Personal Group

Part of the PG family

INNECTO INSIGHTS

QUARTERLY REPORT

JANUARY 2023

INNECTO

REWARD CONSULTING

The UK's largest independent pay & reward consultancy

INTRODUCTION

QUARTERLY REPORT

This quarterly report draws together the latest insights on pay and reward across a range of sources. It outlines the current analysis and the future forecasts based on available data to support employers.

This quarter we provide insights for pay planning and forecasting in 2023 following research carried out amongst organisations across the private, public and not-for-profit sector. The challenges faced in 2022, including rising inflation and a tightening labour market continue to dominate the reward agenda in 2023. Forecasts suggest higher pay increases are planned to ensure the attraction and retention of talent across all sectors with organisations widening their approach beyond solely pay, to support the cost of living challenges faced by their workforce.

INNECTO REWARD CONSULTANCY

Established in 2002, we have spent the last 20 years helping companies unlock the power of reward, annually providing support to over 100 companies; large multi-nationals through to dynamic high growth SMEs.

We are unique, as the UK's largest independent pay and reward consultancy, we provide creative and commercially-focused talent and reward solutions to help our clients get their pay and reward working harder. By blending the expertise and commerciality associated with 'the big 4' with the passion, flexibility and dedication seen in smaller consultancies we have become the trusted partner of choice for our high-profile, global client list.

We are nimble, thoughtful and experienced consultants who have the freedom to create bespoke solutions that meet the exact requirements of our clients. Facilitating innovation and agility, we align HR strategies with over-arching business goals to deliver tangible business value in terms of costs savings, efficiency gains and growth capability.

Alongside consultancy we have pioneered the implementation of HR tech, developing market-leading cloud-based solutions.

In 2019 Innecto were acquired by AIM listed Personal Group. With the backing of our parent company we redeveloped the ID platform and are now supported by an in-house development and tech support desk.

As part of the PG family we work together to innovatively and expertly provide organisations with the very best solutions in Reward and Recognition.

Get in touch for further information on how we can support you

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INNECTO REWARD CONSULTING

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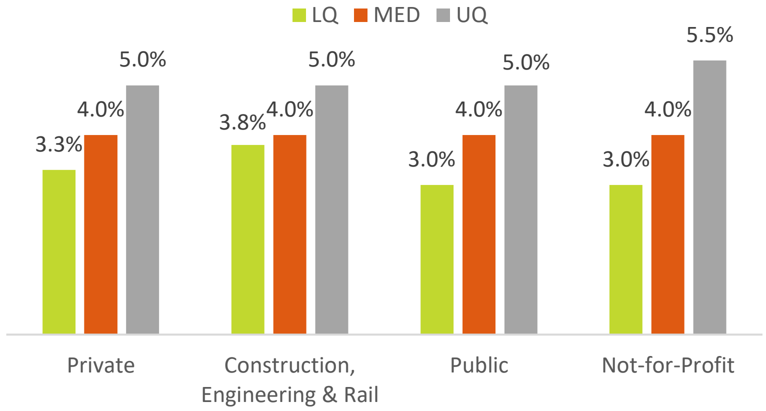
INNECTO INSIGHTS

QUARTERLY FOCUS: PAY SURVEY 2023

In December 2022, Innecto and QCG carried out a survey of c.110 employers to establish their current and future pay plans. This survey also collected input on measures organisations are taking to manage the impact of cost of living on employees and wider plans to manage reward in the current uncertain environment.

