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Special Report: The Pay Review Landscape 2018

Spring 2018

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The Pay Review Landscape: General Themes for 2018

Pay Awards

2%
remains the most common pay increase

3%
Wage growth projections show a slight increase to three per cent for 2018

Two thirds of employers tell us that their pay increase is driven by how their pay compares to the external labour market, closely followed by internal relativities and targeting high performing people

Pay Reviews

94%
expect their pay reviews to be carried out at the normal time of year

April
continues to be the most popular month for pay reviews

More organisations are using a combination of across the board and individually-determined increases, with **36%** choosing this method: a **9%** increase since last autumn

Out of cycle pay increases

One third of respondents have used out of cycle pay increases

Up to **1%** and up to **3%** are the most common pay increases

The most common reasons for out of cycle pay increases are **individual employee promotion** and **market pressures**

Introduction

With inflation hitting the three per cent mark, 2017 saw both employee and employer attitudes towards pay start to shift from a largely constrained approach over the course of the last ten years. The spring edition of our UK Reward Management Survey suggests that the business outlook for the year ahead looks positive, with 60 per cent of respondents predicting that their revenue will increase in comparison to 30 per cent in 2017.

CONSTRAINED WAGE GROWTH SINCE THE RECESSION

Twenty years ago, pay reviews could feasibly be between five and six per cent. We consistently saw this level of pay increase in industries where there was a shortage of skills and talent. Since the recession hit in 2008, pay review increases have not recovered to pre-crisis levels, staying around the two to three per cent mark. Inflation has threatened to pass wage inflation.

UNCERTAINTY IN THE ECONOMY REMAINS

Market commentators have expected pay growth to pick up the pace, but it has remained steady. There are signs that this increase is on the horizon, however the uncertainty of Brexit and trade tariffs are factors that may once again hold back any acceleration of wage growth in the near-future.

THE RISE OF OUT OF CYCLE PAY INCREASES

In this report, we explore the pay award picture across five different sectors and analyse the common themes that have emerged. Whilst there are early signs that the economy may be about to pick up again and wage growth is set to benefit, out of cycle pay increases have been operating behind the scenes, bridging the gap between rising inflation which has threatened to pass wage inflation. We explore how this potentially undermines the overall mechanism of looking at pay reviews as a whole.

According to Tim Kellett, Director at Paydata, "Whilst we have captured more employers considering a wage increase of up to three per cent in our recent UK reward management survey, pay reviews have been modest since the global financial crisis and look set to continue being constrained. Along with market commentators, we had predicted that an upward trajectory of wage growth was around the corner, but it really has been a bumpy road to recovery since the recession, that continues to set a cautious tone amongst businesses."

If you have any questions or would like to discuss any of our report in more detail, please get in touch.

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TIM KELLETT,
Paydata Director

Sector Analysis - Charities, Associations and Institutes

KEY DRIVERS FOR PAY ACTIONS

83%
said pay actions were driven by external relativities

67%
said that pay actions were driven by internal relativities

33%
only 33% said they target high performing people

More respondents predict pay rises of up to 3%

50% predicted pay review budgets to be **up to 2%** in comparison to last year's 59%.

42% predicted pay review budgets to be **up to 3%** in comparison to 22% of respondents in 2017.

OUT OF CYCLE PAY INCREASES

40%
of respondents have granted out of cycle pay increases

33%
Expect the use of out of cycle pay increases to continue next year

Of those respondents granting out of cycle pay increases, the reasons why varied:

100% for individual employee promotion

67% quoted market pressures

50% cited internal pay alignment

50% cited pay/scale restructure

Sector Analysis - Construction and Business Services

KEY DRIVERS FOR PAY ACTIONS

81%
said pay actions targeted high performing people

63%
said pay actions were driven by external relativities

63%
said pay actions were driven by internal relativities

More respondents predict pay rises of up to 2% and up to 3%

38% predicted pay review budgets to be **up to 2%** in comparison to last year's 26%.

54% predicted pay review budgets to be **up to 3%** compared to 43% of respondents in 2017.

OUT OF CYCLE PAY INCREASES

47%
of respondents have granted out of cycle pay increases

52%
Expect the use of out of cycle pay increases to continue next year

Up to 2% was the most popular pay increase for 24% of respondents granting out of cycle increases

Of those respondents granting out of cycle pay increases, the reasons why varied:

100% for individual employee promotion

88% quoted market pressures

71% cited internal pay alignment

35% cited inflationary pressures

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Sector Analysis - Housing Associations

KEY DRIVERS FOR PAY ACTIONS

80%
said pay actions were driven by external relativities

40%
said that pay actions were driven by internal relativities

20%
only 20% said they target high performing people

More respondents predict pay rises of up to 2% and up to 3%

44% of respondents predicted pay review increases of **up to 2%** in comparison to 33% in 2017.

There was a significant increase in the number of employers (**33%**) predicting increases of **up to 3%**, compared to 7% of respondents in 2017.

