

IDS & TUC Pay forum 2015



Making up Lost Ground on Pay

Thursday 12th February 2015

Reuters \ Luke MacGregor

IDS **TUC** 



THOMSON REUTERS



REUTERS/Luke MacGregor

Pay trends and prospects for 2015

Ken Mulkearn, Head of Pay & Research, IDS

IDS-TUC Pay Forum 2015

12 February 2015

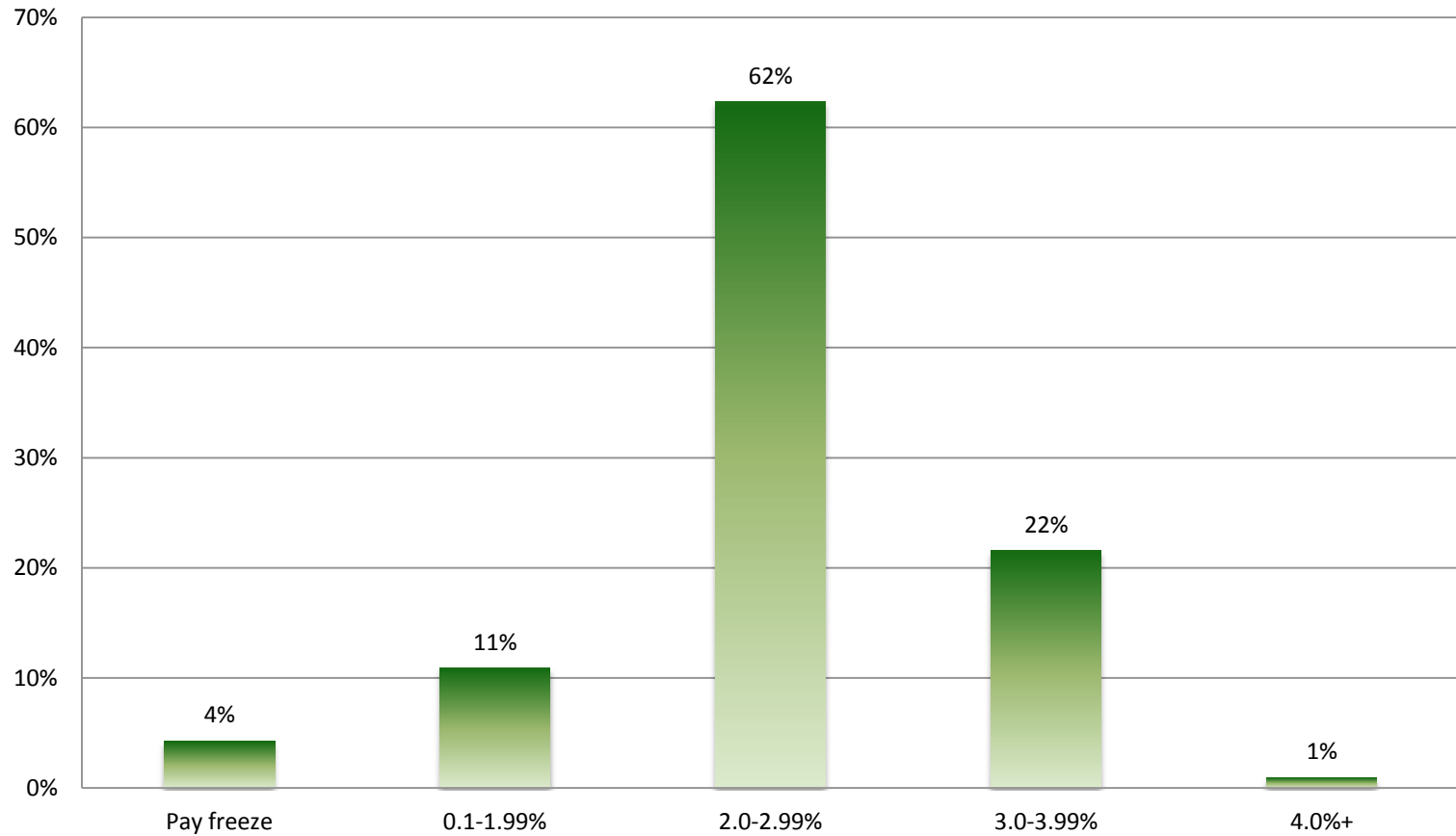
IDS



THOMSON REUTERS

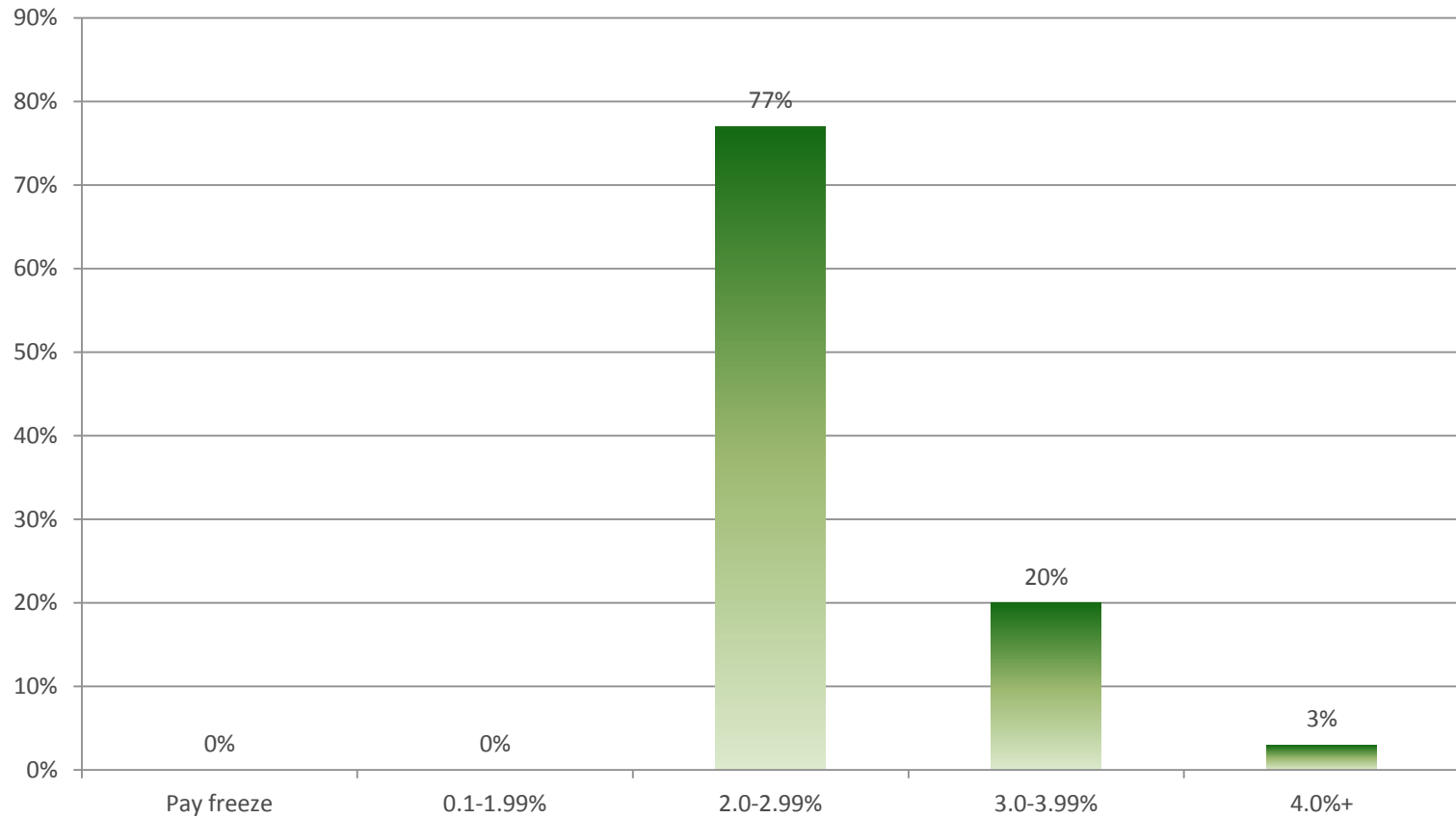
Pay settlements last year

Distribution of pay settlements, 2014

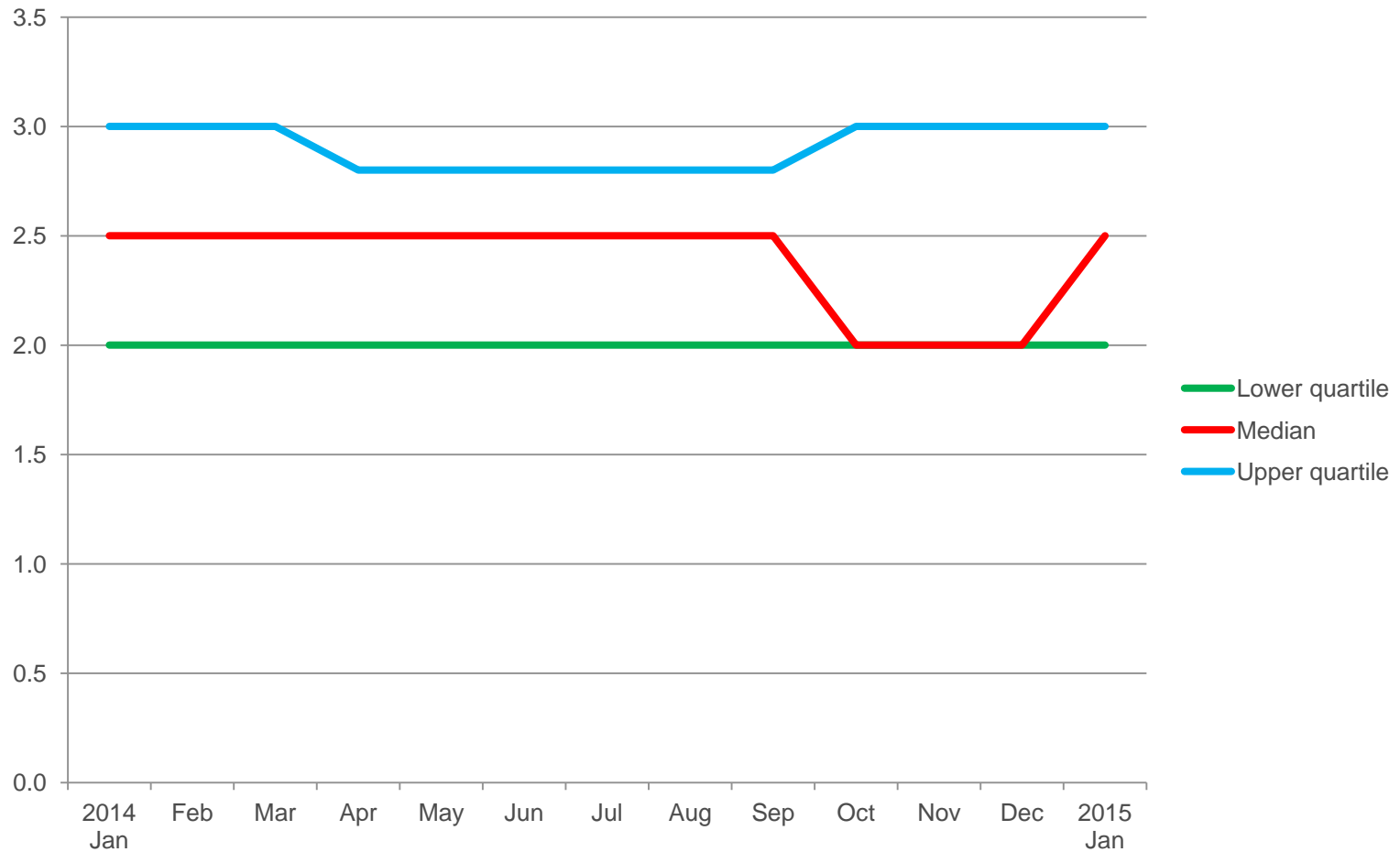


Pay settlements in 2015 (so far)

Distribution of settlements, 2015



The turn of the year (and the median)



Why has median fallen (and risen again)?

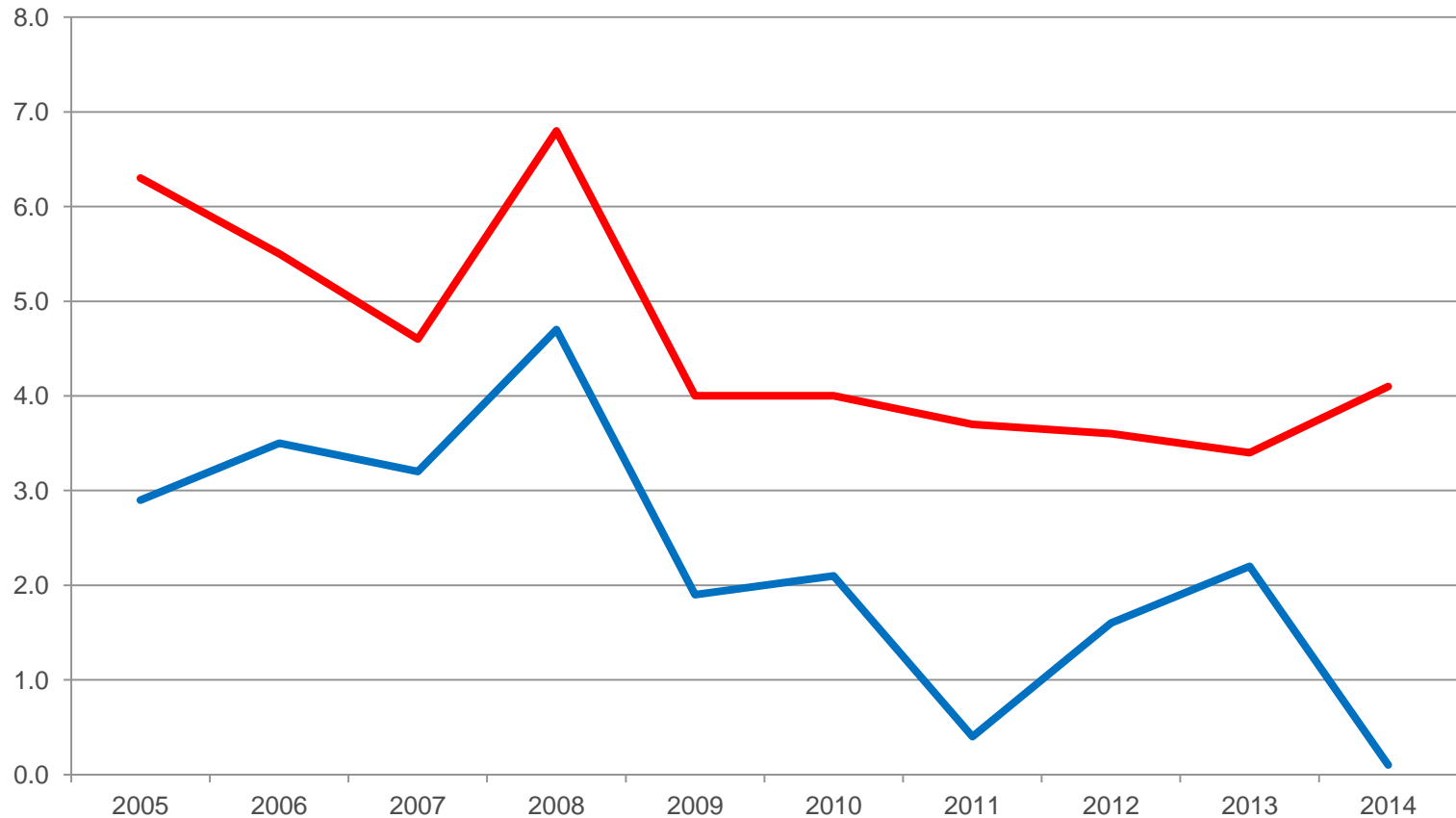
- Autumn key period for pay reviews in lower-paying sectors
- Higher uplift in minimum wage has not fed through straightforwardly to pay awards in these areas
- But some firms have paid 3% to all their retail staff: Argos, Boots, BP Express, Halfords, Sainsbury's
- Most of these paid less in 2013, and a preliminary analysis shows a greater % of deals at 3%-plus than in 2013
- January median back to 2.5% because over half of 2015 awards worth at least this percentage
- What if median didn't fall in the autumn?

Some 2015 pay deals

Company/industry	Details
AAH Pharmaceuticals	3% (2 nd year of 2-year deal)
Caterpillar UK BCP	2% (3 rd year of 3-year deal)
Electrical contracting (E&W)	2% (1 st year of 2-year deal)
Engineering construction	3.2% (3 rd year of 3-year deal)
Glyndebourne Productions	2% (BECTU grades)
Johnson Controls (Halewood)	4.5% (2 nd year of 2-year deal)
Local government (E&W)	2.2% (deferred rise for Apr 2014-Mar 2016)
Nissan Motor Manufacturing	3% + 1% ave merit (1 st year of 2-year deal)
Port of Tyne Authority	2%
Scottish Power Energy Retail	2.5% ave merit (2 nd year of 3-year deal)

Earnings for those in 'continuous employment'

Earnings growth in ASHE, 2005 - 2014



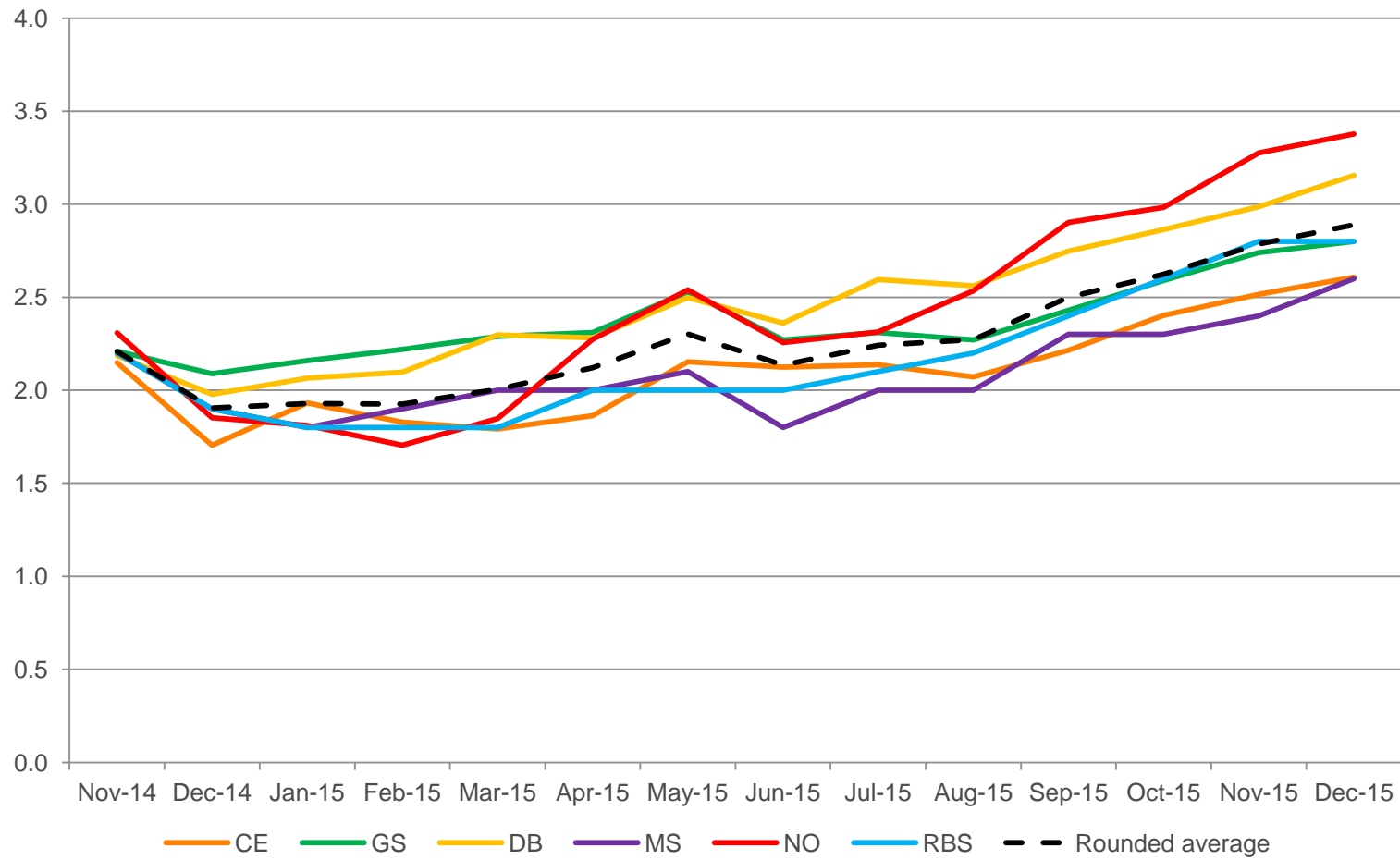
Influences on pay in 2015

Upward pressure?	Downward pressure?
Economy in a better place; business investment recovered somewhat	Possibility that economy could falter, with weakness in EU
Labour market stronger on most measures	'Soft underbelly' to labour market due to public sector cuts
NMW increased by 3% in 2014 and maybe same or more in 2015	Inflation falling rapidly

The labour market

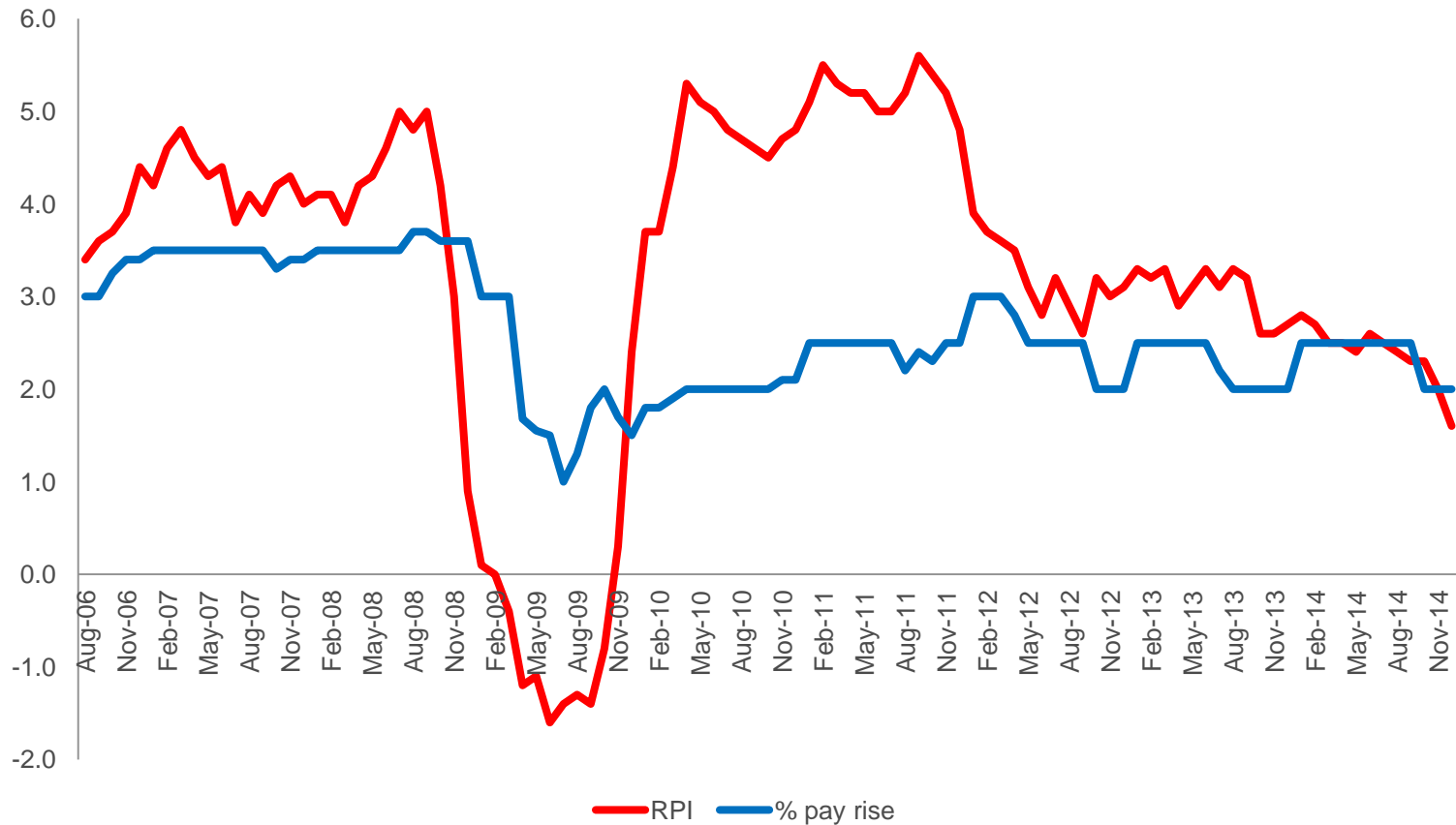
- Overall employment at record levels (30.8 million)
- Unemployment falling, down to 5.8% (lowest since Sept 2008)
- Long-term unemployment down, but youth unemployment up in latest figures
- Job-to-job movements increasing
- Skills shortages most apparent in construction, engineering, IT, professional services and road haulage
- But **public sector** employment is falling, and could fall further, after election in May

Inflation outlook into 2015



Real-terms pay rises since 2006

Median pay awards versus inflation



Issues for 2015 and beyond

- Below-radar issues – equal pay, pensions
- Pay settlement levels could be similar to 2014?
- Main factors include rapidly weakening inflation, and ‘soft underbelly’ to labour market
- Pay policy in public sector also playing a role
- Countervailing tendencies? Sectoral differences...
- Recent/forthcoming increases in NMW important
- Economy will be key...