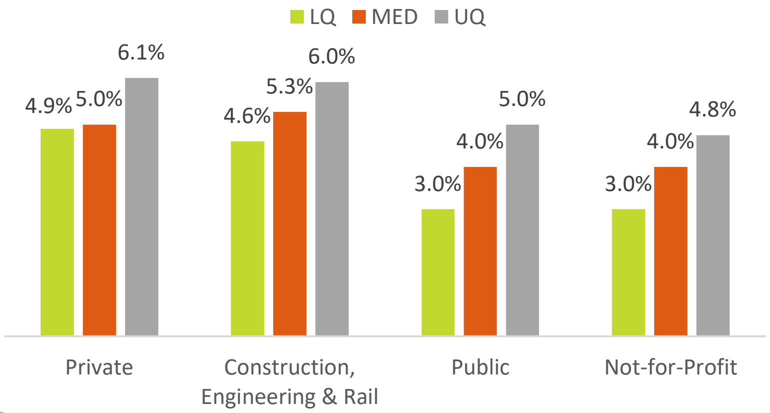
2022 PAY AWARDS

Pay awards remained consistent across organisations of different employee sizes, demonstrating **that firms of all sizes faced similar challenges of raising pay amidst rising cost of living**

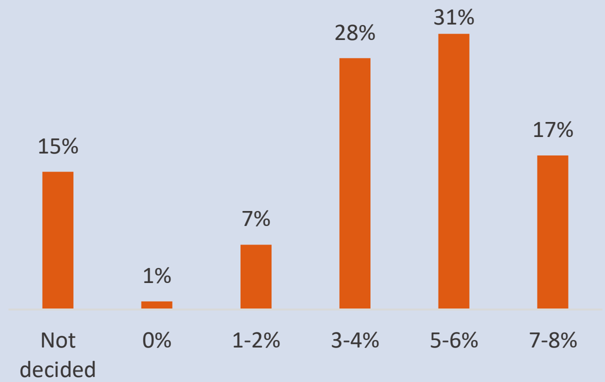


Pay awards generally **ranged between 3% - 5% across all sectors** in 2022

Higher median 2023 pay projections are in the private and construction, engineering & rail sectors with **the lower quartile of pay awards planned above 4.5%**



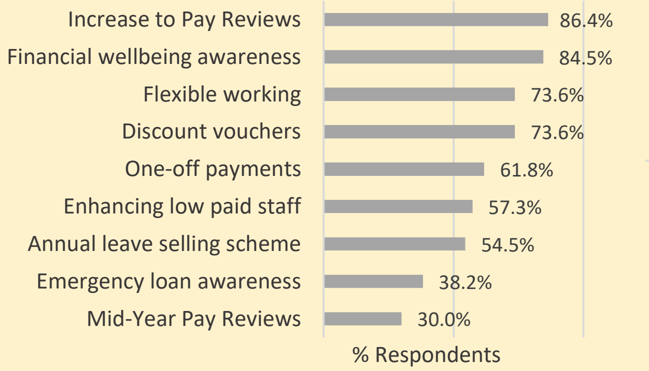
2023 PAY PLANNING

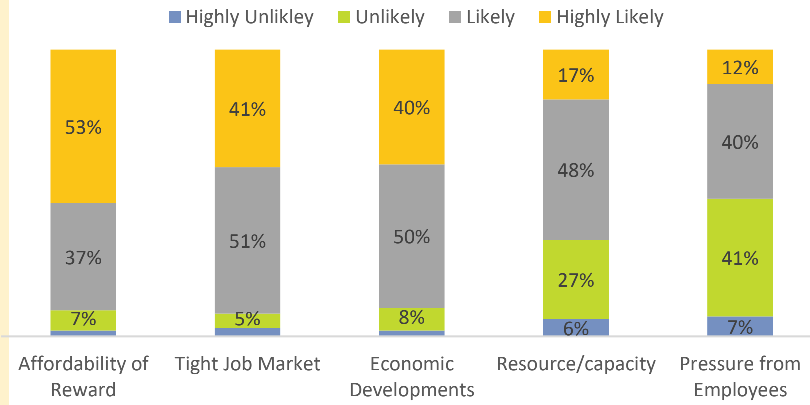


Projected 2023 pay awards outline a continued focus on higher pay rises, **65% of employers planning a 4% or greater uplift**

