Championing better work and working lives

Low Pay Commission consultation 2023

Submission to the Low Pay Commission

Chartered Institute for Personnel and Development (CIPD)

August 2023

Championing better
work and working lives

About CIPD

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years.

It has 160,000 members across all sectors and sizes of organisation and provides thought leadership through independent research on the world of work and offers professional training and accreditation for those working in HR and learning and development.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice, and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers. It also seeks to promote and improve best practice in people management and development and to represent the interests of our members.

Overview

Much of the analysis included in this response is based on CIPD's [Summer Labour Market Outlook (LMO)](). This is a nationally representative survey of HR professionals working in 2,003 organisations, which was conducted between 09/06/23 and 05/07/23 on behalf of the CIPD by YouGov PLC.

Our response

The National Living Wage

2 - What has been the impact of the National Living Wage (NLW) in the past year, including the rise to £10.42? Our critical interest is in its effects on employment, hours and earnings. We are also interested in the effect of the NLW on any of the areas listed below: ***A. Profits*** ***B. Prices*** ***C. Productivity*** ***D. Pay structures and differentials*** ***E. Progression and job moves*** ***F. Training*** ***G. Investment*** ***H. Recruitment*** ***I. Job quality and security***

According to the CIPD's Summer 2023 Labour Market Outlook, 18% of employers said that the rise in the National Minimum Wage (NMW) rates in April 2023 had increased their organisation's wage bill to a large extent, while 24% said the increase in the NMW had pushed up their wage bill to some extent. A further 19% said the rise had increased their wage bill to a small extent. By contrast, 31% reported no impact following the increase in the Minimum Wage rates while the rest (7%) did not know what the impact had been.

The sectors reporting that the rise had affected their wage bill to a large extent were:

- Hotels, catering and restaurants / Arts, entertainment, and recreation (43% of all respondents);
- Primary and utilities (29%);
- Wholesale, retail, and real estate (26%); and
- Healthcare (22%).

By firm size, large employers (250 or more staff) are more likely to report that the increase in NMW increased their wage bill to a large extent (25%) than small or medium-sized companies (14%).

Overall, in the private sector, 20% of organisations were impacted by a large extent. This compares to 15% of those in the public sector and 11% in the voluntary sector.

The most common ways that organisations are managing the increase in their wage bill are by:

- Taking lower profits/absorbed costs/accepted higher overheads (30%);
- Raising prices (29%);
- Improving efficiency/raised productivity (23%);
- Cancelling/scaling down plans for investing in/expanding the business (12%); and
- Introducing or increasing automation (12%).

Among those employers that report that the increase in the Minimum Wage rates has had a significant impact, the most common responses are:

- Raising prices (40%);
- Taking lower profits/absorbed costs/accepted higher overheads (37%);
- Improving efficiency/raised productivity (25%);
- Cancelling/scaling down plans for investing in/expanding the business (18%);
- Reduced the rate of basic pay growth for the rest of the workforce (18%); and
- Cut back on training expenditure (17%).

A) Profits

As a result of an increase in the NMW taking lower profits/absorbed costs/accepted higher overheads was most common among employers in the following sectors:

- Voluntary (43%);
- Hotels, catering and restaurants / Arts, entertainment, and recreation (42%);
- Manufacturing (32%); and
- Wholesale, retail, and real estate (32%).

B) Prices

Raising prices to pay for the NMW was most common among employers in:

- Hotels, catering and restaurants / Arts, entertainment and recreation (58%);

- Manufacturing (34%);
- Transport and storage (34%);
- Wholesale, retail, and real estate (32%);
- Business services (e.g. consultancy, law, PR, marketing, scientific and technical services) (32%); and
- Voluntary (32%).

