PAYCLIMATE

FEATURES

Gender pay gaps
Duncan Brown on bringing research into practice

INFLATION FORECASTS

Economists think inflation will remain low and stable

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- Case study: pay progression at Southern Co-op
- Engineering pay awards lead those in wider economy
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We're reporting on pay trends against the backdrop of another general election.

We've taken the opportunity to compare the main parties’ manifestos in terms of their commitments on pay and employment-related matters on page 4. As with the run up to the 2017 general election, the Conservative manifesto has a lot less to say than Labour’s on employment matters.

Equalities remain a prominent agenda item and reward expert Duncan Brown has very kindly come up with some considerations on the latest official figures on the gender pay gap and what measures HR might enact to reduce it further. His main conclusion is that reward professionals can learn from research in the area and can fruitfully bring it to bear on practice.

We also present key findings from our latest survey of pay and conditions in engineering, as well as a case study at the Southern Co-op detailing progression arrangements.

Being the last issue of 2019, all that’s left to say is thank you for your support over the last year, wishing you all the best for 2020!

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Ken Mulkearn
Editor, Pay Climate
Viewpoint
The election, work and pay: we compare the main parties’ manifestos

Just like in the run-up to the previous general election in 2017, the Conservative manifesto has a lot less to say than Labour’s on employment matters.

But it does devote more space to these topics than previously, with a sense that Labour’s repeated highlighting of a number of current issues has prompted the Conservatives to also address these. But again, as in 2017, widely different policy prescriptions are on offer. And if anything, Labour’s goes further than before.

While both manifests contain promises on pensions, the most detailed policies on pay come from Labour. The party says it will introduce a ‘Real Living Wage’ of at least £10 an hour for all workers aged 16 and over. This will both raise the statutory floor substantially and abolish the current age-related structure. (The Conservatives refer to their introduction and raising of the higher minimum wage for over-25s and merely say they will ‘raise it still further’.)

On public sector pay, Labour says it will deliver ‘year-on-year above-inflation pay rises, starting with a 5% increase.’ Labour also says that in the public sector it will enforce a maximum ratio between the pay of leading executives and that of the lowest-paid staff of 20:1. It remains to be seen how much effect this policy would have, however, since public sector pay ratios tend to be lower than this, as well as being much lower than in the private sector.

While the Conservatives do not present any new policies relating explicitly to pay, the party promises to raise the threshold for National Insurance payments to £9,500 a year, and to follow this with gradual increases to £12,500. Commenting on this, the Resolution Foundation raises the question of how this might align or otherwise with the personal allowance for income tax, which overall can establish whether the policy represents a tax reduction or a rise. Labour’s key policy in this area is to raise income tax for the top 5% of wage-earners, those on more than £80,000.

Both manifests address the ‘gig economy’, with the Tories undertaking to ensure that workers have the right to request a more predictable contract. They also promise to create a single enforcement body. Labour’s offer here is more wide-ranging.

It says it will establish a Ministry for Employment Rights and a new Workers’ Protection Agency, end ‘bogus self-employment’ and ban zero-hours contracts. A Labour Government, the manifesto says, would grant all employees full employment rights from day one and introduce measures requiring breaks and cancelled shifts to be paid and ‘proper notice’ for changes in working hours.

Family-friendly working is also taken up by both parties. Labour’s centrepiece is to increase maternity pay from the current nine to 12 months. It also says it will double paternity leave from two weeks to four and increase statutory maternity pay, alongside a series of intended moves on childcare.

Meanwhile the Conservatives trail ‘a raft of measures that balance the needs of employees and employers’, including encouraging flexible working and consulting on making it the default, ‘unless employers have good reasons not to’, and legislation to allow parents to take extended leave for neonatal care. The Conservatives say they will look at ways to make it easier for fathers to take paternity leave and extend the entitlement to leave for unpaid carers to a week. On this, Labour says it will increase the Carer’s Allowance for unpaid carers.

Both manifestos address corporate governance and executive pay, but as with other areas, Labour’s goes further. The Conservatives say that they will ‘improve incentives to attack the problem of excessive executive pay and rewards for failure.’ Labour, meanwhile, will require one-third of boards to be reserved for elected worker-directors and will also require large companies to set up ‘Inclusive Ownership Funds (IOFs)’, with dividends for all.

On skills, different approaches are in evidence here too. The Tories plan to create a new National Skills Fund, while Labour focuses on reforming the apprenticeship levy, by making it easier for employers to spend the levy by allowing it to be used for a wider range of accredited training. They also plan to introduce a ‘Climate Apprenticeship’ programme.

Labour’s manifesto, unlike the Conservatives’, contains an extensive section on equalities, promising to require employers to devise and implement plans to eradicate the gender pay gap – and pay inequalities underpinned by race and/or disability – or face fines.

On working time, Labour says that it plans to reduce average full-time weekly working hours to 32, with no loss of pay, funded by productivity increases. Labour also promises four new bank holidays. A final contrast with the Tory manifesto is the promise to ‘remove unfair and unnecessary restrictions on trade unions’ and plans for the reintroduction of sectoral collective bargaining.
Pay awards analysis  
Higher awards in private services push median to 2.8%

Our latest analysis shows the median pay award across the economy has risen to 2.8% in the three months to October 2019, having been at 2.5% since April 2019.

The interquartile range has widened slightly from between 2.2% and 3.0% to between 2.0% and 3.0% with the most common pay rise being 2%. No pay freezes were recorded in this period, having accounted for 7% of awards in the three months to September.

