



**Total Reward
Projects Ltd**

ANNUAL PAY REPORT THURROCK BOROUGH COUNCIL

January 2014

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1. Introduction

- 1.1 Thurrock Borough Council has commissioned Total Reward Projects (TRP) Ltd to undertake relevant pay research on pay trends and pay movement throughout the UK economy, with particular emphasis on the public sector, in order to provide advice and a recommendation on an appropriate annual pay settlement for all employees up to and including pay band 10, i.e. below the level of Heads of Service.

2. Overview of the Report

- 2.1 As for previous years and in order to provide consistency of approach, this report provides a summary of our assessment and forecast for the year to 1 April 2014 and is based on a mix of economic and pay settlement data from the second half of 2013 and, looking ahead, on government and independent business forecasts for 2014.
- 2.2 In researching our findings we draw principally on data providing pay movement trends within the public sector but, in keeping with the 2013 and all previous reports, in determining our recommendation we also review and take fully into account the government's current public sector pay policy, and the wider pay trends and forecasts across the UK economy.
- 2.3 We provide information on pay movement and trends drawn from Incomes Data Services (IDS), Croner Reward and ExpertHR and other commercially available surveys, and an overview of the general economic and political background against which any decisions on pay should be taken. Our recommendation on pay is made in order to ensure that pay levels for all Thurrock Borough Council employees covered by this review retain their current market competitiveness.

3. Summary of IDS and other Published Pay Surveys

- 3.1 In the last three months of 2013, Incomes Data Services (IDS) report that median pay settlements remained subdued across the UK economy at 2.0%. Within the overall picture, however, there is a clear differentiation between the various sectors of the economy, with pay settlements in manufacturing and production running at 2.5%, the not-for-profit and private service sectors at 2.0%, and the public sector at just 1.0%. This is down on the overall trend for 2013, which shows median pay settlements across the economy running at 2.5%. XpertHR report lower median settlements of 2.0% throughout 2013, with the bulk falling within the range of 1.0%- 2.3%. The incidence of pay freezes fell to 11% of all settlements in the final quarter of 2013 compared with 13% in the range 3.0-3.9%, which is indicative an improving pay settlement trend compared with 2012, though the outlook for pay in 2014 is still muted with most forecasters suggesting that median pay settlements will remain in the 2.0%-2.5% range for the year ahead. Both surveys reveal that once again in 2013 that pay failed to keep pace with inflation as measured by the retail prices index (RPI), which stood at 2.7% in the year to December 2013, though by year end it did broadly match the consumer prices index (CPI), which fell to 2.0% in December 2013, thus meeting the government's long-term target inflation rate for the first time since November 2009.
- 3.2 Looking ahead to 2014, IDS and XpertHR report that pay setters across the economy forecast another year of steady and moderate pay growth despite the higher than expected economic outturn for the UK economy in 2013, and the now more optimistic

outlook for growth and employment in 2014 and beyond. Once again pay settlements in 2014 are forecast to be no higher than rate of inflation as measured by the RPI, which is forecast to be in the range 2.5% - 3.0% throughout 2014. It is therefore very unlikely that 2014 will turn out to be the year in which pay increases return to their pre-recession, longer-term historic trend of providing a real increase in living standards year-on-year.

- 3.3 The increase from zero to 1.0% in median public sector pay settlements in 2013 is directly attributable to the government's pay policy of capping pay budgets for organisations at 1.0% in both 2013 and 2014.