Thank you very much – questions welcome

020 7422 4937

ken.mulkearn@thomsonreuters.com

IDS & TUC Pay forum 2015



Making up Lost Ground on Pay

Thursday 12th February 2015

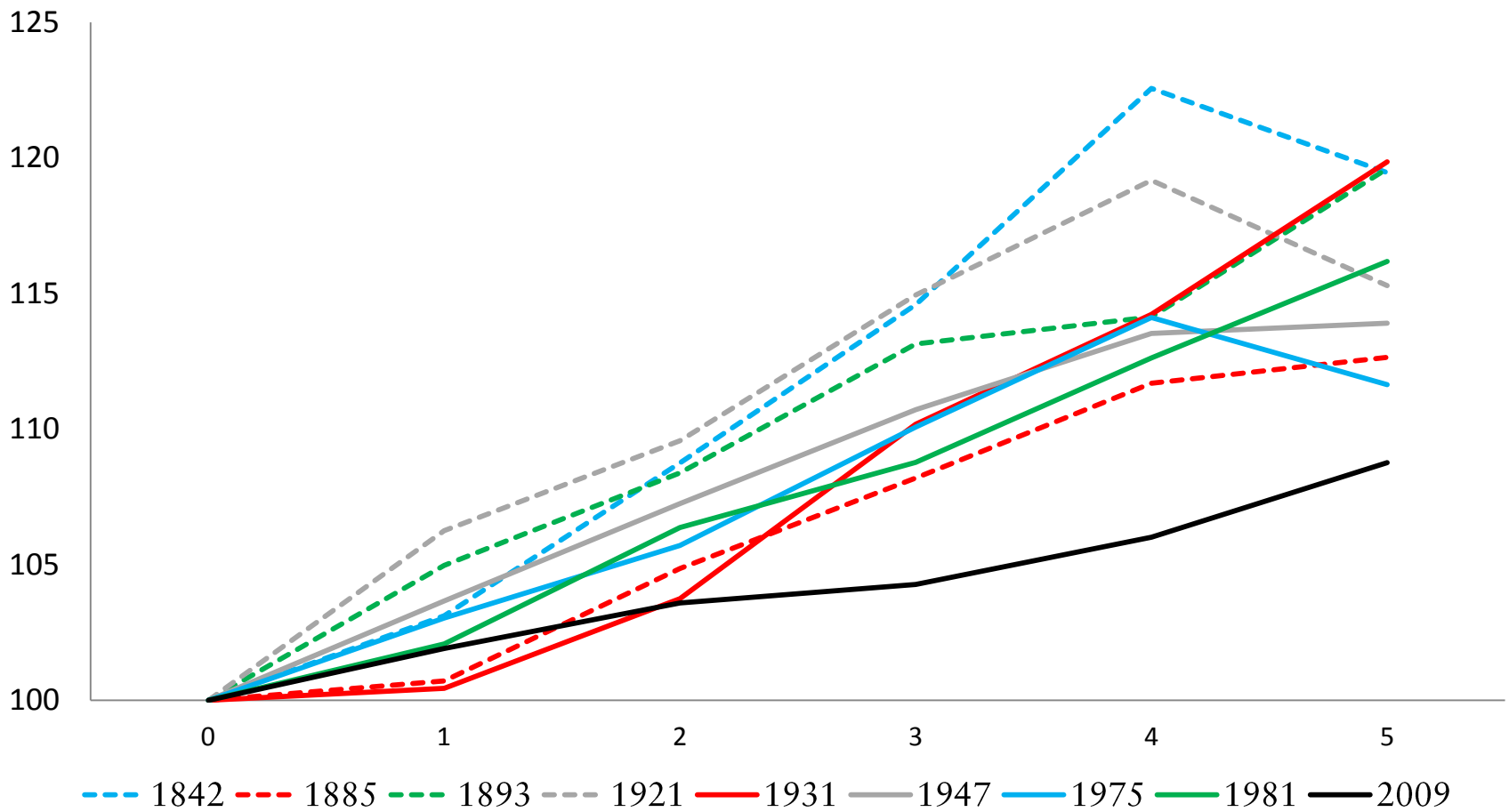
Reuters \ Luke MacGregor

Economic and labour market developments

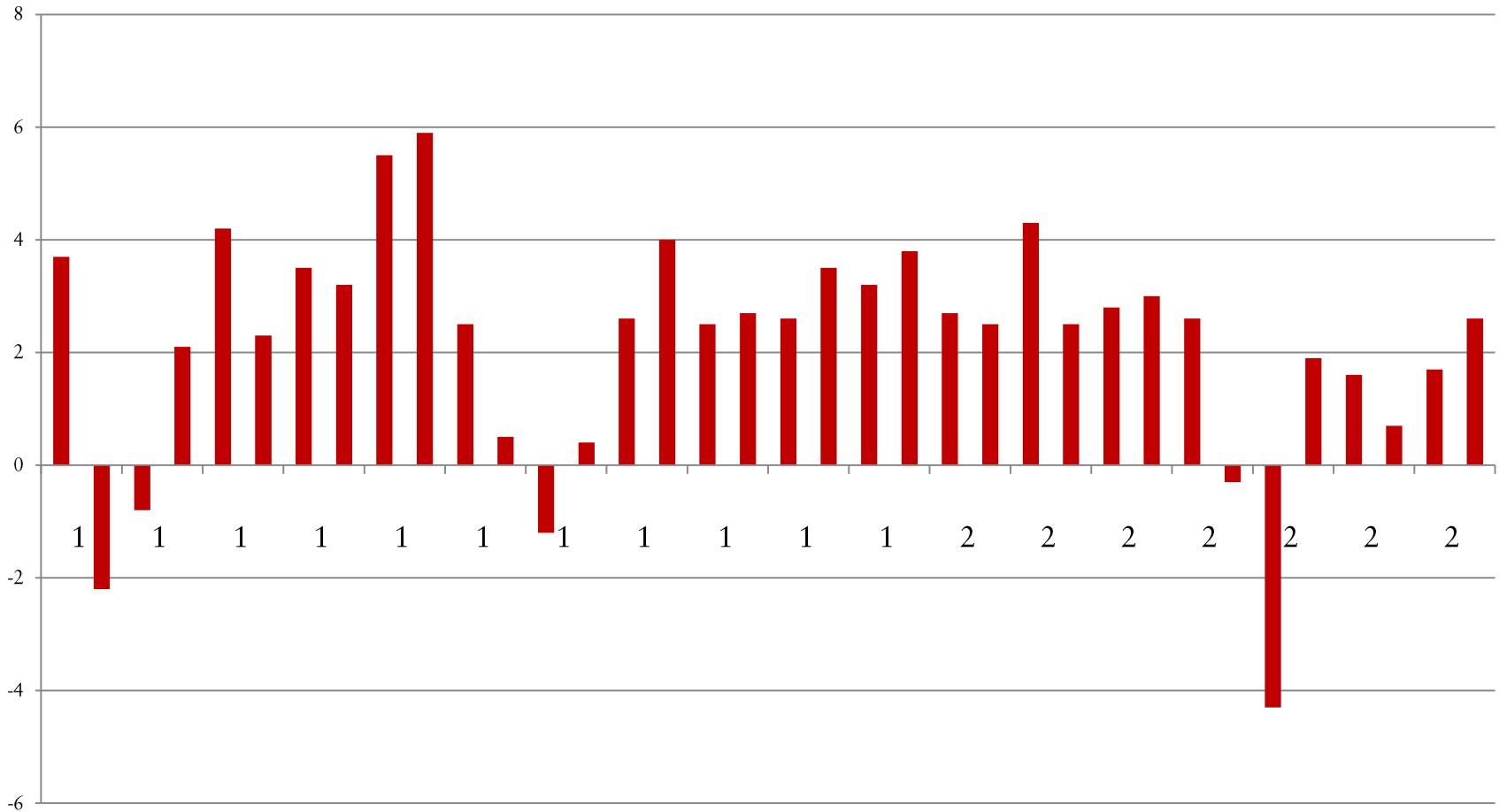
Nicola Smith

The economy

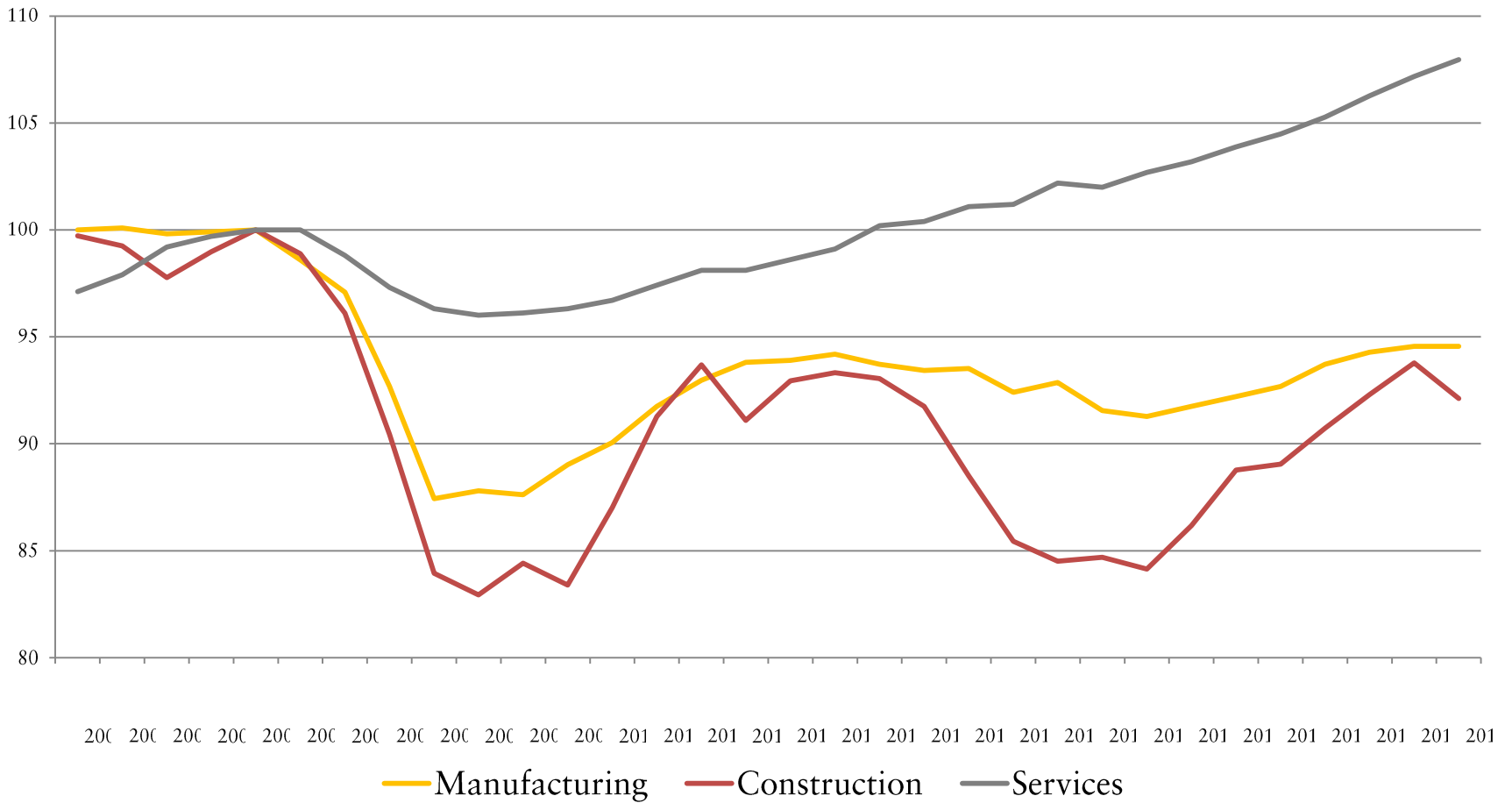
A recovery remains underway, although it could be stronger



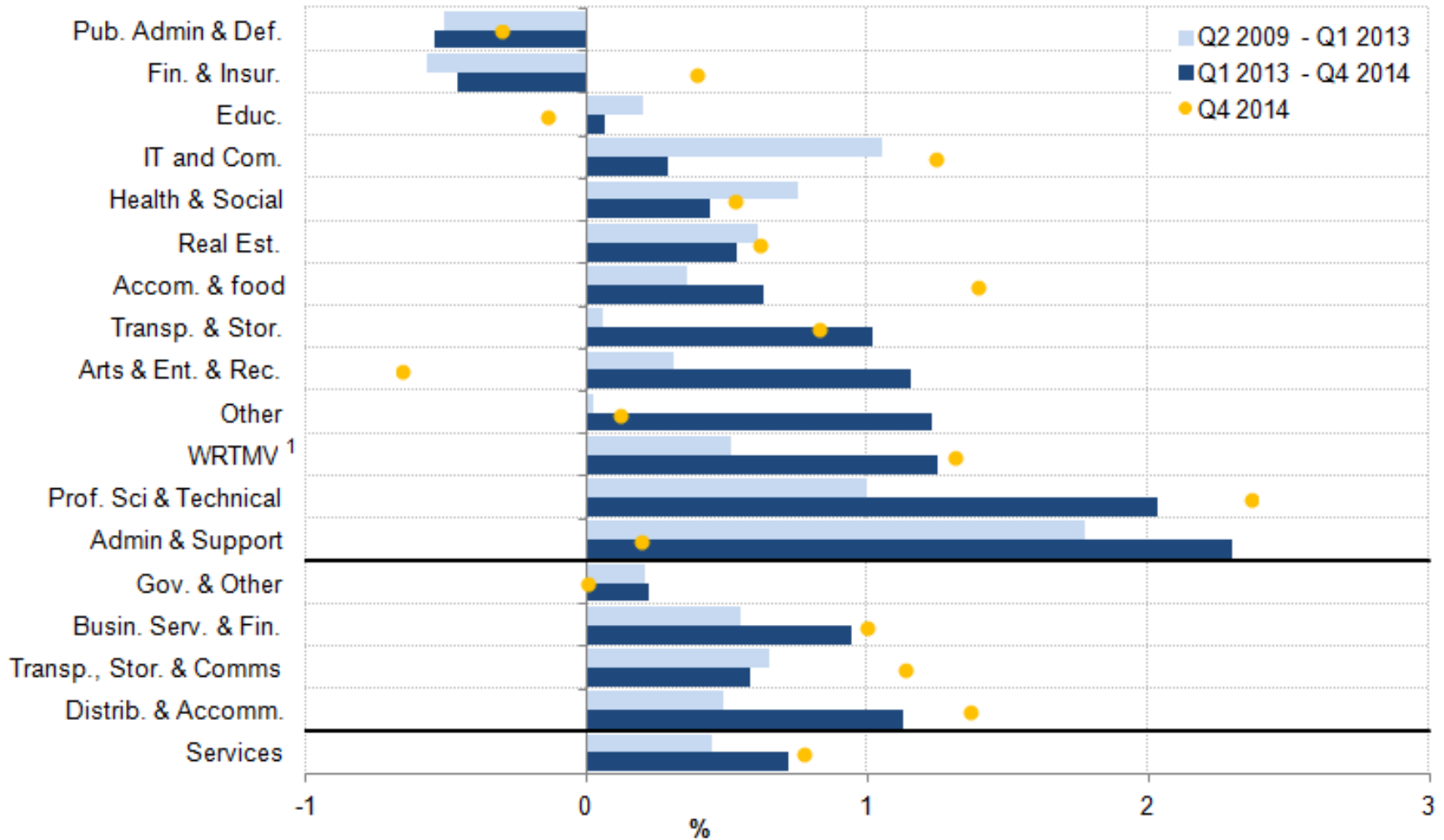
2014 saw strongest growth since pre-recession, but poorer than forecast



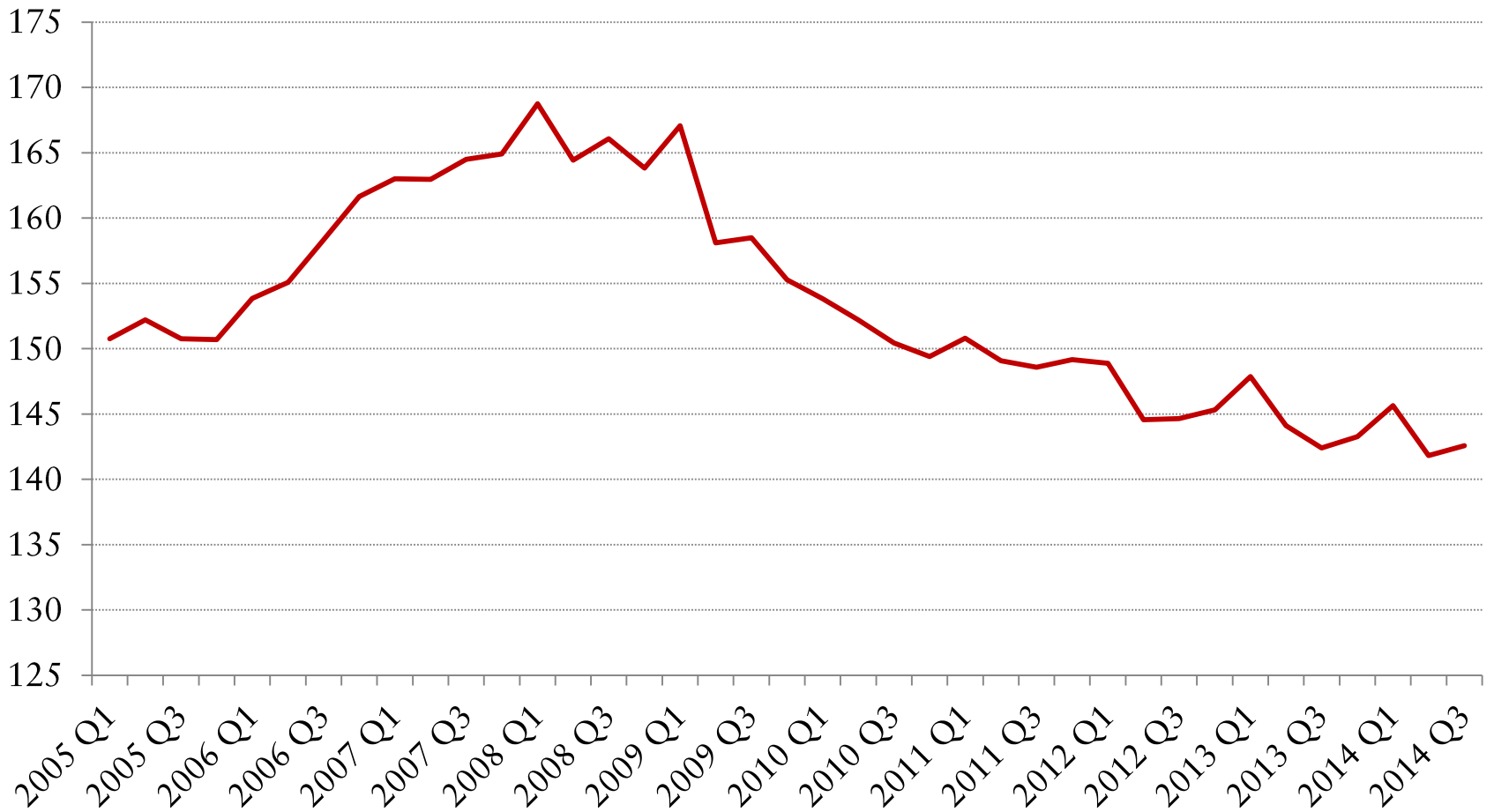
Performance remains varied across sectors...



