PAYCLIMATE

FEATURES

Employers plan for lower value pay awards as inflationary pressures ease

INFLATION FORECASTS

Fall in inflation could moderate, with upside risks

IN THIS ISSUE:

IDR

Issue 34 | Sep 2023 | IncomesDataResearch.co.uk

Contents

Subscriptions: For enquiries and renewals
+44 (0) 1702 669 549
sales@incomesdataresearch.co.uk
or visit www.incomesdataresearch.co.uk

INCOMES DATA RESEARCH
Ryan house, Suite 4, 18 Aviation way
Southend-on-Sea, Essex, SS2 6UN

Pay Data, Intelligent Decisions

Editor

Ken Mulkearn

Senior Researcher

Zoe Woolacott

Senior Researcher

Katherine Heffernan

Designer

Katie Hazlewood

Sub Editor

Patricia Potter

Principal Researcher

Louisa Withers

Researcher

Sarah Warman

Editor’s note

Just as we hope that the summer weather continues into autumn, we hope that prospects for pay-setting will improve.

With inflation coming down, there are some signs that this is indeed the case, but also indications that difficulties in some areas – notably retention – could persist. This is a major theme of the findings of our annual pay planning survey, which dominates this issue. And it’s a topic that pops up in the public sector as well.

Hopefully these two articles, along with our regulars on the state of play with respect to pay awards, and forecasts for inflation – plus the Datacheck series on average earnings, inflation and the labour market – will help you as you move to finalise decisions on pay for 2024. And don’t forget our online conference on 14 September either!

Ken Mulkearn
Director, Incomes Data Research

Viewpoint **Keeping employees happy might get harder**

In some ways, the job of those who have to make decisions on pay and reward looks like it might become a little easier over the next while.

Inflation is starting to moderate and with a fair wind could continue to do so (see the forecasts on page 10). And our survey of employers' plans for pay in 2024 indicates that, partly as a result of this, most are likely to award lower increases next year than they did this year, with additional investment probably more targeted at pay for specific groups or issues (for more on which see below). And the labour market outlook might be easing a little too (see page 24).

It would be a mistake to become complacent, however. Our survey also indicates that for a significant sub-set of private sector employers, retaining staff has become more difficult. And even in the public sector, which traditionally has fared better than the private sector in this respect (partly due to better pensions but also to professional commitments), retention is the issue du jour.

Why is this? Some of it has relatively little to do with pay. As Stephen Bevan of the Institute for Employment Studies points out in a recent blog article on the topic, whether or not an employee leaves or stays is due to a combination of 'push' and 'pull' factors.

The former are those the employer can control – areas like career prospects, job satisfaction, training and development, relationships with managers, or work-life balance.

Interestingly, he highlights that while pay is often a minor factor in prompting employees to leave for pastures new, it is only rarely a major factor, though he concedes that the cost of living crisis may have boosted pay's role as a factor in such decisions. (The areas that employers can't control include the wider labour market, opportunities elsewhere for more progression or responsibility, or the chance to gain experience in broader roles.)

This chimes with something that has come up in recent discussions IDR has had with employers, who have raised a range of non-pay or pay-related issues with us, that they would like help with, or at least find out what other employers are doing about them.

These include: employee wellbeing; how they can help alleviate the cost of living crisis for staff; how benefits packages need to change to cope with the post-Covid labour market; the design and structuring of working time; family-friendly issues such as childcare or eldercare; issues affecting women workers like the menopause or support after maternity leave; support for disabled workers, ethnic minority and LGBTQ employees, and boosting employment and development for these groups; and employee information and consultation. These might be grouped under the heading of something that sociologists of employment used to call 'quality of working life', or QWL for short.

In other words, employers now care as much about the issues that tend to determine whether staff stay or go, as they do about the vexed question of how much someone should be paid. It's important to keep an eye on pay too, however.

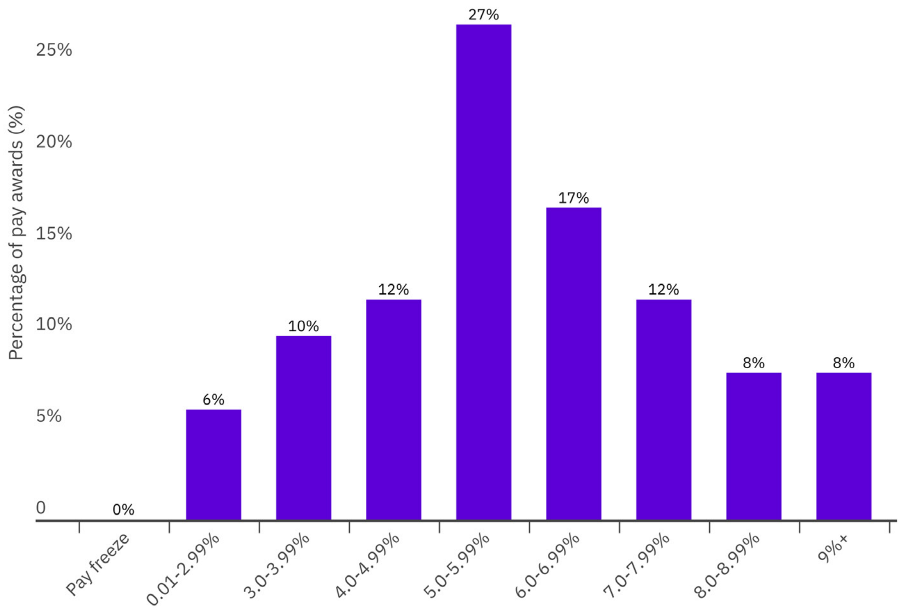
The results of our survey of pay plans for 2024 also shows that despite the usual emphasis on affordability, over a quarter will be implementing measures to help employees. And while much of this involves help with such things as financial planning, a significant number are still intending to make additional payments on top of any basic rise, despite the fact that inflation looks set to come down. Our subscribers know better than anyone, perhaps, that getting pay wrong is the biggest mistake of all.

Pay awards analysis **Median falls to 5.0% but higher-end increases continue**

The median pay award across the economy has returned to 5.0% for the three months to July, according to our latest analysis.

The median is down from 6.0% in the previous three-month period and a number of factors have influenced this change. The drop is largely due to timing, as the latest analysis period does not include pay awards effective in April – the most popular month for pay setting – in which month over a fifth of increases were worth 9% or more, partly as a result of the 9.7% uplift to the National Living Wage (NLW) but also due to high inflation and tight labour markets. In our latest sample, which is based on 51 pay awards effective between 1 May and 31 July 2023, together covering nearly 800,000 workers, just 8% of pay increases were worth 9% or more.

Distribution of pay awards in the three months to July 2023



Source: IDR

In addition, the majority of pay awards in our analysis relate to the private sector, where the median is higher than for the economy as a whole at 5.5%, but the distribution of high-end awards in this area has changed since June, which has affected the median for the whole economy. Elsewhere, the median pay award in the not-for-profit sector is 5.0% and outcomes in this area – although a minority – have also contributed to a lower median for the wider economy.

The smaller proportion of pay increases in the 9%-plus bracket across the economy has also led to a fall in the upper quartile of awards, from 8.0% to 7.0%. However, our analysis found that around three-quarters of awards resulted in increases of 5% or above. Some 72% of pay awards in May, June and July were worth at least 5%, which is similar to the proportion for the three months to June, of 76%. This trend suggests that employers are still keen to award higher-end pay rises in order to remain competitive in the labour market and retain and reward valued staff.

This is partly to do with the continued high cost of living, even as the rate of inflation comes down, and labour market difficulties in many if not all areas. Employers responding to our latest survey on prospects for pay and conditions were asked to characterise the labour market for their main staff group. Most (89%) participants of the survey reported either moderate or difficult recruitment and retention issues (for more on this see our feature on page 11).

In the private sector the median has also fallen, although to a lesser extent, from 6.0% in the three months to June to 5.5% in the latest period. Pay increases in the sector are mostly clustered between 5.0% and 6.99% where nearly half (47%) of awards have occurred.

The interquartile range has narrowed from between 4.8% and 8.2% to between 4.5% and 7.0% as a result of a narrower range of increases. However outcomes differ widely across the sector. While the median is highest in private services (5.8%), the upper quartile is greatest in manufacturing (7.8%). This is due to differences in the distribution of higher-end increases across both sub-sectors.

A changed outlook for pay in private services

The picture for pay awards across private services in our latest analysis is very different when compared to the three months to June. The median fell a little from 6.0% to 5.8% in the latest period. However, the upper quartile dropped significantly from 8.9% to 6.0% as a result of a steep fall in the proportion of pay rises worth 9% or more - down from half of outcomes in the period to end June to fewer than one-in-ten outcomes in our latest sample. However, higher-end pay rises worth at least 5% have continued to figure in our monitoring. Nearly two-thirds (64%) of awards were worth between 5.0% and 6.99%. Our sample here includes increases for salaried roles such as managers and head-office positions at retailers like Marks and Spencer, Sainsbury's and Tesco. At the lower end of the distribution of awards in private services, the lowest-quartile outcome rose from 4.6% to 5.0%, though only a twentieth of increases were below 4%.

Wide range of increases in manufacturing and production

The median pay award in manufacturing for the three months to July is 5.0% - down from 6.0% in June - and this has been influenced by a downward shift in the distribution of pay review outcomes across the sector. The range of increases among manufacturers is very broad with the lowest increase in our sample at 2.5% and the highest at 9.8%. The proportion of pay awards worth 6% or more fell from 52% to 44%. However, around a quarter (26%) of pay rises in the sector were worth at least 8% - which is in contrast to our sample of outcomes in private services as detailed above. This is a relatively quiet period for pay setting in manufacturing and production, with pay awards in this sector most common in January. However key deals in the sector in this period include the 6.3% pay rise for around 500,000 workers under the Construction Industry Joint Council (CIJC) agreement.

Increases at this level or above are common in construction as well as among employers in energy and water. At the same time, however, at the lower end of the distribution of pay awards in manufacturing, a fifth of increases were below 4%. This proportion has doubled when compared to our findings for the three months to June and caused the lower quartile for the sector to fall from 5.0% to 3.4%.

Our next analysis article of pay awards will be available to Pay Climate subscribers at the end of September via the subscriber zone of our website. To view this, and our archive of articles, click here Pay Climate Subscriber Zone.

