

PAY TRENDS 2015



ECONOMIC OVERVIEW

On the surface, the predictions for the economy this year look flat and bland, but delving deeper, it promises to be an interesting and challenging year for HR – one that has the economists struggling to predict. UK growth has been strong at 2.6% in 2014, with seven successive quarters of increased GDP (the longest period of growth since 2008). This is predicted to continue through 2015. In fact the UK has had the strongest economy in the G7. However, the rate of growth will be subdued by a poor global economy and a potential currency war; as well as poor productivity in the UK – although early signs show a steady improvement.

Unemployment continues to reduce each month and is currently at 6.0%, down from 7.4% at the start of 2014. This is due to huge job creation and also the increase in new business start-ups.

Much of the uncertainty is around inflation. Predictions late last year were for an increase in mid-2015, with the threat of increased interest rates to temper it. Most recently the effect of a significant fall in oil prices looks to have kept inflation predictions moderate – with CPI reported to be 0.5% in early 2015 (the lowest level on record) and then increasing to 1.7% by the end of the year. With a general election this year it will be a central theme politically as well as economically.



Measure	GDP	CPI	Average Weekly Earnings	Pay settlements	Pay budgets
2014 latest	3.0%	1.3%	1.3%	2.5%	3.0%
2015 projected	2.4%	1.7%	-	2.0%	3.0%

What this means for HR:

1. The threat of increased inflation and higher interest rates will fuel the push for higher wages and employee mobility.
2. The competition for talent is coming from being 'self-employed' and new business start-ups, as well as traditional sources – businesses need to think how to keep employees employed.

“The year of the mobile employee”

BASE PAY EXPECTATIONS



Businesses will continue to be cautious with pay budgets this year. Private sector pay awards have been running at a 12 month median of 2.5% since 2011. Incomes Data Services' (IDS) latest forecast suggests it's likely to continue at a similar level in 2015. Public sector pay awards remain capped again at 1%. To keep good people, smart businesses will follow the trend again this year of more strategic, merit based increases. These figures hide the true picture - costly out of pay review increases can add substantially and often ineffectively to the pay budget.

Skills shortages

Both Hays UK and the Recruitment & Employment Confederation have reported seeing an increase in salaries for new hires in recent months. This is mainly being linked to skills shortages in certain areas. Hays UK cite Engineering, Construction, IT, and Finance as sectors where they have seen the greatest salary increases since last year, in some cases up to 10% for certain qualified, professional and skilled workers.

Staying power

The Office for National Statistics (ONS) report an underlying trend of 4% higher pay for employees sticking with a role for more than 12 months. What this demonstrates is the headlines aren't always a true reflection of what's really happening. Money is being spent, not always out of the allocated pay budget on key people.

What this means for HR: Without robust analytics and meaningful performance management, are businesses spending this money in the best way and with the right people?

Low productivity growth

When the economy went into recession employees were laid off and productivity fell, so each worker was producing less than before. The expectation since 2010 has been that productivity will start rising again, but instead it has stayed broadly flat. Lancaster University's Work Foundation explains that this has been good for job creation but terrible for wage growth. Each year is now assumed by the Office for Budget Responsibility (OBR) to be the year that productivity will start rising again, but until it does we are much less likely to see the return of significantly above inflation wage rises.

What this means for HR: This is the time to review your variable pay and recognition and make sure it is geared toward stimulating productivity.

Executive pay

IDS forecasts for 2015 show that pay awards for Board level jobs are expected to be: LQ – 2.0%, Med – 2.7%, UQ – 3.0%, and bonus payments similar to last year – averaging 45.5% with a maximum of 90%. Lower level management and professional roles are expecting similar bonus levels this year as last. Executive pay challenges for 2015 will be:

1. Meeting increasing demands from shareholders.
2. Designing ‘the perfect LTIP’ that is meaningful to the business and shareholders, as well as doing the job of attracting and engaging great talent. This means designing them to link in real terms to value creation with longer performance periods and meaningful metrics (rather than the questionable relevance of TSR).