...as well as within them

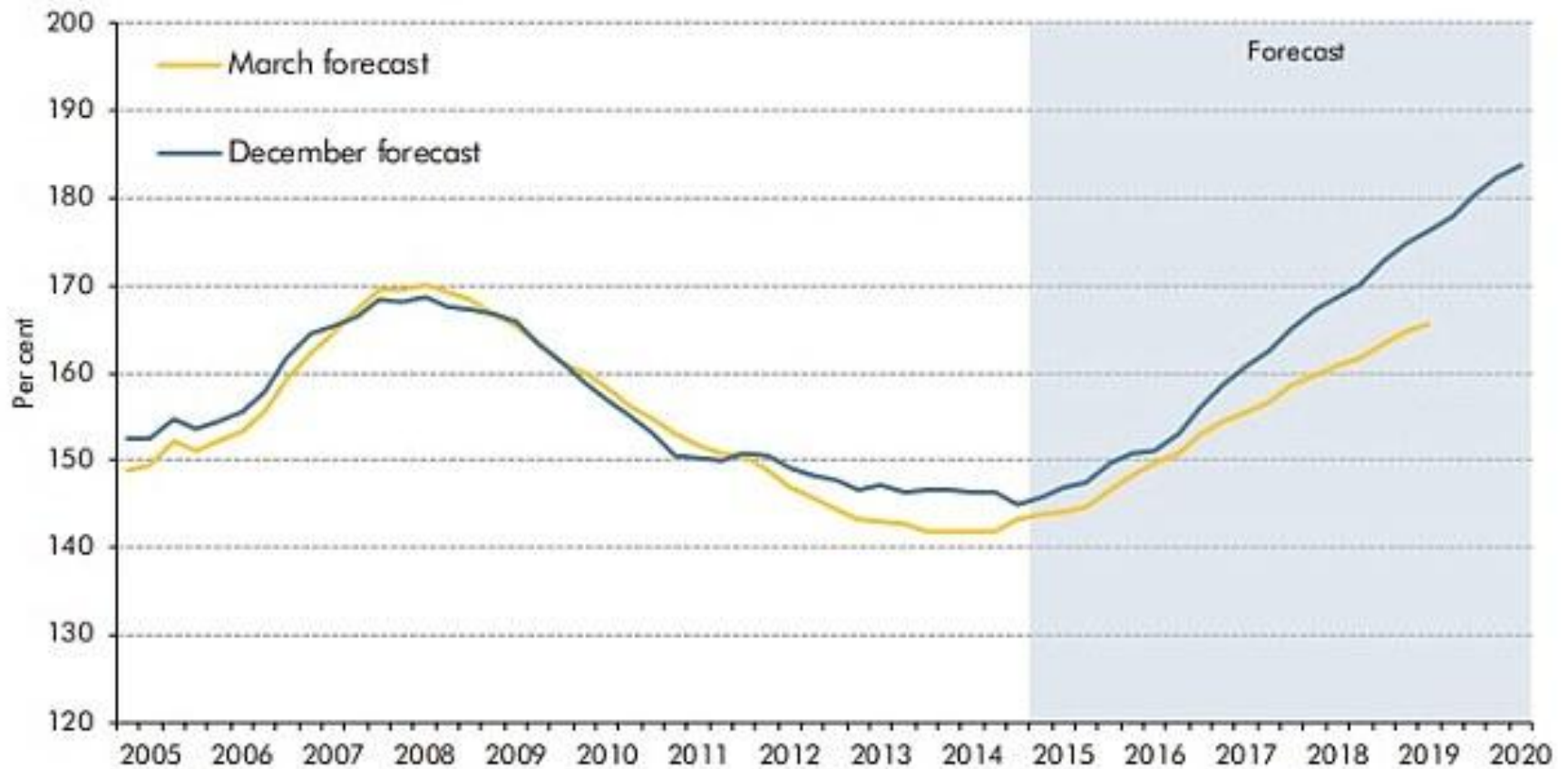


Economy remains unbalanced, with households debt still high...



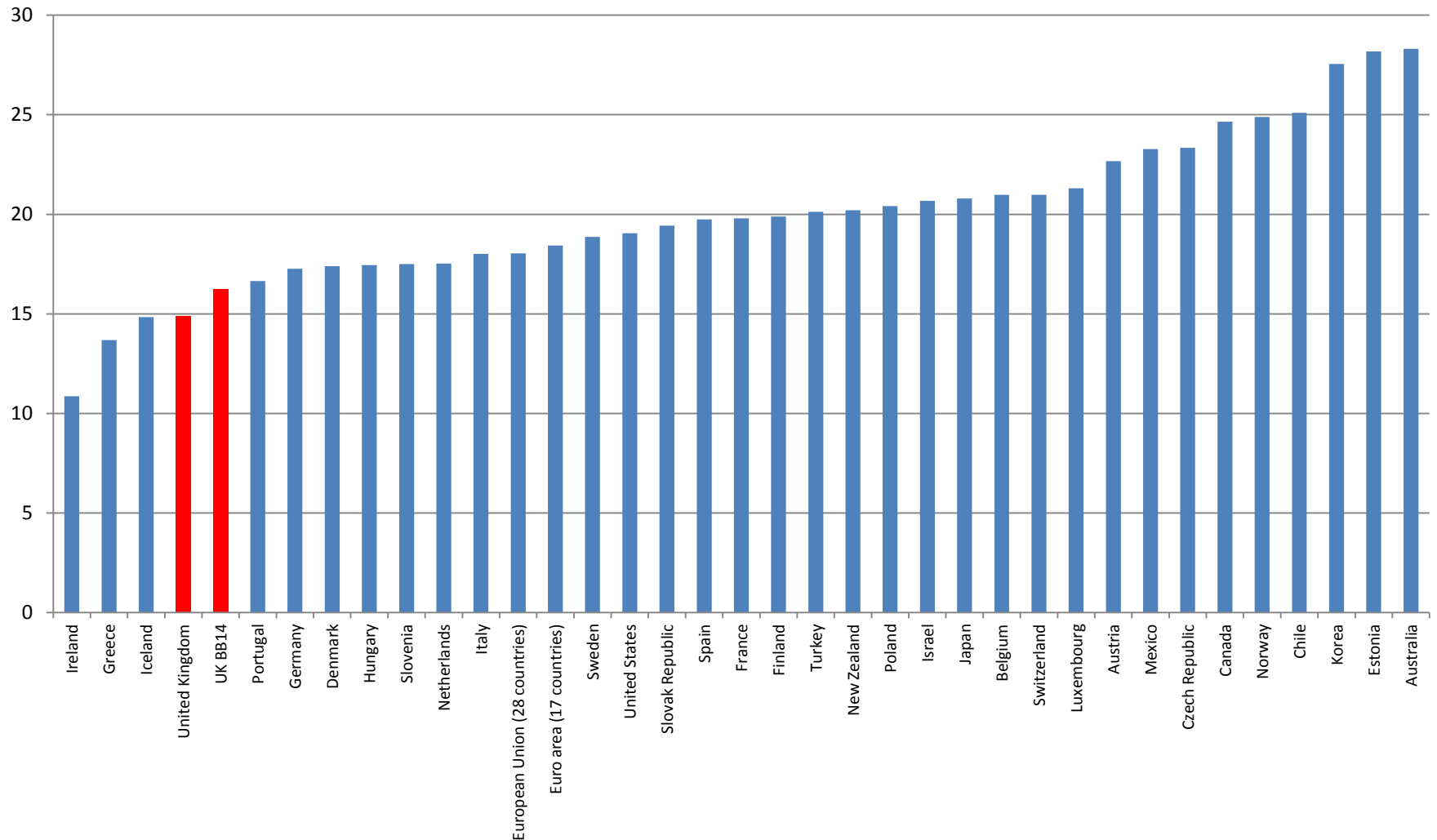
and forecast to rise.

Chart 3.31: Household gross debt to income

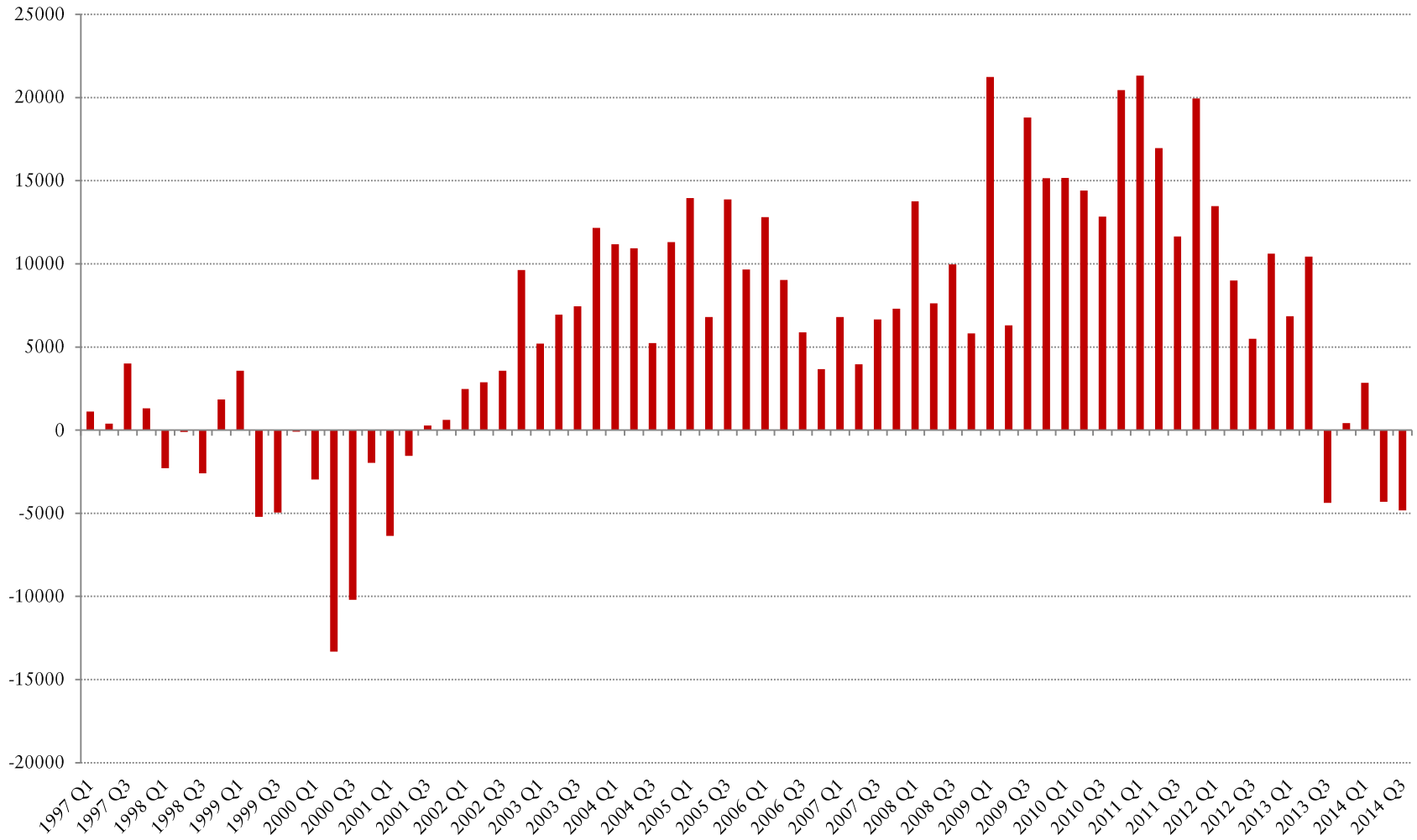


Source: ONS, OBR

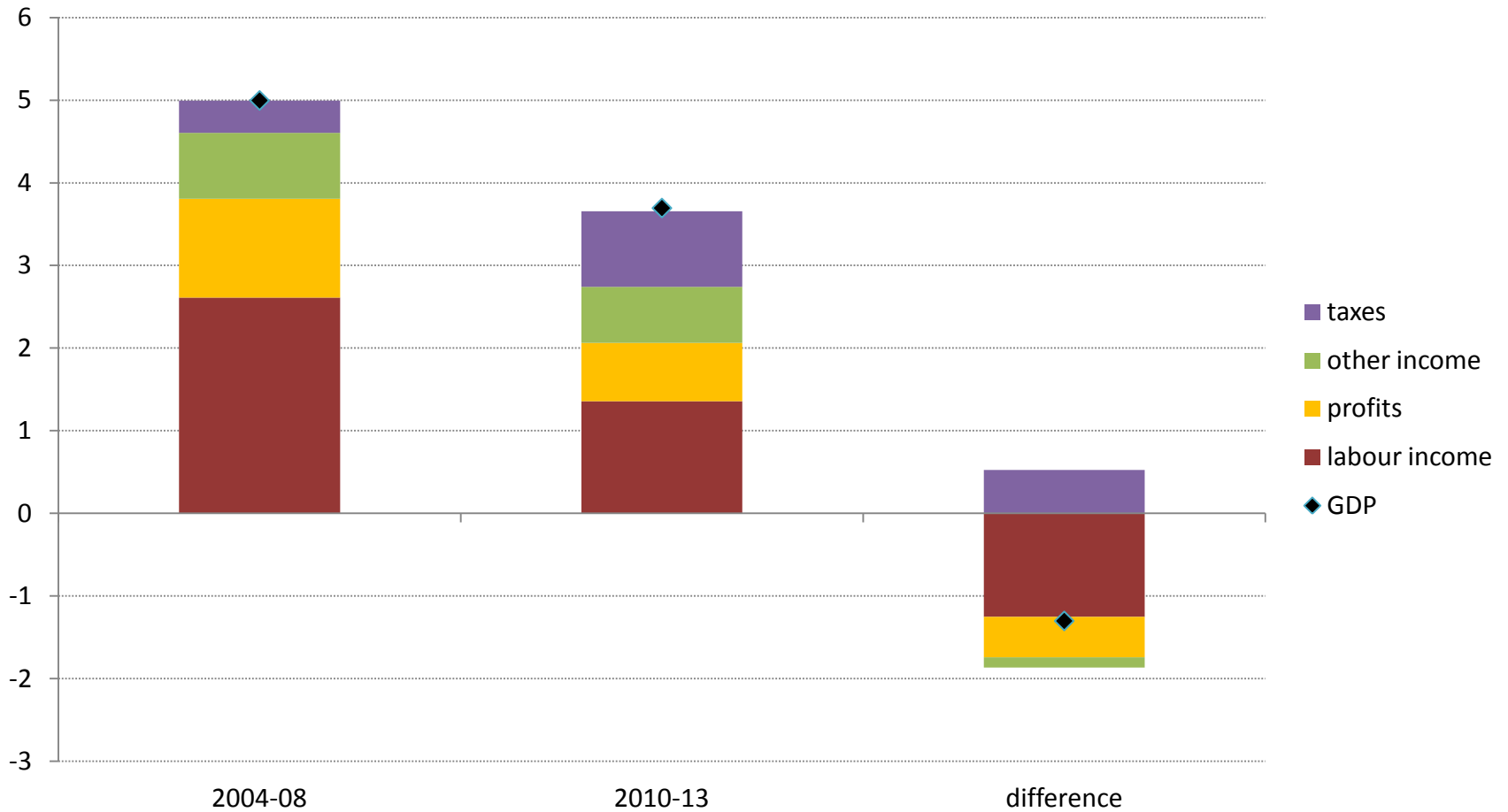
Business investment remains far from a full recovery...



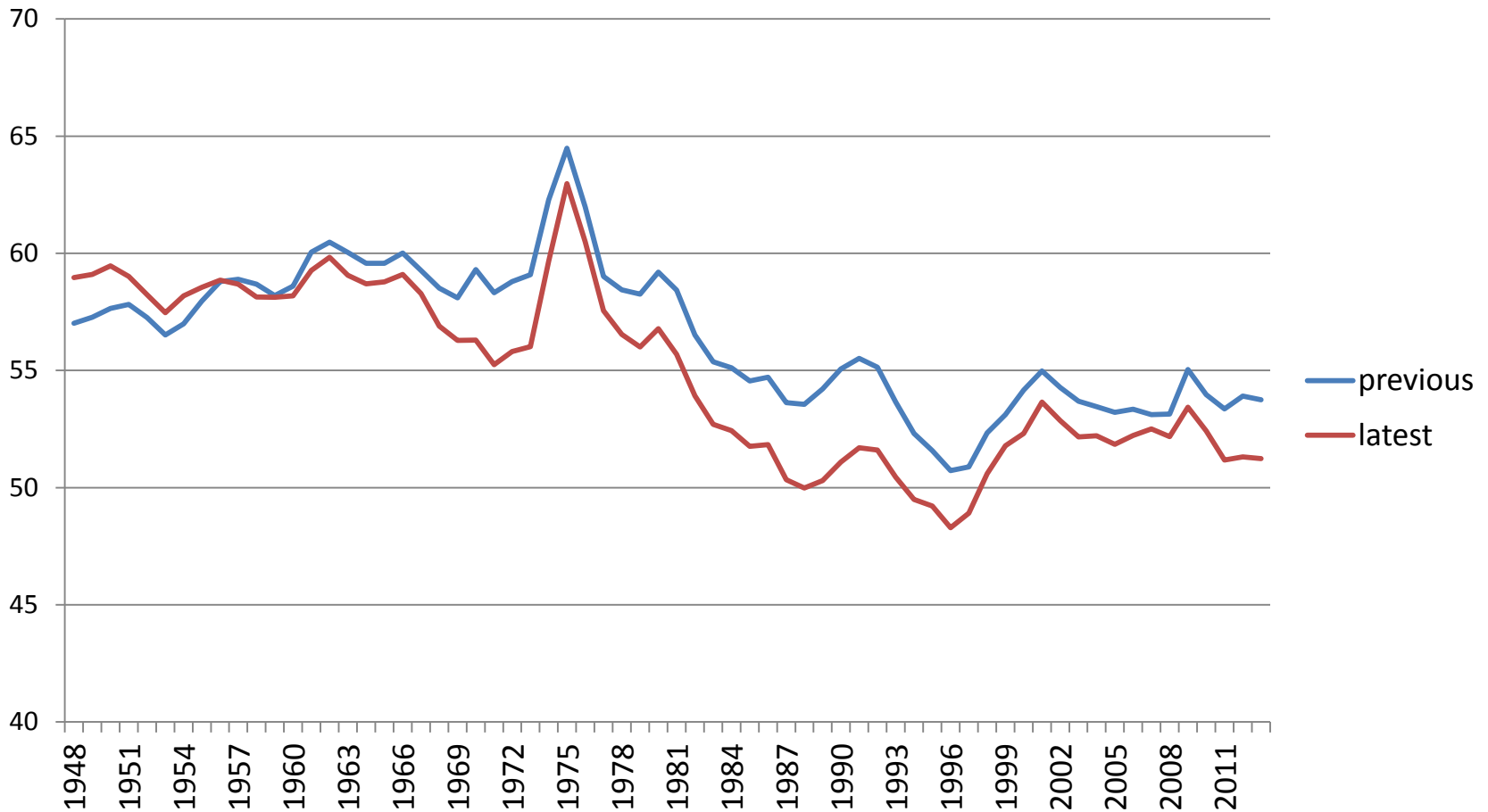
..although it is improving.



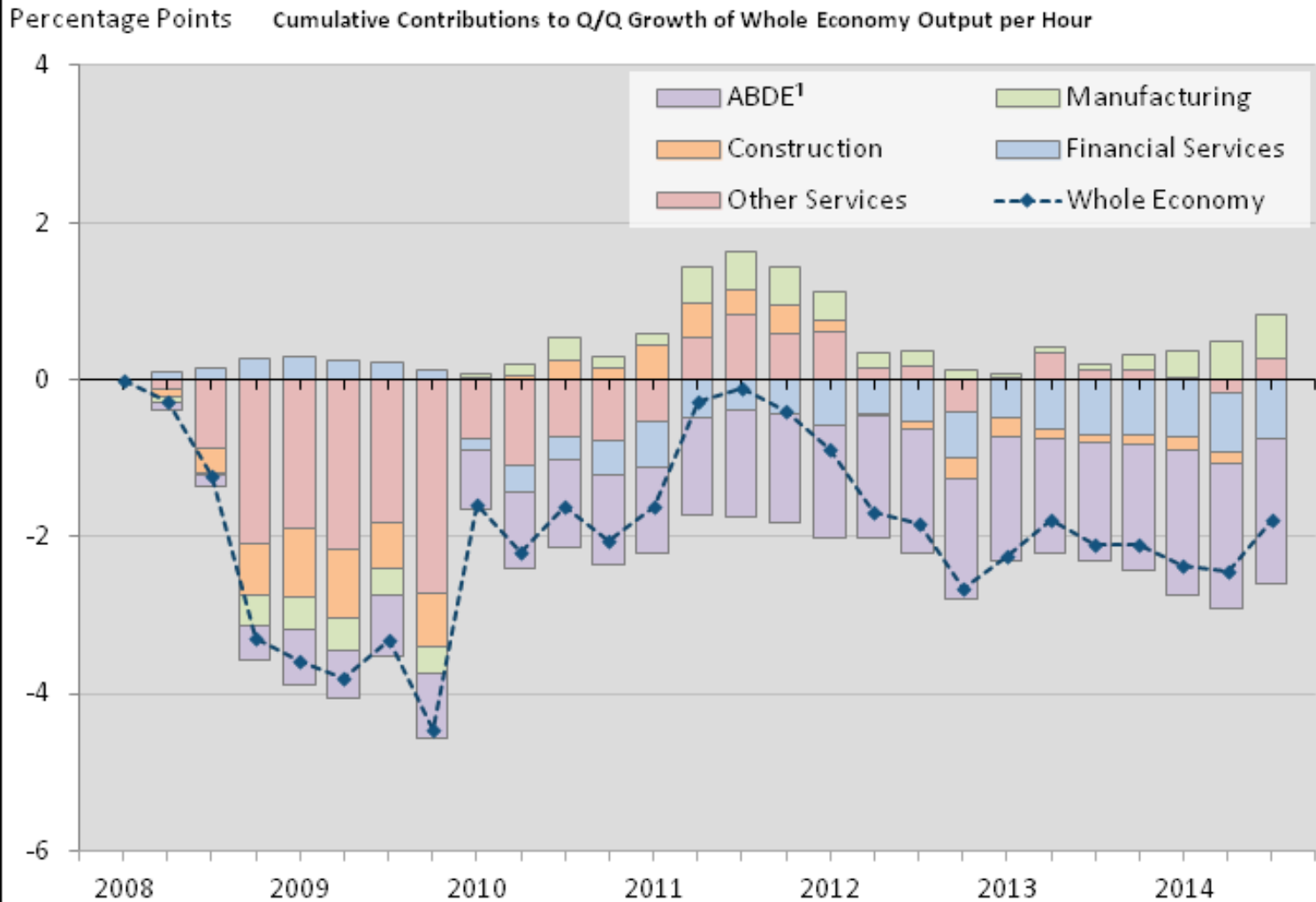
Profits and labour have both been hit...