Pay awards in the three months to the end of July 2023

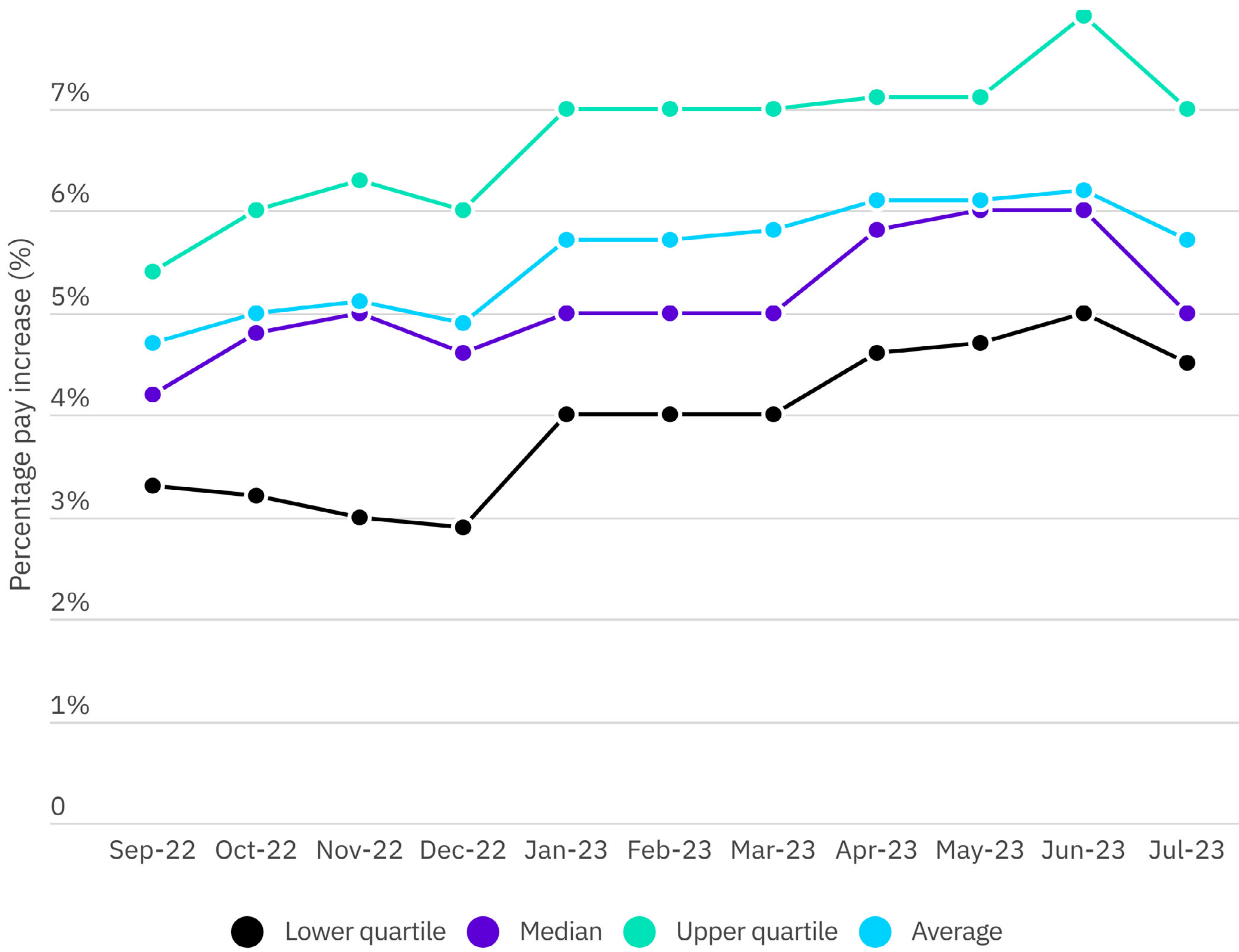
	Median	Average	Interquartile range
Whole economy	5.0%	5.7%	4.5 to 7.0%
Private sector	5.5 %	5.7%	4.5 to 7.0%
Manufacturing and production	5.0%	5.7%	3.4 to 7.8%
Private services	5.8%	5.8%	5.0 to 6.0%

Based on 51 pay awards covering 772,083 employees in total.

Support our research

You can support our research by completing this survey and providing information on your firm's latest pay review outcome. The survey remains open continusly and is key to monitoring pay trends in the current economic climate.

Whole economy pay awards September 2022 to July 2023*



*In the three months ending at each date.

Source: IDR

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

3-mth period to end:	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23
Lower quartile	3.3r	3.2	3.0r	2.9r	4.0r	4.0	4.0	4.6r	4.7	5.0	4.5
Median	4.2r	4.8r	5.0	4.6r	5.0	5.0	5.0	5.8r	6.0	6.0	5.0
Upper quartile	5.4r	6.0r	6.34	6.0r	7.0	7.0	7.0r	7.1r	7.1	7.9	7.0
Average	4.7r	5.0r	5.1	4.9r	5.7r	5.7	5.8r	6.1	6.1	6.2	5.7
Total*	83r	80r	73r	67r	155r	152r	165r	243r	249	232	51

*Total number of pay awards recorded in three-month period, r = revised

Pay awards monitored by IDR

Sector	Organisation	%	Comments	Effective date	Employees covered
Engineering: vehicles and components	Cummins UK	2.5	average merit (minimum 1.25%; 3rd year of 4-year deal)	01-Jul-23	2,157 collectively-bargained employees
Care services and housing	Hyde Housing Association	7.0	average merit; range 0% to 8%	01-Jul-23	1,250 employees
Construction	Plumbing JIB (Scotland & Northern Ireland)	3.0	2nd year of 2-year deal	03-Jul-23	12,000 manual operatives
	Building & Allied Trades JIC	8.0		19-Jun-23	50,000 construction workers
	Construction Industry Joint Council (CIJC)	6.3	average increase; range 5.9% to 7.9%. Plus 1.6% (average) to be applied to some skill rates from 1 January 2024	10-Jul-23	500,000 construction workers
	Steeplejack & Lightning Conductor Engineering NJC	5.0		01-Jul-23	1,100 engineers
Energy and water	National Grid	8.7		01-Jul-23	30,000 employees
	Ovo Energy	5.0	for most staff. Plus one-off payment worth £1,000 (2nd year of 2-year deal)	01-Jul-23	2,500 unionised employees
	National Gas	9.5		01-Jul-23	1,100 collectively-bargained employees
Financial services	Domestic & General	6.0		01-Jun-23	2,300 employees
	Davies Group	4.0	average merit; range 3% to 5%	01-Jul-23	4,600 employees
Fire and police	Fire Service	5.0		01-Jul-23	40,029 fire service staff
Food, drink and tobacco	Diageo	3.5	3rd year of 3-year deal	01-Jul-23	3,000 employees
	Samworth Brothers	5.0		01-Jun-23	3,000 staff
Retail	Sainsbury's Supermarkets	6.0		28-May-23	3,000 head-office staff
	Tesco Stores	6.0		26-May-23	6,500 office workers
	Marks & Spencer	5.0		01-Jul-23	6,140 head-office staff
	Tesco Stores	7.5	plus one-off payment worth £500	01-Jul-23	16,300 distribution staff
Telecommunications	Vodafone	7.0	average merit; range 0% to 10%	01-Jul-23	10,000 non-frontline employees
	Telent	5.0	average merit; range 0% to 8.0%	01-Jul-23	2,500 employees
Timber and furniture	DFS Furniture	5.0		01-Jul-23	5,000 employees

Inflation forecasts **Fall in inflation could moderate, with upside risks**

All the members of our panel of economists think that inflation will continue to come down over the next 18 months, but there is a healthy amount of disagreement among them about the rate of decline in the main estimates.

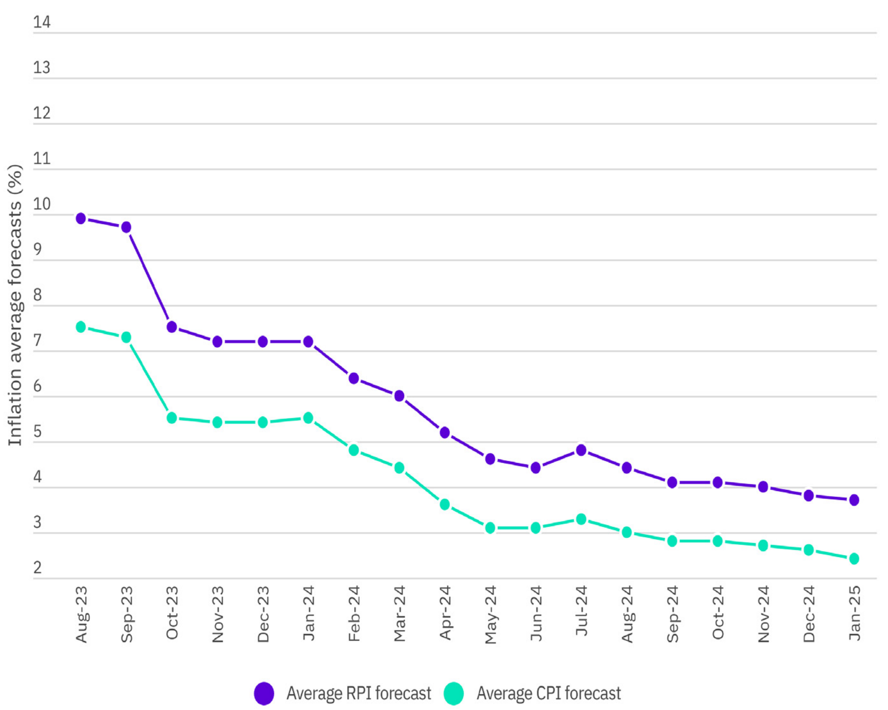
Our average of all the forecasts indicates that the RPI could be below 4% by early 2025, while the CPI might be around 2.3% or thereabouts. Significantly, this is still above the Bank of England's target of 2%, as set by the Government. And as ever, these averages mask a range of views on the risks to the main likely trend. Most are agreed on the central drivers of falling inflation, namely decreased energy prices (especially after October, when the new lower cap on prices comes into effect) and the knock-on impact this is having on certain other key areas of expenditure, such as food prices, which have already started to come down according to the latest data from Kantar. With the cost of energy falling, food producers are under less pressure to raise prices to cover their utility bills.

