INNECTO INSIGHTS

WINTER 2024/25 EDITION

INNECTO
REWARD CONSULTING

The UK's largest independent pay & reward consultancy

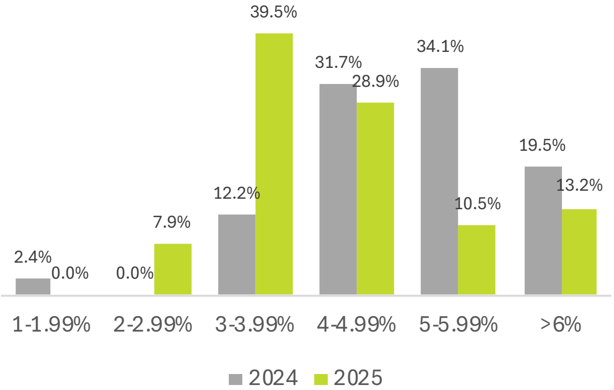
INNECTO INSIGHTS

QUARTERLY FOCUS:
PAY TRENDS SURVEY 2025

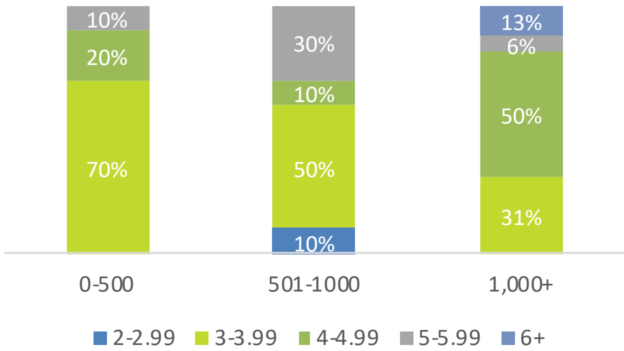
In December 2024, Innecto carried out a survey of employers to establish their current and future pay plans. This survey also collected input on approach organisations are taking to manage the impact of the Autumn budget and wider reward priorities.

PAY AWARDS

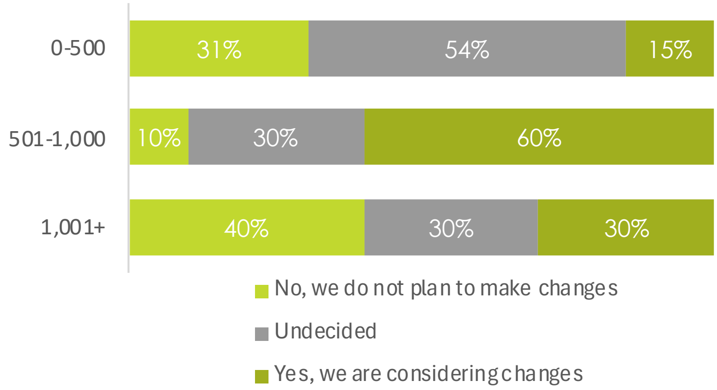
We're anticipating a **decline** in pay award budgets in 2025 comparred with 2024



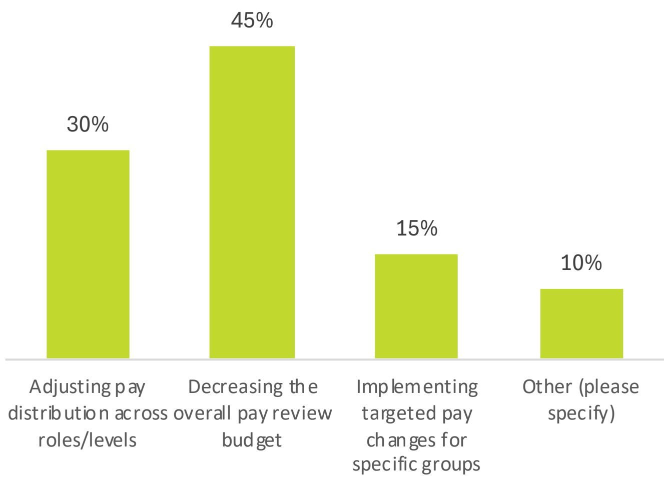
The **size of the pay award budget broadly correlates with the size of organisation** with most common award amongst larger organisations (1000+ staff) between 4-4.99%