But ONS revisions and recent data have shown greater benefits to profits

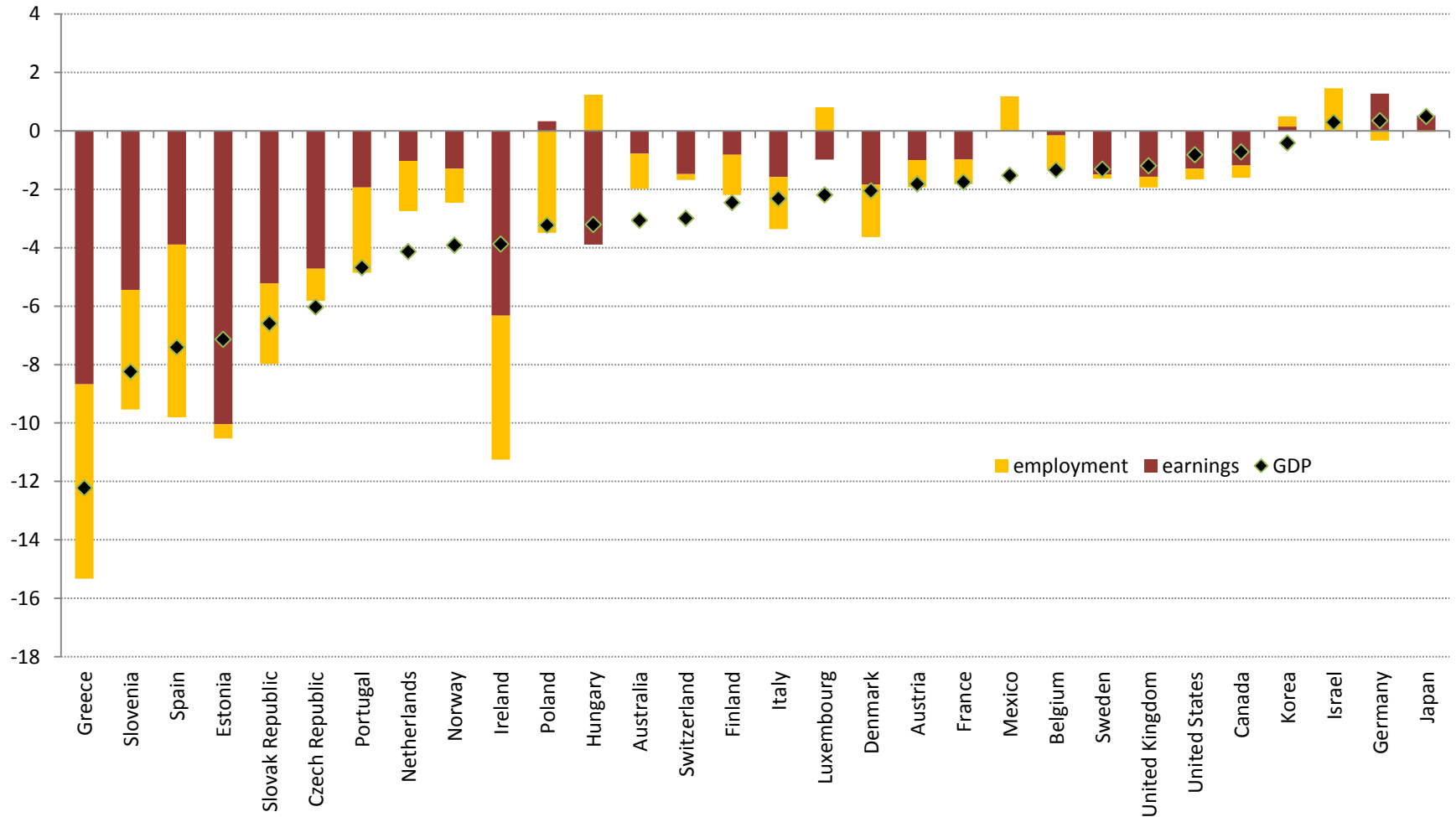


Productivity remains a significant concern



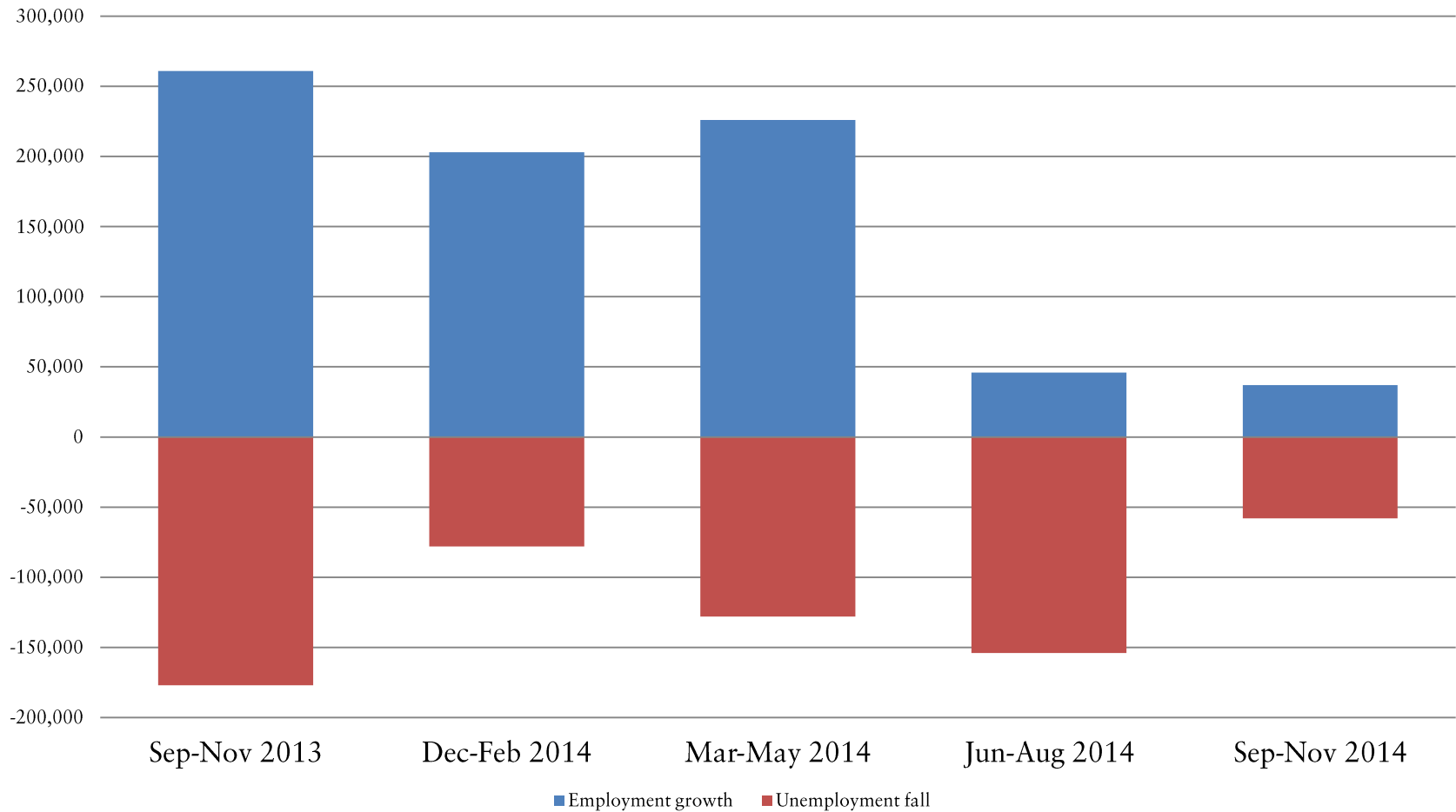
Source: ONS

But the evidence points to a cyclical rather than structural problem

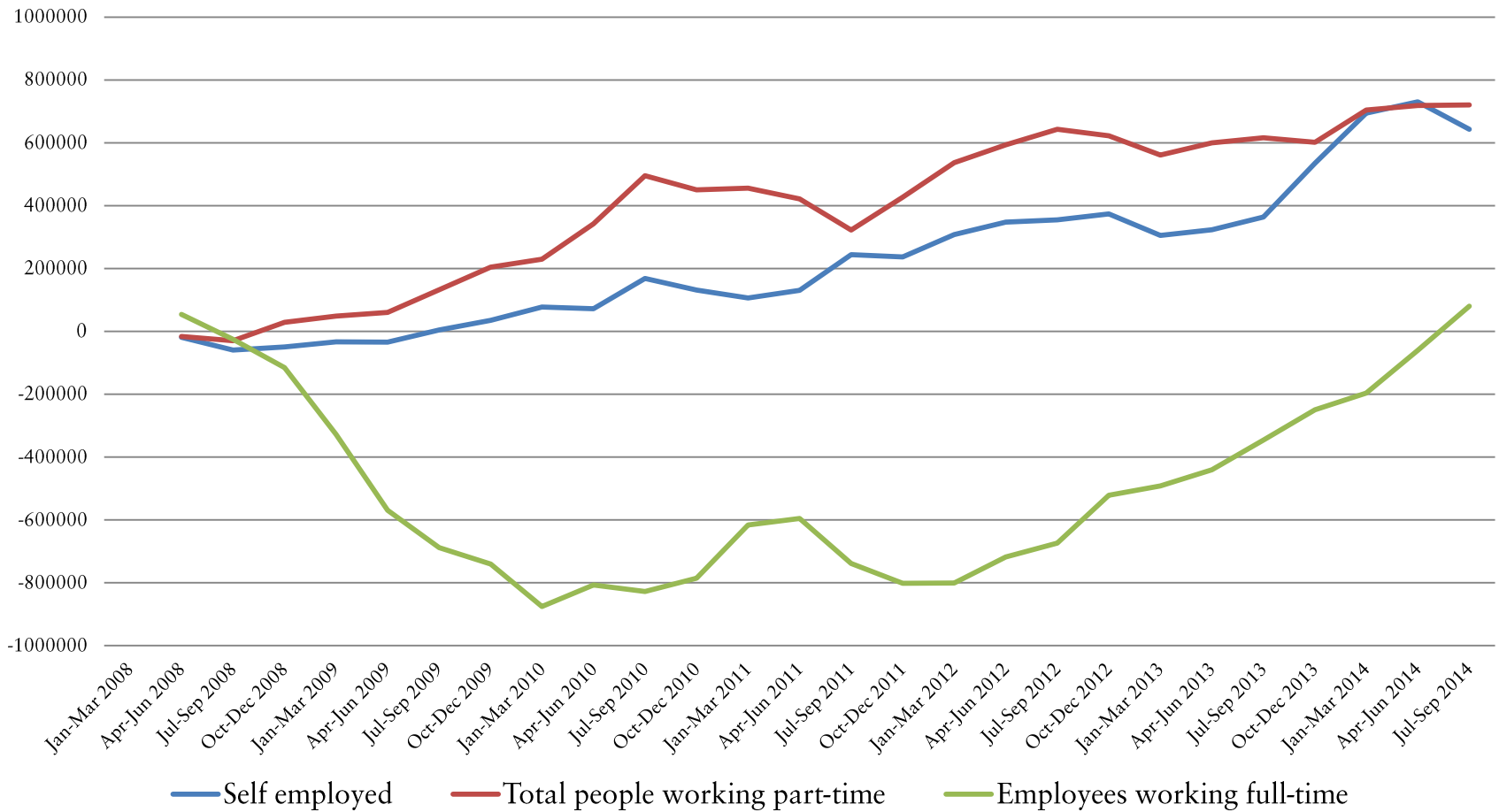


The labour market

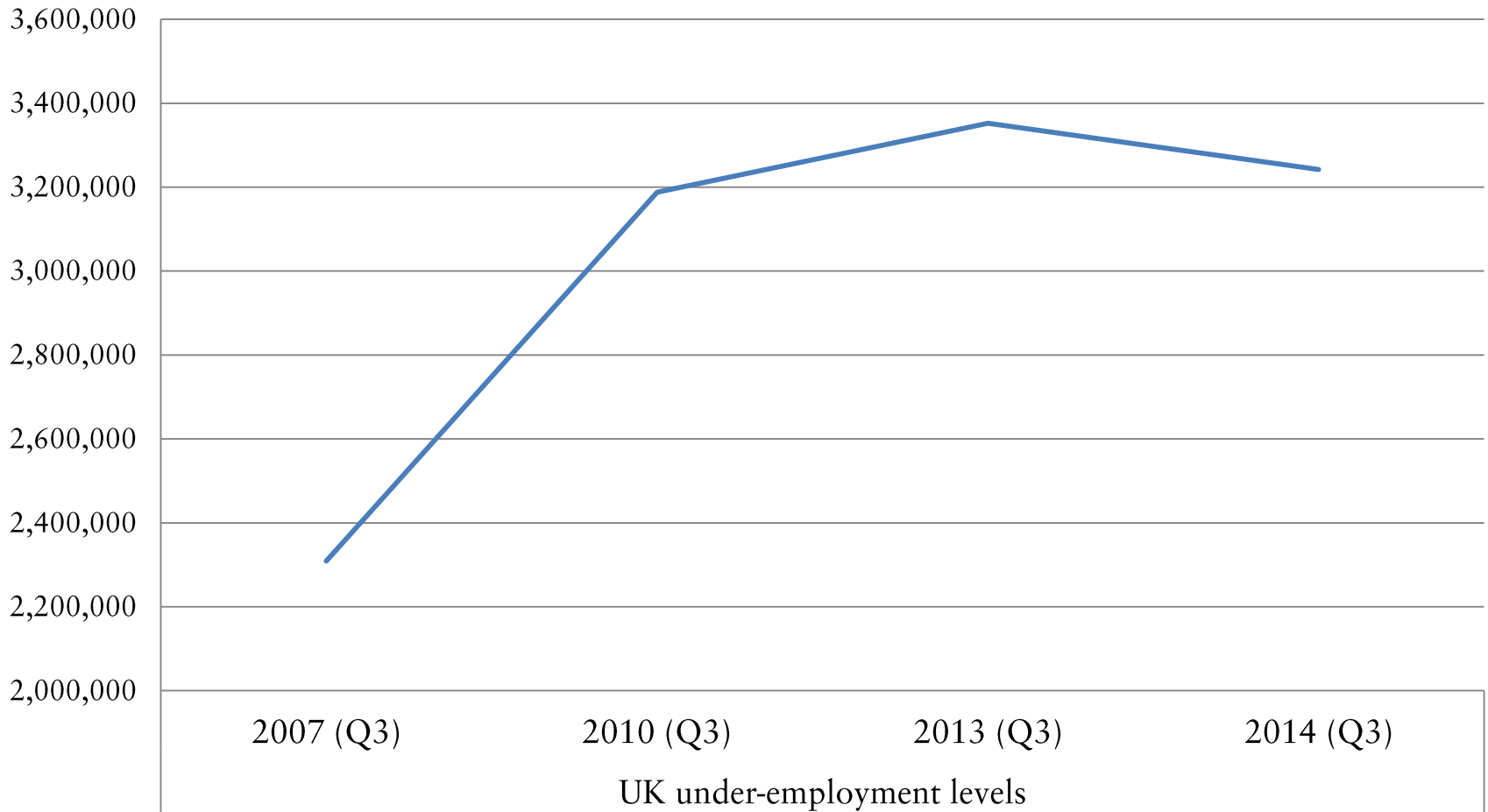
Employment and unemployment have performed strongly, although improvements may be slowing



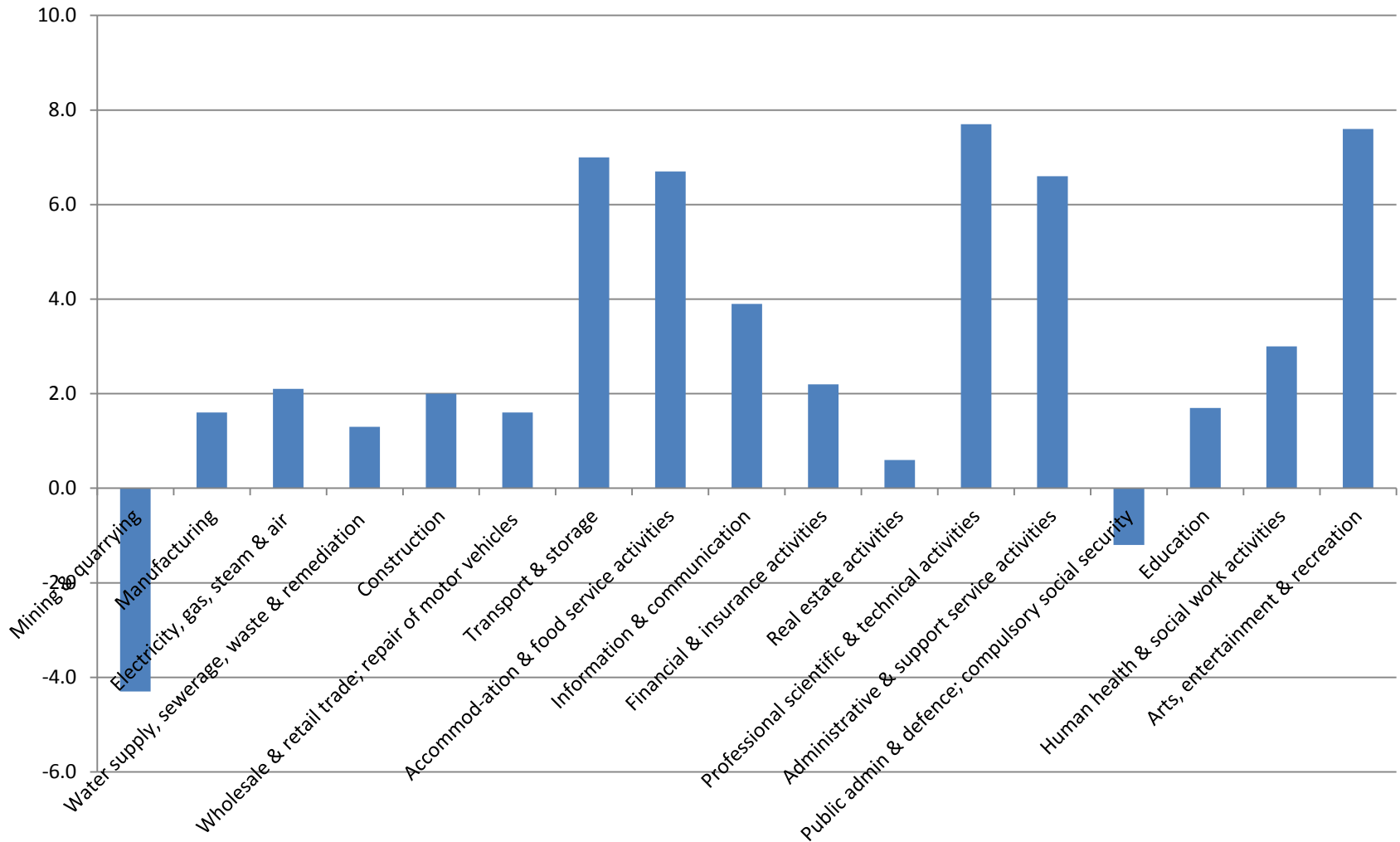
Despite change in the composition of jobs full-time employee positions have been growing strongly



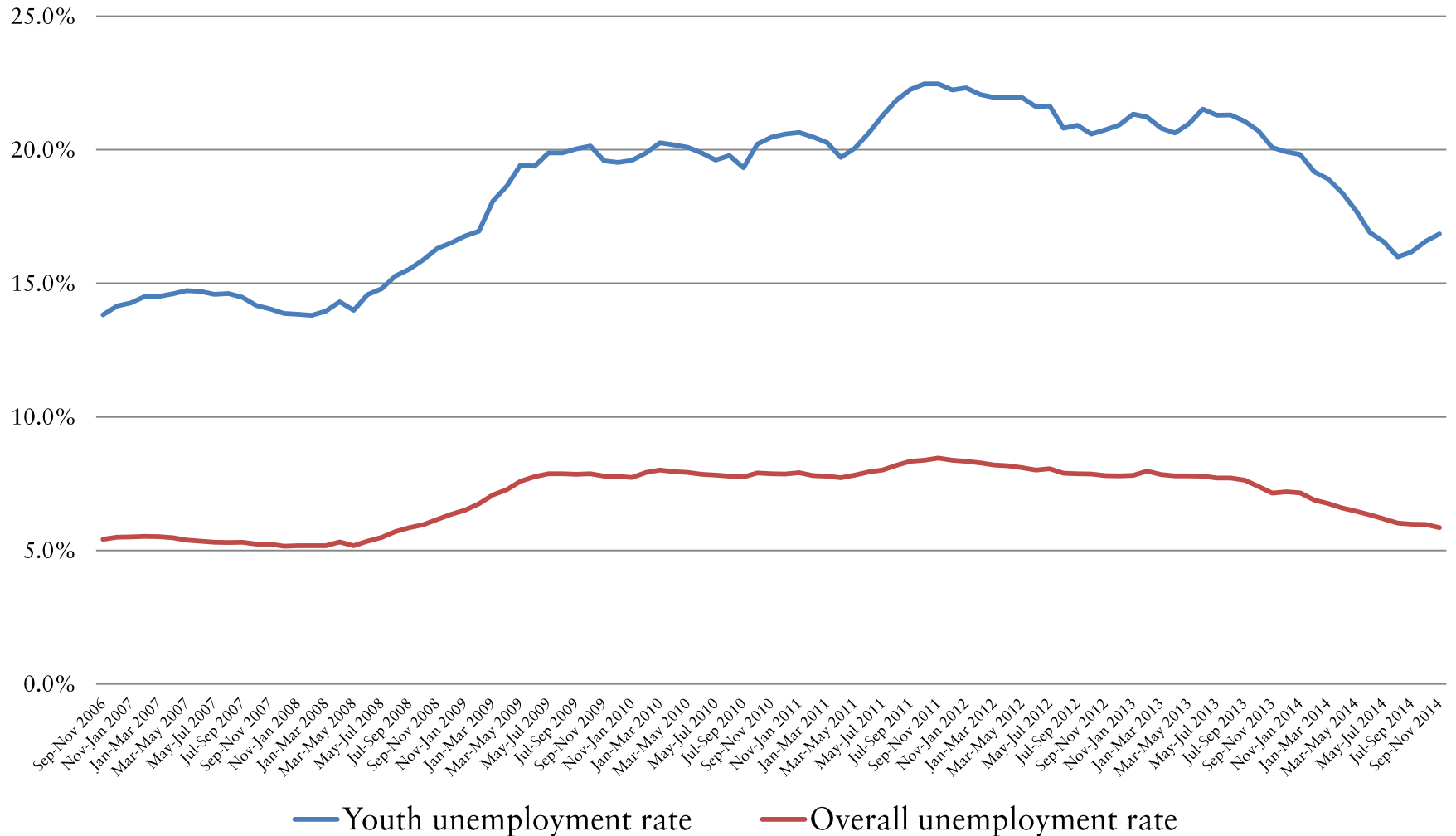
But under-employment remains high and is only falling slowly



Jobs growth has varied across industries



Youth unemployment remains a concern but adult rates are still falling



Conclusions

Conclusions for pay bargaining

- A recovering labour market and a growing economy means prospects for pay rises are better than they have been for some time.
- As the labour market tightens pay pressures should increase.
- Pay and profits both took a hit during the crisis but most recently profits are rising with more scope for pay growth than there has been for some time.
- As ever there is substantial variation between sectors.
- Although the recovery is not as strong or as secure as it could be there are improvements in some key areas.
- To date there is no evidence of the sustained structural economic damage which could mean further medium term pay depression, although there are ongoing risks.