REWARD ENVIRONMENT

Organisations have been responding to rising inflation by considering or implementing a range of support, the **most common included increasing pay budgets and promoting financial wellbeing support**





Affordability, labour market and the economy were cited by at least **90% of respondents** as the most likely to have a material impact on reward plans in 2023

QUARTERLY FOCUS: PAY SURVEY 2023

PAY BUDGETS INCREASING

With pay budgets continuing to go up, there's greater pressure on affordability of pay, especially against the backdrop of greater uncertainty and a tight jobs market. Higher budgets present an opportunity (and potentially a challenge) for greater differentiation in pay. Analysis of survey responses highlighted:

- Overall pay increase budgets in 2022 were reported in the region of 4%, with typical **estimated budgets for 2023 expected ranging between 4% and 6%**.
- c.60% of participants are considering or have implemented **one-off cost of living payments** or **differentiated pay increases** to support specific employee groups.
- 90% of participants report **affordability** being likely or highly likely a material factor in reward plans for the year. A tight **jobs market** and the **economic environment** are also significant factors shaping reward plans.

COST OF LIVING

Organisations are shifting their attention from actions to mitigate the impact of cost of living towards longer-term changes in reward. To mitigate the impact of cost of livings on employees:

- c.60% of participants have looked to create savings on transport costs through **flexible working options**.
- A similar proportion introduced or raised awareness of **financial wellbeing benefits** and **discount vouchers** available to employees.
- Over 60% of participants are not considering interventions related to **emergency loans or access to hardship funds** – this can be a missed opportunity.
- Organisations are turning their attention to more structural changes, with 65% of participants looking to **develop/review their reward strategy**.
- 51% of participants are considering changes to their **pay structure** and a further 20% have already made changes to it.
- 35% of participants have made changes to their **benefits package** and 43% are considering making changes.

INNECTO INSIGHT

With pay increase budgets tracking behind inflation figures, it will be critical for organisations to have a clear narrative of the rationale driving pay increase decisions to ensure they retain top talent. Higher pay budgets do offer organisations the opportunity for greater differentiation in pay awards but organisations will need to think carefully on how this achieved whilst ensuring employees feel valued and recognised.

Indications of recruitment activity slowing down make it all the more important to strengthen retention and employee engagement. Organisations should consider the tangible and intangible aspects of their Employee Value Proposition (EVP) – and how these are communicated. There are opportunities to improve how reward can support these objectives beyond investment in pay.

2023 will provide organisations with both opportunities and challenges in how to manage pay & reward. Innecto, and our partners QCG, can support those who are looking to strengthen their overall reward proposition this year.

ECONOMIC SNAPSHOT

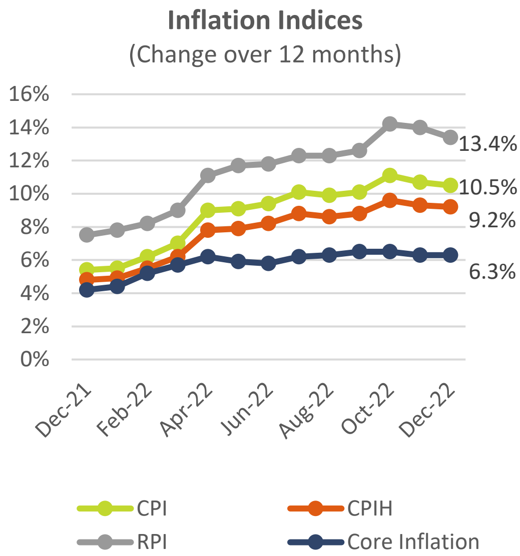
Rising inflation and interest rates are impacting household finances, with the Bank of England warning the UK is facing its longest recession since records began. The rise of mortgage rates in the aftermath of the mini budget is increasing fears of a potential housing crash, adding to the severity of the recession.

