



## XpertHR Podcast

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- Jeya Thiruchelvam: Hello, and welcome to this week's podcast with me, Jeya Thiruchelvam. Private sector organisations have predicted their pay awards for the coming year, with more than eight in ten expecting to award pay rises, according to XpertHR's pay forecast survey 2017. Pay and benefits practice editor, Jo Jacobs, is with me to discuss organisations' pay intentions for the year ahead and Sheila Attwood, pay and HR practice managing editor, will be covering the issues that pay professionals should be aware of. So, Jo, the pay landscape has been stable for several years now. Are we seeing any changes in terms of higher pay awards or increased optimism about pay awards for the private sector in the coming year? [0:00:49.7]
- Jo Jacobs: This is just what our latest survey of pay forecasts for the private sector has been looking at. As you say the pay landscape remains static, but positively over the coming year, a pay rise is expected for more than eight employee groups in ten. For the remaining groups, there is either likely to be a pay freeze or there hasn't been a clear decision yet on the pay award for the coming year.
- Jeya Thiruchelvam: So just to be clear, we are just talking about the private sector here, aren't we? [0:01:12.8]
- Jo Jacobs: Yes. We've excluded the public sector from this piece of research, as it's covered by the Government's policy of restricting pay increases to a maximum of 1%.
- Jeya Thiruchelvam: So what level of pay awards can we expect, then, over the coming year? [0:01:24.3]
- Jo Jacobs: Private sector employers are forecasting a 2% median pay award for the year to the end of February 2018. Broken down by sector, both the manufacturing-and-production sector and private-sector-services are expecting a 2% median pay award.
- Jeya Thiruchelvam: How does that compare with last year's pay awards? [0:01:40.5]
- Jo Jacobs: Well, employers are being cautious and just over half expect this year's pay award to be at the same level as last year's. Only a minority, one third, expect to award a higher pay award than last year.
- Jeya Thiruchelvam: Okay. And how does that 2% figure sit against XpertHR's recording of pay awards? [0:01:56.9]

Jo Jacobs: XpertHR has recorded pay awards at a median 2% for the best part of five years now with only occasional movement either side of this figure.

Jeya Thiruchelvam: Okay, So we have a really stable picture then in terms of pay award levels. But what has changed in terms of economic circumstances this year, and what will that mean for employees? [0:02:14.6]

Jo Jacobs: Well during 2015 and most of 2016, a 2% pay award represented a real terms increase in pay, as the rate of RPI inflation was below 2%. However, as RPI increased in September 2016, our measure of pay awards fell, resulting in inflation outstripping the value of pay awards.

Jeya Thiruchelvam: So how are pay awards likely to compare with inflation this year, then? [0:02:37.2]

Jo Jacobs: Well RPI jumped to 3.2% in February and it's predicted to creep up further during the year, so the figures suggest that the pay award for the coming year will feel quite low to employees and won't deliver real terms increases in pay for many employees.

Jeya Thiruchelvam: And does inflation tend to influence the level of pay awards, or not? [0:02:55.0]

Jo Jacobs: Well it's a bit of a mixed picture, because although inflation is rising, employers are still predicting a 2% median pay award. While it's uncommon for private sector pay awards to be directly linked to the rate of inflation, this year an overwhelming three quarters of our survey respondents cited inflation and/or the cost of living as an upwards pressure on pay awards. So in the longer term pay awards may go above 2% if this pressure continues, either from the employees themselves or from employers who think that their pay awards should more closely reflect increases in the cost of living.

Jeya Thiruchelvam: And can organisations actually afford to pay above 2%? [0:03:30.4]

Jo Jacobs: Well we do need to bear in mind that the recession left its mark, so many organisations will be deterred from making higher pay awards until they are completely confident they can afford them.

Jeya Thiruchelvam: But it does seem to be the case that employers are increasing, rather than freezing, pay awards. [0:03:44.9]

Jo Jacobs: Yes. Over 2016 a pay freeze was in place for 12% of employee groups, while over the coming year this is predicted to be the case for just over 4%.

Jeya Thiruchelvam: So what factors then shape the level of pay increases? [0:03:56.8]

Jo Jacobs: The three factors cited as having the strongest upwards influence on the level of pay awards for this year are inflation and/or the cost of living, as we mentioned, employee retention and pay awards in the same industry.

Jeya Thiruchelvam: And what about the equally important downward influences on pay? [0:04:13.0]

Jo Jacobs: The strongest downward influence on pay is the organisation's ability or inability to raise the prices of products and services. And the organisation's performance and/or their ability to pay continues to be a strong downwards influence.