IDS & TUC Pay forum 2015



Making up Lost Ground on Pay

Thursday 12th February 2015

Reuters \ Luke MacGregor

Making up lost ground on pay

The Finance Sector Problem



Market Pay

- All large banks use Towers Watson to “benchmark” job roles
- Survey data supposedly shows the market rate for specific job or type of job
- Employers committed to paying at the market rate
- Data not available to non-subscribers - banks tell us market rates have not changed

Performance Related Pay

- System “rewards” those with higher performance
- Staff furthest below market rate get higher increases
- Staff furthest above market get lower rises

Rating	85-90%	90-95%	95-100%	100-105%	105-110%	110-125%	Above max
Top	7.5	6.0	5.0	3.0	2.0	1.75	£300
Strong	6.5	5.0	4.0	2.25	1.75	1.50	£200
Good	5.0	4.0	3.0	1.75	1.50	1.25	£150

Performance Related Pay

- “Poor” performers get no pay rise
- Receipt of end of year ratings always followed by grievance appeals – difference between ratings can have big effect on pay
- People at top have received sub-inflation pay rises for many years – banks system says they are overpaid
- No market increase moves those well above 100% further from mid-point (lower rises in future)

Performance Related Pay

- Entire industry related to PRP system
- Enormous costs for complying
- Performance should be managed by management not by pay
- Lots of staff doing same job as well as each other but on vastly different pay
- At least forced distribution of ratings mostly no longer in place

Making up lost ground

2015 Pay

- HSBC – 3.1% pot (79% vote in favour)
- Lloyds – average rises of 3.25%-3.5% for most clerical staff (80%+ vote in favour)
- RBS – 94% staff get RPI or better with a £300 underpin (86% in favour)
- Barclays – 3 year agreement, this year is 2nd year and pot likely to be about 2.3%

Barclays

- Long campaign by Unite to improve pay of lowest graded and lowest paid
- Barclays fully committed to Living Wage, along with other banks
- Lowest graded cashiers (6,500) upgraded from 'BA1' to 'BA2' – average increase of 2.8% in pay
- Seeking to be best bank on parental leave:
 - paid maternity leave now 26 weeks full pay (was 12 weeks)
 - paid paternity leave doubled to two weeks

Finance Sector is Low Pay Employer

- Living Wage underpins pay of lowest paid
- Typical pay for cashiers from just over £14k to £18k – market pay supposedly between £14,500 - £14,900.
- Significant gender pay gap
- Very high ratio of lowest paid to highest paid, even if ignoring bonus

Thank you very much –
questions welcome

Dominic Hook, Unite



IDS & TUC Pay forum 2015



Making up Lost Ground on Pay

Thursday 12th February 2015

Reuters \ Luke MacGregor

IDS **TUC** 



THOMSON REUTERS



Pay benchmarking

A framework for a critical appraisal

Ray Storry, Manager Pay Benchmarking, IDS



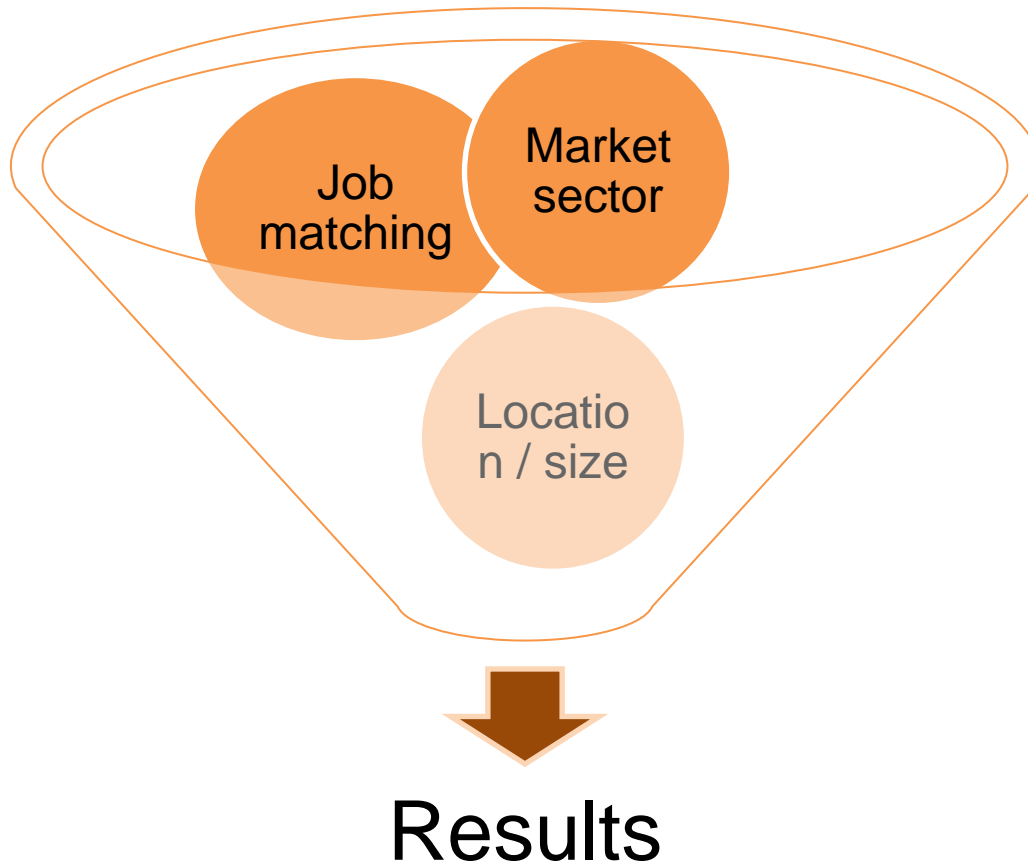
THOMSON REUTERS

Why benchmark?

- Understand market position
- Identify 'hot spots' and key skills
- Support reward structure design
- Aid staff recruitment & retention
- Underpin pay negotiations



Key considerations



Defining the market



Narrow
market



Broad
market



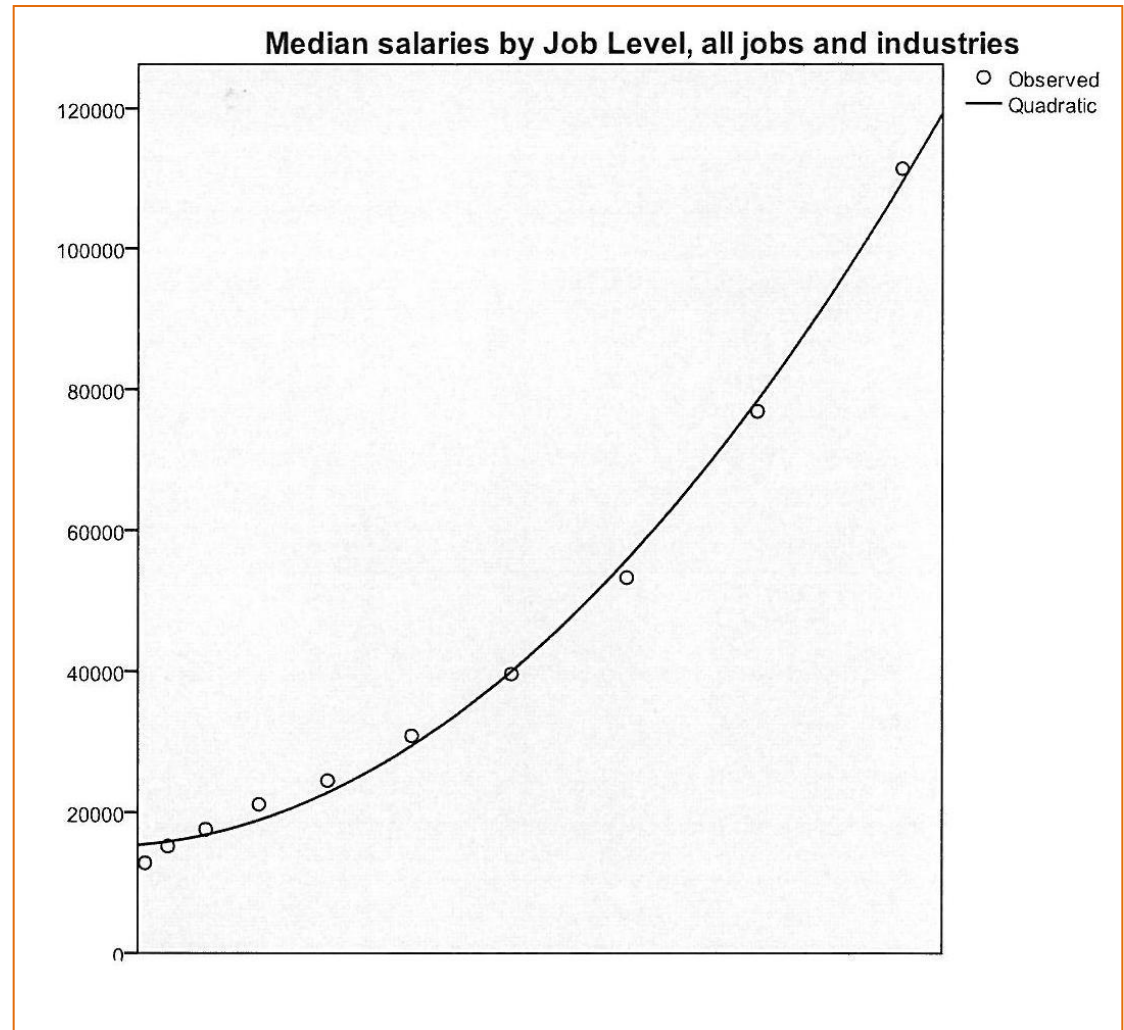
The Pay Curve

Jobs help to define each other

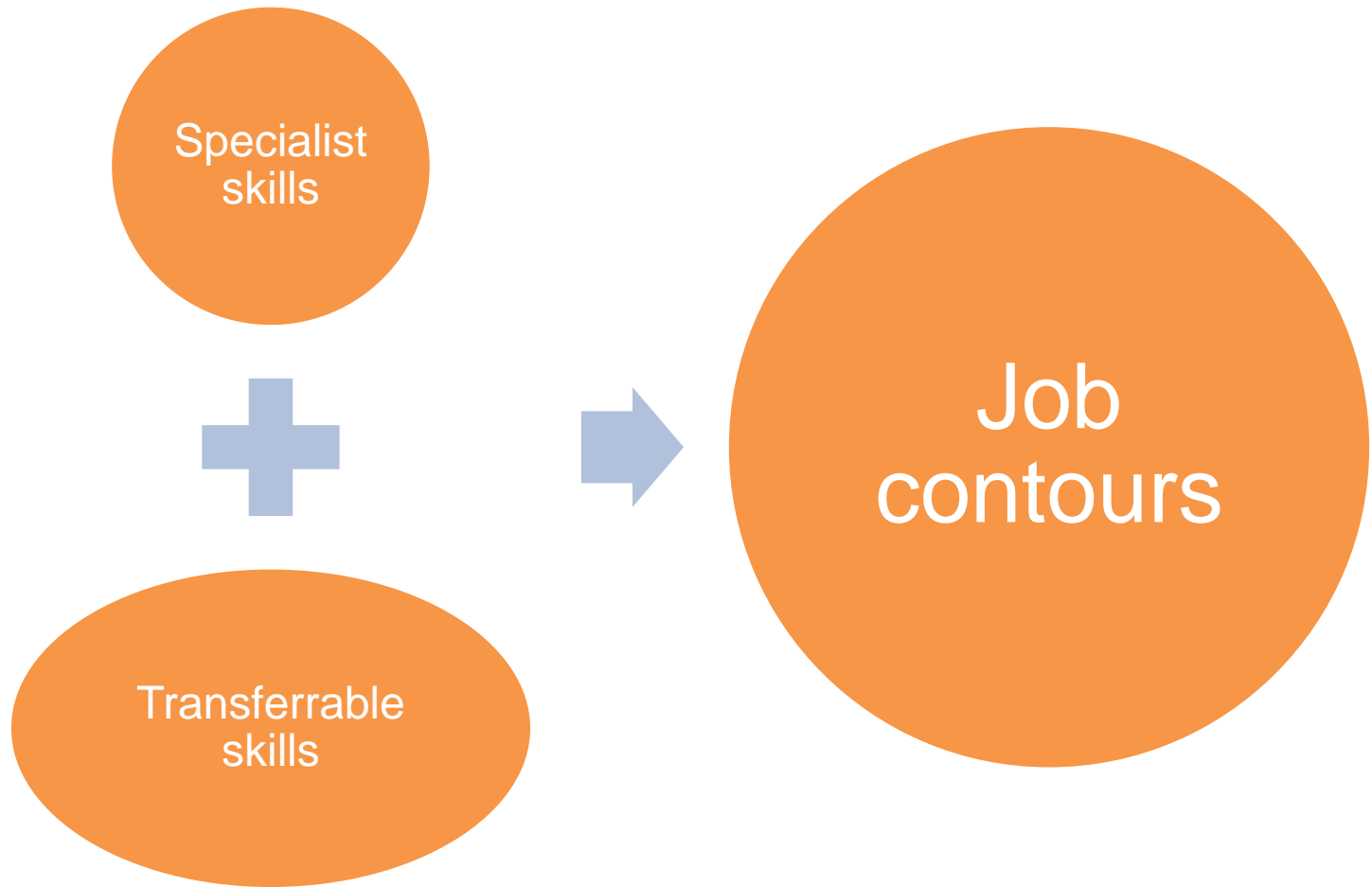
Increasing levels of skills, responsibilities, and complexity of work

Marked by salary differentials

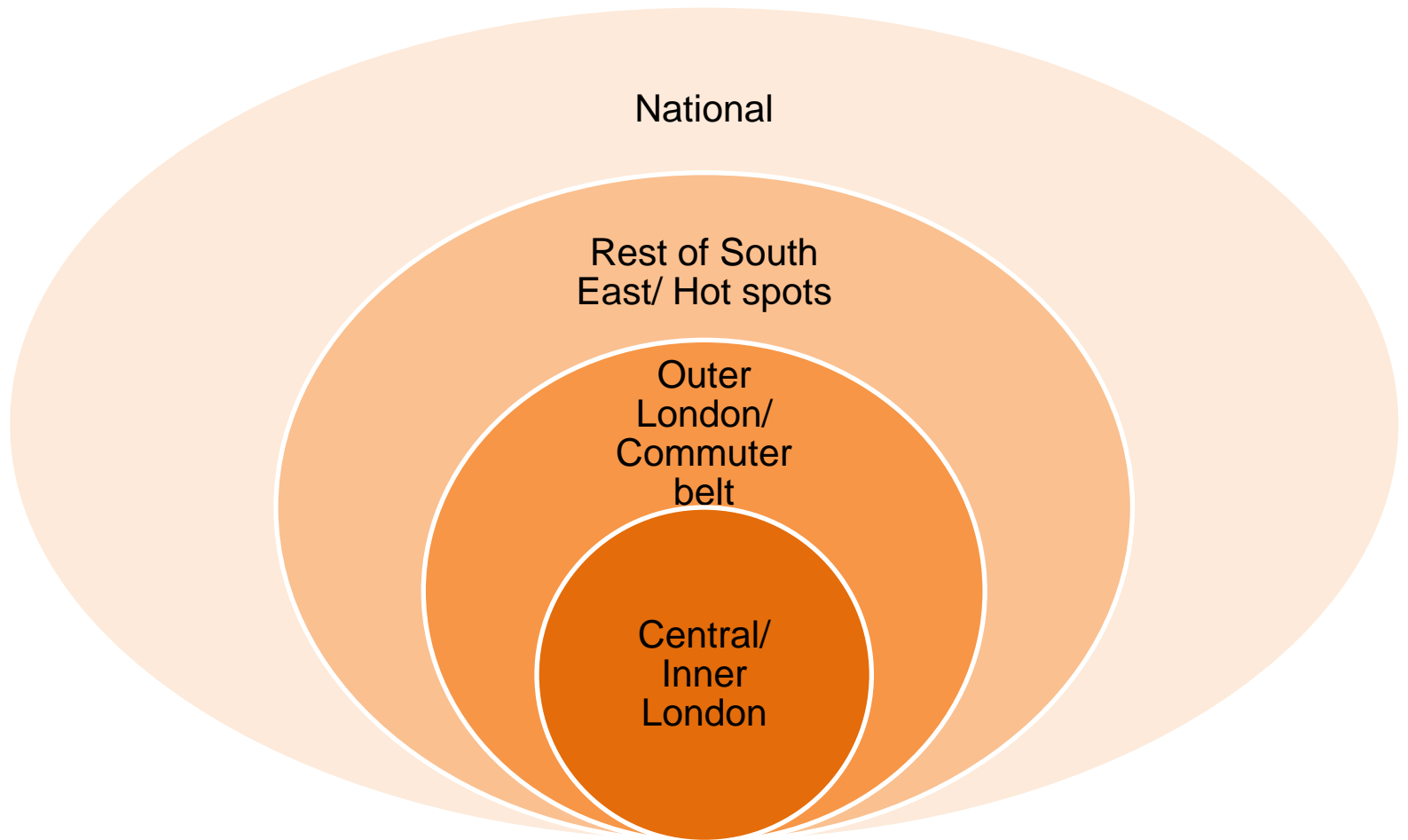
That can vary by industry



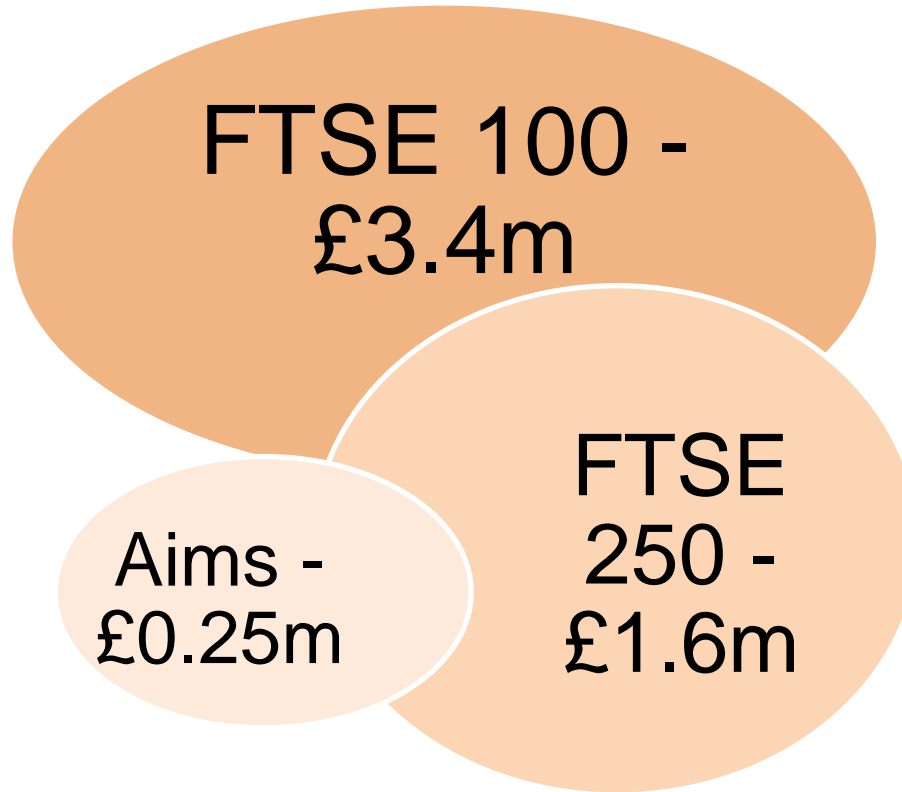
Skills, levels & contours



Location



CEOs – size matters



Thank you – any questions?