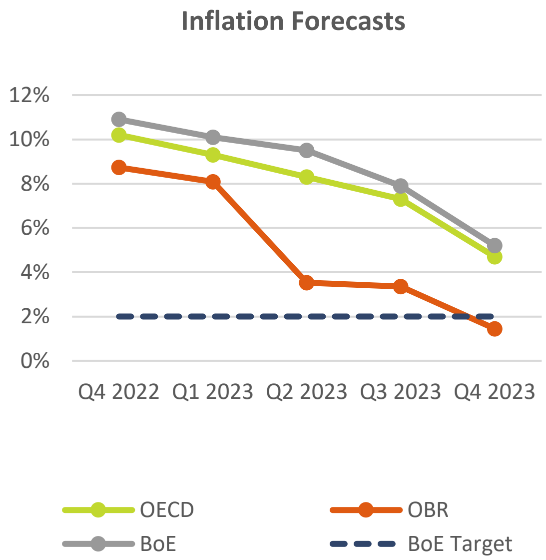
CURRENT ANALYSIS

UK Gross Domestic Product (GDP) grew slightly by 0.1% in November 2022 but fell by 0.3% in the preceding three-month period. There was a 0.1% fall in services, a 1.4% fall in production, with the only growth coming from construction (0.3% increase)[1].

Inflation (CPI) is slightly down from the 40-year high it reached in October 2022 and is currently averaging 10.5%. The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 9.2% in the 12 months to December 2022. Household energy and food costs were cited as the contributing factors to the rising inflation rates[2].

Core inflation, which is the change in costs of goods and services but excluding from the food and energy sectors, increased for the second successive month. This measure excludes certain goods and services which are much more volatile and suggests the current underlying inflation is approx. 6.3%[3].





FORECAST

The Bank of England's (BoE) inflation target is 2% but current estimates suggest inflation (CPI) will continue to rise during 2022. The government's plan to freeze the average household's gas and electricity bill at £2,500 until April 2023 will slow the impact of energy prices on inflation.

In a bid to counter soaring inflation, the BoE has increased interest rates from 0.25 per cent to 3.5 per cent, pushing up the cost of borrowing and increasing some mortgage payments.

Current BoE predictions point towards inflation rising further and beginning to fall in 2023. Predictions suggest it will now take two years for inflation to fall back to the headline 2% target with inflation still above 5% at end of 2023[5].

INNECTO INSIGHTS

AVERAGE EARNINGS

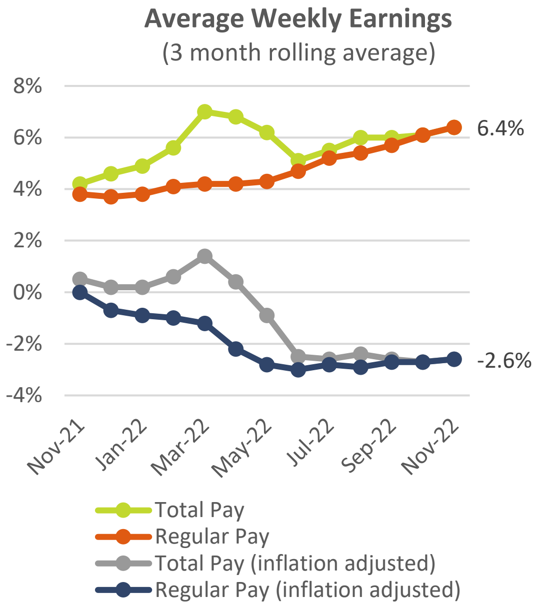
Regular pay (excluding bonuses) had slowly risen throughout 2022, however increasing inflation rates caused a real term reduction over the same period. Employers have been turning to out-of-cycle increases to help increase wages but these have yet to fully address inflationary pressures felt by employees.