C) Productivity

To manage the additional wage costs of the NMW, 23% of employers have improved efficiency/ raised productivity, while 12% have introduced or increased automation. There are a variety of ways in which employers have aimed to improve productivity in response to the higher wage bill. These include:

- Improved general business practices (e.g. quality control, supply-chain management, monitoring of business processes) (27%);
- Sought to improve staff morale and motivation (27%);
- Required staff to take on additional tasks (23%);
- Increased the pace of work or raised performance standards (18%); and
- Required staff to be more flexible in their hours of work (18%).

However, among our respondents, 25% admitted that their workplace had not tried to increase productivity in response to changes in the National Minimum Wage/National Living Wage.

Among those employers most affected by the rise in the Minimum Wage rates, the most common actions aimed to improve productivity in response to the higher wage bill include:

- Sought to improve staff morale and motivation (33%);
- Required staff to take on additional tasks (32%);
- Improved general business practices (e.g. quality control, supply-chain management, monitoring of business processes) (28%);
- Required staff to be more flexible in their hours of work (25%);
- Increased the provision of training to low-paid or other workers (20%); and
- Increased the pace of work or raised performance standards (20%).

Among these respondents, 17% admitted that their workplace had not tried to increase productivity in response to changes in the National Minimum Wage/National Living Wage.

D) Pay structures and differentials

17% of employers questioned said that they had reduced the pay differentials between those affected by the NLW and their supervisors/managers, as a result of increases in the NLW in April 2023. By contrast, 7% had increased them, while 20% had kept them unchanged. The rest said that they either reported don't know (16%) or that this question wasn't applicable (39%).

Firms in the primary and utilities sector were most likely to have reduced pay differentials (36%), followed by those in Hotels, catering and restaurants / Arts, entertainment and recreation (27%), and Public administration and other public sector (26%). By contrast, healthcare employers were most likely to have increased differentials (14%).

Employers also responded by amending the following aspects of pay:

- 10% reduced the amount of overtime/bonuses;
- 10% cut the rate of basic pay growth for the rest of the workforce;
- 8% decreased other aspects of the reward package (such as paid breaks or premium pay rates and other benefits and perks e.g. free lunch; and
- 3% reduced their pension contributions.

Again, employers reporting a significant impact on their wage bill from the increase in the NMW were more likely to have taken these options. For example, 18% of these organisations cut the rate of basic pay growth for the rest of the workforce (17% of those in the public administration and other public sector) and 15% reduced the amount of overtime/bonuses (18% of those in transport and storage sector).

E) Progression and job moves

Just 11% of respondents have reduced the number of employees through redundancies and/or recruiting fewer workers in response to the increase in the wage bill. Among those employers reporting a significant increase in their pay bill due to the NMW, this proportion increases to 16%. By contrast, 10% of employers say that they have hired more younger workers, this rises to 15% among those employers reporting a large rise in their pay bill. Similarly, 7% say they've increased the share of the workforce on atypical employment contracts (e.g. zero-hour contracts), a figure that increases to 14% among those employers most impacted by the increase in the national minimum wage.

F) Training

Among employers, 11% report cutting back on training expenditure in response to the rise in the National Minimum wage, a proportion that jumps to 17% among those who say that their wage bill has increased significantly since April 2023. By contrast, 13% of respondents say that in response to the jump in the Minimum and Living wages, they have increased the provision of training to low-paid or other workers, a percentage that jumps to 20% among those who say that their wage bill has increased significantly since April 2023.

G) Investment

12% of employers said they had cancelled/scaled down plans for investing in/expanding the business. Among those most impacted by the NMW increase, this was 18%. 21% of Hotels, catering and restaurants / Arts, entertainment and recreation reported cancelling/scaling down their plans.

Among those employers that had responded to a higher pay bill through improved productivity, 15% of them had invested more in machinery, equipment, or technology, or 20% among those workplaces most impacted by the increase and 28% of firms in the manufacturing sector. Also, 16% of respondents had also automated tasks previously done by staff to improve productivity.