Others emphasise the possibility or even likelihood of a (mild?) recession as a result of the Bank of England's succession of interest rate raises. The argument here is that falling or flat GDP growth, along with higher unemployment, will lead to reduced economic demand and permit domestic sellers of goods and services to reduce their prices. Some go further, however, and argue that potential future cuts in interest rates, for instance in the final months of this year, could also prompt inflation to fall, for example by resulting in lower mortgage interest payments, something that affects the RPI in particular. This highlights one of the points of difference among some of the members of our panel, at least in the medium term. Some think that currently, higher interest rates represent an upside risk as increased prices for mortgage products feed into elevated rental prices. Indeed these have already been rising at record levels and could rise further, particularly in the private sector.

However, in the public and not-for-profit sectors the Government has moved to limit the maximum rent rises that councils and housing associations can charge their tenants (though this is little consolation to those tenants already paying higher rents), and this underlies one City institution's conviction that underlying price pressures are fading. One of our panel, that sees inflation on the RPI measure remaining elevated for longer (though they are more dovish about the CPI's prospects), refers to 'administered prices'. These are prices of goods or services set by firms' internal pricing policies rather than by external market forces. They tend to be based on firms' costs rather than straightforward supply and demand. This reference is a tacit admission of the importance of the power that companies possess to raise prices, something that has assumed additional prominence when it comes to explaining the latest spike in inflation. The body in question thinks that this is one of the reasons that inflation in the UK is and could remain higher relative to that in other major economies.

The contending pressures over the coming period will come from, on the one hand, falling goods prices. A recent appreciation of sterling could help this further later on in the year. But on the other hand, most of the panel agree that services prices remain 'sticky'. One aspect of this is the way in which insurance premiums, particularly for cars and homes, have surged. How this struggle is resolved will determine the precise path of inflation over the coming period.

Inflation forecasts at 29 August 2023, covering period up to January 2025



Panel of forecasters: Capital Economics, Centre for Economic and Business Research, Deutsche Bank, JP Morgan, Lloyds Banking Group, Natwest Markets, Pantheon UK, Société Générale

Special article
Employers plan for lower value pay awards as inflationary pressures ease

Sarah Warman, Incomes Data Research

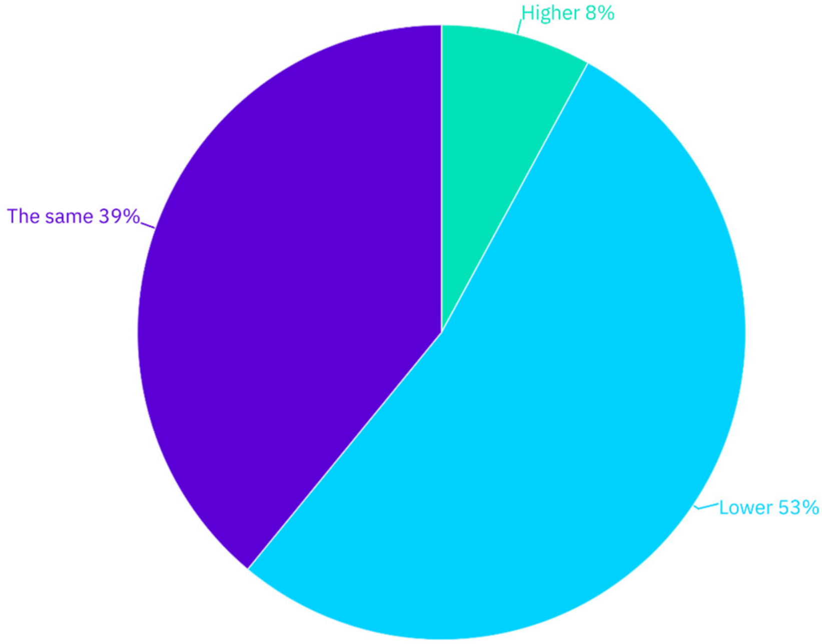
Our pay planning survey shows that the recent pressures on employers to offer staff significant pay rises are easing.

Over half of the respondents expect to pay awards of lesser value than those offered in 2023. Employers have suggested that they plan to make this change in 2024 due to an expected drop in inflation, combined with some easing of recruitment and retention pressures, though not in all areas. This year's survey focused on the reward changes that HR principals are planning to implement in 2024, and the most influential factors affecting these decisions.

Pay prospects for 2024

The results from our survey suggest the possibility of a shift towards generally lower pay awards in 2024 in comparison to this year. Many respondents are planning lower awards as they are expecting less upward pressure on pay, due to a likely fall in the rate of inflation in 2024.

Level of pay rise predicted for 2024 compared with 2023



Source: IDR

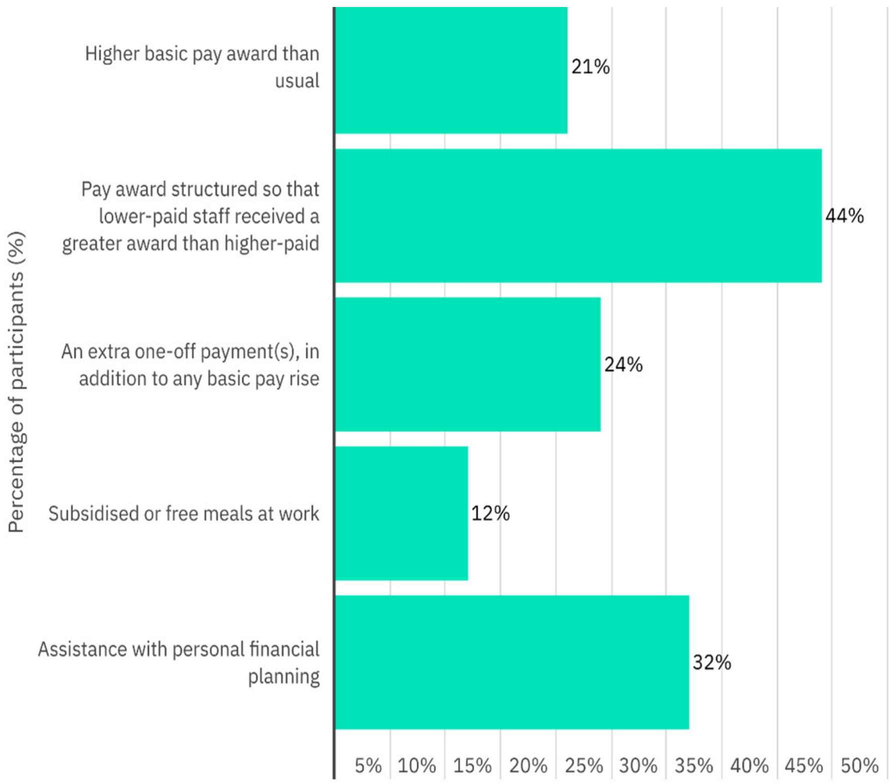
Over half (53%) are expecting to make lower increases next year (compared to just 10% in last year's survey). On the other hand, just 8% of employers are expecting to make higher increases next year, compared to the 56% that had planned higher increases for 2023 in 2022.

We asked employers to indicate the importance of 12 the key factors in deciding coming 2024 pay rises. Similarly to last year's survey, affordability and inflation remain the most significant influences on pay outcomes. Almost all organisations (98%) ranked affordability as 'important' or 'very important' in pay decisions. Inflation and the cost of living is the second biggest influence, considered 'important' or 'very important' in 85% of cases, with little change between the 2022 and 2023 surveys. Three-quarters of organisations said that recruitment and retention was 'important' or 'very important' for their upcoming pay round, which is lower than last year's survey when 85% considered this to be a very influential factor.

Employers were also asked to comment on what they expect will be their biggest reward issue in 2024. The most common responses included an inability to keep up with competitors offering more attractive reward packages, and even a potential rise in the cost of living (or perhaps the possibility that inflation, though lower, could remain high in comparison to the previous period) which could lead to a requirement for higher pay rises than assumed. Many commented that their organisations would not be able to afford the increases many employees may be looking for, to aid them with a continuing cost-of-living crisis.

Respondents were also asked to advise on which pay strategies they will be placing the most emphasis on in 2024. The most important strategies are benchmarking pay for key roles (55%), making changes to bonus schemes (29%) and calculating ethnicity pay gaps (29%). Despite the stress on affordability, 27% of participants have advised they will be implementing measures to help employees. Among

Measures organisations are planning to implement in 2024 to assist with the cost of living



Source: IDR

these organisations, 44% are likely to restructure pay awards to offer greater increases to lower-paid staff, and 32% are helping with personal financial planning. Almost a quarter (24%) are planning to award a one-off payment in addition to any basic pay rise and just over a fifth say they will offer a higher general increase to all employees.

Expected relationship to inflation

Even as inflation falls, it still remains a key driver of pay decisions, even if lower inflation means its influence is reduced. Over three-quarters of organisations (78%) said they reference inflation when making decisions, a decline compared to 2022 when 89% reported referencing inflation in pay decisions. Some 58% said they reference inflation informally, 22% said they do not reference any inflation measure in pay decisions, and the remaining fifth reference inflation formally (for example as part of long-term pay agreements). To plan for next year's pay round, 71% said they refer to the Bank of England's predictions for inflation, and over half (52%) use IDR's round-up of inflation forecasts.

Similarly to 2022, CPI remains the most commonly referenced inflation figure in pay decisions, being utilised by 84% of organisations (compared to 87% in 2022). RPI is referenced in 62% or organisations, followed by CPIH in 54% of cases.

Organisations were asked where they expect pay awards in 2024 to sit in comparison to inflation. Over half (55%) of respondents are expecting pay awards to be below CPI or CPIH. This is similar to 2022 when 56% of HR and reward leads expected pay awards for 2023 to be at this level. The proportion of respondents expecting the pay award to be level with CPI or CPIH has declined slightly from 24% last year to 21% this year. The proportion of employers expecting to pay awards level with RPI increased from 7% to 13%. Those expecting awards to be above CPI but below RPI is down from 9% in 2022 to 7% in 2023. Just 4% expect pay rises to be above RPI (the same as reported in last year's survey).

Expectations about inflation are not necessarily a good guide to eventual outcomes. In general we can say that when inflation rises, pay awards tend to lag behind it. However, when inflation is low or falling, settlements are often in line with it or even just ahead, on average, which in 2024 may result in some organisations paying higher than expected rises. In any case we will monitor outcomes and report on them, including how they relate to those in 2023.