Living and National Minimum Wage

Living wage:

London: **£9.15** /hr

National: **£7.85** /hr

(NMW: **£6.50** /hr)

There will continue to be a great deal of focus on the bottom end of the pay ladder, this year, with the Living Wage campaign gaining momentum. Over 1,000 employers have now been accredited as paying the Living Wage, doubling the number of employers signed up to the scheme in just 12 months.

Both the Living Wages and National Minimum Wage saw above inflation increases announced in the last couple of months. With a continued focus on those who are struggling to cope with a squeeze on living standards by all political parties ahead of this year's General Election, it is likely we will see more initiatives that aim to help the lowest earners in 2015.

BROADER REWARD



Holiday pay

Recent high profile judgements confirmed that commission and some types of overtime should be included when calculating holiday pay. While the scope for back payments may now be limited, there is a great deal of uncertainty for employers as we wait on the Department for Business, Innovation and Skills (BIS) to provide guidance on how these rules should be applied – we should know more in February.

What this means for HR:

1. This could lead to a significant rise in payroll costs and employers need to consider where this money will come from.
2. A need to look at the design of variable pay schemes.

Shared Parental Leave

Changes come into effect on 5th April 2015 which will allow parents to be able to share up to 52 weeks' leave and 39 weeks' pay. Introducing the new policy and managing the policies and processes will be a focus for HR this year.



Creative benefits



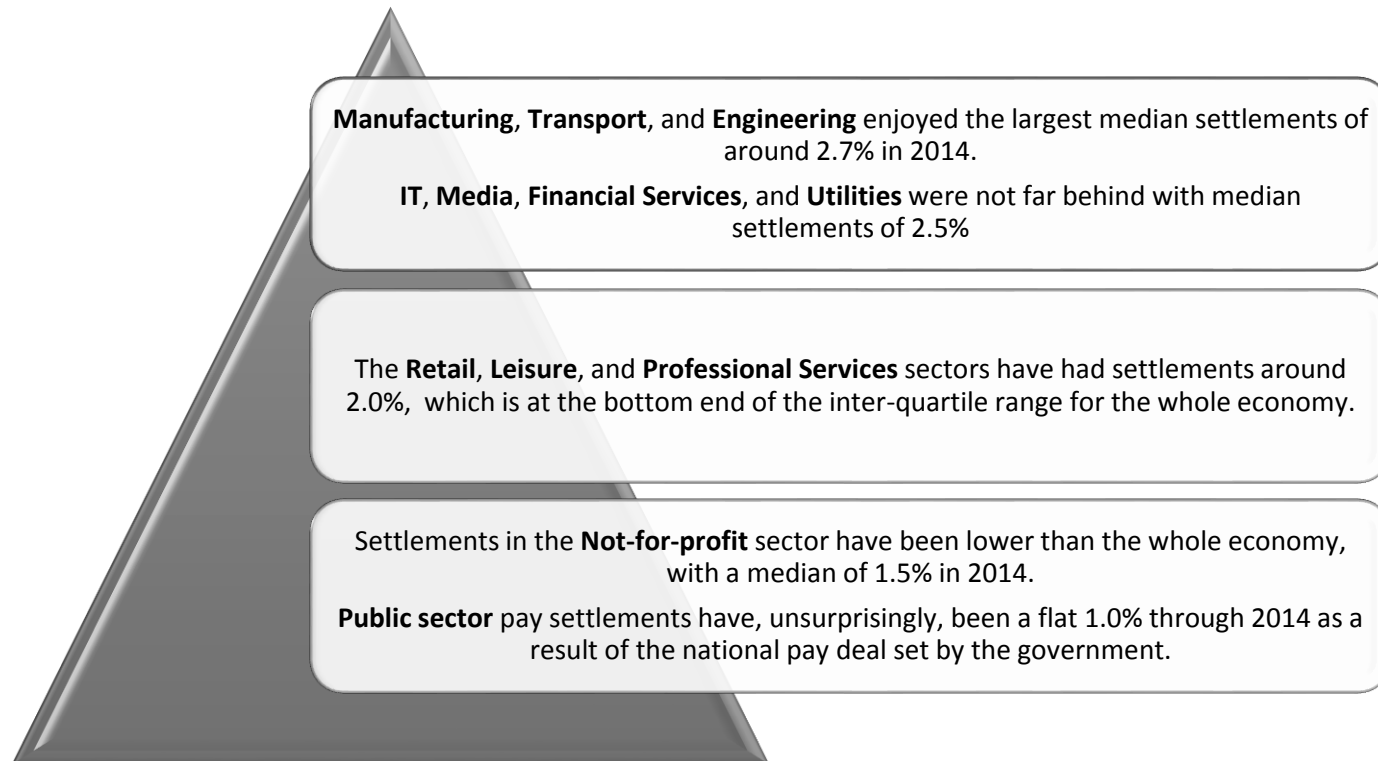
With budgets tight but employers desperate to differentiate themselves from the wider market getting creative with benefits will continue to be an effective way to separate themselves from the competition. Companies leading the way on benefits aren't simply trying to match the competition, but are carefully considering who their employees are, what they value, and what will make the biggest impression.