Jeya Thiruchelvam: So organisations are dealing with conflicting pressures, aren't they? [0:04:29.2]

Jo Jacobs: Yes. For several years now, employers have been telling us they've had to closely control their payable costs and it seems that the year ahead will be no exception.

Jeya Thiruchelvam: Sheila, you've been researching the top priorities for award departments this year. So what else is being worked on? [0:04:43.0]

Shelia Attwood: That's right. So top of the list is salaries. But this isn't just the annual salary reviews we've been talking about. Employers are actually spending quite a lot of time ensuring that their basic salary levels are set at the right level. So there is lots of work behind the scenes benchmarking salaries against the market.

Jeya Thiruchelvam: And that's particularly important in the current labour market, isn't it? [0:05:02.2]

Shelia Attwood: That's right, yes. So our research has once again revealed the extent to which employers are having recruitment and retention issues and Jo mentioned earlier employee retention being in that list of upward pressures on pay awards. So although this is actually sometimes limited to specific roles or skills actually many employers are having to use rewards - so salaries, bonuses or other additional payments - to make sure they can secure the staff they need and of course keep those that they've got.

Jeya Thiruchelvam: We know that employers spend a lot on their benefits packages too, so do you think they are getting the most out of those packages? [0:05:32.8]

Shelia Attwood: Well, yes. And what we also know is that employers spend a lot of time reviewing those benefits packages. So adding and removing benefits depending on employee choice and also the employer themselves getting value for money. One of the easiest ways, actually, for employers to make sure that they are providing the right benefits package is ensuring that employees know what's there. So what we're seeing is employers undertaking targeted communication exercises about the benefits. Telling employees what's there, making sure they're using those benefits that are available to them.

Jeya Thiruchelvam: How else can employers encourage people to join or stay with them then? [0:06:05.6]

Shelia Attwood: Well another area that we're seeing that employers are working on is grading structures in job evaluation. So a good, well thought out grading structure, that's going to make it clear to an employee how they can progress through the organisation and also be rewarded for doing so. So having a clear career progression in front of them can help build employee engagement and therefore, of course, aid retention of those employees.

Jeya Thiruchelvam: And this year the National Minimum Wage and the National Living Wage will both be updated in April. Can you explain what that will actually mean for employers? [0:06:34.4]

Shelia Attwood: Yes. So this represents a change in the updating cycle of the National Minimum Wage compared with previous years, so since 2000 the Minimum Wage has been reviewed and updated every October, but it actually makes sense this year, as the National Living Wage was introduced last April and will be updated from this April to bring it all together in one month. So we know that all these employees, subject to the Minimum Wage rates will receive a pay increase next month.

Jeya Thiruchelvam: Now the National Living Wage will rise by 4.2% in April. That's some way above the 2% pay increase XpertHR is recording at the moment. [0:07:06.8]

Shelia Attwood: It is, yes. But actually the Government has been very clear from the outset about its target for the National Living Wage, which it wants to reach 60% of average earnings by 2020. And now this is currently estimated to be about £8.60 an hour by then, so we're going to have to have increases of almost 5% every year to get to this level.

Jeya Thiruchelvam: So in theory employers can plan ahead, then? [0:07:28.7]

Shelia Attwood: They can to a certain extent, yes. But actually our research would suggest that many aren't yet factoring in the level of increases that are going to be needed to be made over the next four years to reach this Government target. So really employers who are affected by the National Living Wage should now be modelling the impact on their pay bill and working out how they are going to fund these increases over the next four years.

Jeya Thiruchelvam: So lots for reward professionals to be getting on with, whilst almost making sure that pay awards are at a level that engages employees. [0:07:53.3]

Sheila Attwood: That's right, yes. And there's lots of pressures on organisations' pay bills from addressing the recruitment and retention issues that we talked about to salary levels, minimum wage increases and of course gender pay gap reporting that comes in next month. So it's really likely to be a busy year again for pay specialists, but again within these constrained budgets we've been talking about.

Jeya Thiruchelvam: Okay. Thank you very much for that Jo and Sheila. You can read the full results of both the pay forecasts and reward priority surveys on XpertHR and of course see the full data on benchmarking. That brings us to the end of this week's XpertHR podcast, which you've been listening to with me, Jeya Thiruchelvam. We're back next Friday, but until then it's goodbye from us.