H) Recruitment

The summer LMO finds that 73% of employers plan to recruit additional staff in the next three months. Among employers that report April's NMW and NLW increases have significantly increased their wage bill, 85% are looking to recruit new staff. While this group of employers are more likely to make redundancies (29%) than the overall average (19%), only 8% of them expect to employee fewer staff overall, with the rest either expecting no change (55%) or an increase (35%) in the workforce.

4 - How has the NLW's impact varied across different areas of the UK?

By region, the increase in the Minimum Wage rates has increased the wage bill to a significant extent in:

- Wales (34%);
- Scotland (25%);
- West Midlands (23%); and
- North-east England (21%).

By contrast, respondents in London (33%), the East Midlands (34%), the South East (35%), and the East of England (36%) are more likely to report that this increase has had no impact on their employer's wage bill.

5 - At what level should the NLW be set from April 2024? Our current central projection for the on-course rate is £11.16 within a range of £10.90 and £11.43.

At the time we conducted our research, the labour market was tight with many employers reporting hard-to-fill vacancies and resorting to wage rises and salary counteroffers to attract and retain workers. Against this backdrop, an increase in the hourly rate to £11.16 does not seem unreasonable, especially as many firms have so far been able to absorb the extra cost of higher wages or pass it on through higher prices. However, the UK economy and the labour market can turn rapidly, so the Low Pay Commission needs to review the appropriateness of this figure in the coming months.

Experience of low-paid workers

6 - What has happened to quality of work recently? For example, have workers experienced changes in contract types, flexibility, workplace harassment and work intensification (e.g. greater expectations for workers to work more flexibly, with greater effort, to a higher standard etc).

The 2023 UK Working Lives survey run by CIPD shows that most people continue to have a good experience of work, with high levels of job satisfaction and good relationships with both line managers and colleagues. Most people like their work and find it fulfilling.

However, there are large minorities who have a very different experience, with between 20% and 30% reporting negatively on some major aspects of work. This translates into large numbers out of a workforce of 32 million people. Taking our sample of 5,000+ workers as representative of the UK population, our data suggests that between 6 and 9 million people have poor-quality work in some important respects. It would be unrealistic to think that all aspects of all jobs can be transformed, but it is reasonable to think that significant improvement can be made in some features of almost all jobs and in workplace relations.

Job quality in decline for many

Many of our UK Working Lives survey indicators show there has been no significant improvement over the past four years and, in some aspects, job quality has gone backwards. UK workers are now more likely to think that work is purely transactional – just for the money and nothing else – than they were four years ago. They are less willing to work harder than they need to help their employer or organisation. They are also less likely to say that work has a positive impact on their mental health. They are less enthused about work and less likely to say they think their work is useful (an important aspect of meaningful work).

We have seen a slide towards mediocrity rather than a large increase in negative views. The shift has been towards those who think work has neither a positive nor negative impact. The 2023 survey also shows significant differences on some indicators between the private and public sector. Public sector workers are much more likely to think they are not paid appropriately for the job and more likely to report negative mental health, excessive workloads, and constant pressure at work than their private sector counterparts. Many of these differences were there before the pandemic. Others, such as a decline in discretionary effort, seem more recent.

Visible improvements to some aspects of work. There have been improvements, notably in human capital development, with more people reporting that opportunities for both skills and career development have improved. Relations at work with managers and colleagues remain highly positive. People have become more confident they could find another job as good as their current one. The share of employees working flexibly has increased, albeit almost entirely driven by the shift towards homeworking: we suggest this change is likely irreversible.

A reward manager at a manufacturing firm said:

"Whilst many employers have been able to adopt agile working, this hasn't been possible for the lower paid workers who are typically in roles where they need to be present in the physical workplace rather than working remotely."

13 - How has the rising cost of living affected workers on or close to the NMW and NLW and how, if at all, has this affected worker needs and expectations from their employment and pay?

According to CIPD's Spring 2023 LMO, since the start of 2022 and the increase in the cost of living,15% of respondents reported an increase in the number of staff in their organisations reducing contributions to the workplace pension scheme or opting out entirely, while 5% reported a decrease.