We have not seen a period without pay freezes since March 2019. The latest figures are based on a sample of 33 pay awards effective between 1 August and 31 October 2019, covering over 900,000 employees.

**Private sector**

The private sector median has also increased from 2.5% to 2.8%, influenced by a larger number of higher-end awards worth 3% or more in private services, with the highest increases in retail and distribution. Awards at this higher level account for more than half of awards in private services, producing an elevated median of 3%.

This period has become a quieter one for pay-setting since the date for the uprating of the National Minimum Wage and National Living Wage was moved from October to April. However, a number of organisations in private services continue to increase pay for salaried employees during the final quarter of the year. For example, Pizza Express awarded a pay rise of 2% to its salaried employees in October 2019, which followed an increase of 4.9% for hourly-paid employees in April 2019 that matched the National Living Wage uplift.

<table>
<thead>
<tr>
<th>Pay freeze</th>
<th>Median</th>
<th>Average</th>
<th>Interquartile range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whole economy</td>
<td>2.8%</td>
<td>3.9%</td>
<td>2.0 to 3.0%</td>
</tr>
<tr>
<td>Private sector</td>
<td>2.8%</td>
<td>3.1%</td>
<td>2.0 to 3.0%</td>
</tr>
<tr>
<td>Manufacturing and production</td>
<td>2.8%</td>
<td>2.6%</td>
<td>2.3 to 2.9%</td>
</tr>
<tr>
<td>Private services</td>
<td>3.0%</td>
<td>3.6%</td>
<td>2.1 to 3.2%</td>
</tr>
<tr>
<td>Not-for-profit</td>
<td>2.4%</td>
<td>2.1%</td>
<td>1.7 to 2.6%</td>
</tr>
<tr>
<td>Public sector</td>
<td>2.5%</td>
<td>2.4%</td>
<td>2.1 to 2.8%</td>
</tr>
</tbody>
</table>

Based on 33 pay awards covering 913,501 employees
In manufacturing and production, the median has fallen slightly from 2.9% to 2.8% following a drop in the number of higher-end awards. However, there were no manufacturing or production awards in the sample lower than 2%; in fact, nearly three-quarters (73%) of awards in this area were worth between 2% and 3%. Around 30,000 workers covered by the Heating, Ventilating and Domestic Engineering Joint Council received a pay rise of 2.8% in October 2019 in the final year of a four-year deal, while 2 Sisters Food Group awarded an overall pay rise of 2% to over 17,000 employees.

**Public sector**

The public sector median has fallen from 2.7% to 2.5% in this analysis period with all awards registering between 2.1% and 2.8%. Despite the drop, this still represents a contrast with previous years when awards were capped at 2% or lower. The School Teachers’ Review Body (STRB) recommended a pay rise of 2.75% for teachers and school leaders in England with effect from 1 September 2019. This was accepted by the Government. The review body no longer has responsibility for pay and conditions for teachers in Wales, following the establishment of the Independent Welsh Pay Review Body (IWPRB) in September 2018. The recommendation of the IWPRB was to increase pay by 2.4%, a lower headline increase than in England, but to also raise the minimum of the main scale by 5%. However, the Welsh Government reacted by implementing an eventual increase for over 26,000 Welsh teachers that matched the rise in England (2.75%) with 5% on the main scale minimum. Meanwhile, police officers in England and Wales received a recommended pay rise of 2.5% in September 2019.

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**Whole economy pay increases, November 2018 to October 2019**

![Graph showing whole economy pay increases](image)

**Whole economy pay awards in the three months ending at each date**

<table>
<thead>
<tr>
<th></th>
<th>Dec 18</th>
<th>Jan 19</th>
<th>Feb 19</th>
<th>Mar 19</th>
<th>Apr 19</th>
<th>May 19</th>
<th>Jun 19</th>
<th>Jul 19</th>
<th>Aug 19</th>
<th>Sep 19</th>
<th>Oct 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower quartile</td>
<td>2.0%</td>
<td>2.2%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%r</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Median</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.7%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Upper quartile</td>
<td>2.6%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%r</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Average</td>
<td>2.4%</td>
<td>2.6%</td>
<td>2.6%r</td>
<td>2.7%</td>
<td>2.8%</td>
<td>2.8%r</td>
<td>2.8%r</td>
<td>2.5%r</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Total*</td>
<td>46r</td>
<td>122r</td>
<td>136r</td>
<td>145r</td>
<td>263r</td>
<td>253r</td>
<td>249r</td>
<td>68r</td>
<td>65</td>
<td>66</td>
<td>33</td>
</tr>
</tbody>
</table>

*Total number of pay awards recorded in the three-month period, r = revised.
## Pay awards monitored by IDR

