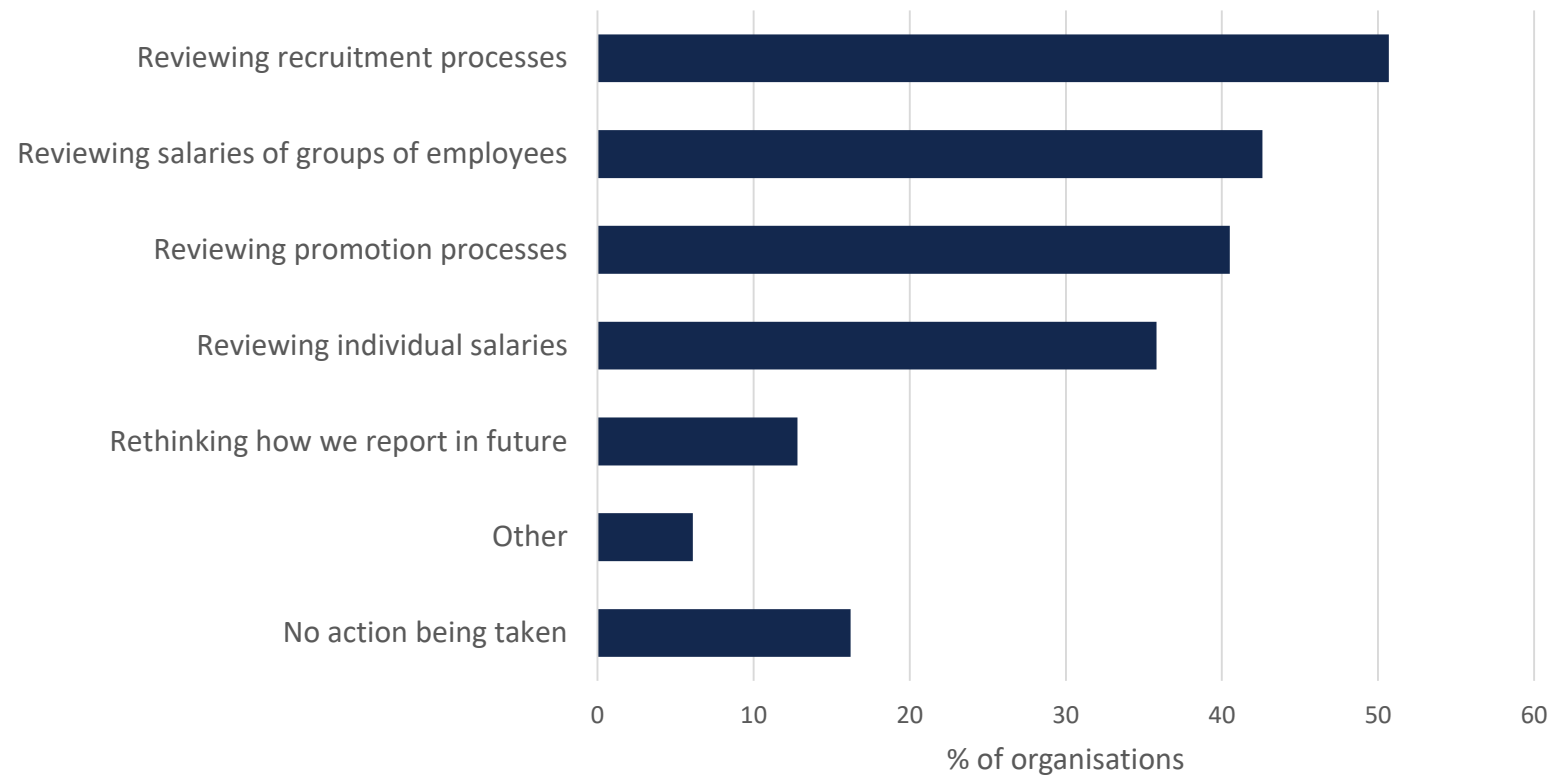
Pay gap reporting

Are organisations ready to extend reporting beyond gender?



Pay gap reporting

Actions need to follow reporting



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Any questions?

Cendex enquiries

E: cendex@xperthr.co.uk

T: 0208 652 3900

W: cendex.co.uk