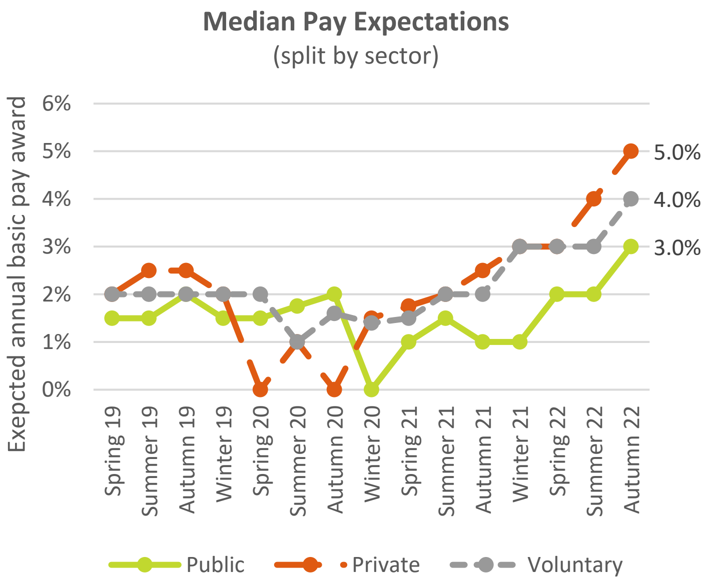
CURRENT ANALYSIS

According to the ONS, in the 3 months up until November 2022, growth in average total pay (including bonuses) and regular pay (excluding bonuses) was 6.4%.

Adjusting earnings for inflation, growth in total and regular pay both fell by 2.6%. This has continued the trend since the start of 2022 of regular pay falling further behind inflation each month[6].

A survey by XpertHR found inflation was the most common pay pressure faced by employers (84%) with skills shortage (77%) and comparable industry pay levels (74%) also driving pressure to increase pay[8].





FORECAST

The Bank of England's estimates of underlying pay, which strips out the impact of furlough and related effects, is at 4.5%. Rising inflation is likely contributing to higher underlying pay growth as the real income squeeze increases pressure on employers to raise pay in a tightening labour market[5].

The ONS reports average regular pay growth was 7.2% for the private sector compared with just 3.3% in the public sector. Outside of the height of the pandemic period, this is the largest growth seen for the private sector and the largest difference between the private sector and public sector[6]. The CIPD also reported an upward shift in the Autumn 2022 report with median pay expectations in private sector expected to increase to 5%, compared with 3% in the public sector[15].

PAY AWARDS

As organisations have emerged from the pandemic there has been an increased focus on employee pay awards following a period of pay freezes and reduction in salaries whilst on furlough. Pay awards have now reached a median of 5% with many planning further increases over the next 12 months.

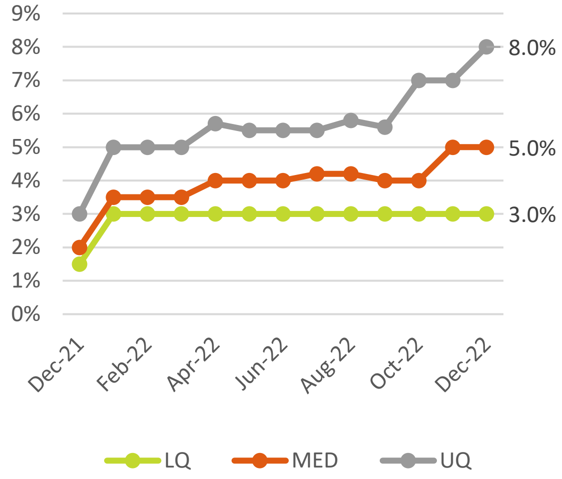
CURRENT ANALYSIS

XpertHR analysis of current pay award settlements across all sectors has increased to 5% by end of 2022, averaging 4% and above since April. This is more than double the average recorded a year ago.