<table>
<thead>
<tr>
<th>Sector</th>
<th>Organisation</th>
<th>Increase</th>
<th>Comments</th>
<th>Effective date</th>
<th>Employees covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advice campaigning and aid</td>
<td>Oxfam GB</td>
<td>2.8</td>
<td></td>
<td>01-Aug-19</td>
<td>2,000 retail employees</td>
</tr>
<tr>
<td>Business services</td>
<td>Vista Retail Support</td>
<td>1.0</td>
<td></td>
<td>01-Sep-19</td>
<td>181 employees</td>
</tr>
<tr>
<td>Catering</td>
<td>Caterers Offshore Traders Association</td>
<td>3.0</td>
<td></td>
<td>01-Sep-19</td>
<td>3,000 employees</td>
</tr>
<tr>
<td>Central government</td>
<td>Royal Parks Agency</td>
<td>2.1</td>
<td>minimum £690</td>
<td>01-Sep-19</td>
<td>158 employees</td>
</tr>
<tr>
<td>Chemicals, pharmaceuticals and oil</td>
<td>Seqirus Vaccines</td>
<td>3.0</td>
<td></td>
<td>01-Sep-19</td>
<td>259 collectively bargained employees</td>
</tr>
<tr>
<td></td>
<td>Seqirus Vaccines</td>
<td>2.8</td>
<td>average merit</td>
<td>01-Sep-19</td>
<td>300 non-negotiated employees</td>
</tr>
<tr>
<td>Education</td>
<td>Independent Welsh Pay Review Body</td>
<td>2.75</td>
<td>5% on main scale minimum</td>
<td>01-Sep-19</td>
<td>26,100 school teachers (Wales)</td>
</tr>
<tr>
<td></td>
<td>School Teachers</td>
<td>2.75</td>
<td></td>
<td>01-Sep-19</td>
<td>453,411 school teachers (England)</td>
</tr>
<tr>
<td>Engineering: vehicles and components</td>
<td>Leyland Trucks</td>
<td>3.0</td>
<td>2nd year of 2-year deal</td>
<td>01-Sep-19</td>
<td>737 employees</td>
</tr>
<tr>
<td></td>
<td>Nissan Motor Manufacturing (UK)</td>
<td>lump sum</td>
<td>£1,000 lump sum (non-consolidated) following 0% increase from 1 Jan 2019 (long-term deal; subsequent stages - £1,000 consolidated from 1 Jan 2020 and £500 non-consolidated lump sum 1 Jul 2020)*</td>
<td>01-Jul-19</td>
<td>6,182 employees</td>
</tr>
<tr>
<td>Fast food, pubs and restaurants</td>
<td>Pizza Express Restaurants</td>
<td>2.0</td>
<td></td>
<td>01-Oct-19</td>
<td>1,297 salaried employees</td>
</tr>
<tr>
<td>Financial services</td>
<td>BGL Group</td>
<td>2.0</td>
<td></td>
<td>01-Oct-19</td>
<td>3,000 employees</td>
</tr>
<tr>
<td></td>
<td>Computershare</td>
<td>2.0</td>
<td></td>
<td>01-Oct-19</td>
<td>2,070 employees</td>
</tr>
<tr>
<td>Fire and police</td>
<td>Police Remuneration Review Body</td>
<td>2.5</td>
<td></td>
<td>01-Sep-19</td>
<td>122,400 police officers</td>
</tr>
<tr>
<td>Food, drink and tobacco</td>
<td>2 Sisters Food Group</td>
<td>2.0</td>
<td></td>
<td>01-Aug-19</td>
<td>17,042 employees</td>
</tr>
<tr>
<td>Trade unions and professional</td>
<td>NASUWT</td>
<td>2.4</td>
<td>3rd year of 4-year deal</td>
<td>01-Sep-19</td>
<td>350 employees</td>
</tr>
<tr>
<td>associations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport: air</td>
<td>Manchester Airports Group</td>
<td>2.25</td>
<td>2nd year of 2-year deal</td>
<td>01-Aug-19</td>
<td>1,500 operational staff - Manchester</td>
</tr>
<tr>
<td></td>
<td>Manchester Airports Group</td>
<td>3.0</td>
<td>2nd year of 2-year deal</td>
<td>01-Aug-19</td>
<td>700 operational staff - East Midlands</td>
</tr>
<tr>
<td></td>
<td>easyJet</td>
<td>2.5</td>
<td>3rd year of 3-year deal</td>
<td>01-Oct-19</td>
<td>300 engineering staff</td>
</tr>
<tr>
<td></td>
<td>Babcock Airports</td>
<td>3.0</td>
<td>1st year of 2-year deal</td>
<td>01-Aug-19</td>
<td>450 technicians and baggage handlers</td>
</tr>
</tbody>
</table>

*Clarification of details from Pay Climate issue 18.
Inflation forecasts
Economists think inflation will remain low and stable

The cost of living, as indicated by the all-items RPI measure, is set to rise moderately as we approach and move through the turn of the year, before dropping back a little in the spring and summer of next year and then rising again in the autumn of 2020.

It should, though, remain below 3% throughout. This is according to the latest set of forecasts from our panel of City economists. They consider that the CPI is likely to follow a similar path, albeit at a lower level (see chart). Only a minority of our panel produce forecasts on the CPIH, which is the Office for National Statistics’ headline measure for inflation. This could move in a line that is more or less parallel to the CPI.

A majority of the forecasts this time emphasise the prospects for disinflation, especially as most assume that a deal will still be reached over Britain’s exit from the EU. Deutsche Bank comment that any pass-through from wage growth into prices remains weak. But some see price pressures persisting. For instance, Lloyds Bank considers that ‘against a backdrop of relatively soft productivity growth and still-elevated pay growth, rising unit labour costs should ensure that underlying price pressures continue to build.’ Others, however, foreground the effect of imported disinflation, especially in the short-term, given the recent move higher in sterling and the decline in crude oil prices. Cuts in regulated energy and water prices are another potential source for softening inflation.

As usual, the economists present differing interpretations of the labour market. NatWest Markets think that the labour market is ‘fraying’, as they put it, and consumer demand softening, with headline inflation likely to be dampened next year as a result. In contrast, Heteronomics believe that the labour market will pick up again next year, with recent concerns over falling vacancy numbers likely to be a blip.