Ray Storry
IDS



IDS & TUC Pay forum 2015



Making up Lost Ground on Pay

Thursday 12th February 2015

Reuters \ Luke MacGregor

IDS **TUC** 



THOMSON REUTERS

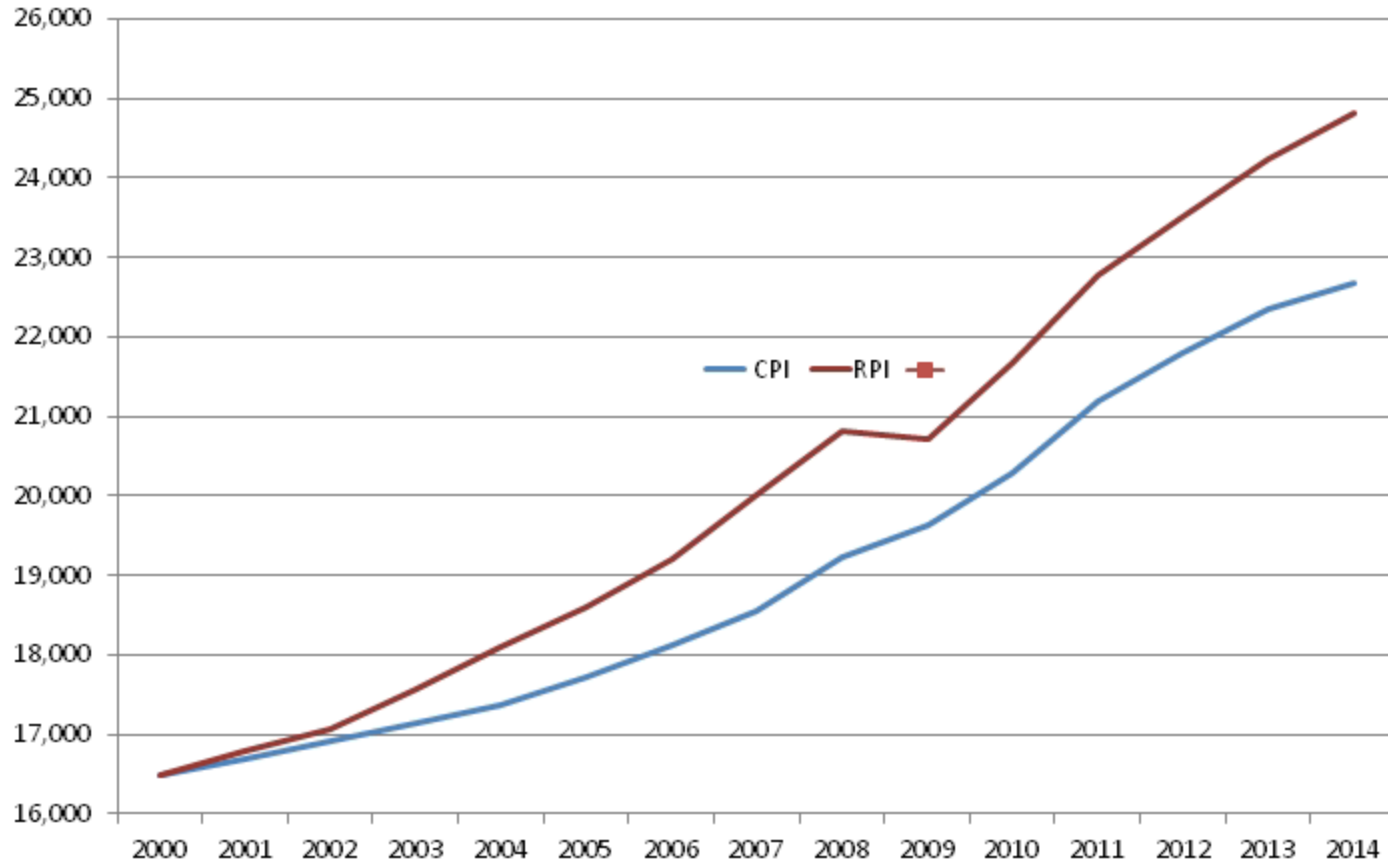
Inflation and Pay Bargaining in 2015

Richard Exell
TUC-IDS Pay Forum
12 February 2015

Guess Who's Worrying About Low Pay Increases?

28 Pay growth might also depend on the development of inflation and inflation expectations over the coming months. Around 40% of pay settlements would be agreed in April when, according to Bank staff's latest estimates, twelve-month CPI inflation was likely to be around zero, so there was a risk that any pickup in pay growth might be delayed. There had been an increase in Q4 to around 20% in the proportion of respondents to the quarterly *Deloitte CFO Survey* of large companies who expected CPI inflation to be less than 1.5% in two years' time.

The Difference Between CPI and RPI



Differences Between CPI and RPI

- Composition
- Data
- Formula

Johnson Review, Courtney Paper

- *UK Consumer Price Statistics* (“Johnson Review”) <http://www.statisticsauthority.gov.uk/news/news-release---uk-consumer-price-statistics--a-review.pdf>
- *Consumer Price Indices in the UK*, by Mark Courtney, www.unison.org.uk/documents/4126

Inflation Figures

(published 13 January)

- December Consumer Price Index 0.5 per cent
- December Retail Price Index 1.6 per cent
- December RPIJ 1.0 per cent
- Annual average CPI for 2014 1.5 per cent
- Annual average RPI for 2014 2.4 per cent
- Annual average RPIJ for 2014 1.7 per cent

September Figures

- Consumer Price Index 1.2 per cent
- Retail Price Index 2.3 per cent
- RPIJ 1.6 per cent

IDS & TUC Pay forum 2015



Making up Lost Ground on Pay

Thursday 12th February 2015

Reuters \ Luke MacGregor

IDS **TUC** 



THOMSON REUTERS



REUTERS/Tim Chong

IDS & TUC Pay Forum Conference 2015

Private sector practice on progression

Louisa Withers, IDS

TUC, London

Thursday 12 February 2014

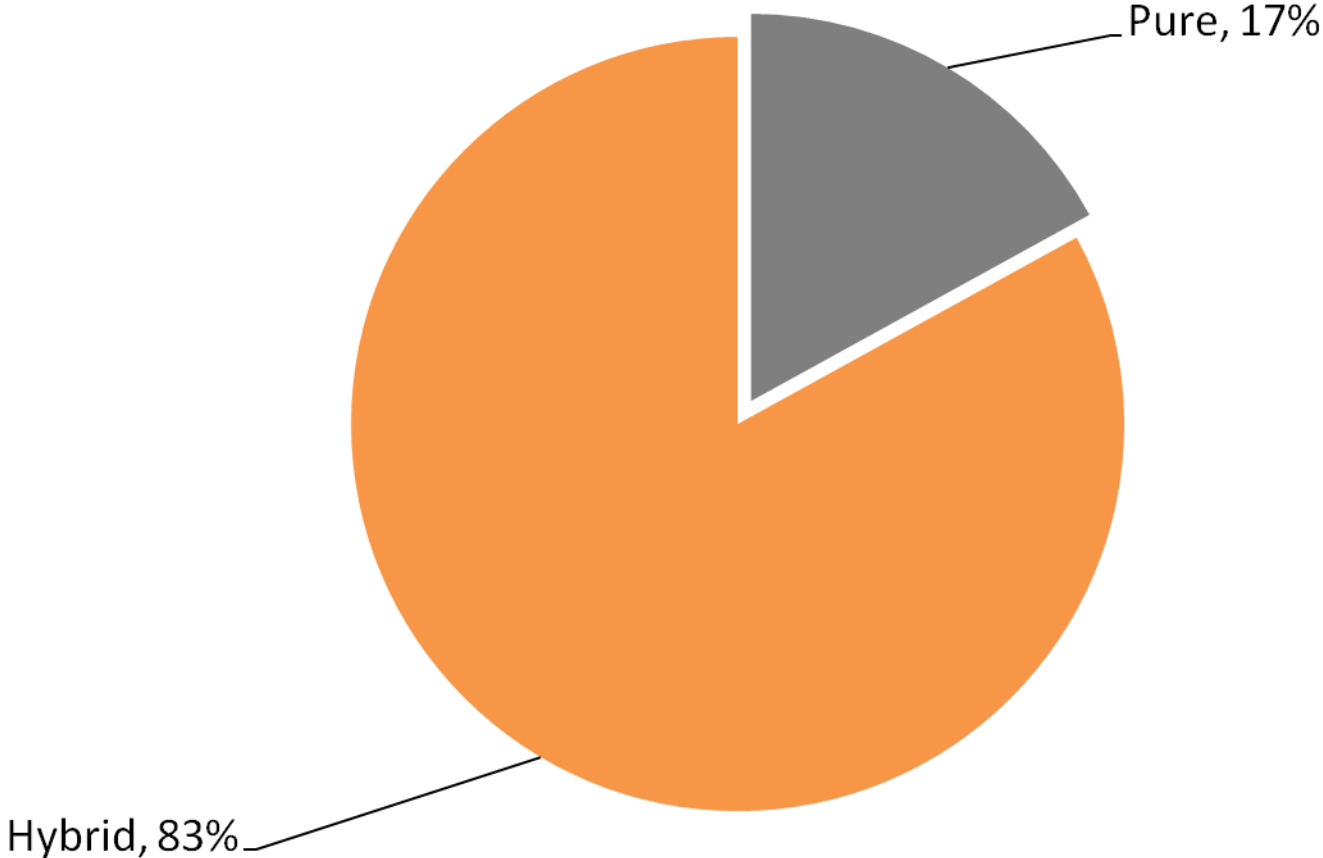


THOMSON REUTERS

Approaches to pay progression

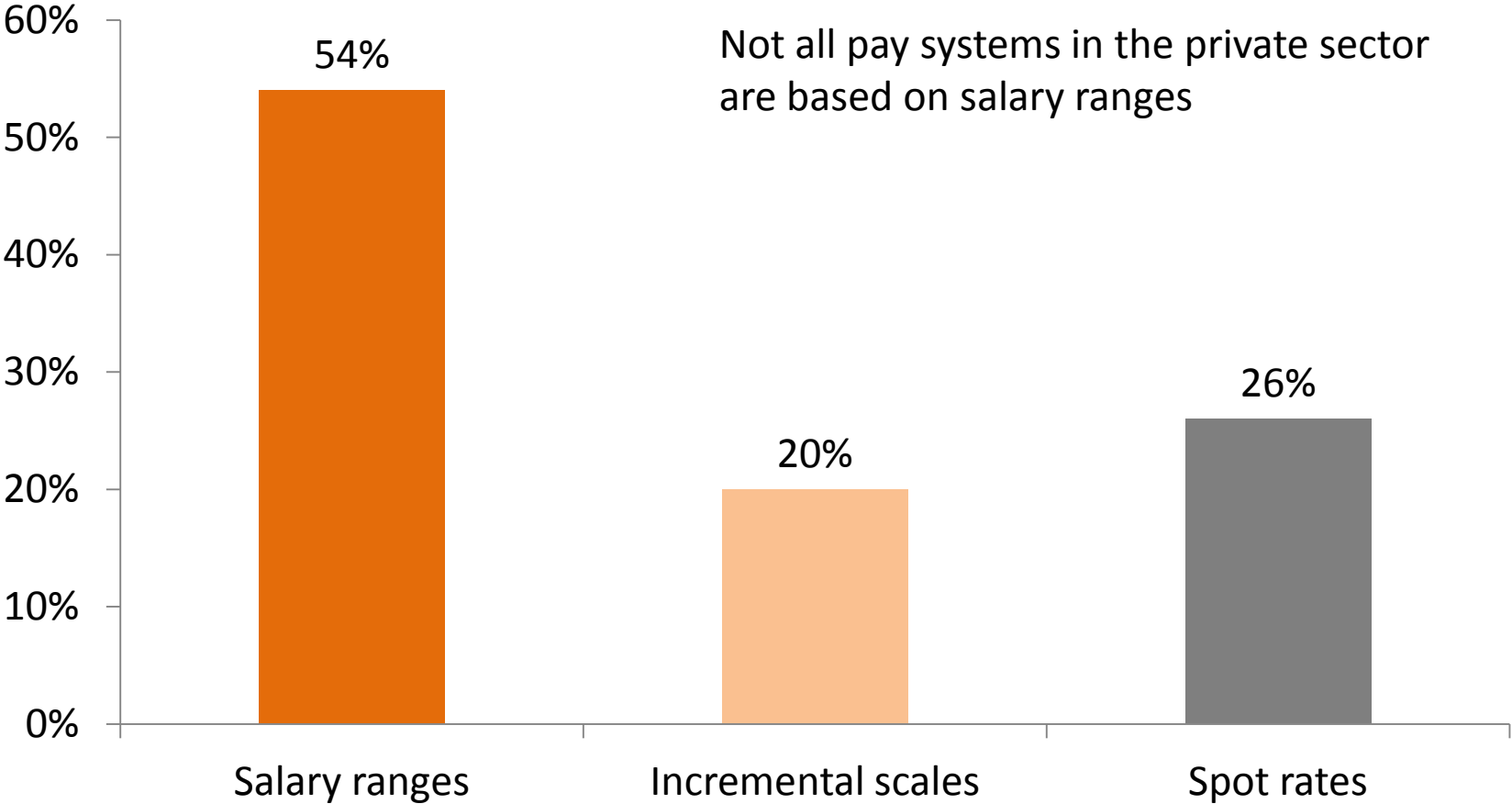
Type	Description
'PURE'	
Service	Predominantly annual increments based on time spent in grade
Performance	Appraisal-based payments consolidated into basic salary. Individual increases vary according to performance from an overall merit 'pot'
Skills or competencies	Consolidated pay awards according to skills gained/qualifications obtained or behavioural competencies displayed
'HYBRID'	
Performance plus skills or competency	Progression on basis of performance, plus a link to skills
Service plus performance	Annual increments are subject to satisfactory performance. More rapid progression possible, subject to budgets
Performance plus market	Various systems provide progression to the 'market rate', with slower/no progression thereafter

Approaches adopted in the private sector



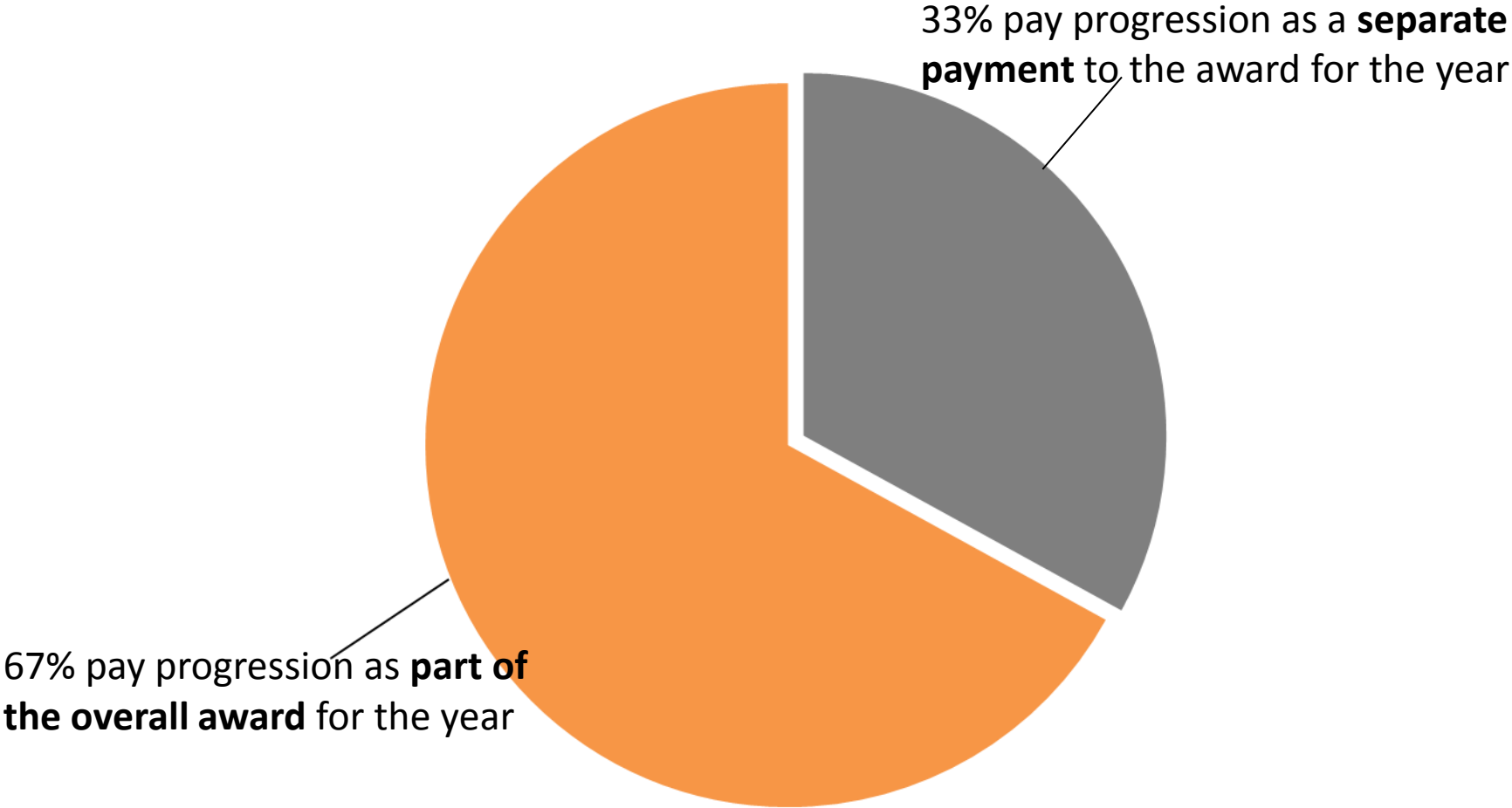
Sample: 189

Salary ranges, increments and spot rates



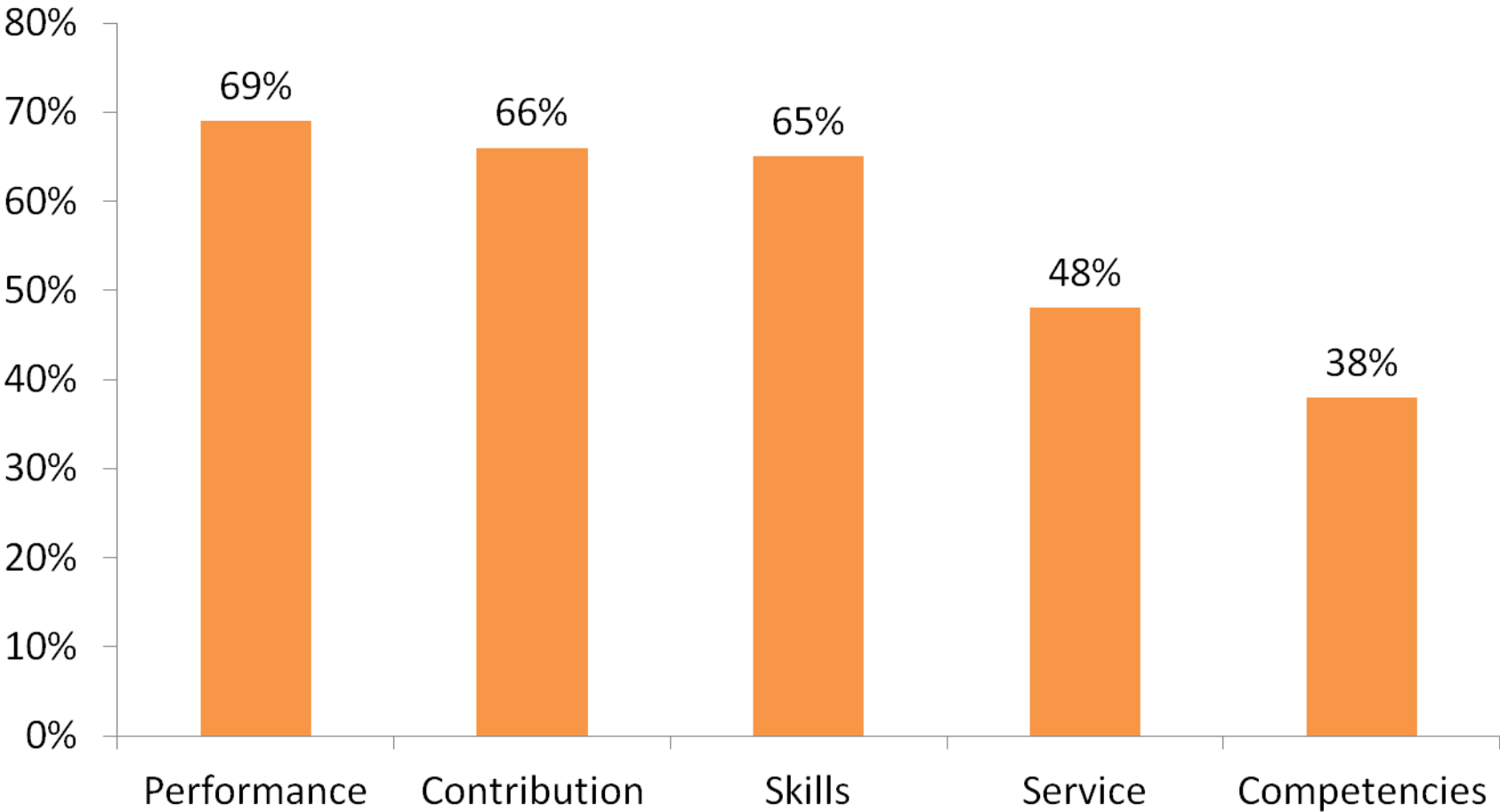
Sample: 189

Pay reviews and progression



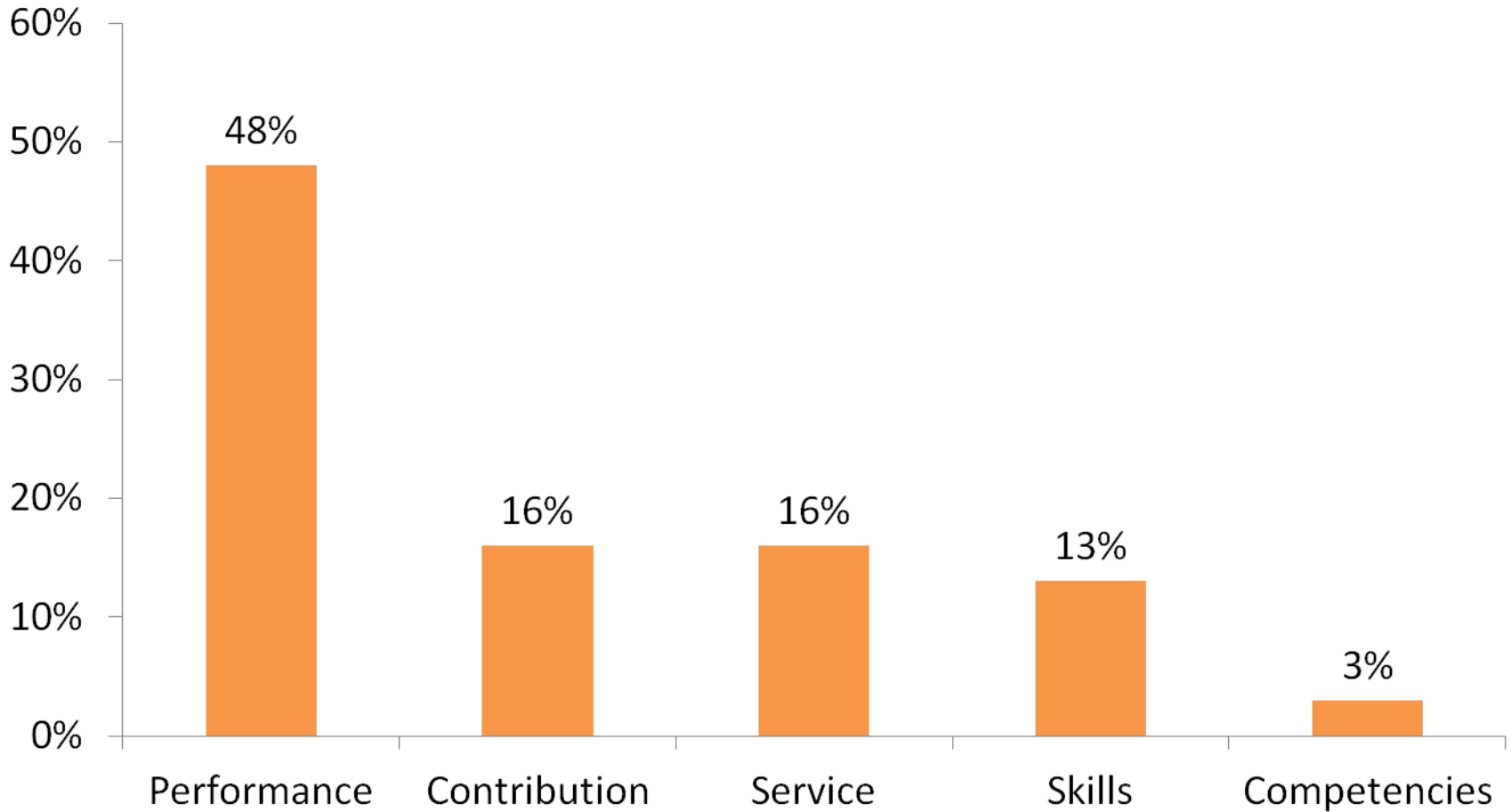
Sample: 91

Factors determining progression



Sample: 140

Most important factor for progression?