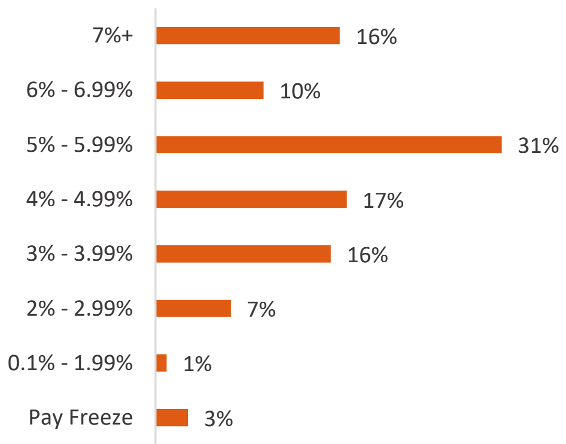
Unsurprisingly XpertHR's analysis of matched samples reflect an upwards trend in pay awards (both basic and performance-based). More than eight in 10 (85.3%) pay awards in a matched sample paid higher increase to employees this year than they received last year. 6.7% were paid the same amount as last year and around 8% received less[9].

Income Data Research (IDS) analysis of pay deals in early 2022 revealed over two-fifths of awards across the economy had given employees increases of 4% or more with the largest cluster – 31% of all pay outcomes – occurring in the 5%-plus bracket[10].

Base Pay Awards[9]
(3 month rolling average)



Expected Value of Pay Award[8]
(All Sectors)



FORECAST

Looking ahead to pay awards in 2023, Willis Towers Watson forecast salary budgets increasing in UK to 4%, with the global forecast across 15 largest economies at 4.9%[7].

Analysis by XpertHR found similar results and the most common planned pay award amongst employers was 5% - 5.99%, with more than half of respondents (57%) to a recent survey citing the planned 2023 pay award would be at least 5%[8].

Initial analysis of the initial c.45 pay awards effective from 1 January 2023 in the XpertHR database outlined a median pay award of 6%, with an interquartile range of 3.5% - 7%. Whilst it is too early to know if this trend will continue, the initial indications that actual pay awards are slightly above the 5% median predictions[9].

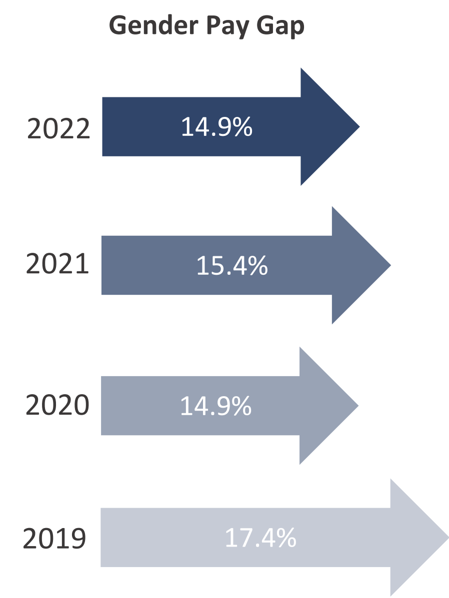
Since the introduction of the gender pay regulations in 2017 an increased focus has been put on employers to understanding and taken action to reduce pay differences, with many focusing on other areas of inequality and supporting those in low paid jobs.

CURRENT ANALYSIS

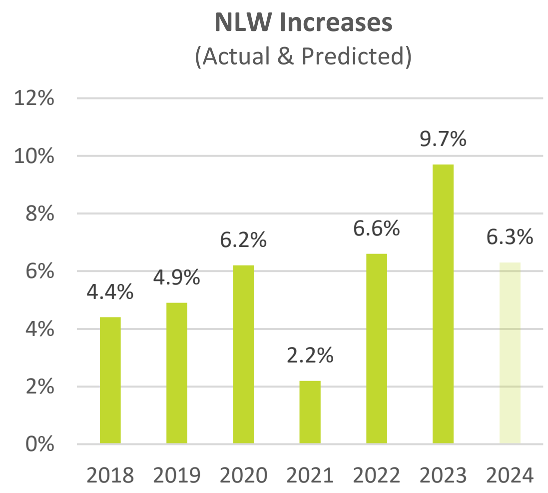
The Living Wage Foundation recently announced the new voluntary living wage rates which are £11.95ph (+8.1%) for those in London and £10.90ph (+10.1%) across the rest of UK. These are calculated based on a basket of household goods and services to establish the necessary minimum income level required.