The upcoming National Insurance (NI) increase in April has introduced uncertainty. **Mid-sized organisations are more likely to be considering changes**



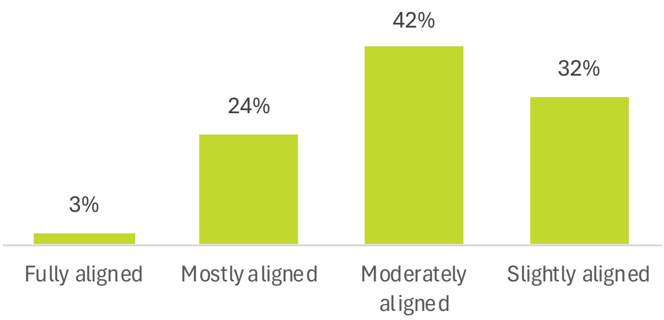
Of those considering changes, nearly half are opting for a **blanket decrease** in pay budgets



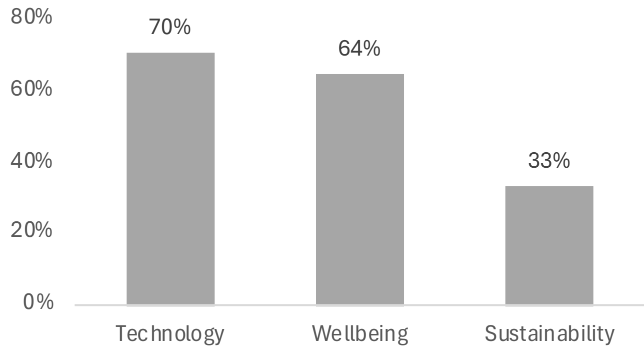
AUTUMN BUDGET

ON THE HORIZON

Most organisations felt their skill development initiatives are at least **moderately aligned** with their organisational strategy. The lack of clear alignment highlights the challenge faced for many organisations



When asked about **biggest workforce challenges**, technonogical advancements such as AI, automation and digital transformation were cited the most by respondents



for more findings check out the full report here...

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ECONOMIC SNAPSHOT

Economic growth stagnated in late 2024, with GDP showing no net growth in the three months to November. However, government spending measures are expected to boost demand in early 2025, which may make the unexpected decline in inflation in December short-lived.

Inflation (CPI) fell to 2.5% in December from 2.6% in November, tracking lower than initial forecasts. This was largely driven by an easing in services inflation, including slower price growth in the restaurant and hotel sectors, as well as a decline in volatile air fares.

Annual core inflation, which excludes volatile categories food and energy prices, also declined but remains more elevated at 3.2% as of December. This core rate tends to be a better indicator than headline inflation of trends in the months ahead. Inflation including owners occupying housing costs (CPIH) remains persistent at 3.5%.

UK economic growth stagnated in the second half of last year. According to the latest ONS data, the UK economy grew by 0.1% in November, offsetting an equivalent 0.1% contraction in October. Consequently, real GDP showed no net growth in the three months leading up to November 2024[2].