Sample: 80

Thank you very much – questions welcome

Louisa Withers, IDS

TUC, London

Thursday 12 February 2014

IDS & TUC Pay forum 2015



Making up Lost Ground on Pay

Thursday 12th February 2015

Reuters \ Luke MacGregor

IDS **TUC** 



THOMSON REUTERS



USdaw

*Union of Shop, Distributive
and Allied Workers*



IDS PAY FORUM 2015

Pay and Conditions for Supervisors in Retail

Fiona Wilson

Head of Research and Economics

Usdaw

Introduction

- Organising Supervisors in Retail
- SATA
- Scope of agreements

Pay Rates and Structures

- Average rate: £7.58ph
(IDS Pay and Conditions in Retail 2014)
- Mainly paid a “spot rate”
- Consolidated rates
- Retail settlements averaging 2%
- Pay restraint and market conditions

Differentials and Responsibilities

- Differential range from £0.50ph - £2.00ph
- Wide range of responsibilities
- Maintaining differentials – impact of NMW

Case study - Sainsbury's

- 2014 Pay Review
- Convenience stores - £0.70 skills payment
- Other stores - extension of responsibility payment to days
- Extra responsibilities recognised

Training and Development

- Risks of “development opportunities” not being fairly compensated
- Clear training programmes
- Role portraits
- Timescales

Restructuring

- Streamlining of structures
- Consultations
- Impact on employee engagement

Case study: The Co-operative

- Simplified structure – 3 tiers
- Increase in base rate for most
- “Green circled” pay rates for others
- Overall increase in number of jobs
- Union consultation and ballot

2015 – Difficult times ahead

Maintaining terms and conditions
and protecting jobs
will be the main priority,
but making progress on skills
reward is still on the agenda.



USdaw

*Union of Shop, Distributive
and Allied Workers*

IDS & TUC Pay forum 2015



Making up Lost Ground on Pay

Thursday 12th February 2015

Reuters \ Luke MacGregor

IDS **TUC** 



THOMSON REUTERS

Rewarding skills through pay structures

Steve Jary
National Secretary

IDS TUC Pay Forum
12 February 2015

The skills challenge

Growth of new 'technician' employment

Growth of 'professional' workforce

Expansion of Higher Education

... and yet...

Shortage of engineers threaten UK growth, employers warn

FT, 30 July 2014

76 per cent of employers reported problems with recruiting senior engineers with five to 10 years' experience.

The skills shortage paradox

The Engineer, 6 December 2013

With a skills gap apparently looming in engineering, why are engineering graduates are more likely to be unemployed and why are youth apprenticeships declining?

"[EngineeringUK] points the finger at engineering companies, most of whom claim they find it hard to recruit experienced talent but could also be accused of not doing enough to train new engineers."

Specialist pay as it is: the drivers?

Pay system

Broad bands
Opacity -> secrecy
Personal pay
PRP
Use of HSP
Use of RRAs

Drivers

'Refreshment' of
ageing workforce
Training = cost
Ready-made
workers
Tight labour market
Poaching



Specialist pay how it could be: the drivers

Drivers



Pay system



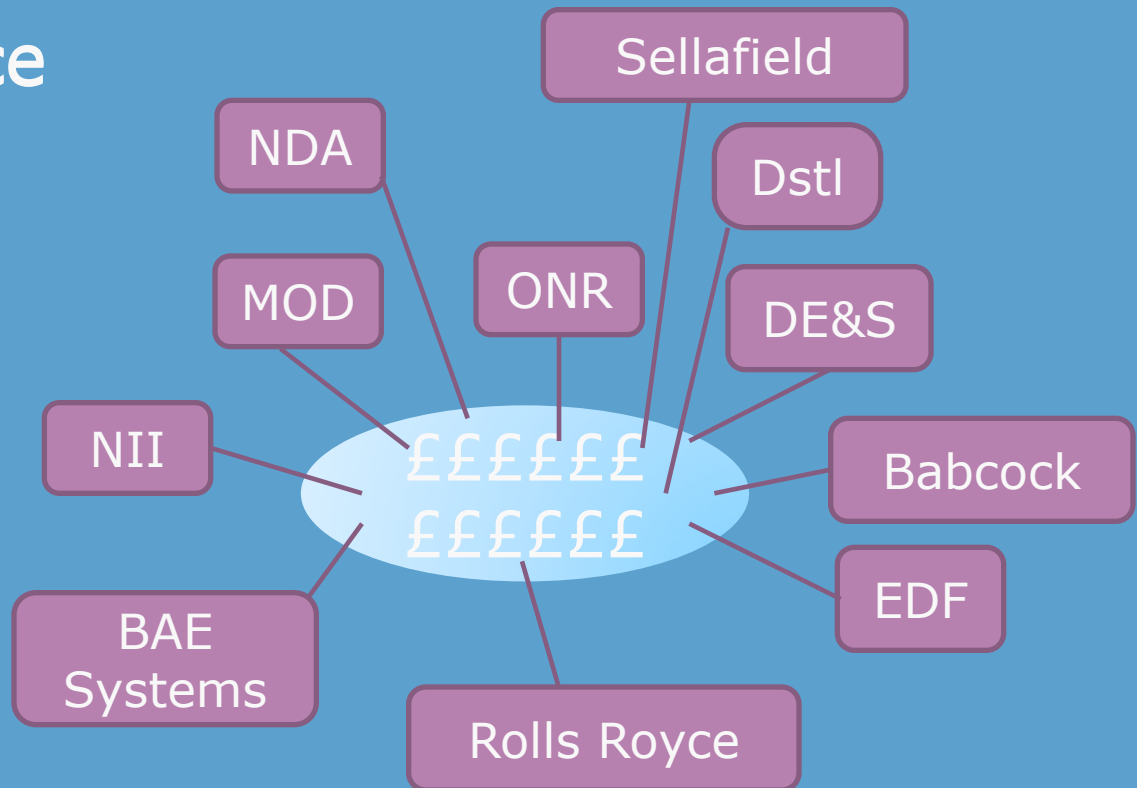
How not to do it: nuclear

Few employers –government sponsored

Ageing workforce

New demands

Essential skills

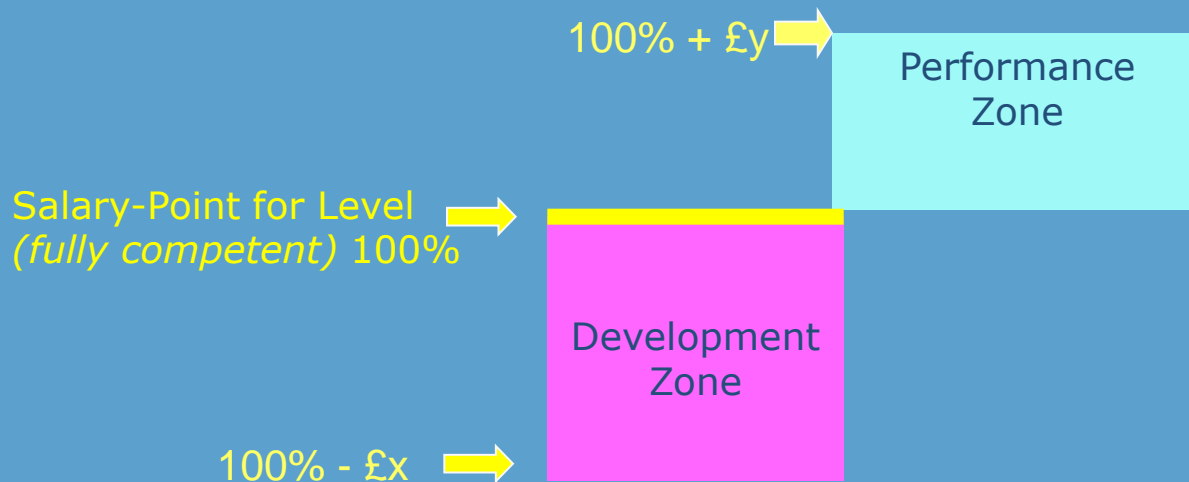


Another way? Dstl

- each Level should have a 'rate for the job' (RFTJ)
- pay scales with no more than five years' of incremental progression to the RFTJ
- RFTJ and other points on the scales should be uprated each year by reference to inflation and labour market conditions
- performance related pay for three mechanisms:
 - a non-consolidated bonus scheme
 - accelerated progression towards the RFTJ for strong performance/quick development in-year
 - access to additional consolidated basic pay above the RFTJ for consistently strong performance

Pay Structure - architecture

“Zone progression”



Each level has a salary-point which reflects competent performance – the ‘rate for the job’

Annual review of the S-P

Pay Structure – performance appraisal

4 'box' scheme

No numbers or scores

Simple definitions

No quotas

Expectation is that most staff will be in top two boxes

2009 out-turn as expected

OUTSTANDING

progression+ & bonus+

GOOD

progression & bonus

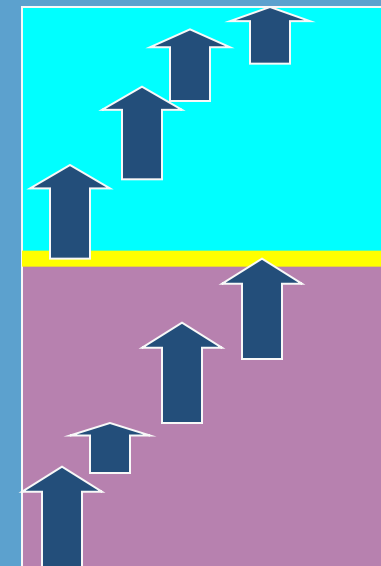
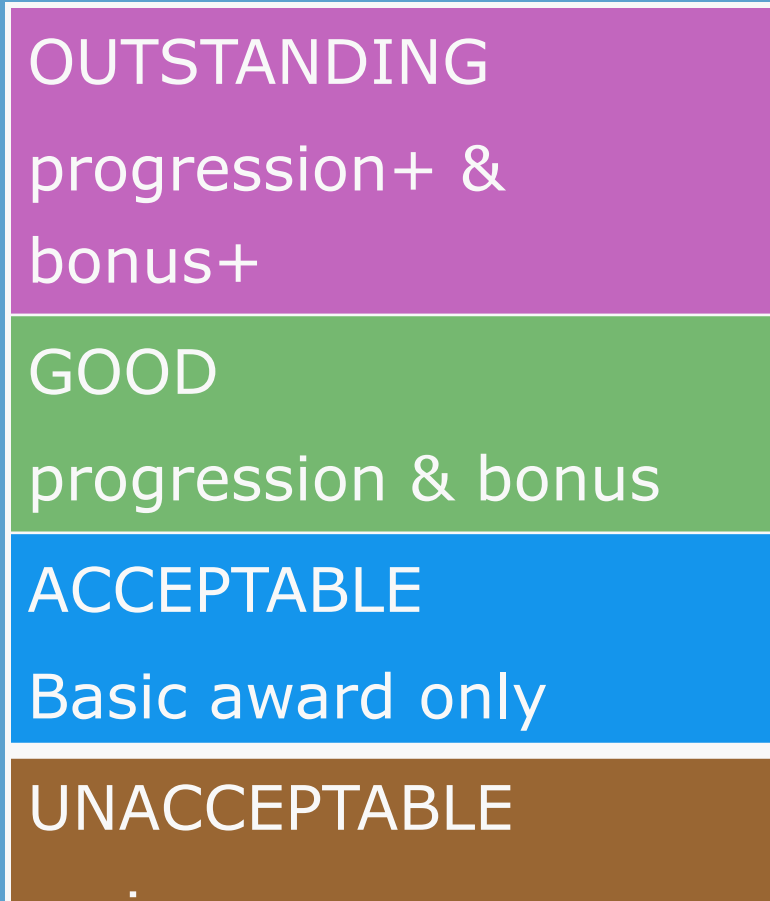
ACCEPTABLE

Basic award only

UNACCEPTABLE

no increase

Putting it together...



Performance

Development

In practice

2010 agreed new design principle: Level maxima set at 99% of S-P for next Level

- narrow differentials with MOD
- as many as possible to receive consolidated award

Coalition pay freeze

Coalition external recruitment ban and workforce reductions

Return to Market Supplements for 'hot-spots'

Other design features?

Relationship to market

Job families

Progression mechanisms:

- Performance
- Competencies (bars?)
- 'Contribution'

Thank you very much –
questions welcome

Steve Jary
National Secretary

IDS TUC Pay Forum
12 February 2015

IDS & TUC Pay forum 2015



Making up Lost Ground on Pay

Thursday 12th February 2015

Reuters \ Luke MacGregor

The National Minimum Wage

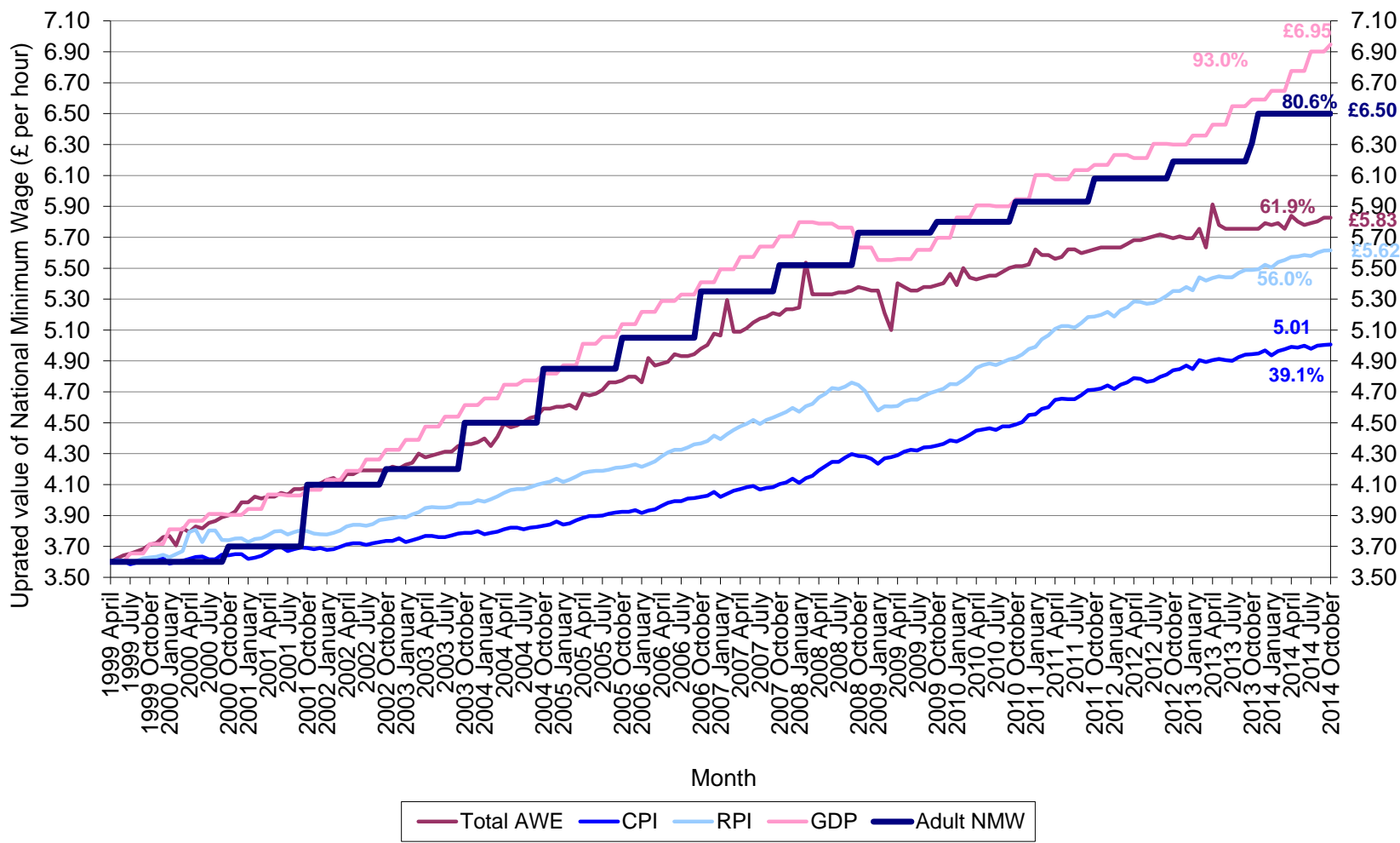
The Living Wage and Low Pay
8th Annual TUC and IDS Pay Forum
Thursday 12 February 2015

Tim Butcher
Low Pay Commission

Low Pay Commission and the NMW

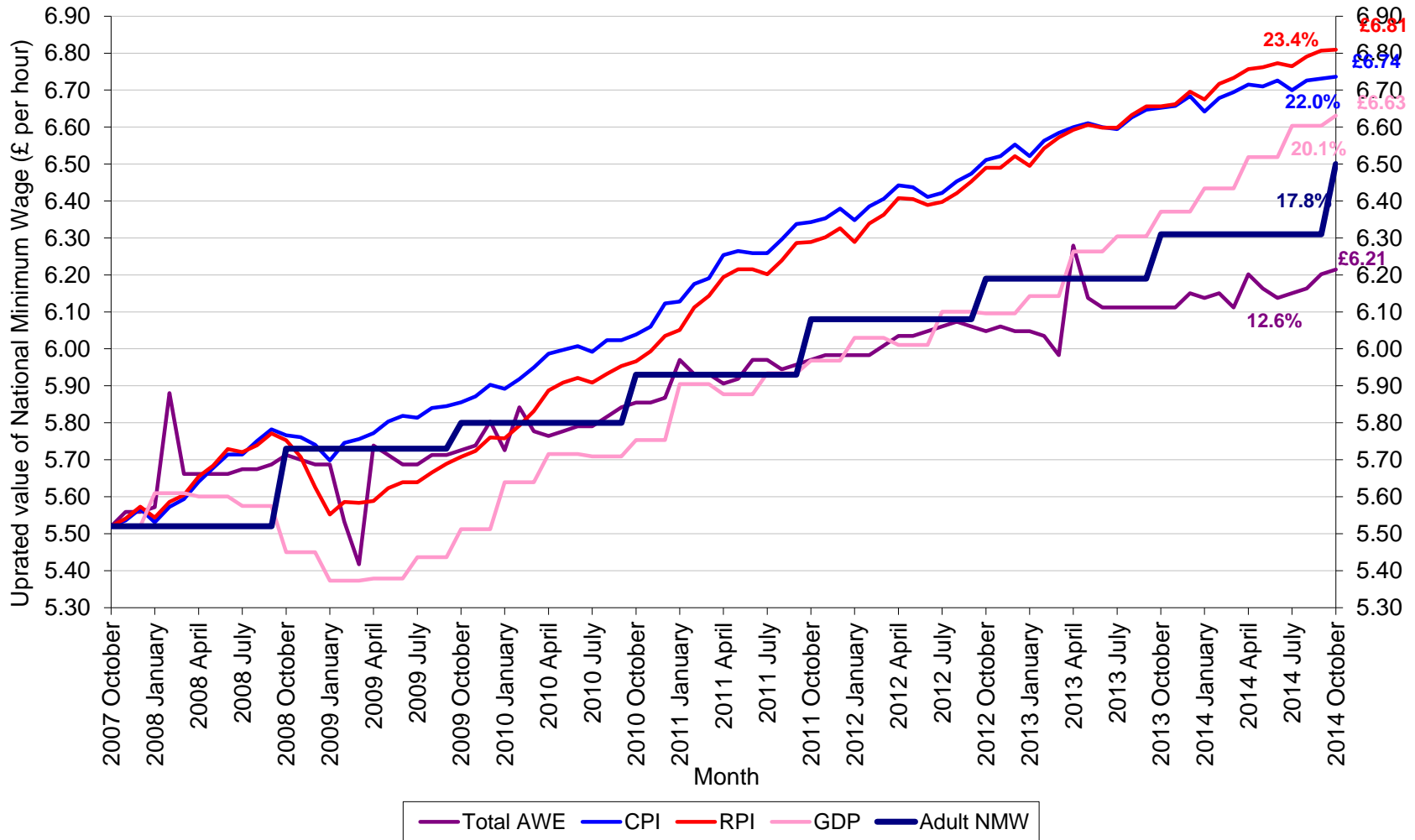
- Independent NDPB made up of 9 Commissioners
 - unions, employers and independents (including academics)
- Makes recommendations to the Government on the NMW - the Government can accept or reject them
- It is a **WAGE FLOOR NOT A 'LIVING WAGE'**
 - It is grounded in the labour market
 - It is paid to the individual
 - It is not based on a person's or their household's needs

Between 1999 and 2014, the adult NMW has grown faster than average earnings and price inflation



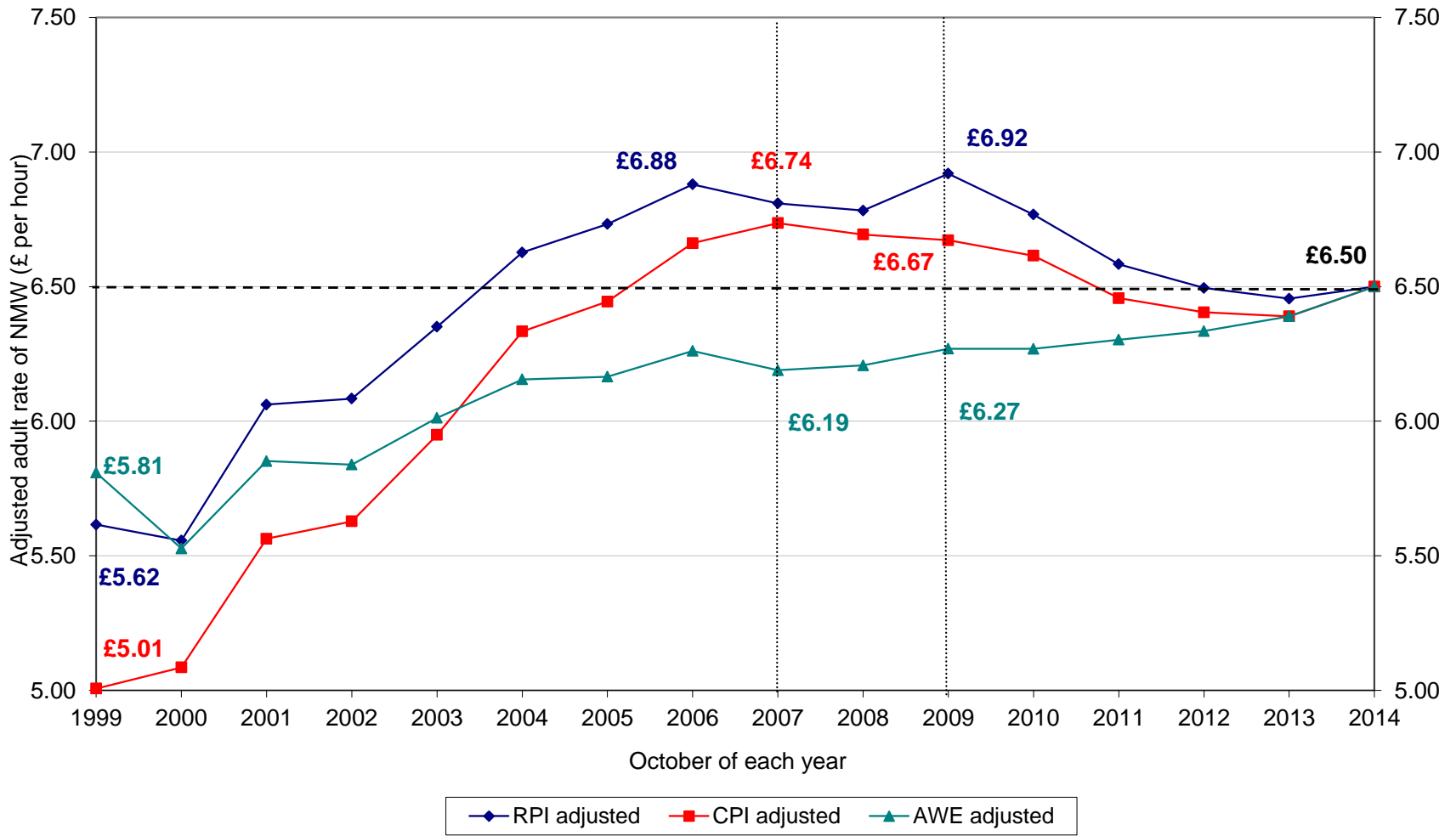
Source: LPC estimates based on ONS data, AEI including bonuses (LNMW), 1999, AWE total pay (KAB9), 2000-2013, RPI (CHAW), 1999-2013, and CPI (D7BT), 1999-2013, monthly; and GDP (YBHA), 1999-2013, quarterly, seasonally adjusted (AWE, AEI and GDP only), UK (GB for AWE and AEI).