Culture

As consumers, our opinions count and businesses actively encourage interaction and feedback on products and services. As employees, they want the same thing. Employers need to meet this demand for open communication if they are to remain an attractive workplace. IBM's 2014 WorkTrends survey found that organisations rated by employees as having open, honest, two-way communications are more likely to understand their organisation's pay practices and are more likely to believe they are paid fairly.



PAY LEVELS BY SECTOR



Sources:

- Office for National Statistics (ONS): Economic Review January 2015
- Incomes Data Services (IDS): Managers' Benchmark Pay Report 2014/15
- www.idspay.co.uk
- <http://budgetresponsibility.org.uk/economic-fiscal-outlook-december-2014/>
- <http://www.worldatwork.org/adimLink?id=75547>
- <http://ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2014-provisional-results/stb-ashe-statistical-bulletin-2014.html>
- <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/december-2014/table-earn01.xls>
- <https://www.i-l-m.com/About-ILM/Information-for-media/Press-releases/new-year-research>
- <http://public.dhe.ibm.com/common/ssi/ecm/en/low14167usen/LOW14167USEN.PDF>

KEY REWARD TRENDS FOR 2015



This could be a challenging year for HR and Reward so preparation is key. There will be a higher expectation from business leaders, requiring HR to understand and predict the needs of the business. Successful HR leaders will become true business leaders. Identifying individual talent and designing the organisation to ensure business success are some of the skills needed. Pressure will also be coming from employees who increasingly understand their value and aren't afraid to move. So, how to address these pressures?

Disruptive HR

2015 is the year for HR to challenge the status quo. A chance to step up and take the lead. It is a “VUCA” world – volatile, uncertain, complex and ambiguous. Traditional HR practices are insufficient to meet the new demands and it is time to develop fresh thinking and innovative practices. Organisations with a nimble HR function which is able to predict challenges rather than react will be those that thrive in 2015.

HR Analytics

There will be increasing pressure from business leaders for HR to ‘know their numbers’. To have their own dashboard in order to identify trends and manage their function in a more commercial way. The benefits of data in HR have been known and promoted for some time, but we predict 2015 will be the year that analytics will begin to add real value. HR is awash with data and it is now time to really think about how adopting a few good HR analytics can make this data meaningful, allowing you to gain real insight in to what areas of your HR strategy are working and those which are not. This will give HR the tools to engage and challenge the business and have meaningful, informed discussions with the CFO and CEO.

Performance management

Performance management isn't working – it's broken and needs a radical rethink. This is not a new concept, the problem has been discussed among HR professionals and the media for some time, but the solution isn't obvious. Performance management started in manufacturing to reduce variation in working practice. But the world has changed and that isn't what businesses need now – they need innovation, disruption and creativity. So performance management needs to change too. However, it isn't as simple as moving to a new ‘ideal’ process. There isn't a one size fits all. The skill is in understanding your business and your people and creating something that works for you. This year we will be supporting more clients as they embark on these projects. It may be that the right solution for you is a very light touch, fluid and informal process without ratings. It may be changing to a coaching and mentoring approach with regular reviews and grown-up conversations. Or it may be a fairly structured, but personalised approach. It goes back to understanding and leading the business to success rather than running an operational process.



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