In 2022, 10.5% of all employee jobs were low paid (paid less than two-thirds of median hourly pay), when considered in terms of hourly earnings. This was the lowest proportion of low-paid employee jobs by hourly pay since ONS began collecting data in 1997 suggesting pay increases, including NLW, were helping those at lowest pay rates[11].

The ONS headline gender pay gap figure is based on median hourly earnings (excluding overtime) for full-time employees. On this basis, the gender pay gap in April 2022 was 8.3% (April 2021: 7.7%). Among all employees, the gender pay gap decreased to 14.9%, from 15.4% in 2021[12].



FORECAST



In 2020, the Government set a new target for the NLW, to reach two-thirds of median earnings for 2024. In addition, the age threshold should be lowered to 21 years by 2024, following a reduction from 25 years to 23 years in 2021.

The Low Pay Commission estimate that the NLW would need to increase by 6.3% to £11.08 in April 2024 to achieve the government's target[13].

Longer term analysis of the gender pay gap shows a gradual decline in the gap, falling approximately a quarter over the last decade. The government has recently announced a change to reporting regulations for SMEs, increasing the threshold of mandatory reporting from 250 to 500 employees. It is yet to be seen the impact this will have on the overall gender pay figures.

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

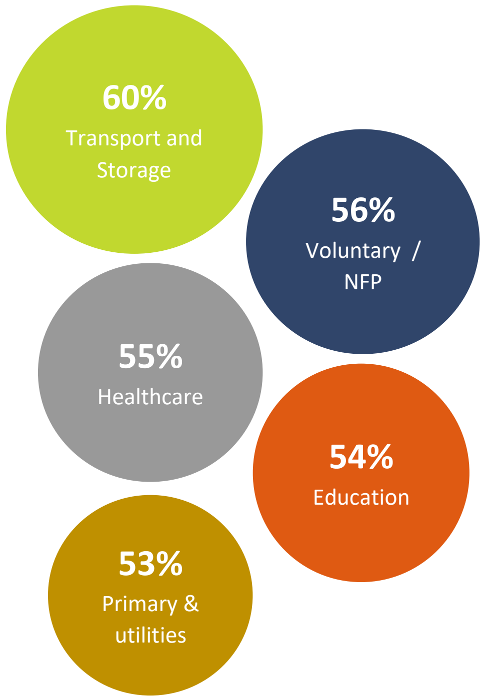
The tightening labour market and cost of living pressures are requiring employers take a multi-faceted approach to retention and recruitment challenges. Whilst pay has been the most popular response, employers are increasingly needing to look beyond just raising wages to ensure retention of their key talent.

CURRENT ANALYSIS

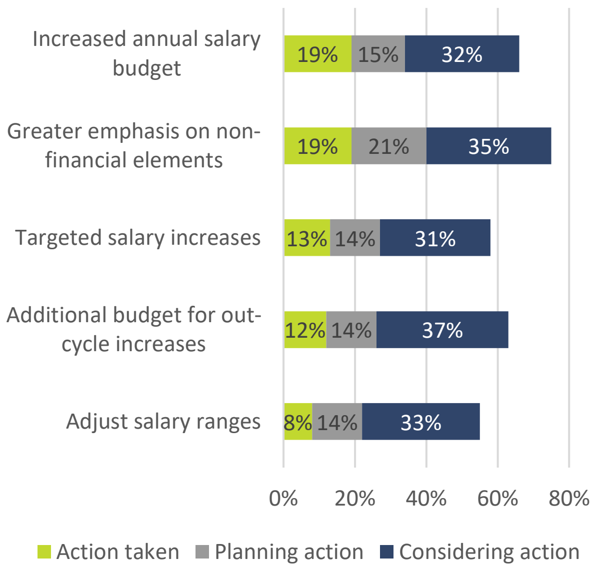
The ONS recorded the UK employment rate at 75.6% between September to November 2022. The employment rate was largely unchanged from the previous three months and 1pp less than the pre-pandemic levels. There were 1.16m vacancies in three months to December 2022, a sixth consecutive quarterly fall. Despite the fall, vacancies remain high after a prolonged period of positive growth and are over 50% above pre-pandemic levels[14].