As previously, one of our panel, Capital Economics (CE), presents three different scenarios for inflation: one based on a trade deal with the EU by 31 January 2020, another predicated on the UK exiting on this date without a deal, and a third based on delays to Brexit until at least the end of 2021. CE regards none of these as its ‘central’ forecast, so to compare them with the other forecasts we have averaged them together. As before, this makes the forecasts an ‘average of averages’.

CE comment that as long as Brexit is delayed, they think that firms will absorb higher costs into their margins rather than pass them onto consumers in the form of higher prices. But if there is a Brexit deal, a strengthening in demand should give firms the confidence to pass on some of the rise in labour costs. As a result, inflation would be a little higher in that instance, but with a stronger pound moderating any imported inflationary pressures. Only if there is a ‘no deal’ Brexit does CE think that inflation would rise decisively. In that case, the pound would fall further, leading to another bout of import price inflation, albeit perhaps less pronounced than that following the referendum result.

Beyond our City panel, economists at the National Institute of Economic and Social Research highlight how low productivity growth is pushing unit labour costs higher, contributing to domestic inflationary pressures. However, this is being offset by slower growth in import prices following the rally by sterling. As a result, the body’s forecast predicts that inflation is likely to remain moderate and level.

The forecast figures for each month are an average of predictions from each of Capital Economics, Deutsche Bank, Heteronomics, JP Morgan, Lloyds Banking Group, NatWest Markets and Pantheon Macroeconomics.
Special feature
Southern Co-op increases pay transparency

As a starting point in its efforts to be more open about reward, Southern Co-op has put in place formal pay progression arrangements for head-office staff paid below 90% of the median, detailing how and when these colleagues can expect to reach this point.

The measures are intended to help fulfil the organisation’s pay strategy (see box) and are a possible precursor to a closer link between pay and performance against behaviours.

Southern Co-op runs over 200 directly owned supermarkets, as well as funeral homes, crematoria and a natural burial ground, in the south of England and also has a network of franchised stores and coffee shops. The organisation employs over 4,500 people, including around 200 at its head office.

The organisation has sought to make its pay structure more transparent over the past three years as part of a broader move towards developing a culture that links individual performance more directly to consequences and builds accountability and ownership on the part of colleagues. As Performance and Reward Manager Janet Mckenzie explains: ‘if we’re talking about performance and pay, we need to be able to explain to people where they sit in the salary range and how long they’ll be there for.’ As part of this, Southern Co-op has introduced a booklet, ‘Managing Reward’, that explains to all head office staff how job evaluation links roles into its salary range structure (see box).

An important element has been to identify staff who are paid below 90% of the median – the point at which someone is felt to be ‘fully performing’ in their role – and put in place formal progression plans to bring them to the 90% target as a minimum. Southern Co-op has now conducted three such exercises, the latest of which identified 22 individuals in this position. Most colleagues paid between 80% and 90% of the median are new joiners or have recently been promoted into a different role – for example, from a store or apprentice background – and need to develop certain skills and competencies to perform effectively.

Mckenzie shares this information with the leadership team each September and the finance team are then updated so that any required progression payments can be planned. When someone starts in a role, the line manager works with the head office HR Business Partner to devise documented progression plans containing clearly defined milestones and associated
All head office roles at Southern Co-op have been assessed in line with the Hay job evaluation process by a trained in-house team and this approach is also used to score new or redesigned jobs. Roles are accordingly positioned within five bands, A (most senior) to E. (Salaries for function heads in ‘A+’ roles are benchmarked individually.) The salaries associated with these pay bands range from 80% to 120% of the Hay-determined market median, although the pay strategy at Southern Co-op is to pay within 10% of the median (ie 90% to 110%) for people who are fully performing. Salaries for head office staff are currently increased in line with a general award (2% in April 2019) but Southern Co-op may introduce closer links between performance and pay for this population in due course.

Staff not on a salary range at Southern Co-op are covered by different arrangements. Most customer service advisers (CSAs) based in-store are paid in line with the National Living Wage (NLW; currently £8.21) while those within a zone encompassing certain branches in the South East and within the M25 receive a slightly higher rate. Duty manager pay rates are also indirectly informed by the NLW uprating, as these are maintained at 10% above those for CSAs to avoid compression of differentials. Store managers, meanwhile, received an increase of 2.5% in April 2019 and head office staff received 2%.

Southern Co-op is one of several household names that have contributed data to our forthcoming report on Pay and Conditions in Retail.

This update of our annual survey offers a detailed overview of pay rates and salaries for retail assistants, supervisors and store managers at a range of food and non-food retailers and retail catering firms.

In addition to basic pay, respondents have provided details of regional pay premiums, youth pay rates and bonuses. We also look at working hours, annual leave entitlement and benefits provision (including pension contributions and staff discounts). Many employers in the retail sector closely link their lowest pay rates to the National Minimum Wage and are therefore directly affected by changes to the statutory minimum. To this end, we have also asked respondents about any productivity improvements they have implemented to help manage future increases in the pay floor.

Our report on Pay and Conditions in Retail will be published in February 2020. For more information, please contact sales@incomesdataresearch.co.uk.
Special feature
Gender pay gaps: bringing research into practice

Duncan Brown, Head of HR Consultancy, Institute for Employment Studies
Duncan.brown@employment-studies.co.uk

‘What we need is a little less research and a lot more action’, an authority on equal pay legislation confided to me at a university research conference we were both speaking at to commemorate the fortieth anniversary of the Equal Pay Act.