Figure 1: Inflation Indices[1]
(change over 12 months)

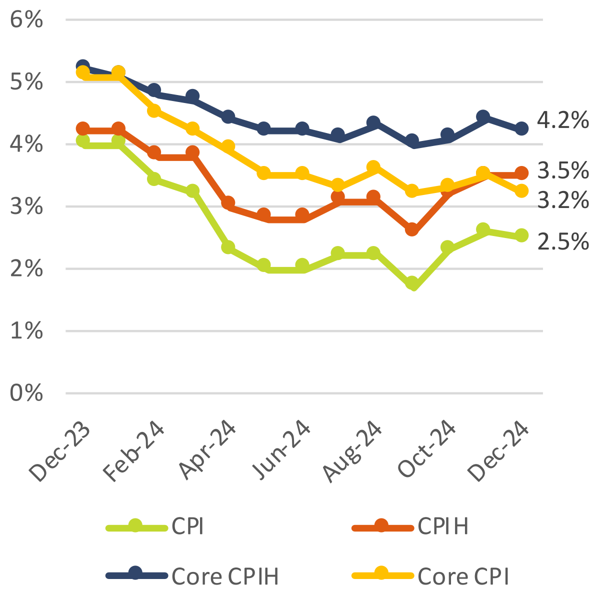
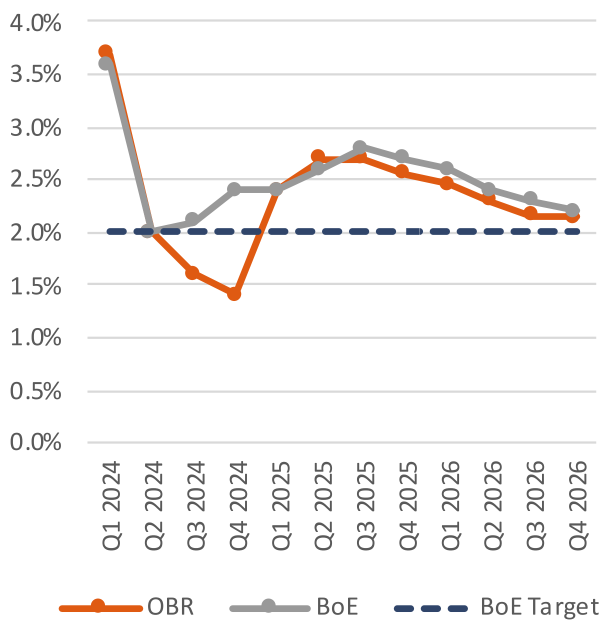


Figure 2: Inflation Forecasts



Looking ahead, the government spending measures detailed in the October 2024 Budget are likely to boost demand temporarily, contributing to an uptick in overall GDP growth in early 2025.

However, the rise in employer National Insurance Contributions (NICs) and the National Living Wage (NLW) will increase labour costs, which are expected to be passed on to consumers through higher prices. These combined factors of a demand boost and higher prices could contribute to sustained inflationary pressures. Current Bank of England (BoE) predictions suggest inflation to remain between 2% and 3% through 2026[3].

While the BoE is therefore likely to remain cautious about cutting interest rates, the latest inflation figures strongly suggest a 25-basis point reduction from the current 4.75% level.

How Innecto can support: **Reward Consultancy** >

As the UK's largest independent Reward consultancy, we provide honest advice, support and practical help to solve any challenge faced in the current economic climate. We offer a comprehensive suite of consultancy services across the Pay and Reward spectrum. This includes one-off consultancy projects or the ability to purchase Reward on Demand (RoD) credits to be used across our scope of services at a time which suits your business needs.

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AVERAGE EARNINGS

Real-terms earnings growth improved to 2.5% as regular and total earnings rose by 5.6%. Private-sector wage growth slightly outpaced public-sector growth, while future pay expectations remain steady at 3% overall, with the public sector rising to 4%.

The latest ONS data reveal continued growth in real-terms earnings across the whole economy. Average growth in regular earnings – which excludes bonuses – grew 5.6% in the three months to November 2024, from 5.2% in the previous three-month period. Average growth in total earnings – which includes bonuses – was also 5.6%, from 5.2% in the previous three-month period.

The latest data on regular earnings show a second period of consecutive growth, marking a reversal of a downward trend that began in August 2023 (see Figure 3).