Pay awards in 2023

With the majority of responding organisations having completed their 2023 pay round, or made firm decisions, participants were asked whether their 2023 pay award was higher than any increase last year. The results show that the level of pay rise in 2023 was higher than in 2022 at almost half (49%) of respondents, a significant decline on last year when 87% had paid rises higher than in 2021.

Among the pay awards made in 2023, the most common approach was a general increase, paid at almost half (45%) of organisations. A further fifth offered employees a combination of a general and a merit increase. This was closely followed by merit-only increases, offered in 18% of cases. With the high cost of living many organisations have implemented additional measures such as one-off payments to assist employees. For example, 8% of firms offered a general increase combined with a one-off payment. A further 7% offered flat-rate rises, allowing lower-paid staff to benefit more proportionately than other staff. Just 2% combined general and merit increases together with one-off payments.

The pressures on pay in 2023 were also ranked, with 71% of organisations advising that the cost of living was the most prominent factor behind their pay decisions, followed by retention at 12% of organisations, and recruitment at 11%.

Organisations were also asked to advise which factors were most important in determining the level of pay awards. Affordability was ranked highest with 99% of organisations regarding this as 'very important' or 'important', closely followed by inflation and the cost of living at 93%.

Almost half (49%) of respondents implemented measures to help staff with the higher cost of living this year. The most common approaches were higher-than-usual basic pay awards (54%), and assistance with financial planning (42%). Almost a quarter of organisations (24%) offered employees an extra payment in addition to a general increase.

Over half of organisations changed the level of pay award they had originally planned for in their 2023 pay round. Some 49% of organisations offered a higher level of award than they had planned, while just 7% offered a lower award.

Among respondents who had changed the value of their 2023 pay award, in 59% of cases this was due to higher-than-expected inflation, while 52% advised they had changed the award based on labour market pressures. Some 15% had amended their award based on a change in profits, with 7% offering higher awards due to higher-than-expected profits, and 8% reducing the level of pay awards due to lower profits than anticipated. (Respondents were allowed to choose more than one option, which is why the proportions here add up to more than 100.)

Due to higher inflation in 2023, some 37% of respondents targeted higher pay increases at specific groups, 40% offered higher recruitment rates for hard-to-attract roles and 22% made one-off payments to staff.

More one-off payments in 2023

Such one-off payments were most common among firms in manufacturing and production and also not-for-profit organisations (29% of organisations in each sector). But relatively high proportions of respondents in other sectors also made such payments, with 24% of private services firms doing so and 24% of public sector respondents.

Just over a fifth of organisations (22%) offered employees one-off payments in 2023, a significant increase against 2022, where 17% had provided this to employees. Among these organisations, the payments were offered in addition to a consolidated rise in 92% of cases with just 8% offering them instead of a consolidated rise. The use of one-off payments was prompted by the high cost of living in the great majority (88%) of cases.

The most common value for payments was between £500 and £1,000, offered by three-fifths of organisations. Almost a fifth (19%) provided payments below £500, with a similar proportion (18%) paying between £1,001 and £3,000, while just 4% made payments over £3,000.

The highest-value payments were observed in the public sector with the most common payment here at £1,500, compared to £1,000 in private services and not-for-profit organisations and £500 in manufacturing and production. This could be connected to the fact that basic pay awards were lower in the public sector and therefore relatively higher lump sums were paid to offset this.

Employers cite moderate recruitment and retention difficulties

Organisations were asked to characterise the labour market for their main staff group. Over three-fifths (61%) advised that moderate recruitment or retention difficulties were still present. Just over three-quarters of organisations (76%) expect the labour market to remain this way for at least 12 months. The most common staff groups affected by specific recruitment and retention difficulties were technicians, engineers, and IT staff.

Recruitment remains 'fairly difficult' for most

The proportion of organisations finding recruitment 'very difficult' has declined in comparison to 2022, but the proportion of those finding it 'fairly' difficult has increased. Employers citing recruitment as 'very difficult' declined from 24% last year to just 6% in 2023, and the proportion of respondents finding recruitment 'not a problem' has almost doubled from 9% to 16%. However, while the number of firms affected by severe recruitment issues has declined, the proportion of organisations finding recruitment 'fairly difficult' has actually increased significantly from 67% in 2022 to 78% in 2023.

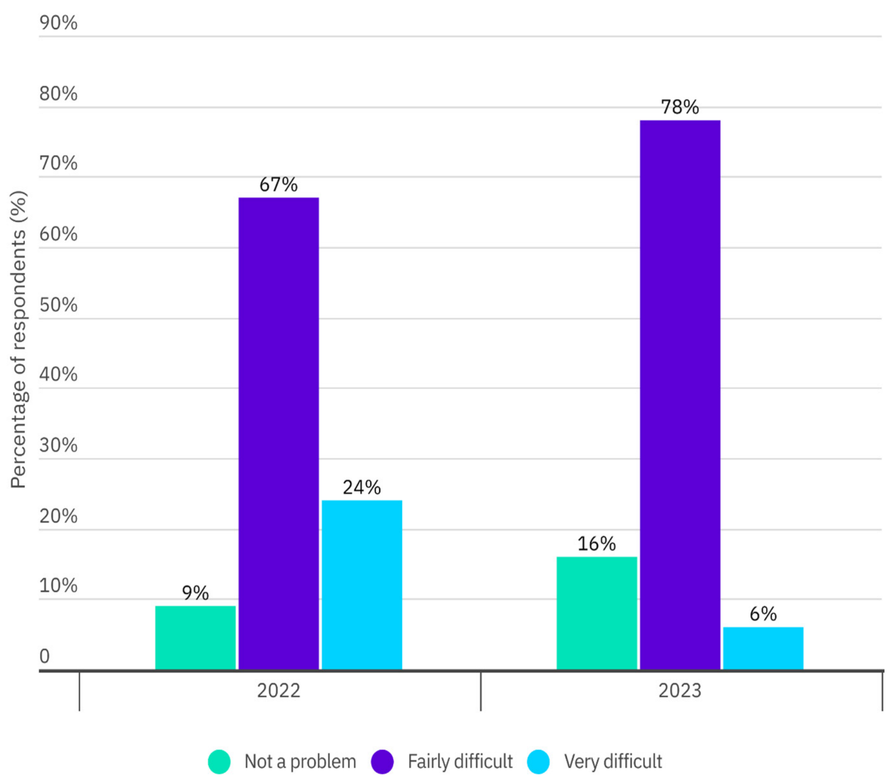
By sector, recruitment problems remain widespread in manufacturing and private services with 88% and 84% respectively of respondents in these areas finding recruitment 'fairly' or 'very' difficult. Fewer employers in the not-for-profit sector were encountering problems but the issues are most acute in the public sector due to continued challenges around central government funding and resources.

To try and resolve recruitment problems, organisations have focussed on improving promotional materials (74%) and over half (53%) are aiming to improve non-pay benefits. Just 14% have implemented signing-up bonuses, and within this nearly four-fifths (79%) are targeting these at specific groups with the remaining 21% offering them to all new employees.

Retention difficulties improve slightly

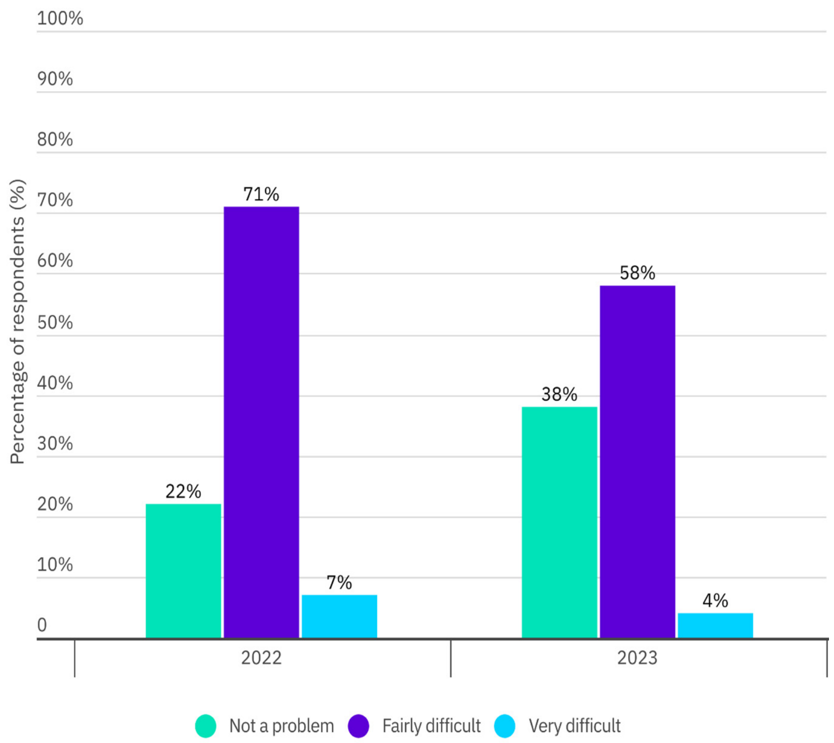
In comparison to recruitment, retention has eased a little more with the proportions finding retention 'fairly' and 'very difficult' seeing significant declines in comparison with last year's survey. While retention is overall a little easier than recruitment, at the same time we registered a significant increase in the proportions regarding their

Recruitment difficulties in 2023



Source: IDR

Retention difficulties in 2023



Source: IDR

retention problems as long-term.

The proportion of employers describing retaining staff in their organisation as 'very' difficult has declined significantly from 7% to 4%, and the number of organisations finding retention 'not a problem' has increased from 22% to 38%. The proportion of employers finding retention 'fairly' difficult has also seen a large decline from 71% to 58%. While these results indicate an improvement in employers' ability to keep valuable staff, over three-fifths (62%) of respondents are still struggling with fairly or very difficult retention difficulties, indicating that the issue is still prevalent across the majority of organisations.

By sector, retention difficulties are highest in manufacturing and production with 88% of organisations here finding retention 'very' or 'fairly' difficult, compared to 64% in private services, 62% in not-for-profit, and 62% among public sector organisations. The majority of organisations (60%) believe their retention issues are medium-term, that is, likely to remain this way for up to 12 months. But just over a fifth (21%) believe this is a long-term issue, up from 15% in this category in 2022. For organisations dealing with retention issues, over half (55%) advised they will improve pay packages in response, and 42% are improving benefits packages. Just 12% advised they will introduce either new bonus or market supplement schemes to aid retention.