OUT OF CYCLE PAY INCREASES

58%
of respondents have granted out of cycle pay increases

50%
Expect the use of out of cycle pay increases to continue next year

Of those respondents granting out of cycle pay increases, the reasons why varied:

71%
quoted market pressures

43%
for individual employee promition

29%
cited inflationary pressures

Sector Analysis - Manufacturing and Production

KEY DRIVERS FOR PAY ACTIONS

56%
said pay actions were driven by external relativities

56%
said they target high performing people

33%
said that their pay actions were driven by internal relativities

Optimistic pay review predictions include budgets up to 4%

Last year equal numbers of respondents **(50%)** predicted pay review increases **up to 2%** or **up to 3%**.

In comparison, **up to 2%** remains the most common increase for **half of respondents**, whilst 33% predict increases up to 3% and 17% up to 4%.

OUT OF CYCLE PAY INCREASES

40%
of respondents have granted out of cycle pay increases

50%
Expect the use of out of cycle pay increases to continue next year

Of those respondents granting out of cycle pay increases, the reasons why varied:

60% for individual employee promotion

40% quoted market pressures

20% cited inflationary pressures

20% cited pay/scale restructure

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Sector Analysis - Professional Services

KEY DRIVERS FOR PAY ACTIONS

A wider range of drivers behind pay actions were identified for this sector

71%

cited external relativities and targeting high performing people as key drivers

More than half selected internal relativities, targeting core roles and scarce resources as reasons for pay actions

Pay review budgets to reach up to 5% this year

In 2017 the most common pay review budget was up to 3% with 67% of respondents granting this level. 17% of respondents granted over 5%.

2018 has seen more respondents granting increases in the ranges of **3 – 5%** even though none of the respondents predict over 5% for 2018.

OUT OF CYCLE PAY INCREASES

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Expect the use of out of cycle pay increases to continue next year

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Common Themes

The following key trends and insights into pay practices can be identified across all sectors.

EXTERNAL AND INTERNAL RELATIVITIES ARE CRITICAL IN THE PAY REVIEW PROCESS

Fair and transparent pay that explains how pay levels and increases are set are increasingly expected of employers across all sectors. There are two key factors operating here:

1. Equality in the workplace: the recent push to publish compulsory gender pay gap figures is part of a wider movement to secure transparency in the workplace. External and internal relativities were cited as key drivers behind the pay actions for all sectors.
2. Attracting and retaining the right talent: being able to pay competitively is pivotal to our customers' recruitment strategy. Benchmarking roles by drawing upon data from the wider industry ensures that organisations are paying their employees competitively and fairly.

Monitoring both who employers are focusing their reward on and what the drivers are for reward such as high performance, greatest contribution and an awareness of the external and internal markets are all key to an organisation's ability to create an equal platform for their current and prospective employees.

Paydata Director Tim Kellett comments, "Transparency around pay and reward is being driven by employers having to be more accountable for their business practices. Recent calls for greater scrutiny on executive pay and the gender pay gap reporting requirements that have come into effect are changing the dynamic, with employers realising that openness around the processes behind their pay decisions and the outcomes of these promotes fairness and inclusion within the business."

FACTORING IN OUT OF CYCLE PAY INCREASES

Pay systems are pivotal to the success of an organisation to create a fair and incentivised workplace. However, out of cycle increases risk undermining the organisation's goals and objectives that should be at the heart of the design of each pay and reward system. The rise of out of cycle pay awards risks undermining the overall mechanism of looking at pay reviews as a whole, in the context of total rewards and targeted wage increases. Overall, a third of companies have granted these, with one third attributing out of cycle pay increases to inflationary pressures and two thirds citing market pressures.

Manufacturing and production granted out of cycle pay increases of up to four per cent, indicating the sector's need to retain skilled and qualified workers. Responses to the survey suggest this was generally achieved through promoting staff throughout the year. Equally, in the construction sector, which has traditionally seen a shortage of skills, 47 per cent confirmed granting out of cycle pay reviews this year.

"Transparency around pay and reward is being driven by employers having to be more accountable for their business practices."

TIM KELLETT,
Paydata Director

55 per cent of respondents say that pay for performance is the main driving force of their reward schemes. Often, we are hearing that heavier or altered workloads are increasing the one-time base pay increases for employees that managers are requesting. However, knowing how and why to award salary increases without a change in grade or level is important in upholding fair and effective pay practices.

THE UNCERTAIN ECONOMY PAVES THE WAY FOR COSTLIER OUT OF CYCLE INCREASES

With inflation still significantly exceeding the government's two per cent target and ongoing Brexit negotiations that bring economic uncertainty, this cautious political climate is translating into cautious wage growth. However, the reluctance of some employers to officially grant an across the board three per cent increase to match inflation has potentially seen employers burdened with the costlier option of negotiating pay awards to address market pressures affecting their employees.

Professional services granted the highest pay rises at a three per cent median, with 20 per cent of respondents paying up to five per cent during annual pay reviews. However, their out of cycle pay increases were lower, indicating that these may be small adjustments to bring about pay equality and remunerate people for changes in their job descriptions.

Out of cycle salary increases carry with them the additional organisational costs of managing and administering these, which risks escalating the true cost of pay awards to employers over the year. The rise of incremental tweaks varies sector by sector and is one to watch to avoid undermining the pay review process in place and to avoid additional administrative costs throughout the year.