In real terms, adjusting for inflation, earnings growth strengthened to 2.5% and 2.4% for regular and total earnings respectively, from the 2.3% recorded for both in the previous three-month period.

Figure 3: Average Weekly Earnings[4]
(3-month rolling average)

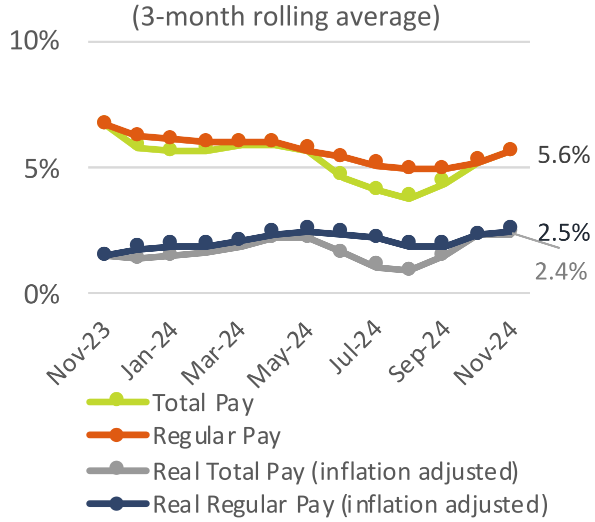
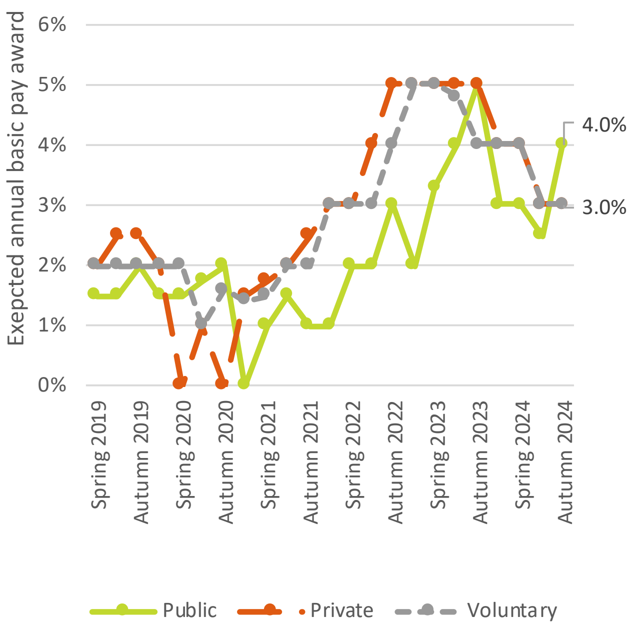


Figure 4: Median Pay Expectations[5]
(split by sector)



The ONS data also reports that average regular earnings growth for the private sector was 6.0% in the three months to November, up from 5.5%. For the public sector, average regular earnings growth stood at 4.1%, down from 4.3% in the previous three months. Public sector pay growth has therefore slowed, lagging the private sector for three reporting periods at the end of last year.

Looking ahead, the CIPD's Autumn 2024 Outlook reveals that employers across all sectors expect median pay awards to remain steady at 3% over the next 12 months. In the public sector, however, median year-ahead pay expectations have risen to 4%, from 2.5% in the previous quarter. This aligns with the Chancellor's announcement last year of pay increases for several public sector departments.

The Bank of England's Decision Maker Panel (DMP) survey highlights a dampening in expected wage growth in the private sector, as firms expect wage growth to decrease by 1.2 to 1.6 percentage points in the coming year.

How Innecto can support: **Paylab** >

PayLab is Innecto's revolutionary pay benchmarking solution, which allows you to gain complete clarity around your current and aspirational pay stance. PayLab's at-a-glance analytics, customisable dashboards and reporting suites enable you to track how pay is working for your business. You can look at market base pay and total cash stance, allowing you to get into the detail to understand your pay distribution.