But this has not been the case since October 2007



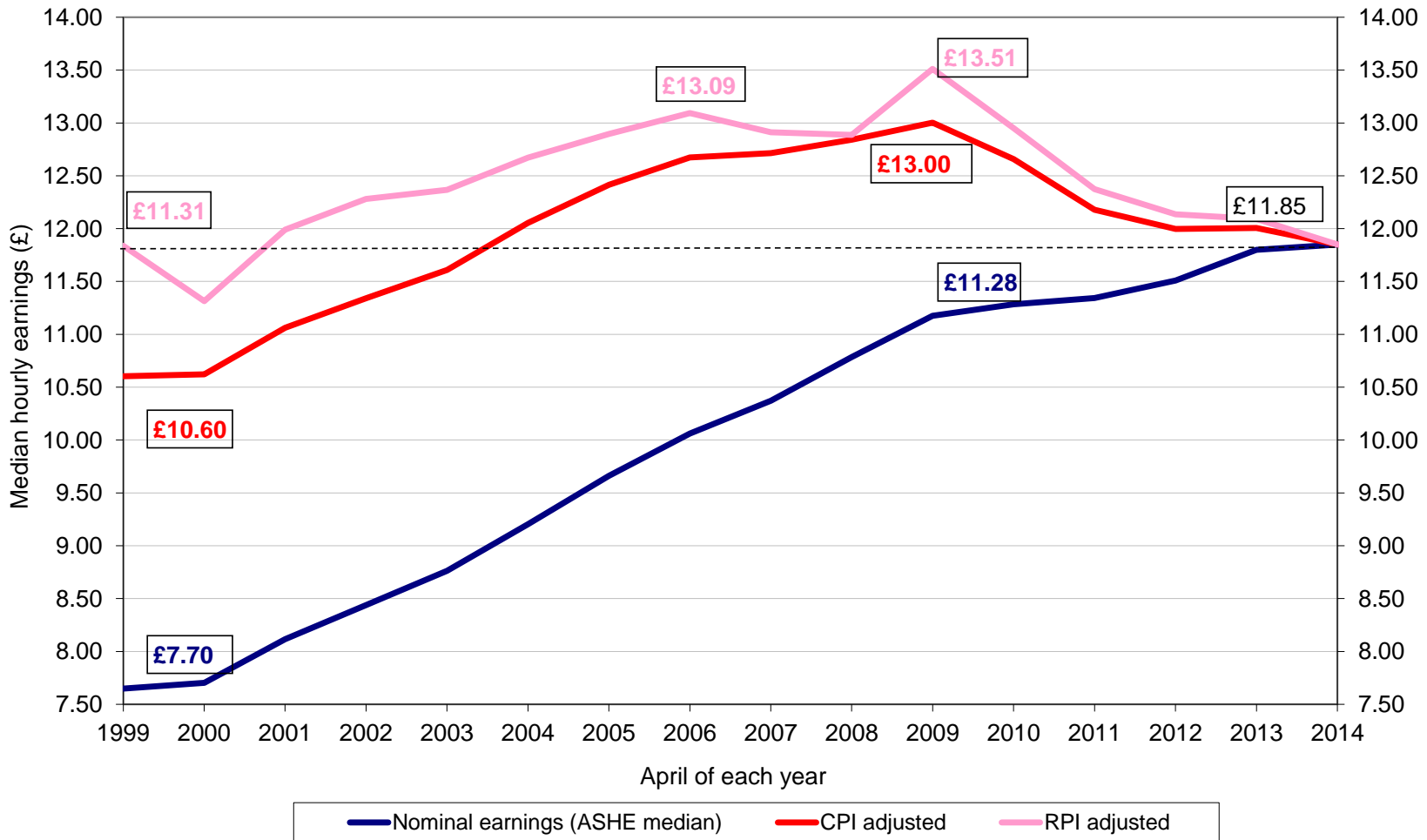
Source: LPC estimates based on ONS data, AEI including bonuses (LNMW), 1999, AWE total pay (KAB9), 2000-2013, RPI (CHAW), 1999-2013, and CPI (D7BT), 1999-2013, monthly; and GDP (YBHA), 1999-2013, quarterly, seasonally adjusted (AWE, AEI and GDP only), UK (GB for AWE and AEI).

The real value of NMW is now about 4% lower than in 2007 but it is at its highest relative level



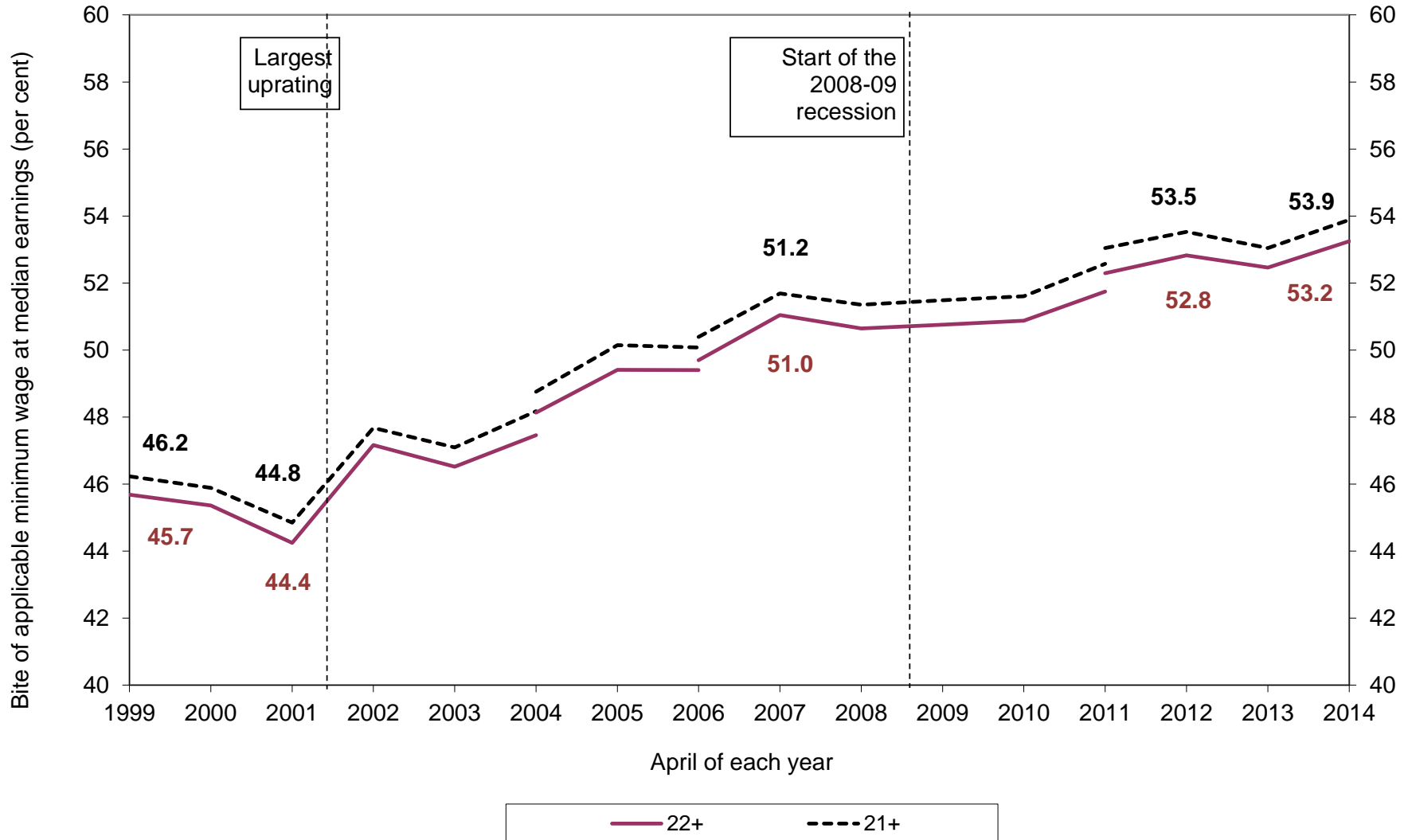
Source: LPC estimates based on ONS data, AEI including bonuses (LNMQ), 1999, AWE total pay (KAB9), 2000-2014, RPI (CHAW), 1999-2014, and CPI (D7BT), 1999-2014, monthly; 1999-2013, quarterly, seasonally adjusted (AWE and AEI only), UK (GB for AWE and AEI). **106**

And that is because real average consumer wages have fallen by 9 per cent since 2009 and are no higher than 10 years ago



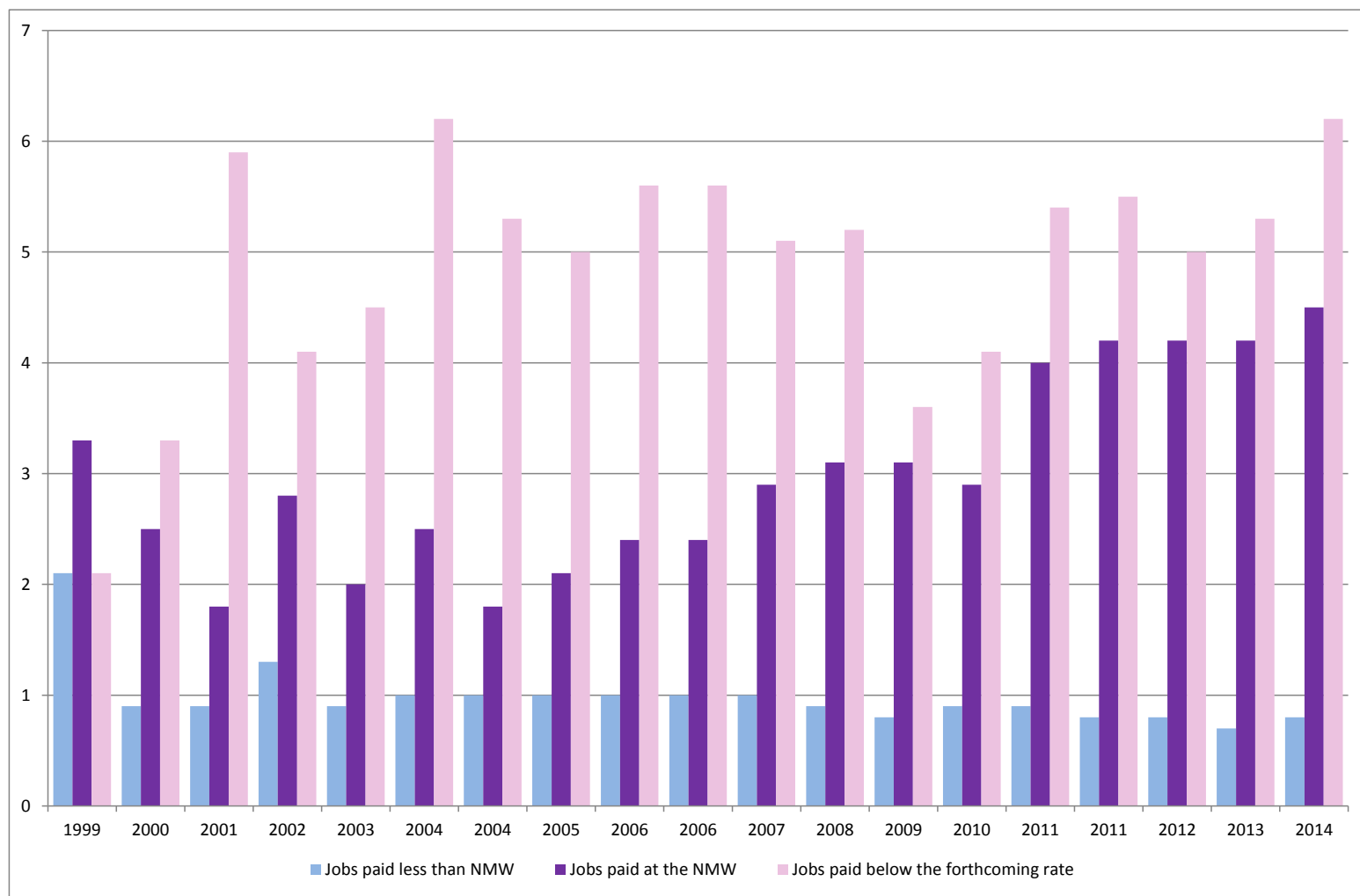
Source: LPC calculations based on ONS data, ASHE mean hourly pay; AEI including bonuses (LNNC), 1989–2000, and AWE total pay (KAC3), 2001–2012, monthly, seasonally adjusted, GB; and RPI (CZBH) and CPI (D7G7), monthly, not seasonally adjusted, UK, 1989–2012.

Thus, the bite at 53.9% is its highest ever...



Source: LPC estimates based on ASHE without supplementary information, April 1999-2004; ASHE with supplementary information, April 2004-2006; ASHE 2007 methodology, April 2006-2011; and ASHE 2010 methodology, April 2011-2014, standard weights, UK.
Note: 21 year olds became entitled to the adult rate in October 2010.

... and coverage at the NMW is also at its highest



Source: LPC estimates based on ASHE without supplementary information, April 1999-2004; ASHE with supplementary information, April 2004-2006; ASHE 2007 methodology, April 2006-2011; and ASHE 2010 methodology, April 2011-2014, standard weights, UK.
Note: 22 year olds +, adult rates, in April of each year, ten pence bands.

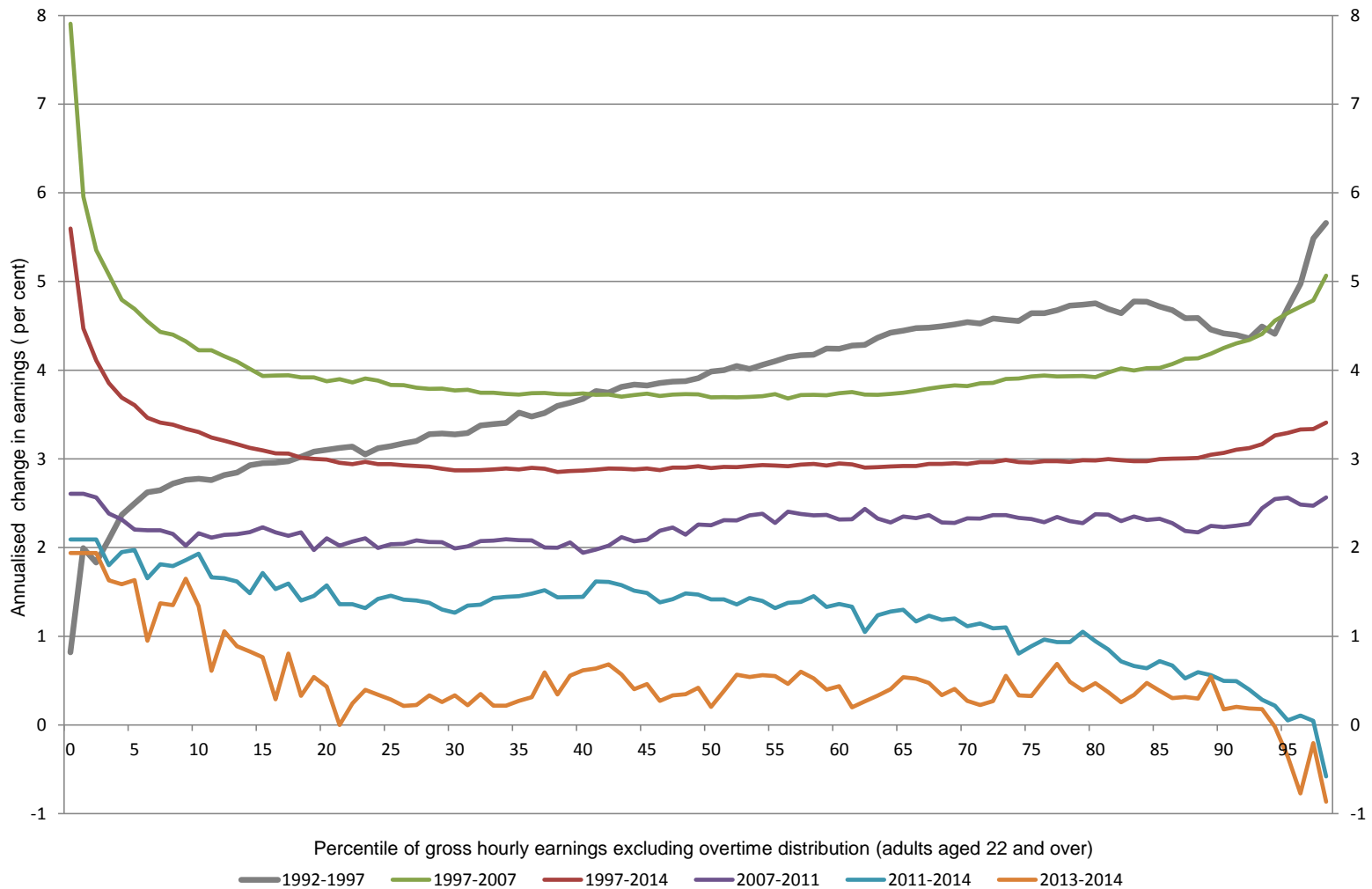
The low paid have been better protected this time

Annualised wage growth (%)	Mean	5th	10th	25th	Median	70th	90th
1975-1979	13.5	14.3	12.9	13.3	13.4	13.6	13.2
1979-1982	15.5	13.6	13.7	14.3	15.2	16.3	17.1
1982-1989	7.7	6.8	6.8	7.1	7.7	8.1	8.7
1989-1992	8.5	7.5	8.0	8.2	8.3	9.0	9.5
1992-1997	3.2	2.4	2.7	2.8	3.3	3.6	3.7
1997-2004	4.1	4.9	4.2	3.5	3.5	3.6	4.2
2004-2006	5.1	5.9	5.1	4.9	4.6	4.8	4.6
2006-2008	4.7	4.5	4.3	4.4	4.6	4.6	4.2
2008-2011	2.2	2.4	2.0	1.9	1.9	2.0	2.0
2011-2014	1.0	1.9	1.9	1.4	1.5	1.2	0.6

1970s Incomes policy

NMW

Since the introduction of the NMW, the lowest paid appear to have done better than at the median



Source: LPC estimates based on New Earnings Survey (NES), April 1992-1997, and ASHE: without supplementary information, April 1997-2004; with supplementary information, April 2004-2006; 2007 methodology, April 2006-2011; and 2010 methodology April 2011-2014, standard weights, including those not on adult rates of pay, UK.

Note: Direct comparisons before and after 1997, before and after 2004 and those before and after 2006 and 2011, should be made with care due to changes in the data series.

Restoring the real value or maintaining the relative value of the NMW

NMW=£6.50 in October 2014			Value in October 2015	% increase
Restoration of real value	CPI	HMT panel	£6.81	4.7
		OBR	£6.84	5.2
	RPI	HMT panel	£7.06	8.6
		OBR	£7.09	9.1
Maintain relative value	AWE	HMT panel	£6.66	2.5
		OBR	£6.63	2.0
Uprate same as last year			£6.70	3.0

Source: LPC estimates based on HMT and OBR forecasts.

Conclusions

- The bite of the NMW reached its highest level in April 2014 (and will likely be higher in April 2015)
 - 53.2% for adults 22 and over
 - 53.9% for adults 21 and over
- The coverage level was at its highest in April 2014 (and will likely be higher in April 2015)
 - 4.5% or 1.10 million (10p band)
 - 4.0% or 1.02 million (5p band)
- There has been some restoration of its real CPI value against both CPI and RPI over the last year
- Employment in the low-paying sectors, in small firms and across low-paid workers appears to have held up.

IDS & TUC Pay forum 2015



Making up Lost Ground on Pay

Thursday 12th February 2015

Reuters \ Luke MacGregor