Pay gaps

While most organisations in our survey have identified gender pay gaps, since they are covered by the relevant legislation requiring them to do so, relatively few have come up with action plans to reduce these gaps. Over three-quarters of organisations surveyed had calculated their gender pay gaps. Among these organisations, 77% confirmed that over-representation of men in higher-paying roles was the most significant reason for the gaps. Just over one-third (34%) of organisations who had calculated their organisation's gender pay gap had implemented an action plan to reduce the disparity.

Meanwhile a third of organisations have calculated their ethnicity pay gaps, but just under a quarter (23%) have examined the reasoning behind these gaps in order to attempt to reduce them.

About the survey

IDR's survey on prospects for pay and conditions in 2024 was conducted in the summer of 2023. The survey received responses from 120 organisations, predominantly large private sector firms, together employing almost 1.6 million employees. The survey asked employers to advise on their experience of pay-setting in 2023, their plans for 2024, and also asked employers to indicate what strategies they are implementing for the year ahead to improve recruitment and retention.

Participating organisations

Aer Lingus, Ageas Insurance, Aggregate Industries, Airedale International Air Conditioning, AJ Bell, Alzheimer's Society, Amazon, Amey, Asda Stores, AXA, BAE Systems, Blue Diamond Group, Boots, Breedon Group, British Sugar, Britvic, Bromford Housing Group, Brunel University London, Cancer Research UK, Carmarthenshire County Council, Castle Leisure, Charles Tyrwhitt, Chelsea Physic Garden, Claims Consortium Group, CNH Industrial, Compass Group Holdings, Cummins, Davies, Denbighshire County Council, Devro, DFS, Dorset, Devon & Cornwall Police, Dow Chemicals, DuPont UK Industrial, Durham Tees Care, EasyJet, Edinburgh Airport, Edinburgh Leisure, Epredia, Equiniti, Fareham Borough Council, Ferguson Group Services, Financial Conduct Authority, Finning, Franklin Templeton, Greene King, H&R ChemPharm (UK), HC-One, Heathrow Airport, Homeserve Membership, Hope House Children's Hospices, Hyde Housing, Hyster-Yale UK, Imerys Minerals, ITV, Ivy Farm Technologies, Jaguar Land Rover, John Lewis Partnership, KFC UKI, Kingfisher, Kingsland Drinks, Leeds Arts University, Leonardo, Lloyds Banking Group, Marks and Spencer, Mars, Maximus UK Services, Midland Heart, Molson Coors Beverage Company, MTR Elizabeth line, National Gas, National Highways, National Museums Liverpool, National Trust, Nottingham Trent University, Parkdean Resorts, Phoenix Group, Portman Dental, R Twining & Company, Ramsay Health Care UK, Royal Borough of Windsor and Maidenhead, Royal Pavilion & Museums Trust, RSA Group, Sainsbury's, Santander, Scottish Power, Sevenoaks District Council, Sisk, Skanska UK, Smiths News, SNC Lavalin, Sonardyne International, Sopra Steria, SQA, StepChange Debt Charity, Sunbelt Rentals, TalkTalk, Telent Technology Services, Tesco Stores, The Donkey Sanctuary, The Phoenix Group, Three Mobile, Transport for Wales Rail Ltd, Travelopia Holdings, Unipart Group, US Embassy London, Value Retail Management, Vandewiele UK, Virgin Atlantic, Wesleyan Assurance, Wessex Water, Whitbread, Wickes, Wilko, Wyndham Hotels & Resorts

Sector round-up
Median pay award in engineering edges up to 5.4%

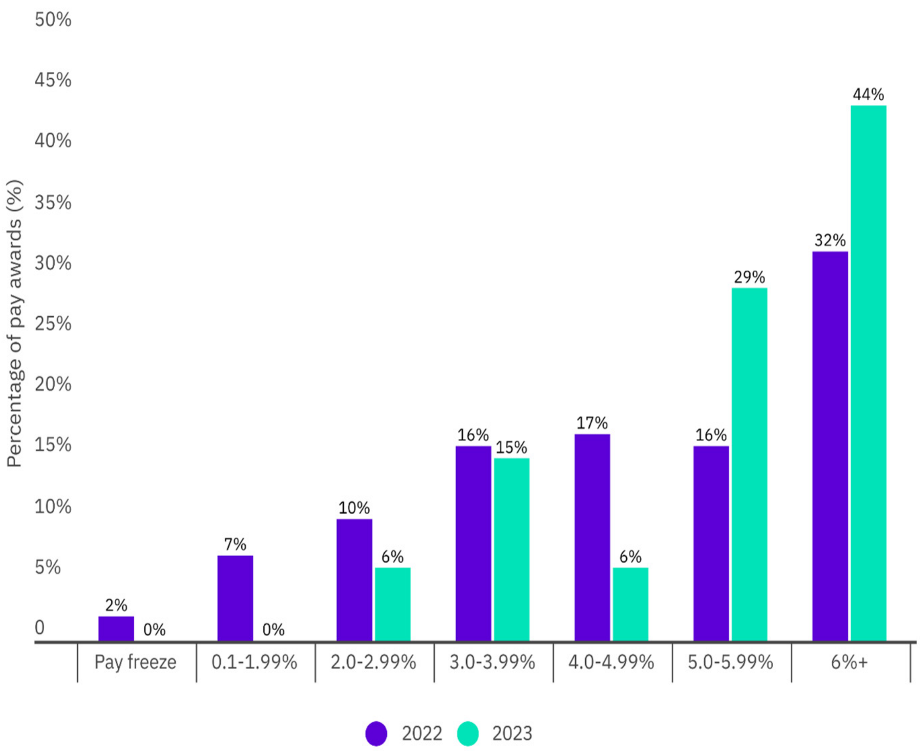
Zoe Woolacott, Incomes Data Research

The median pay award in engineering for 2023 is 5.4%, with an interquartile range between 4.2% and 6.0%.

This picture reflects a continued upward trend in pay compared to last year when the median pay award for 2022 was 4.5%, itself up sharply from just 2.2% in 2021. This latest upwards shift has been influenced by a larger proportion of higher-end awards worth 5% or more – up from around half (48%) of all engineering awards last year to nearly three-quarters (73%) of increases so far in 2023.

Increases in this bracket include the 10% rise awarded to workers at construction equipment manufacturer JCB. Higher still was the 14% increase effective for workers at BMW's MINI production plant in Oxford. The median pay rise across the economy in 2023 is also 5.4% but the median for the wider manufacturing and production sector is higher at 5.5%.

Distribution of pay awards in engineering, 2022 vs 2023



Source: IDR

The larger proportion of higher-end awards this year compared to 2022 has resulted in the average rising from 5.0% to 5.6%. In a somewhat contrasting result, the upper quartile (which acts as a median of the upper half of the distribution) is lower in 2023 at 6.0% - down from 6.5% last year.

This has been influenced by the comparatively larger count of higher-end awards in 2022 compared to this year so far, as well as the fact that quartile analysis of pay settlements sometimes produces anomalies like this, due to the fact that one, annual samples differ and two, the order and size of intervals between the pay deals in each year can vary significantly.

More than two-fifths (44%) of pay rises awarded by engineering firms in our sample for 2023 were negotiated with trade unions. The median pay award at these organisations is 5.5% and as such is higher than the median for non-negotiated deals of 5.0%, indicating that there is still a trade union premium when it comes to pay outcomes.

A closer look at the distribution of pay awards in the engineering sector reveals that very few (6%) increases were below 3% this year, representing a drop from 19% in 2022. This has caused the lower quartile to rise from 3.0% last year to 4.2% for 2023 so far. Our latest sample is based on 34 awards effective between 1 January and 31 July 2023 covering 96,480 employees in total.

Engineering pay awards summary, 2022 vs 2023

	2022	2023
Lower quartile	3.0%	4.2%
Median	4.5%	5.4%
Upper quartile	6.5%	6.0%
Average	5.0%	5.6%
Count	57	34*

*Based on 34 pay awards covering 96,480 employees in total.

Pay and Conditions in Engineering 2023

As manufacturing companies and other employers of engineers emerge from the immediate post-pandemic period, economic conditions have become more challenging, and this can limit employers' room for manoeuvre when it comes to tackling recruitment and retention issues for their engineering workforce. Taking part in this survey will help you to benchmark pay for this important group of staff, and also take the temperature of the labour market at a key point in the business cycle.

All participants will receive a free summary of the results on publication later this year and be given the chance to buy the full results at a 10% discounted rate.The survey will take around 15 minutes to complete, and you can fill it out in more than one sitting by clicking 'Save and Continue Later' at the bottom of any page and a link will be sent to you to allow you to edit your responses until the survey closes. If you wish, you can also print the survey and/or your responses to review offline by going to the end of the survey and selecting 'print response'.

The deadline for completing the survey is 5pm, Monday 25 September 2023.

Take part in the study here: Engineering_survey_2023

Special article
Can the Government wrap up the 2023 public sector pay round?

Ken Mulkearn, Incomes Data Research

This year's public sector pay round is one that the Government would probably rather forget.

Characterised by extensive industrial action, even or perhaps especially by staff covered by Pay Review Bodies (PRBs), a number of negotiations and outcomes remain to be concluded. Meanwhile, for the major groups that have settled, pay rises have ranged from 5% up to around 10% for some lower-paid staff.

One interesting feature of this year's round is that the pay rises for those groups whose pay is normally subject to traditional collective bargaining, like fire service staff, or those who would normally be covered by PRB recommendations but who opted for negotiations due to dissatisfaction with the usual pay-setting process, such as NHS staff, are at the lower end of the range of increases. By contrast, those subject to the PRB process, which eschews traditional collective bargaining in favour of the presentation of evidence by the various parties, did slightly better on the whole. The Government will be hoping that this will future-proof the PRB process, which had come under criticism from some on the employee side for producing recommendations that, while favourable to government, were too low to meet staff aspirations at a time when inflation was high and rising. It may well do so, but one PRB recommendation – that for teachers in England – was made after a campaign of industrial action by the largest teaching trade union (the NEU), and the possibility of similar action by other teaching unions. And other recommendations were made against a backdrop of industrial action. This shows that, in certain circumstances at least, traditional collective bargaining methods can be brought to bear on the PRB process, apparently with a certain amount of success.