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PAY AWARDS

Median pay awards fell over recent months to 3.3%, with the overall 2024 median annual increase at 4.5%, down from 6% in 2023. Public-sector awards slightly outpaced private-sector settlements, but employer costs rose due to higher National Insurance Contributions, forecasting some firms to scale back pay budgets. Forecasts suggest most 2024/2025 awards will fall below prior-year levels.

CURRENT ANALYSIS

Brightmine's analysis of current pay award settlements across all sectors reveals that median increases dropped to 3.3% in December, from 3.5% in the previous three-month period (see Figure 5).

For the full 2024 period, the median basic pay award was 4.5%, lower than the 6% median settlement recorded in 2023. By sector, the median awards in private-sector services and manufacturing were 4.8% and 4.5%, respectively. The median public-sector pay award was slightly higher, at 5%[6].

Overall, the 2024 pay awards have been characterised by less volatility compared to 2023, with a narrower spread of awards and smaller differences between sectors.

Figure 5: Base Pay Awards[6]
(3 month rolling average)

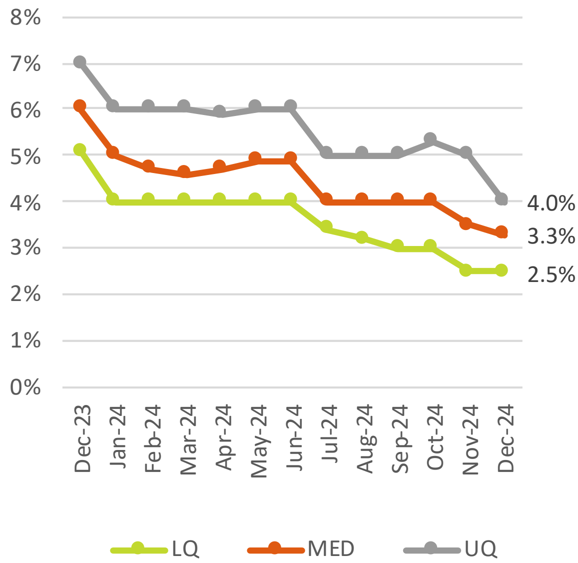
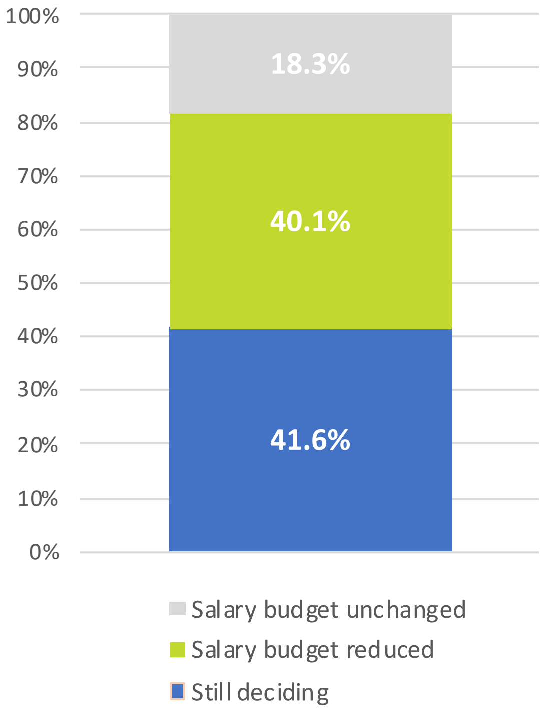


Figure 6: Impact of National Insurance Contributions (NICs) on 2025 pay award budgets



FORECAST

The 2024 Autumn Budget announced a 1.2 percentage point increase in National Insurance Contributions (NICs) and lowered the threshold at which employers begin paying, significantly raising employer costs. According to Brightmine's 2024 survey, 40% of employers reported reduced budgets for pay awards as a result. Similarly, 38% of firms in the Bank of England's Decision Maker Panel survey indicated they expect to offer lower-than-anticipated pay awards in the year ahead.