4. Local Authority and Wider Public Sector Pay

- 4.1 The last few years have been especially challenging for local authorities and with annual funding cut year-on-year there has inevitably been severe pressure to reduce costs. Since 2010 employee numbers across local authorities have reduced by some 434,000 or about 15% of the total workforce, and until the 2013 national pay settlement, which awarded a 1% increase in pay scales from 1 April 2013 for all employees covered by the NJC national bargaining agreement, pay scales had remained frozen for the vast majority of councils since 2009 by virtue of three consecutive annual pay settlements at zero. According to the IDS 2013 local government pay survey, only about a third of council employees benefited from annual pay progression through their pay scales because two thirds had already reached their scale maximum.
- 4.2 In 2013 many opted-out councils, most of which are in the south of England, followed the national agreement and applied a 1% increase on pay scales, though there was some variation, with for example Guildford and Dartford Borough Councils awarding 1.5% across the board, Elmbridge Borough Council awarding 1.75%, and Huntingdonshire District Council applying a 2% uplift at all levels. There is also an early sign of a return to multi-year pay deals with Cherwell District Council offering 1.5% over 2 years and Oxford City Council electing to break away from the national bargaining framework to agree a 1.5% per annum increase in pay over 5 years.
- 4.3 Pay across the public sector remains heavily constrained by government pay policy and 2014 sees the second instalment of the two-year cap of 1% on pay budgets imposed by the government in 2013 on all public sector organizations paid by Treasury funds. This policy directly affects all government departments, the NHS, and public sector employees covered by the major pay review bodies including teachers, the armed forces, and the prison service. The median pay settlement in 2013 across the public sector has been 1.0%, although some government departments have allowed annual incremental progression through pay scales where this has been deemed to be contractual, whereas others such as DWP have frozen pay progression. The impact of the pay policy and the higher pay increases recorded throughout the rest of the economy inevitably means that in comparative terms pay in the public sector has again fallen further behind pay the wider economy.
- 4.4 Looking ahead, public sector pay will almost certainly continue to be kept under close scrutiny by the government as it seeks to control public expenditure as part of its policy of reducing the national deficit, and a new challenging pay policy is likely to be announced for 2015 and beyond.

5. The UK Economy – Outlook

- 5.1 The Chancellor's Autumn Statement, delivered in November 2013 provided an update on the UK economy and public finances, and revised upwards the economic growth forecasts provided by the Office for Budgetary Responsibility (OBR). The growth outturn for 2013 was revised up to 1.4% from 0.4% in March 2013, and the predicted growth rate for 2014 was raised to 2.4%, up from the springtime forecast of 1.8%. The CBI supports the government's forecasts and predicts final growth of 1.4% in 2013, up from 1.2% in its August forecast, and looking ahead expects the recovery to gather pace with 2.4% growth in 2014 and 2.6% in 2015 as domestic demand improves supported by increases in business and housing investment, and household disposable income.
- 5.2 There was also an improved outlook for the labour market, with total UK employment exceeding 30 million for the first time ever in the quarter ending October 2013. Unemployment is forecast to fall further from its current rate of 7.1% to below 7.0% in 2014. This is a particularly significant development because it has implications for the Bank of England's setting of interest rates. The new Governor of the Bank has issued forward guidance that indicates that its Monetary Policy Committee will not consider raising interest rates from the current historic low of 0.5%, where it has been since March 2009, until the rate of unemployment falls to 7.0%. This was initially forecast to occur in 2016 but the surprisingly strong recent performance of the UK economy and subsequent upward revision of forecasts has meant that some commentators now expect interest rates to rise much sooner, and possibly as early as late 2014.
- 5.3 The growth in average earnings is expected to gather momentum from 1.5% in 2013 to 2.6% this year, rising to 3.3% in 2015. In the longer term, the OBR forecasts that average earnings will rise by 3.5% per year from 2016 through to 2018, though it cautions that earnings increases will remain below the RPI throughout the forecast period.
- 5.4 The annual round-up of City analysts' forecasts for UK inflation (IDS: Jan 2014) suggests that RPI will remain at around 2.8% - 3.0% in 2014, and despite the fall from 3.2% to 2.6% between September and in November 2013, the level will rise again once the effects of the recent hike in utility bills feed through into the figures. The CPI index fell, however, to 2.0% in December from 2.1% the previous month, its lowest level in over four years and hitting the government's long-term inflation target rate of 2.0%. Some downward pressure on inflation is expected from the scrapping of the 2.0p fuel duty rise and the legislative changes to the green levies which should reduce the increase in fuel bills by about £50. UK

6. Recommendation to Thurrock Borough Council

- 6.1 Pay settlements at median values across the economy are currently running at 2.0% having fallen within the range 2.0 -2.5% throughout the last year. It must be noted, however, that in keeping with the trend established since the effect of government's tight policy on public sector pay in 2010, there remains a substantial differential between pay settlements in the wider economy and those in the public sector.
- 6.2 With median public sector pay settlements at 1.0% in 2013 and set to be the same in 2014, going forward there is likely to be continued downward pressure on public sector pay as the government continues to reign in public expenditure. This, coupled with the extremely difficult financial situation faced by local authorities across England and Wales, sets the scene for the 2014 pay settlement in Thurrock Borough Council.
- 6.3 We therefore recommend that with effect from 1st April 2014, Thurrock Borough Council implement a base pay increase of 1.0% for all employees below the level of Heads of Service in pay bands 1 - 10.

Mark Fry

On behalf of Total Reward Projects Ltd