Since the snappily-titled ‘Equality Act 2010 (Gender Pay Gap Information) Regulations’ and ‘Equality Act 2010 (Specific Duties and Public Authorities) Regulations’ was finally implemented two years later we have had lots more of both.

But perhaps what we both should have anticipated is that in addressing such a complex and deep-seated phenomenon as gender pay, the linkages between the two are critical, and is what is really needed is to bring research into practice.

The regulations have produced a treasure trove for pay and equality researchers and practitioners, with more than 10,000 employers having uploaded their information in each of the last two years on the government’s listing website. This employers’ data consists of the six defined statistics on their gender pay gaps, measured each year on a common snapshot date, and in over two-thirds of cases, an accompanying voluntary narrative by way of explanation, with many including their action plans to reduce gaps in the future.

But this is complex, difficult terrain. An HR director in the NHS in Scotland told me that her young daughter came home and announced that she wanted to be a nurse when she grew up. ‘Why don’t you want to be a doctor?’ her mum growled back.

The Government and then Prime Minister David Cameron might have trumpeted that this transparency would help to ‘eliminate the gender pay gap within a generation’. Yet the European Commission estimates that this will take more than 70 years at the current glacial pace.

What gap and why?

The complexity of the causation and even the definition of the UK’s gender pay gap – and therefore the challenge for the government and individual employers in working to reduce it – has been very much in evidence this past month. Witness the different interpretations of the latest annual release of the national data from the Office for National Statistics on all aspects of the gap – or rather, gaps – in the UK.

The good news, according to the Daily Telegraph’s reading of the data was that ‘The difference in pay of all men and women workers…has fallen from 17.8% in 2018 to 17.3% in 2019’. The bad news as The Times saw it on the same morning was that the ‘Gender pay gap in UK increases for the first time in six years’, quoting the Fawcett Society’s view on progress in reducing it as ‘dismally slow’.

Both were of course correct, in their own narrow way. The gap has increased for full-time employees, and somewhat ironically this is the measure that the Government generally prefers as it is normally the lowest. But using the more representative and higher overall average figure for all employees (which includes the high proportion of women in part-time work) the gap has continued to decline by another 0.5%, for the second year in a row.

Examining the data in the release more thoroughly illustrates the complexity further, but also gives significant clues as to causation and most importantly, solutions to the gaps. Economic research highlights that occupational ‘vertical’ and ‘horizontal’ segregation of the UK’s labour market is a key driver of the national and many employer gaps. The ONS data confirms this, with employed women overly concentrated in elementary lower-paying occupations and industries such as caring, cleaning and catering, where the work is often also part-time. Financial services, construction and education are the sectors with the widest gaps, while the narrowest are in the arts, health and hotels and

In 2018 to 17.3% in 2019’. The bad news as The Times saw it on the same morning was that the ‘Gender pay gap in UK increases for the first time in six years’, quoting the Fawcett Society’s view on progress in reducing it as ‘dismally slow’.

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food. The gaps by broad occupational groupings are shown in the table above.

The Government’s and individual employers’ actions to close the gap therefore rightly should incorporate measures to improve the representation of women in full-time, more senior and higher-paying roles. The trouble is that occupational shifts in the short-term at least can have a negative impact on the overall gap, for two main reasons.

First, as the ONS points out, ‘The three occupations that saw the largest increase in the proportion of full-time employee jobs held by women (over the past year) were: sales and customer service, elementary occupations and process, plant and machine operatives; these all have a lower than average rate of hourly pay and will reduce average full-time earnings among women’.

Whether journalists and HR professionals consider and fully understand all of that information and draw appropriate conclusions is perhaps open to question. Whether the latter group then act to address effectively the drivers of gaps in their own specific situation is even more open to question.

**Actions that really work**

Only a minority of private sector employers have carried out an equal pay audit and so most are reliant for their action plans on copying others and supposed ‘best practice’. An analysis of the actions planned and taken reported by the UK’s 100 largest companies in 2019 reveals a wide range of measures, with a focus on ‘softer’ training and voluntary initiatives. McKinsey, who estimate the gains of gender equality at £150 billion for the UK economy by 2025, have been highly critical of traditional ‘indirect’ HR programmes designed to address the issue, such as unconscious bias training, flexible working policies and female networks. They argue that these have had a lack of impact on the pay gap and in addressing the lack of women in high-paid roles over the past decade, primarily because of a ‘single initiative focus’, the ‘yawning gap between corporate intent and individual experience’, and thirdly that ‘they are afraid to address bias head on’.

Harvard Professor Iris Bohnet has produced a similar academic critique with her research demonstrating the lack of impact of these most popular HR and diversity programmes. She uses her research to argue in favour of ‘diversity by design’, that is, compulsory ‘hard’ measures which force management action, such as regular board reporting on progress, ‘blind’ recruitment interviewing, and mandatory diverse selection panels and minority shortlisting.

Summarising this detailed research, the Government Equalities Office has produced guidance on ‘evidence-based actions for employers’ in reducing their gender pay gaps, ranked according to what they believe to be the strength of supporting evidence as to their impact.

They list as the most effective actions:

- including more than one woman on shortlists for recruitment and promotions.