The CIPD reported in Autumn 2022 that 44% of employers had raised wages to alleviate hard-to-fill vacancies in the past 6 months. Nearly half (47%) report that they've planned to upskill existing staff in response to future hiring challenges. Employers in the Transport & Storage industry were reported to have the highest proportion of hard-to-fill vacancies, followed by Voluntary & Not-for-profit and healhcare[15].

Employers with hard-to-fill vacancies by Industry



Labour Market Response



FORECAST

Willis Towers Watson found that one of the most prevalent responses to the competitive labour market has been for companies to further increase their annual salary budget. However looking ahead, more companies are planning to take action to emphasize non-financial elements of compensation rather than continue increasing salaries.

c.60% of companies have already or are planning or considering budgeting additional funds to allow more flexibility to make adjustments throughout the year as needed. However, in contrast only c.25% have or plan to deliver salary adjustments more frequently. This suggests employers are leaning towards a more flexible approach to use budget as they need to, rather than committing to more regular pay reviews[7].

HOW INNECTO CAN SUPPORT: AMPLIFY

The challenging labour market has increased the focus on an employer's benefits package and how you can stand out amongst competitors. Our industry leading mobile and web-based app, Amplify, provides the perfect home for all components of your employee deal, making it visible and accessible to all. Harnessing the power of your total reward package, Amplify allows you to effectively communicate, manage and analyse your employee deal to drive engagement and retention.

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WHAT WE DO

As the UK's largest independent Reward consultancy, we provide honest advice, support and practical help to solve any challenge relating to attracting, retaining and motivating people.

Through our highly experienced team of Client Directors and Reward Consultants we provide the insight and expertise to leverage your pay and reward spend and harness the power of your greatest asset – your employees.

We offer a comprehensive suite of consultancy services across the Pay and Reward spectrum, taking a holistic view of your employee deal. These services are supported and, in some cases, delivered through our market leading, proprietary software solutions PayLab, Evaluate and Advance; developed by HR professionals for HR professionals.

Our expert Reward Consultants are practical, creative and strategic. We work with your key stakeholders to facilitate the free flow of current, accurate and meaningful information that empowers your leadership team and enables faster and more proactive decision making.

We work with you to shape the key components that provide the foundations and pillars of success that underpin your Reward strategy, and ensure it aligns with overarching business goals and objectives.

Our team of experts provide intelligent, practical and commercial guidance to translate business strategies and objectives into the appropriate reward programme to drive operational performance.

Get in touch for further information on how we can support you

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DATA SOURCES

1. ONS GDP Monthly Estimate, UK: November 2022
2. ONS Consumer price inflation, UK: December 2022
3. Trading Economics United Kingdom Core Inflation Rate December 2022
4. REBA Financial Wellbeing Research 2022
5. Bank of England Monetary Policy Report November 2022
6. ONS Average weekly earnings in Great Britain: December 2022
7. Willis Towers Watson 2022 Inflation and Reward Actions Pulse Survey June 2022
8. XpertHR Pay planning and forecasts for 2022/2023
9. XpertHR Pay Trends January 2023
10. Incomes Data Research, Over two-fifths of pay awards are worth 4% or more – 9 May 2022
11. ONS Low and high pay in the UK: 2022
12. ONS Gender pay gap in the UK: 2021
13. Low Pay Commission The National Minimum Wage in 2022
14. ONS Employment in the UK: October 2022
15. CIPD Labour Market Outlook; Autumn 2022

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