How can I ensure that pay and reward is correctly targeted?

The following three steps outline the key factors to determine whether your pay and reward system is robust in its design.

STEP 1: ENSURE THAT THE PAY SYSTEM IS WELL-DEFINED AT ALL LEVELS OF THE ORGANISATION

Pay and reward practices should be transparent and well-defined. This promotes employee trust in the employer as there is an overall framework and progression is clearly mapped out to provide fair and equal opportunity within the business. Similarly, this provides employers with the opportunity to link pay practices directly to your business strategy, setting expectations and guiding behaviours and characteristics that you want to develop in your employees.

ENSURE THAT YOUR PAY STRUCTURE IS FIT FOR PURPOSE

We help customers identify the driving forces behind their current pay and reward practices. Our reward consulting services can help you to develop pay and performance systems that fit with, and reinforce, your business strategy. Clarity around pay structure sets the tone for the direction of the business. Your reward scheme should be giving you a competitive advantage, as it is an essential part of engaging your employees.

ENSURE YOUR CULTURE UNDERPINS HOW YOU MOTIVATE AND REWARD YOUR PEOPLE

Not one reward package will fit every organisation. Our reward solutions are tailored to your individual business needs. We start by getting to grips with your organisation's culture, business objectives and priorities to assess whether existing reward practices meet your needs and where you may need further input in developing reward strategy; creating salary scales; preparing pay policy papers for remuneration committees; and designing bonus schemes.

STEP 2: ENSURE THAT ALL ROLES ARE BENCHMARKED AGAINST THE EXTERNAL MARKET

Internal pay and benefits decisions are not made in isolation. They should be informed by using a wide range of relevant salary and conditions market data, to ensure that wider industry practice is taken into account. Our job evaluation service ensures that there is a wider organisational structure which groups similar roles and promotes employee perceptions of how they are rewarded for the work they do and how they can progress.

UNDERSTAND HOW YOUR ORGANISATION'S PAY COMPARES TO THE EXTERNAL MARKET

Having an awareness of the similar challenges facing other organisations has been invaluable to our customers who can share their experiences in our HR Groups. We help our customers to collectively solve challenges they face. Our consultants also use our PAYgrade job evaluation system to support employers wishing to introduce more order and structure in their pay arrangements. PAYgrade groups similar roles and makes sure people are rewarded fairly for the work they do relative to others not only within the business, but the external market.

ACCESS ACCURATE MARKET PRACTICE AND DATA

Our PAYanalyst salary benchmarking database holds current pay and bonus market data for hundreds of general industry roles, from basic skills through to senior professional and middle management roles. Our salary survey database holds market intelligence for around 1,000 general industry roles that most organisations employ. If you require data for more specialist roles then our industry salary surveys or ad hoc benchmarking can supplement the PAYanalyst database.

STEP 3: CLARIFY A WELL-DEFINED PROCESS FOR OUT OF CYCLE PAY AWARDS

The system in place for reward and pay should be able to objectively justify the pay of all members of staff at any point in the year. Any out of cycle pay increases need to be well-thought through as to why the increase justifies immediate action from the HR team and cannot wait until the next round of pay reviews.

PUT WELL-DEFINED SALARY SCALES IN PLACE

By modelling pay for performance, we can help you calculate pay review costs from the outset and build-in some room for out of cycle pay increases. By organising your HR data and understanding how this fits with wider market data, this provides you with an overview of exactly how competitive your pay packages are in the market. This provides a reference for any requests for out of cycle pay reviews that may be submitted in between pay reviews. By creating market guidelines, any increases can be guided to still operate within the accepted ranges for each role.

ENSURE YOUR PAY STRUCTURE SUPPORTS YOUR ABILITY TO RECRUIT, RETAIN AND MOTIVATE

Using well-defined pay ranges throughout an organisation can determine a clear system for line managers to help them effectively manage pay reviews, guiding managers in making pay decisions that can avoid the need for incremental increases over the year.

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Taking the strain out of preparing job descriptions

Do you find the task of writing accurate and consistent job descriptions troublesome and time-consuming?

Through working closely with employers for 20 years, we have built up a library of thousands of job descriptions. Using our job evaluation experience, our Reward Experts have written up a suite of concise job descriptions for over 40 key roles, which are common across most employers and sectors. Each job description is also accompanied by pay market data, providing insight into what the market pays for each role.

The cost of this comprehensive service is £3,000 +VAT (£2,500 +VAT for not-for-profit employers) for the full suite of job descriptions, including the market data.

This comprehensive job description and benchmarking service includes:

Robust job descriptions
Written in a way that ensures they remain relevant in the long-term.

Over 40 key roles
Such as Head of IT, HR Business Partner, Finance Assistant and Receptionist.

Pay market data
Providing insight into what the market pays for each role.

Benefits data
Including market data for a wide range of benefits, such as company cars, private medical insurance, holiday entitlement and pension contributions.

To discover more and to discuss your requirements, please contact us today on **+44 (0)1733 391 377** or via **info@paydata.co.uk**

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