### Gender pay gaps in median gross earnings (excluding overtime) for full-time employees in the main occupational groups

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Hourly earnings (£)</th>
<th>Gender pay gap (%)</th>
<th>% change from 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers, directors and senior officials</td>
<td>22.07</td>
<td>15.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Professional occupations</td>
<td>21.11</td>
<td>10.1</td>
<td>-1.6</td>
</tr>
<tr>
<td>Associate professional and technical occupations</td>
<td>16.28</td>
<td>11.0</td>
<td>-0.9</td>
</tr>
<tr>
<td>Skilled trades and occupations</td>
<td>12.79</td>
<td>22.4</td>
<td>-1.8</td>
</tr>
<tr>
<td>Administrative and secretarial occupations</td>
<td>12.03</td>
<td>4.9</td>
<td>-1.6</td>
</tr>
<tr>
<td>Process, plant and machine operatives</td>
<td>11.22</td>
<td>18.1</td>
<td>-0.8</td>
</tr>
<tr>
<td>Sales and customer service occupations</td>
<td>10.07</td>
<td>4.4</td>
<td>-0.3</td>
</tr>
<tr>
<td>Caring, leisure and other service occupations</td>
<td>10.00</td>
<td>8.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Elementary occupations</td>
<td>9.53</td>
<td>11.0</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

Source: ASHE, April 2019 (ONS)
PAY CLIMATE

December 2019

• using skills-based and structured interviewing techniques for recruitment and promotions
• being transparent about the rate of pay for jobs, and the process for pay setting and promotions
• having specified diversity managers and clear managerial accountability.

‘Promising actions’ with some research support include:
• improving workplace flexibility and encouraging the uptake of shared parental leave
• recruiting returners and having policies to encourage this
• offering mentoring and sponsorship and networking programmes.

It is clear from this research that, just as factors of causation interact – with women in their forties suffering, for example, from having both child- and elder-caring costs and responsibilities, inflexible working policies, norms in working patterns, etc – so can supporting actions exert a positive multiplicative effect on female pay, reinforcing a culture of diversity and equality in which there is an absence of gender pay gaps.

It appears to be a whole package of actions aimed at reducing gaps, or ‘the bundle’ of actions which the research on High Performance Working more broadly indicates is essential, that will help to determine an employer’s success in any one situation.6

Putting research into practice

Closing gender pay gaps is not a simple, straightforward, short-term task for any employer. Gender pay reporting may have increased the priority of the issue for many of them, with the potential for significant reputational damage given the huge media interest since reporting was introduced and with the influence of parallel developments such as #MeToo. But it has not made closing the gap any easier.

Many reward and HR practitioners appear to have focused too much on training activity and easier, ‘softer’, voluntary initiatives that are less likely to create conflict with their line colleagues, ignoring the results of academic research and failing to measure the effectiveness and impact of their own initiatives, if any, on gaps. Copying Unconscious Bias Training (UBT) and similar voluntary initiatives from other employers simply isn’t working.

More recent research studies I have highlighted in this article do, however, demonstrate that many individual actions by employers and governments have the potential to impact positively on gender pay gaps. But in almost all cases the effect of any one intervention is relatively small and highly dependent on context.

For those HR and diversity professionals working to close the gaps in their organisation or for a client I would draw out three implications. Firstly, carefully study your own data and really understand the causes of the gender pay gaps in your organisation.

Secondly, it is likely that a broad range of HR and employment actions will be required to address these multiple factors of causation. Be bolder, pursue a wider range of initiatives ensuring boards enforce appropriate compulsory actions and hold managers accountable for their delivery.

This may sound demanding yet boards themselves now are looking to see reductions in the published gaps and so will be more open to suggestions that speed this up.

But thirdly, give it time and don’t expect to see significant reductions overnight. As the managers and staff told me at my research in Lewisham Council, which has achieved a zero gender pay gap, to explain their success:

• ‘it probably doesn’t matter where it starts if those at the top believe in it’
• ‘you need to take many, sometimes difficult, practical steps to make it happen; and then over time it becomes self-fulfilling, as it attracts people who think like this’.

For further reading on this topic, please review the references provided below. Any questions or comments contact: IDRteam@incomesdatareseach.co.uk

References
4 Analysis carried out by HR Datahub (2019), available to subscribers at: https://www.hrdatahub.com/
The results of this year’s IDR engineering survey show higher pay awards than elsewhere in the economy and the majority of employers awarding higher increases in 2019 compared to 2018.

The IDR pay and conditions in engineering survey shows higher pay awards than last year. The proportion of long-term pay deals in this area of the economy has also risen. For many such workers, basic pay is often further enhanced by shift premiums, overtime and bonus payments.

Pay awards

The IDR median pay award in engineering is 2.6% for 2019, with an interquartile range between 2.4% and 3.0%. In the wider manufacturing and primary area the median pay rise is also 2.6%, a little above the median for the economy as a whole at 2.5%. The lower quartile is also higher (2.3%, compared with 2.0%), indicating that the floor for awards in the manufacturing sector is higher than in the wider economy.

Our latest survey of pay and conditions in engineering, which takes an in-depth look at terms for manual workers and engineering roles at 32 organisations, found that around two-fifths of engineering firms awarded a pay rise in 2019 that was higher than their 2018 increase.

Across our broader monitoring, higher-end awards worth 3% or more account for around a third (36%) of all pay increases compared with 34% at this level in 2018.

The number of pay freezes in engineering, meanwhile, fell from 6% in 2018 to 2% of awards in 2019 (compared to 4% across the whole economy).