The reason the NEU accepted the recommended increase and called off its action was due to guarantees that the pay rise would not involve cuts to schools, but instead be funded by 'reprioritisation' of spending from elsewhere in the Department of Education's budget. This was another feature of this year's round of PRB awards, all of which entailed some kind of reordering of spending priorities within existing budgets in order to divert funds to pay increases. While the Government in its statements on the awards referred to 'protecting frontline services' in the case of the NHS and schools, this nevertheless raises the prospect of cuts elsewhere. In addition, some of the increase for doctors and dentists will be funded by a rise in the health immigration surcharge, while separately the Prime Minister has also said that a planned rise in the cost of migrant workers' visas will flow through to higher pay, both of which measures have been criticised by some commentators as divisive in the context of an NHS that is partly staffed by migrant workers.

As in previous years, some outcomes in Scotland have been greater than for their equivalents south of the border. The key example in this regard is that for NHS staff. However, the Scottish Government's public sector pay strategy for this year has set a central metric for increases of 3.5%, with a floor of 2% and a ceiling of 5%. This may mean that the NHS outcome turns out to be something of an outlier, at least for those groups under the direction of Holyrood.

The offer to staff across local government in Scotland is a good deal higher than the central stipulation, but as in England and Wales, negotiations have stalled. The area missing from the table below is of course the civil service, which is tightly subjected to the Treasury's pay remit process. This year the Exchequer stipulated that civil service pay awards should be worth up to 4.5% on average, with an additional 0.5% available for targeting at lower pay bands. As a result, the majority of outcomes are likely to centre on this, though most have yet to be concluded for 2023.

Those groups still in dispute include, most prominently, so-called 'junior' doctors – actually qualified doctors undertaking clinical training, with anything up to eight years' experience in hospitals, who make up a significant part of the NHS's medical workforce – who are still conducting a campaign of industrial action in support of their claim. They have been offered 6% plus an additional consolidated payment of £1,250. Similarly their supervisors – consultants – have been offered 6%, but in both cases to no avail so far. The chart below provides an insight into their grievances. While earnings for other public sector professions have grown to some extent since 2016, those for doctors have flat-lined, with no change at all over this period. And these are nominal or actual figures. In real terms, that is adjusted for inflation, the trend is even worse. The picture in the NHS is further complicated by the fact that the Society of Radiographers who, although covered by the offer that other groups have accepted, have rejected it and continue with their campaign of industrial action. And perhaps more significantly there is the Royal College of Nursing who voted against the same offer but in a ballot where the numbers fell short of the numbers required by the Government's strict criteria for legal industrial action.

In normal circumstances these groups would be able to reach deals of some sort with the Government but that appears to be unlikely. If this conclusion is correct,

Public sector pay awards and offers 2023

Staff group (PRBs in brackets)	Agreed or recommended pay rise 2023	Government reaction (where relevant) or status of talks
Armed Forces (AFPRB)	5% plus £1,000 (consolidated), resulting in total increases ranging from 5.8% at top to 9.7% for the most junior ranks	Government reaction (where relevant) or status of talks
Doctors and dentists (DDRB)	Consultants, GPs and dentists – 6%; Junior doctors – 6% plus £1,250 (consolidated); Speciality doctors – 3% on top of increases under current long-term award	Accepted in full, but both consultants and junior doctors have rejected the pay awards
Fire Service NJC	5% in second year of a retrospective two-year deal that backdated 7.0% to July 2022	-
Local government (E&W)	Offer of £1,925 (consolidated) on pay points 2 to 43 (worth 9.4% on lowest point); 3.88% for those above pay point 43 (currently £49,590)	Unions have rejected offer
Local government (Scotland)	Offer of 5%, plus addition of extra 45pph for scale points 2-18, extra 2.5% for scale points 19-43, extra 1.5% for scale points 44-64 and 1% for scale points 65 and above	Unions have rejected offer
NHS staff in E&W (NHSPRB)	5% (10.4% for staff on lowest pay point) from collective negotiations following industrial action	-

NHS Scotland	Min 6.5% on average for staff on bands up to and including 8a, plus one-off payments ranging from £387 to £939	-
Police in E&W (PRRB)	7% (plus removal of lowest pay point for constables, resulting in a greater rise for staff at this level)	Accepted in full
Police Scotland (PNB)	No agreement at Police Negotiating Borad on Scottish Police Federation's claim for an 8.5% rise	-
Prison Service in E&W (PSPRB)	£2,000 for lowest grade (worth as much as 8.6%); 7% for main grades 3 to 5; 5% for managers	Accepted in full
School teachers – England (STRB)	6.5%, with a greater increase to bottom of main range to provide a starting salary of £30,000 outside London	Accepted in full
School teachers – Scotland (SNCT)	5% for most staff from 1 April 2023 (penultimate stage of 28-month settlement from 1 April 2022; final stage will be 2% from 1 January 2024)	-
School teachers – Wales (IWPRB)	3.5% in the second year of a two-year award which gave 5% in 2022, with a higher increase to the lowest pay point	Accepted in full
Senior Salaries Review Body	Senior civil servants – 5.5%, plus 1% for those lower down pay ranges 'who are delivering and demonstrating expertise'; Senior military – 5.5%; Judiciary – 7.0%; NHS senior managers – 5.0% plus 0.5% to address pay anomalies	Accepted in full

Source: IDR

then it is possible that disquiet over pay will continue to figure as an issue in the health service, even as thoughts turn to next year.

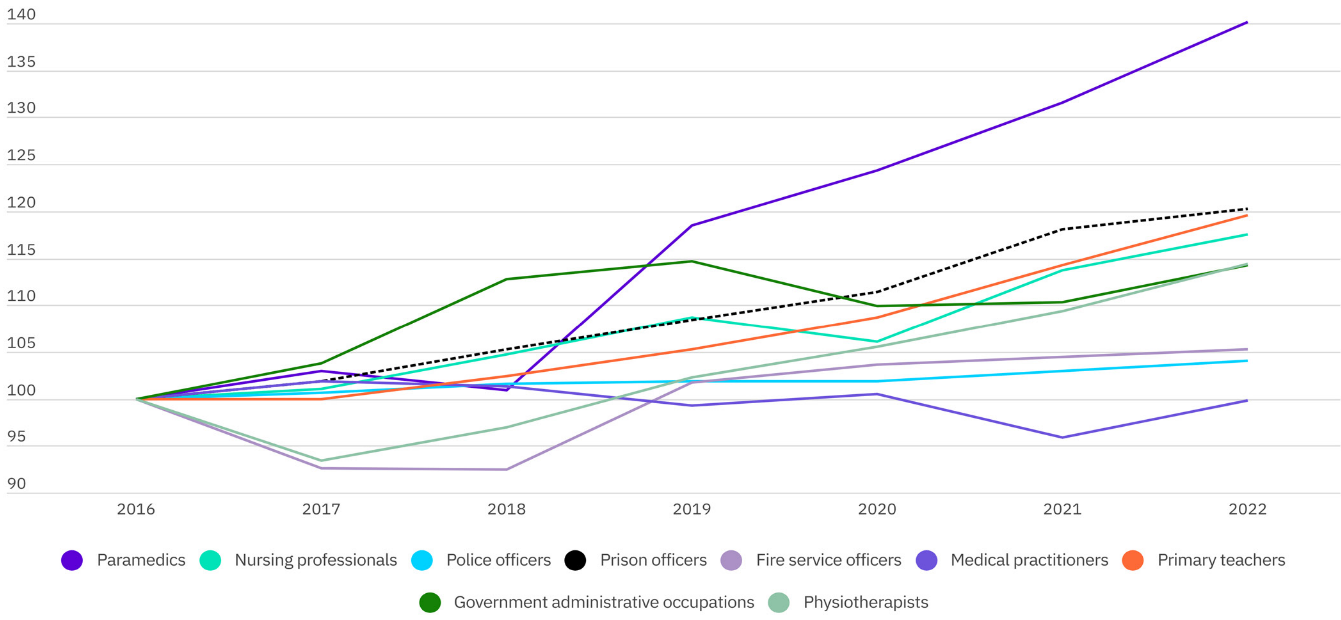
Recruitment and retention

Public sector staff concerns are not simply to do with the cost of living and the value of their pay in relation to it. This year's strikes have taken place against a backdrop of severe recruitment and retention problems. Employee retention in the public sector had long been easier than in the private sector, mainly thanks to better pensions, but underfunding is severely affecting morale and this has made retention a much bigger issue than hitherto. All of this year's PRB reports devote significant space to it and not just that for NHS staff, which raises it most often. For example, that for doctors and dentists refers to 'high demand and constrained workforce supply', with 'high workloads affecting retention'.

In prisons the PRB regards retention as a serious issue and reports: 'Many prisons stated that they were struggling to fill vacancies, due to a lack of applicants and worsening retention.' In the police service, the number of leavers is up sharply, while schools have seen high numbers of teachers leaving in the early years of their careers, with leadership retention also an issue.

