

Misplaced optimism?

Employees believe pay increases are on the way in 2010. Are they right to be so positive?

After a year of pay freezes and cuts employees are optimistic about their chances of a pay increase in 2010.

Nearly a third of private sector employees (60%) are expecting a pay rise, with a similar number of public sector employees (57%) also living in expectation.

The survey of 2,500 employees, conducted by YouGov on behalf of the Chartered Institute of Personnel and Development (CIPD), saw those in the private sector predicting a wage increase of 3%. Public sector workers forecast a 2% rise in their wages.

“While most private sector workers predict that they will get a pay rise next year, over one in four do not think that this will be the case, focused in hard hit economic sectors such as construction and manufacturing,” explained the CIPD’s reward adviser, Charles Cotton.

The optimism of private-sector employees is perhaps more justified. After all, over half suffered a pay freeze in 2009, while a small minority (7%) had to deal with a pay cut.

In comparison, only 17% in the public sector experienced a pay freeze and 2% a pay cut. This is probably a result of multi-year deals – which are understandably popular with unions – as some would have been agreed before the recession hit.

Promises made by both the main political parties suggest the public sector could be in for a shock. Or, as Cotton puts it, public sector workers have failed to sense the “pay storm clouds” ahead.

Promises, promises

On 5 October many of the newspapers were reporting on their websites that the Government had recommended a pay freeze for the most senior public sector workers and a 1% increase for workers not already covered by a multi-year deal for 2010.

The Guardian, for example, revealed that 40,000 senior civil servants, judges, GPs, quango heads and NHS managers would be affected by the pay freeze, while 750,000 doctors, prison officers, dentists and civil servants could look forward to the 1% increase.

Speculation was rife that the timing of the announcement was no coincidence. Coming, as it did, the day before the Shadow Chancellor’s speech to the Conservative conference in Manchester.

George Osborne’s speech brought the expected prospect of a public sector pay freeze for those earning £18,000 plus and moves to curb high salaries at the top.

He said: “You will see that whoever wins the election is going to have to ask from 2011 each part of the public sector to accept a one year pay freeze.”

Osborne also revealed that Tory proposals would see the Chancellor approving the salary of any public servant due to earn more than the Prime Minister. Following its pre-emptive strike on pay increases, Labour eventually bettered the Conservative’s proposal to limit pay at the top.



Speaking on 7 December, Brown announced a review of senior public sector pay to report before the next Budget (this was later extended to cover local government). The review is due to include recommendations on pay and bonus caps.

Ministerial approval of salaries and bonuses over a certain amount would also be required, Brown revealed. Instead of focusing on pay higher than that of the Prime Minister (£197,689) as the Tories did, Gordon Brown set the benchmark at £150,000 for salaries and £50,000 for bonuses.

The changes apply to civil service and managerial appointments to public sector bodies which are subject to ministerial approval.

Local authorities, such as councils, the Police and TfL, also face a more stringent reporting regime for pay and perks. Anyone earning over £150,000 will be identified by name and their pay to the nearest £5,000, while the pay details of senior officers (anyone earning £50,000 plus pro-rata who holds a 'senior' position) will be published by job title in £5,000 increments.

Arrangements on the following topics will need to be covered:

- salary;
- bonuses;
- additional payments;
- compensation or ex gratia payments;
- benefits-in-kind; and
- pensions.

While the coming General Election adds an element of uncertainty (Tories, Labour or a hung parliament?) a lot of the changes announced by Labour in the Pre-Budget Report (PBR) 2009, and before, don't come into force straight away. So employers already have an idea of the salary-related costs they face in the coming years.

The PBR also saw Labour set out its stall on public sector pay settlements. A 1% cap was announced for both 2011/12 and 2012/13.

Impacting on the decision

PBR 2009 saw no increase to the personal allowance or income tax rates. In part because the 50% tax rate for those earning over £150,000 was announced in the Budget (a rate of 45% was originally revealed in PBR 2008 but it was then increased to 50%). Although the Government did say that the threshold for the 50% rate would be frozen for 2012/13.

Due to come into force on 6 April 2010 – the Tories have not committed to scrapping it at the moment – the new rate will no doubt make its impact felt at the highest levels. After a year of pay austerity board-level employees would usually be looking to increase their base salary, but 2010 is likely to see a different approach.

The question is how will companies look to limit the impact for their top team? According to a June/July 2009 PricewaterhouseCoopers survey, 61% of employers are receiving pressure from executives around the 50% rate. This pressure is likely to push companies to look at reward structures which tip the balance towards capital gains rather than income tax.

From the same date those earning more than £100,000 will lose their personal allowance at the rate of £1 for every £2 they earn over the limit.

At the other end of scale the PBR also saw a further, future, increase to National Insurance for employers and employees. A 0.5% increase was already on the cards for 2011, but it will now be a 1% increase after a further 0.5% was added.

Those earning under £20,000 will be slightly better off. The earnings threshold at which people start to pay NICs will increase, meaning they will pay less in NI contributions overall.

With salary increases for the majority of employees still under pressure after a tough 2009 and increased Employer's NI costs from April 2011 most organisations will be cautious about awarding large increases.

Salary predictions

The UK can look forward to subdued growth in 2010 according to the CBI. Wages are likely to be similarly constrained, although average earnings are expected to rise by 3.9% in 2011.

A survey by the CBI and recruitment firm Harvey Nash, in which 243 people took part in August and September 2009, found that half of all employers are planning to freeze pay for 2010. Only a tiny 4% plan to give their workers an inflation-beating rise.

“The worst of the recession may be over but firms remain ultra cautious about increasing pay,” commented John Cridland, CBI deputy director-general. “Market conditions continue to be very tough and growth in 2010 will be feeble, so pay is going to be squeezed for some time to come.”

The CIPD is also predicting that 2010 will be a tough one for pay, with most employees receiving below inflation pay increases.

“Given the likelihood of a rise in price inflation to at least 3% in 2010 on the RPI measure, our forecast [of a fall in the number of people in work] implies a squeeze on real pay next year,” explained Dr John Philpott, chief economic adviser to the CIPD. “This could be difficult to deliver following a recession during which many private sector employees have experienced pay freezes or pay cuts.”

A survey by pay specialists Incomes Data Services (IDS) suggests that the majority (three-fifths) of firms who froze pay in 2009 will award a pay increase in 2010. IDS predict that private sector increases will be in the 2.5 to 3% range – assuming inflation rises as predicted.

Pay settlements in 2009

The median pay settlement level for 2009 was 2.3% as of 5 October according to IDS, but if pay freezes are excluded the level increases to 2.9%. The sector an organisation is in has really impacted on the decision making process.

The motor industry, construction, bulk chemicals, road and air transport and the media were all particularly susceptible to pay freezes. Others in energy, pharmaceuticals, bus and rail transport and food retailing and manufacture have been luckier and although many jobs were lost in the financial sector pay rises were still on offer for those who remained.

The median pay settlement for the three months till the end of October was down slightly on the median for the year at 2%. A slight drop in pay freezes – down from a third of all settlements to a quarter – was better news.

That said, the Labour Research Department (LRD), an independent organisation that produces research on behalf of trade unions, reported a slight increase in pay freezes in the period September to November. With pay freezes up from 14% in the previous three months to 19% of all pay deals (and 32% of new pay settlements).

“The bad news isn't necessarily over even though the recession may soon be,” said Lewis Emery, LRD's pay and conditions researcher. “There are known pay freezes coming in the New Year and the continuing rise in unemployment, particularly youth unemployment, means things will be difficult again in 2010.”

Cathy Heys
employandpay.com