Sectoral variations

The highest awards in manufacturing in 2019 are in aerospace and defence, where the median and the upper quartile are both 3.0% due to the clustering of pay awards in the sample between 2.0% and 3.99%. Higher awards have also been made in chemicals, pharmaceuticals and oil as well as in construction – both show a median of 2.8%.

Long-term deals

Two-fifths of all engineering pay awards monitored during 2019 were part of long-term deals, ranging in duration from 18 months to four years. This is an increase on 2018, when just under a third (29%) of awards were long-term, and well ahead of the broader economy, where around a quarter of pay deals were long-term. The most common length of a long-term deal across the engineering sector is 36 months, with over half (55%) of rises recorded in 2019 taking place under deals of this duration. Nearly a third of long-term pay deals in engineering during 2019 are directly linked to inflation, with organisations mainly using the Retail Price Index (RPI) as the relevant measure of rises in the cost of living.

Typical pay rates

The survey shows that the median salary for operators is £20,570, while technicians typically earn £30,885, just below the median rate of £30,950 for junior engineers.

Detailed analysis of overall and regional basic pay rates for these roles as well as those for eight other manual and engineering jobs (senior operators; senior technicians; technician
team leaders; shift/duty managers; qualified engineers; senior engineers; engineering managers; engineering function heads; and engineering directors) can be found in the full report.

Shift patterns and premiums

Respondents to the survey operate a range of different shift patterns, many of which facilitate continuous, round-the-clock working. While most continuous shift patterns reported by our respondents entail manual staff working some combination of both days and nights, shift workers at some companies work permanent 12-hour days or nights. While some respondents pay annual fixed monetary amounts for shifts, most employers express premiums in terms of a percentage of salary, ranging from 17.5% at the median for manual employees working double-day/two-shift patterns (comprising two consecutive shifts in the same location – typically early and late) to double this (35% at the median) for continuous day/night shift patterns.

The maximum shift premium on offer for this pattern, at 42%, comprises a 35% shift payment and a further 7% ‘flexibility allowance’. Four respondents offer a permanent day shift option for manual workers, most of which again attract premiums worth a fixed monetary amount rather than a percentage of salary, although one company pays a 22% premium for permanent 12-hour day shifts.

Permanent night shifts are also relatively common for manual workers and the premiums here, showing at 33% at the median, are nearly as high as for patterns combining days and nights (35%). Shift-working is somewhat less widespread among engineering staff and in many cases, is reserved for those below management level. The median premium for engineering staff working permanent nightshifts is in line with that for manual staff, at 33%, while the median double-day shift premium is slightly higher, at 19%.

Overtime

While four survey respondents stated that they do not pay overtime, the practice remains relatively widespread. Our analysis shows that overtime rates for manual workers are typically worth time and a half, Monday to Saturday, and time and three-quarters on Sundays.

Seven respondents (30%) offer higher overtime rates on Saturdays relative to midweek, while at around half (48%) of respondents that provided this information, the most generous overtime rates are reserved for Sundays only.

At a few companies, overtime rates also depend on factors other than the day of the week – such as whether the overtime takes place on a regular day off or during the night, or according to the number of hours already worked that week. Overtime premiums are slightly less common for engineers and, where paid, are sometimes restricted to employees below manager or senior engineer level. Premiums are broadly in line with those for manual staff and any differences (for example, in maximum premiums) tend to reflect less generous provision for engineers.

Bonuses were worth 10% at the median in the latest bonus round. Among the nine respondents who provided this information in the form of a monetary amount, typical latest payouts were worth £615.

Pay and Conditions in Engineering 2019

A full, detailed report of the findings, including overall and regional salary breakdowns for 11 manual and engineering roles, is available £375 + VAT. To order your copy, contact sales@incomesdataresearch.co.uk

Hours and holidays

Our research found that manual and engineering employees typically work 37.5 hours per week, with few respondents having made changes to working time in the last 12 months.

Median minimum basic holiday entitlement on entry is 25 days a year, with most participants providing additional service-related holidays (typically one day after five years’ service).

A third of employers in our study calculate holiday pay using basic salary plus shift payments. Around a quarter (28%) use just the basic hourly rate and a similar proportion (26%) calculate holiday pay using average earnings.

Recruitment, retention and skills shortages

We also asked survey participants about their experience of recruitment and retention. Just under half (44%) reported that they are currently finding recruitment difficult and a similar proportion (41%) are facing problems with retention.

Several respondents cited engineering roles as the most difficult to recruit and retain, with a general shortage of skilled engineers across the labour market.

Specific engineering skills, such as software, would appear to be in shortest supply, followed by specific roles such as electricians. The survey also gathered some examples of employers developing talent through their apprentice and graduate schemes in a bid to overcome such challenges.

Pay and Conditions in Engineering 2019

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Participating organisations

Inflation has fallen on all measures according to the latest figures from the Office for National Statistics.

The all-items Retail Prices Index (RPI) was 2.1% in the year to October, down from 2.4% in September 2019. The largest downward pressure came from fuel and light where average charges for gas and electricity fell this year but rose a year ago.

Other notable contributions to the change resulted from housing where average charges on mortgage interest payments and the smoothed house price index used to calculate house depreciation also fell this year in contrast to a rise last year.

The Consumer Prices Index including housing costs (CPIH) was 1.5% in October 2019, down from 1.7% in September 2019. The greatest influence came from electricity, gas and other fuels as average charges fell this year but rose a year ago.

Further downward contributions from furniture, household equipment and maintenance and recreation and culture were offset by rises in clothing and footwear prices. These same elements also influenced the Consumer Prices Index (CPI), which fell to 1.5%.