Therefore while the Government will be hoping that a fall in the rate of inflation might make for a less fraught pay round in 2024, recruitment and retention should remain a key issue. While weak economic growth and fears of recession have made attraction and holding onto staff in the private sector a little easier than hitherto (though problems remain in many areas), the difficulties facing the public sector – based as they are issues around central

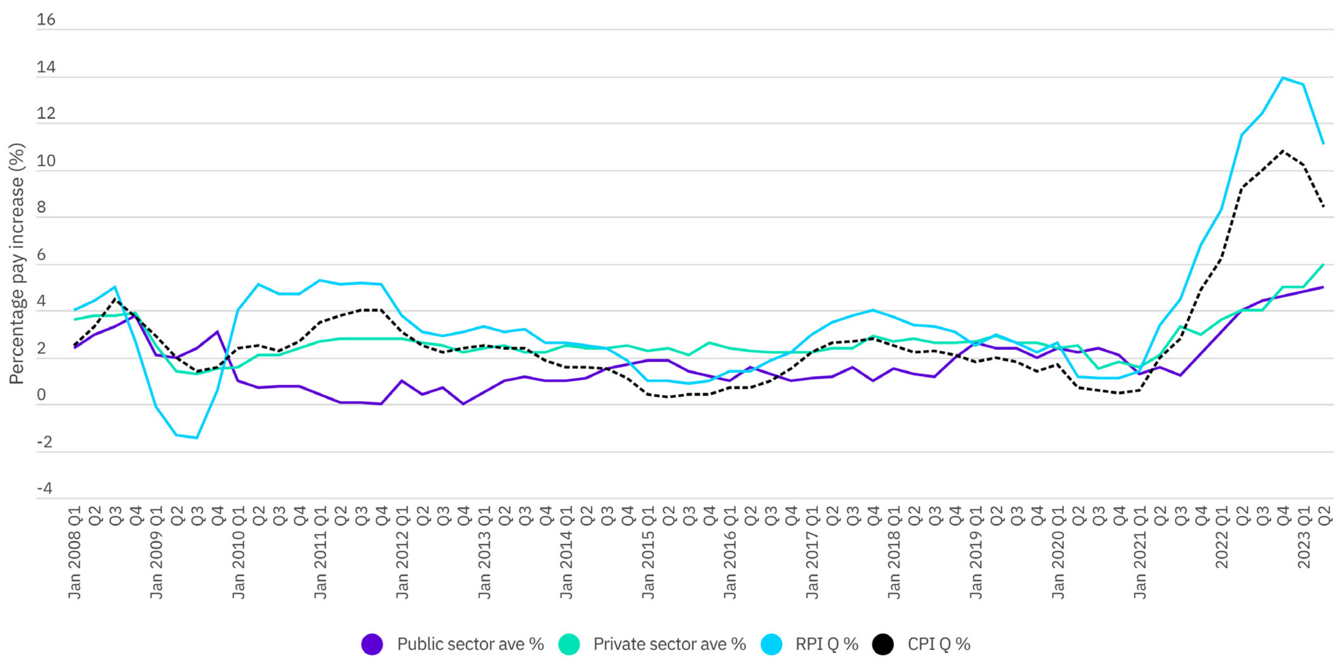
Earnings growth by occupational group



Source: ONS

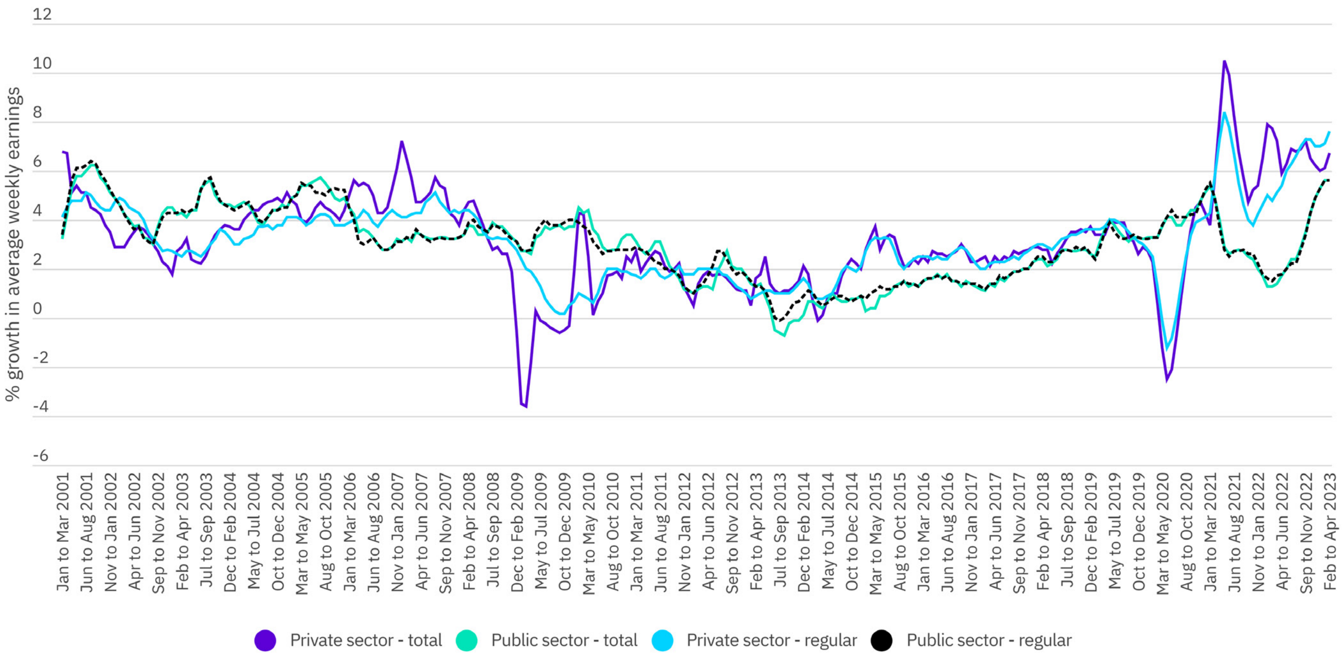
funding – are likely to persist. The broader labour market is unhelpful in this regard as well. Levels of economic inactivity (the numbers of people neither in work nor looking for work) are still way above pre-pandemic levels, and this presents as a tightening factor in the labour market. Meanwhile the population is ageing overall and immigration from EU countries has fallen significantly. This has been replaced to some extent by arrivals from the rest of the world, but most of these are students who will return to their home countries in fairly short order and cannot be relied upon to solve the UK's labour market problems. In some ways, the labour markets in the private and public sectors can be seen as operating according to a cycle whereby as one loosens the other remains tight. This is roughly analogous to the cycle in pay. When the private sector forges ahead, the public sector tries to catch up, as evidenced by the charts below, showing basic pay awards on the one hand, and average weekly earnings growth on the other.

Public vs private pay awards since 2008



Sources: IDR and ONS

Average earnings growth by sector



Source: ONS

The table below shows the gap in terms of basic pay awards for the latest available period, that includes the key month, in pay-setting terms, of April. This is the point of the year to which most of the PRB awards, announced late this year as in previous years, are backdated. Given this gap, the air of predicament surrounding public sector pay-setting could well continue.

Pay awards in the three months to the end of June 2023

	Lower quartile	Median	Upper quartile
Whole economy	5.0%	6.0%	8.8%
Private sector	4.8%	6.0%	8.2%
Manufacturing and production	5.0%	6.0%	7.6%
Private services	4.6%	6.0%	8.9%
Not for profit	5.0%	6.0%	7.0%
Public sector	4.4%	5.0%	6.0%

Based on 190 pay awards covering approximately 2 million employees in total.

Source: IDR

Datacheck **Inflation slowly coming down**

According to the Office for National Statistics inflation has fallen across all three measures, with the largest downward pressures coming from falling gas and electricity prices.

The Retail Prices Index (RPI) sits at 9.0% in the year to July, down from 10.7% in June. The Consumer Prices Index including owner occupiers' housing costs (CPIH) sits at 6.4%, down from 7.3% last month. Meanwhile, the Consumer Prices Index (CPI) sits at 6.8%, down from 7.9% in the year to June.

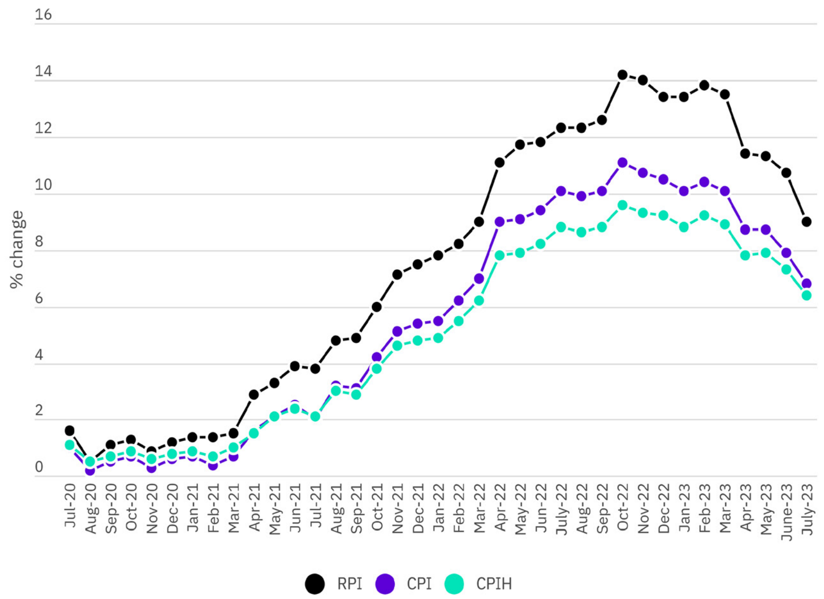
Despite remaining historically high, it appears that inflation has started to come down since this is the second consecutive month the figures show inflation falling across all three measures.

In addition to falling gas and electricity prices, the figures show that large downward effects on the RPI came from non-seasonal and seasonal food prices, as well as the falling price of petrol, oil and the cost of purchasing motor vehicles which was partially offset by the rising cost of vehicle tax, insurance and maintenance are all acting to keep inflation elevated.

In respect of the CPIH and CPI, the ONS says that this month's outcome is largely due to the downward pressure from the falling cost of housing, water, electricity, gas and other fuels which is partially offset by the high cost of rented accommodation and owner occupiers' housing costs.

Food prices rose in July 2023 but by less than in July 2022, also leading to an easing of the annual rates of inflation. Air fares and hotel prices were the items that figured largest in terms of potentially offsetting upward contributions, with this most likely linked to the timing of the estimates, taking place at a time of year when prices for such services tend to increase.

Inflation rates; RPI, CPI, CPIH three years to July 2023



Source: ONS

Inflation measures - year to July 2023

Measure	% change over 12 months to July 2023
Retail Prices Index (RPI)	9.0% (down from 10.7% last month)
Consumer Prices Index - Housing (CPIH)	6.4% (down from 7.3% last month)
Consumer Prices Index (CPI)	6.8% (down from 7.9% last month)

Next release date: 20 September 2023
Source: ONS

Labour market shows signs of softening

The latest labour market statistics show signs of a softening labour market with a marginal fall in employment and a continued rise in unemployment.

Meanwhile the number of vacancies continued to fall and there was a notable uptick in redundancies.