A reward manager at a manufacturing firm said:

"Although employees have less disposable income due to the cost of living, employers are saying that employees are not rushing to opt out of their pension scheme. Some employers are offering higher rates of pay than NMW and NLW in order to facilitate this."

Minimum wages after 2024

Since 2020, our remit for the NLW has been to recommend a rate consistent with reaching the target of two-thirds of median hourly earnings by 2024. We are now gathering evidence to inform the Government's decisions on policy options for the future beyond 2024. We are seeking evidence and views on:

22 - The range of policy options and how these might work (for example, a further target; or an approach not driven by targets).

Respondents were asked what they believe should happen with the NLW rate after April 2024. Among respondents, the most popular approaches are for it to:

- Keep pace with average wage growth (31%)
- Keep pace with inflation (28%)
- Increase towards a higher target (e.g. 70% of median earnings) (10%)

20% say they don't know. The remaining employers (13%) support other options, such as focusing on specific rates for sectors or regions or reducing the age eligibility.

Among those most impacted by the Minimum Wage increases, 35% support keeping pace with average wage growth, while 31% support keeping pace with inflation.

Apprentices

27 - How widely used is the Apprentice Rate? What kind of apprenticeships are paid this rate? What kind of jobs do these apprenticeships (paid at the Apprentice Rate) lead to?

Among employers surveyed, 43% hire apprentices aged 19 or over. 48% do not hire any apprentices aged 19 or over and 9% don't know. Among those most impacted by the NMW, the proportion that hires apprentices aged 19 or over increases to 55%.

30 - What would be the effect of removing the Apprentice Rate (so that minimum wages for all apprentices were the same as for other workers the same age)?

Of employers who hire apprentices aged 19 or over, 10% say that being able to pay the apprentice wage rather than the minimum wage rate for that group, affects the recruitment decisions on apprentices to a large extent. Many also believe it affects the recruitment decisions to some extent (22%) or to a small extent (17%). 39% say it does not affect their recruitment decisions on apprentices. A further 12% don't know.

30% of employers whose wage bill have been impacted by a large extent because of NLW changes in 2023 say being able to pay the apprentice rate affects their recruitment decisions on apprentices to a large extent.

SMEs are more likely to say being able to pay the apprentice wage rather than the minimum wage rate for that group affects their recruitment decisions on apprentices to a larger extent than larger organisations (15% vs. 8%).

Overall, removing the apprenticeship rate would impact around one-third of those employers that hire apprentices to a large or significant extent. By contrast, this move would have either have a small or no impact for over half of employers that recruit apprentices.

Compliance and enforcement

31 - What issues are there with compliance with the minimum wage and what could be done to address these?

To comply with National Minimum Wage/ National Living Wage regulations, employers take a series of actions:

- Built into payroll system (i.e. it's not possible to pay below the current rates) (39%);
- Pay above the NMW rates to reduce the risk of underpayment (25%);
- Annual audit of minimum wage compliance (23%);
- Checking Gov.uk (19%); and
- Reviewing record keeping (15%).

Among small and medium-sized firms, the most common actions are:

- Built into payroll system (i.e. it's not possible to pay below the current rates) (29%);
- Pay above the NMW rates to reduce the risk of underpayment (28%);
- Checking Gov.uk (26%);
- Consulting with an accountant (19%); and
- Annual audit of minimum wage compliance (12%).

Among employers most impacted by the national minimum and living wages, the most common actions are:

- Built into payroll system (i.e. it's not possible to pay below the current rates) (54%);
- Annual audit of minimum wage compliance (34%);

- Checking Gov.uk (28%);
- Pay above the NMW rates to reduce the risk of underpayment (25%); and
- Reviewing record keeping (21%).

Another other approach is checking with workers directly (8% overall), something that's most common in workplaces in the transport and storage sector (25%).

32 - What comments do you have on HMRC's enforcement work?