### Inflation measures for the year to October 2019

<table>
<thead>
<tr>
<th>Index</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>All-items Retail Prices Index (RPI)</td>
<td>2.1%</td>
</tr>
<tr>
<td>Consumer Prices Index (CPI)</td>
<td>1.5%</td>
</tr>
<tr>
<td>Consumer Prices Index Housing (CPIH)</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Next release date: 18 December 2019

Source: ONS
Average weekly earnings growth slips back to 3.6%

The rate of growth in average weekly earnings for the whole economy slipped back to 3.6% in the year to September.

This is down from a revised figure of 3.7% in August (previously 3.8%). The ONS said that the rate of 3.6% was for both total pay, including bonuses, and for regular pay (excluding bonuses). All sectors, except for manufacturing, saw annual pay growth of at least 3.0%.

<table>
<thead>
<tr>
<th>Total pay (including bonuses)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whole economy</td>
</tr>
<tr>
<td>Private sector</td>
</tr>
<tr>
<td>Public sector exc. financial services</td>
</tr>
<tr>
<td>Construction</td>
</tr>
<tr>
<td>Financial and business services</td>
</tr>
<tr>
<td>Manufacturing</td>
</tr>
<tr>
<td>Wholesale, retail, hotels and restaurants</td>
</tr>
</tbody>
</table>

Average weekly earnings in the private sector grew by 3.7% in the year to September, the same as the figure for August. The rate of growth in the public sector was 3.3%, down marginally from 3.4% in the year to August. Public sector pay growth was briefly ahead of that for the private sector between April and June because of the timing of the impact of the current three-year pay agreement in the NHS. Earnings growth remained strong in the finance and business services sector where the rate of growth was 4.4% in the year to September, the same as the revised figure of 4.4% in the year to August (previously recorded as 4.5%). The rate of growth has been above 4% in each of the past five months, having been as low as 1.9% as recently as August 2018.

Pay growth in construction continued to outstrip that in all other sectors. In the year to September the rate of growth here was 6.0%, up slightly on the figure of 5.8% in the year to August. Average weekly earnings in manufacturing grew by 2.6% in the year to September, down slightly on the rate of 2.8% in August (which was revised up from 2.7%). Average weekly earnings in the wholesaling, retailing, hotels and restaurant sector grew by 3.1% in the year to September, the same rate as the revised figure for August (previously recorded as 3.2%). The rate of growth has strengthened a little in this sector, having been as low as 0.9% in the year to May.

The pattern of higher pay growth in construction and finance and business services and lower growth in manufacturing and wholesaling, retailing, hotels and restaurants has been clear throughout 2019. In the latter sector, increases in the National Living Wage have presented an upward pressure but employers have offset this in a variety of ways and as a result earnings growth has not been as strong as in other sectors. This may also be a factor in manufacturing, but low levels of growth and investment are pre-eminent explanations there.
Employment and unemployment have both fallen but inactivity continues to rise, according to the latest figures from the Office for National Statistics (ONS).

The number of people aged 16 to 64 employed in the UK has fallen by 5,000 to 31.443 million in the three months to September 2019. The overall figures for those aged 16 and over show a larger decline of 58,000 falling to 32.753 million, the second rolling quarterly decrease. The latest fall was driven by a drop in the number of women in employment, down by 93,000 to 15.455 million. Over the same period, the number of employed men increased by 35,000 to 17.298 million. Despite the latest results, more women than men have been joining full-time employment and more men have been joining part-time employment.

Despite the fall in employment, the number of unemployed people has also decreased, by 25,000 on the quarter to 1.288 million in the three months to September 2019 for those aged 16 to 24 and by 23,000 to 1.306 million for all over 16’s. The fall in the level of unemployment was seen in the figures for both men and women, with falls of 9,000 (to 731,000) and 14,000 (to 575,000) respectively.

The number of people who are economically inactive increased by 53,000 to 8.616 million with the inactivity rate increasing slightly to 20.8% from 20.7% over the same period. The increase mainly consisted of women’s economic inactivity rising by 75,000 on the quarter to 5.284 million. This was the largest increase since October to December 2010. The number of economically inactive men fell by 21,000 on the quarter to 3.332 million. Economic inactivity can also be categorised by age. People aged 18 to 24 years experienced a record growth in economic inactivity of 89,000 on the quarter to 1.729 million. This is mainly due to a rise in the people in this age group opting to study rather than enter the labour market.

Vacancy numbers fell by 11,000 on the quarter to reach 814,000. The number of vacancies reached a peak of 861,000 in the period between November 2018 and January 2019 and has been decreasing since then as economic uncertainty has mounted. Redundancies increased by 15,000, showing at 118,000, with the rate here rising from 3.8% to 4.3%.

| Summary statistics on the UK labour market July to September 2019 |
|-----------------|-----------------|-------|-----------------|
| Level (000s) | Quarterly level change (000s) | Rate | Quarterly rate change |
| Employment* | 31,443 | -5 | 76.0% | -0.1% |
| Unemployment* | 1,288 | -25 | 3.9% | -0.1% |
| Economic inactivity* | 8,616 | 53 | 20.8% | 0.1% |
| Vacancies | 814 | -11 | 1.6** | 0.0% |
| Redundancies | 118 | 15 | 4.3% | 0.5% |

*Of those aged 16 to 64.

**Number of unemployed people per vacancy.

Next release date: 17 December 2019

Source: ONS