Employment and unemployment

Employment dipped in the latest period, down 28,000 over the quarter to stand at a rate of 75.7% (a fall of 0.2 percentage points). By age the largest fall was seen among 18–25-year-olds, with a fall of 96,000. Meanwhile the number of unemployed people increased over the quarter by 109,000. The unemployment rate stood at 4.3%, up 0.2 percentage points over the previous quarter.

Economic inactivity

Economic inactivity fell by 38,000 to stand at a rate of 20.9%. While economic inactivity fell marginally, it still remains high compared to pre-pandemic levels. The number of individuals who are economically inactive due to a long-term sickness also hit a record high of 2.6 million in the three months to June 2023.

Vacancies and redundancies

The number of vacancies continued to fall, down by 83,000 over the quarter, and there are now 1.4 unemployed people per vacancy. The latest labour market figures also show a spike in the number of redundancies, which increased from 81,000 in the period January to March to 108,000 in the current period (up 27,000). The current redundancy rate is 3.8%, which is 1.0 percentage point higher than in the previous quarter.

At the same time as both unemployment rose and employment fell, it is important to note that the decrease in employment was driven by full-time employees and self-employed workers. Meanwhile a separate estimate of the numbers of employees on company payrolls shows a monthly increase for July 2023, up 97,000 on the revised June 2023 figure, to 30.2 million. But against this, analysis of labour market flows by the ONS shows a large net flow from inactivity into unemployment this time.

So the labour market remains tight overall, but with signs of softening. Much depends on whether or not the economy tips into recession over the coming months, and how that affects employment and unemployment.

UK labour market summary statistics April to June 2023

Measure	Level (000s)	Quarterly level change (000s)	Rate %	Quarterly change in rate
Employment (16-64)	31,525	-28	75.7	-0.1
Unemployment (16-64)	1,410	109	4.3	0.3
Unemployment (16 and over)	1,439	109	4.2	0.3
Economic inactivity (16-64)	8,693	-38	20.9	-0.1
Vacancies	1,036	-83	1.4*	0.2
Redundancies	108	27	3.8	0.9

*Number of unemployed people per vacancy

Next release date: 12 September 2023

Source: ONS

Record growth in average weekly earnings, at 7.8%

Average weekly earnings across the whole of the economy grew by 7.8% on the regular pay measure in the year to June 2023.

This is the highest rate of growth since comparable records began in 2001. Total pay, which includes bonuses, rose by 8.2%, boosted by one-off payments paid as part of the 2023 NHS pay deal.

According to calculations by the ONS, annual growth adjusted by the CPIH inflation rate indicates real terms growth of 0.5% in total pay and 0.1% in regular pay.

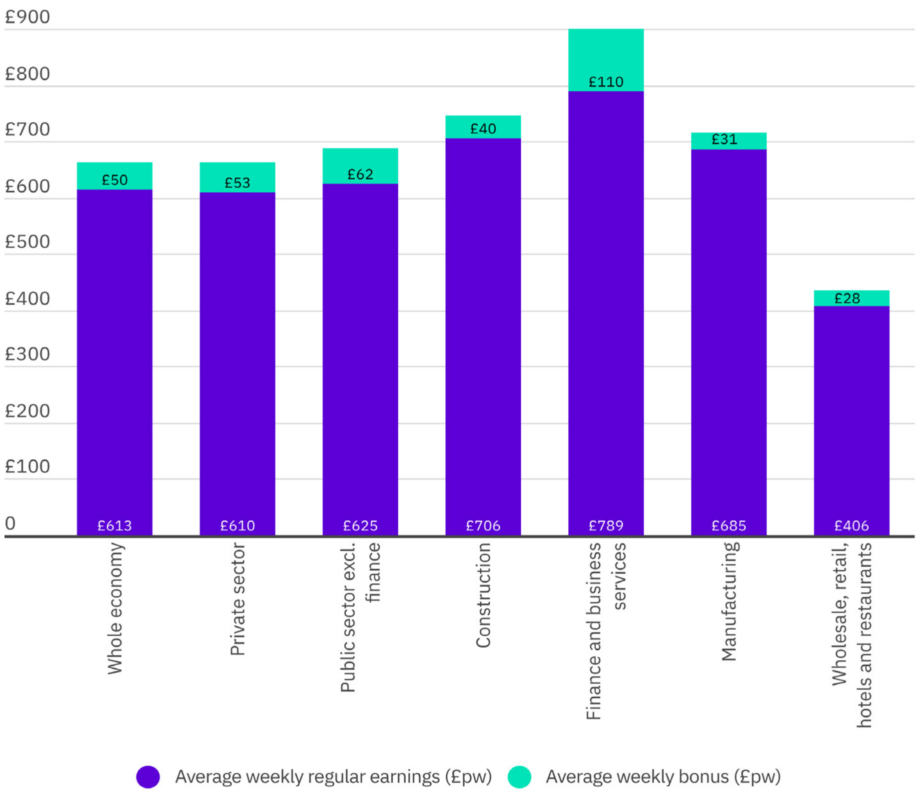
Comparing average earnings growth in the private sector with the public sector (excluding financial services), we see that in the private sector regular pay growth was 8.2% in the year to June compared with 6.2% in the public sector. However, with large one-off bonuses paid as part of the settlements in the NHS, total pay rose by 7.9% in the private sector and by 9.7% in the public sector.

Looking at the large industrial sectors that make up the private sector, the highest rate of growth in regular pay was once again in the finance and business services sector at 9.4%. The next highest rate of growth in the year to June 2023 was in manufacturing, a remarkably high 8.2%, which is the highest rate of growth since comparable records began in 2001.

Average earnings growth in construction was 5.8% in the year to June. In the largest industrial sector and the lowest paid, that of wholesaling, retailing, hotels and restaurants, average earnings rose by 6.3% in the year to June.

Earnings growth remains strong in the private sector, especially in finance and business services, and more recently in manufacturing. Recent pay increases in the public sector have boosted overall earnings for the whole economy. What is the likely trend as we enter the second half of the year? An indication of the trend line in earnings growth is provided by the separate experimental ONS/HMRC release based on PAYE data, with real time information. Early estimates for July 2023 indicate that median monthly pay increased by 7.8% compared with July 2022, suggesting the rate of earnings growth remains strong.

Average weekly earnings, year to June 2023



Source: ONS

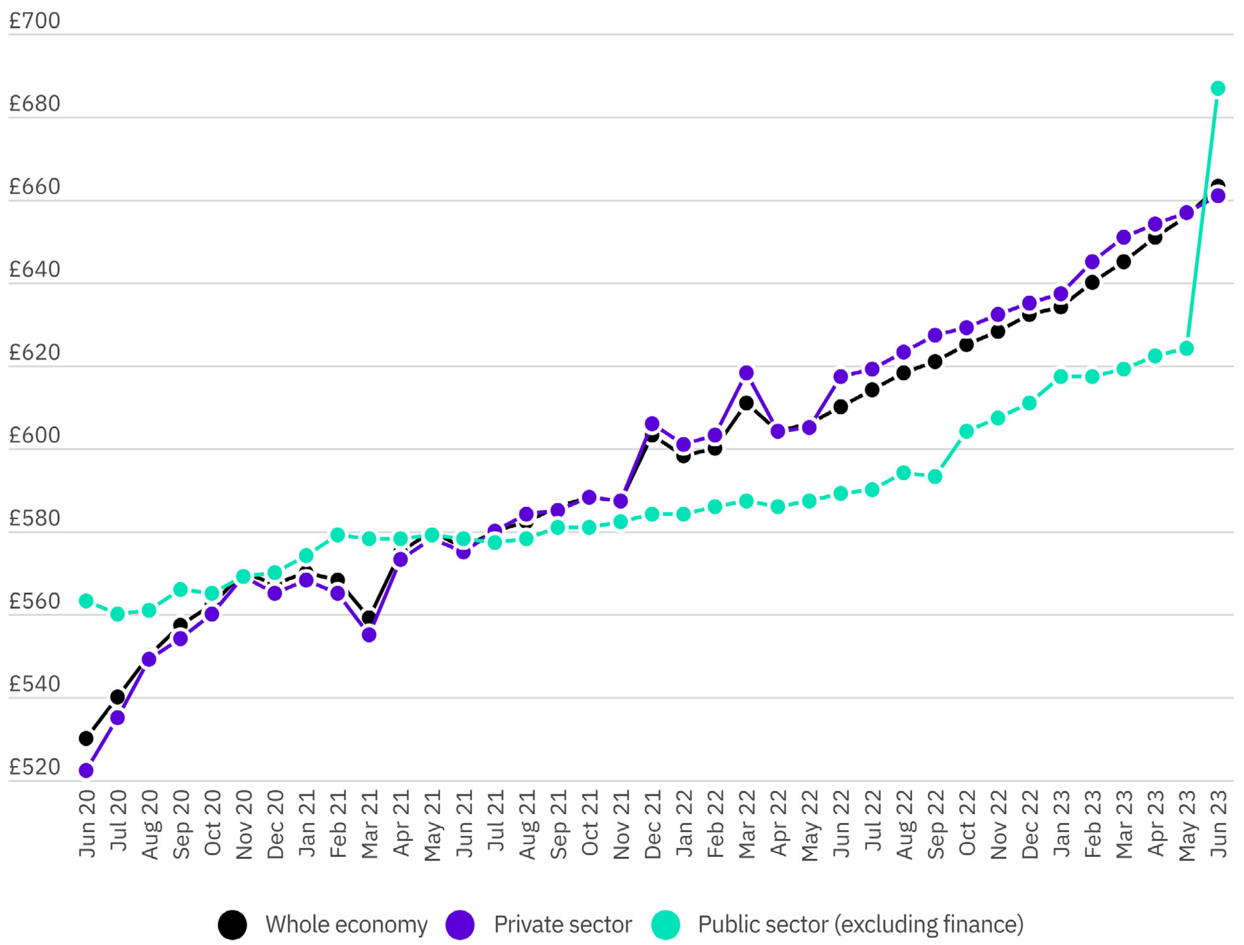
Average weekly earnings % growth (year-on-year) - three months to June 2023

	Total pay including bonuses
Whole economy	8.2%
Private sector	7.9%
Public sector excluding financial services	9.7%
Construction	5.4%
Financial and business sevices	8.6%
Manufacturing	8.3%
Wholesale, retail, hotels and restaurants	4.3%

Next release date: 12 September 2023

Source:ONS

Total average weekly earnings, June 2020 to June 2023



Source: ONS