Prior to the announcement, the most predicted pay award was 3%, reported by 29.4% of employers, followed by 4% reported by 21.5% of employers. Nearly two-thirds of pay awards for 2024/2025 were forecast to be lower than a previous award received by employees.

How Innecto can support: **Advance** >

Anticipate cost implications and model impact on salaries with ease via Advance, our complete solution for pay review. Our user-friendly, fully customisable modeler removes the need for time hungry spreadsheets. By configuring the system to your internal pay practices and policies, you can keep track of spend and how proposed increases impact your pay position, whilst tracking progression year-on-year against your pay policy.

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PAY EQUITY

Since the introduction of the gender pay regulations in 2017 an increased focus has been put on employers to understand and take action to reduce pay differences, with many focusing on other areas of inequality and supporting those in low paid jobs.

The Government has announced an increase to the National Living Wage (NLW) to £12.21 in April 2025[9]. This 6.7% increase, while lower than in the previous two years due to reduced inflationary pressures, remains an above-inflationary adjustment and exceeds average median pay awards this year.

The Living Wage Foundation announced 5% increases to the voluntary living wage rates, standing at £13.85ph for those in London and £12.60ph across the rest of the UK[10].

In April 2024, 3.4% of all employee jobs were low paid (less than two-thirds of median hourly pay), down from 9.8% last year[11]. This is the steepest year-on-year decrease so far observed and places the proportion of low paid jobs at the lowest level since ONS records began. The decrease can partly be explained by the recent increases in the NLW.

The ONS headline gender pay gap (GPG) figure (which is based on median hourly earnings for full-time employees) narrowed to 7% in April 2024, down from 7.5% in 2023. Among all employees, the gender pay gap narrowed to 13.1%, down from 14.2% in 2023[12]. This gap is wider due to a larger proportion of women working part-time.

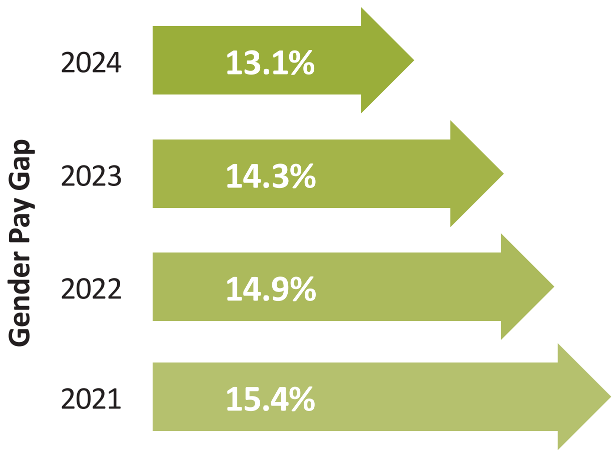
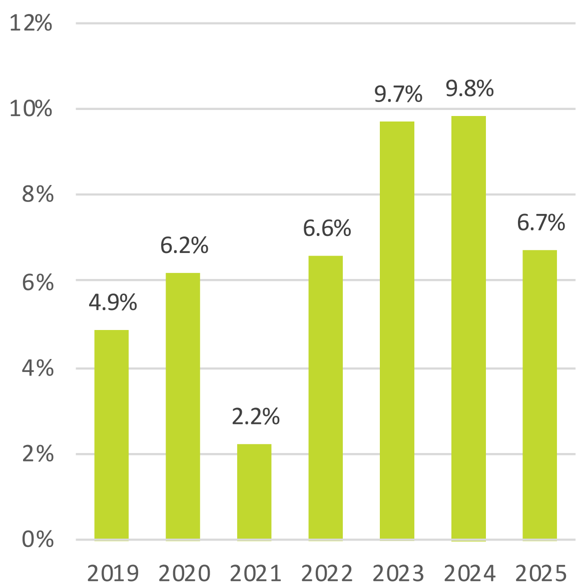


Figure 7: NLW Increases



The recently announced NLW will ensure the Government's target of a NLW at two-thirds of median hourly earnings is met in April 2025. The Low Pay Commission (LPC) predicts this rate will be higher than expected inflation up to March 2026, protecting the wage floor in real terms over this period.

Longer term analysis of the gender pay gap shows a gradual decline in the median gap, falling approximately by a quarter over the last decade. This slow decline, despite the introduction of reporting regulations, suggests further action is required from employers. The new Labour government has outlined plans to reduce the gap further. This includes expecting "large" companies to publish action plans to close the gap and for outsourced services to be included in pay gap reporting. The government also aims to introduce ethnicity and disability pay gap reporting as mandatory for companies with 250+ employees, which mirrors gender pay reporting.

How Innecto can support: Evaluate

Ensuring consistent grading is a key foundation for ensuring pay equity. Evaluate is a job levelling tool that makes evaluating roles quick and straightforward, reducing the resource your department needs to commit to completing this vital yet often time-consuming task. Our robust system for evaluating jobs gives HR confidence that roles are being assessed fairly and consistently and enables HR to create a strong foundation to build an effective organisation.

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RECRUITMENT & RETENTION

The UK employment rate rose slightly to 74.9%, while unemployment edged up to 4.3% and economic inactivity declined. Labour demand continues to weaken, with vacancies falling for the 13th consecutive month, though recruitment challenges persist, especially in specialist roles and the public sector.

The latest official data from the ONS shows that the UK employment rate stood at 74.9% between August and October 2024, very marginally up on the previous quarter. The unemployment rate rose slightly to 4.3%, though it remains relatively low by historical standards. Meanwhile, the economic inactivity rate continues to decline.

UK labour demand has continued to loosen, with the estimated number of vacancies falling by 31,000 to 818,000 between September and November 2024. This marks the 13th consecutive month of declining labour demand, although vacancies remain above pre-pandemic levels. The Autumn Budget could also further suppress labour demand, as 51% of firms surveyed by the Bank of England indicated plans to reduce their workforce as a response to higher costs.

Figure 9: Employers with hard-to-fill vacancies by industry (%)

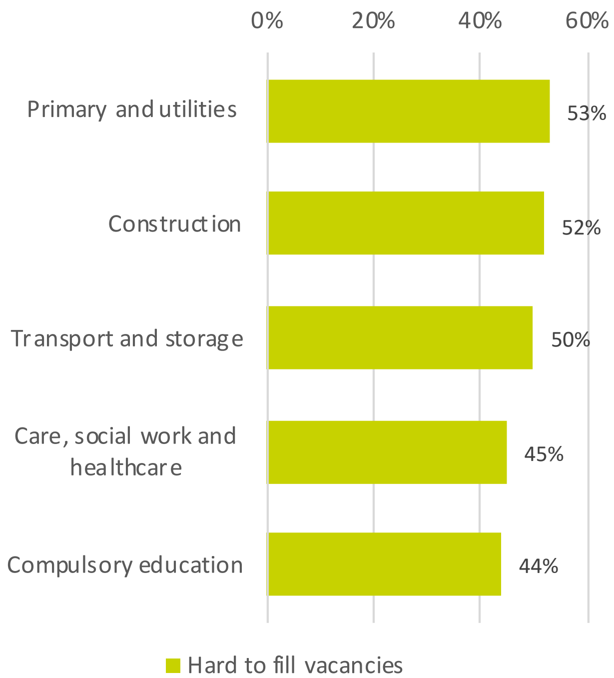
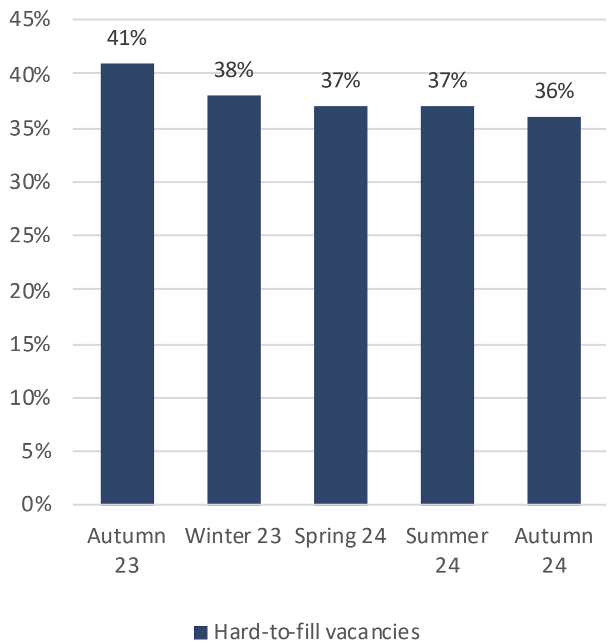


Figure 8: Employers with hard-to-fill vacancies. Current vs next six months



While overall vacancy levels have fallen, the proportion of employers who report hard-to-fill vacancies is largely unchanged (see Figure 8). There are signs recruiting and retaining talent continues to be a challenge, with some specialist sectors in particular finding it difficult to attract candidates with the right expertise (see Figure 9).

Recruitment intentions remain stronger in the public sector than in the private sector, however the public sector overall faces a higher share of hard-to-fill vacancies (42% compared to 34%) and is more likely to anticipate challenges in filling roles going forward.

How Innecto can support: **Hapi**

The challenging labour market has increased the focus on how you can stand out amongst competitors. Innecto can support on developing your wider total reward package to elevate key benefits. Our industry leading mobile and web-based app, Hapi, also provides the perfect home for all components of your employee deal, making it visible and accessible to all. Hapi allows you to effectively communicate, manage and analyse your employee deal to drive engagement and retention.

INNECTO INSIGHTS

WHAT WE DO

As the UK's largest independent pay and reward consultancy, Innecto combines 'big 4' expertise and commercialty with the personal touch of a boutique firm. For over two decades, we've supported organisations of all sizes – from global enterprises to high-growth SMEs – by delivering tailored reward strategies that align with their business goals.

In 2019, Innecto was acquired by AIM-listed Personal Group, providing us with expanded resources and support from an in-house development and tech team. This partnership has allowed us to enhance our offerings, including advanced tools like Evaluate, PayLab, and Advance, which empower our clients to make data-driven decisions with clarity and efficiency.

Our team of experienced consultants offers actionable insights across the pay and reward spectrum, from executive compensation to employee engagement and retention. Innecto is committed to driving organisational success through impactful reward solutions, seamlessly integrating consultancy and technology to help clients harness the power of their workforce.

Data Sources

1. ONS Inflation and Price Indices, January 2025
2. ONS National Quarterly Accounts, January 2025
3. Bank of England, Monetary Policy Report November 2024
4. ONS Consumer Price Inflation, UK: January 2025
5. OBR Economic and fiscal outlook – October 2024
6. ONS Average weekly earnings in Great Britain: December 2024
7. CIPD Labour Market Outlook; Autumn 2024
8. Brightmine Pay Trends December 2024
9. Incomes Data Research, Employers plan for lower value pay awards as inflationary pressures ease, September 2024
10. Brightmine Pay Forecast 2024-2025
11. Low Pay Commission: The National Minimum Wage in 2025
12. Living Wage Foundation, Real Living Wage Increases to £12.60 in UK and £13.85 in London, October 2024
13. ONS Low and high pay in the UK, October 2024
14. ONS Gender pay gap in the UK, October 2024
15. ONS Employment In the UK, October 2024

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