While it's right that employers deliberately flouting the law on paying minimum wage are fined for doing so, these regulations can be complex and some organisations might break this law inadvertently because of a lack of resources or expertise, especially small firms. That's why CIPD support the sharing of examples of how mistakes have happened in the past so that they can be avoided in the future. We also believe there should be more support to boost employer compliance, particularly for SMEs as part of a more progressive approach to labour market enforcement.

Economic outlook

37 - What are your views on the economic outlook and business conditions in the UK for the period up to April 2024? We are particularly interested in: - the conditions in the specific sector(s) in which you operate. - the effects of Government interventions to support the economy and labour market. - the current state of the labour market, recruitment and retention.

CIPD Labour Market Outlook (LMO) findings

Recruitment, redundancies, and retention

In the summer LMO, the net employment balance – which measures the difference between employers expecting to increase staff levels in the next three months and those expecting to decrease staff levels – remains stable at +28. Net employment intentions remain steady in the private sector at +32. However, they have fallen in the public sector in the most recent quarter, from +16 to +11, and have risen in the voluntary sector (from +22 to +34).

In the next three months, half (51%) of employers are looking to maintain total staff levels. More are looking to hire staff (36%), with very few looking to decrease total staff levels (8%). This is unchanged from previous quarters.

Employment intentions are positive in all industries but are lowest in the public administration and other public sector (+2) and education (+15).

Almost three quarter (73%) of employers plan to recruit in the next three months. Recruitment intentions remain highest in the public sector (83%), followed by the voluntary sector (76%) and the private sector (70%).

Redundancy intentions, whilst remaining low in historic terms, have continued their gradual rise since 2021. 19% of employers are planning to make redundancies in the three months to September 2023. The notable change in the most recent quarter is the rise expected in the public sector from 12% to 20% of employers.

Forty-four percent of employers surveyed have hard-to-fill vacancies. Half (50%) of public sector employers are reporting hard-to-fill vacancies. Forty-six percent of employers in the voluntary sector have hard-to-fill vacancies; as do a similar proportion (43%) in the private sector. Among those employers that report that the NMW has had a significant impact on the wage bill, 52% say they have hard-to-fill vacancies, compared to just 38% of those who say that the NMW has not increased their labour costs.

In the next six months, 27% of all employers anticipate significant problems in filling vacancies, and a further 36% anticipate minor problems. A higher level of public sector employers (43%) anticipate significant problems in filling roles than private sector (24%) and voluntary sector (21%) employers. Again, those workplaces that report that the NMW has increased their pay costs significantly are more likely (38%) to anticipate significant problems in filling these kinds of vacancies.

Similarly, those employers that have been most impacted by the increase in the NMW are more likely (54%) to say that they've increased pay in the past 6 months to address hard-to-fill vacancies that those workplaces that have not been affected by the NMW (44%), though looking towards the rest of 2023, a smaller percentage of those workplaces most impacted by the NMW plan to raise pay (33%).

Counteroffers

On the backdrop of the highest wage increases in the latest LMO, we looked into the practice of counteroffers. We found forty percent of employers have given a counteroffer in the past 12 months. The private sector has used counteroffers more as a mechanism to retain employees (43%) than the public (34%) and voluntary (20%) sectors. Just 24% of SMEs have granted a counteroffer in the last 12 months, compared to 58% of large private sector organisations. London is the counteroffer capital of the UK with 58% of employers based here making counteroffers in the past 12 months.

Among those workplaces reporting that the NMW has a significant impact on its labour costs, 53% had used counteroffers in the past 12 months, while among those employers stating that the NMW has had a moderate impact on their wage bill, 50% of them had made counteroffers.

Among employers giving counteroffers in the last 12 months, half (51%) have offered a higher number than before, with 40% offering the same level of counteroffers and only 9% offering less than previously. Sixteen percent of employers in the public sector have offered fewer counteroffers than before, compared to 8% in the private sector. This is evidence that the public sector is less able to make counteroffers to retain staff.

Among employers that have been most impacted by the increase in the NMW, 37% report an increase in counteroffers over the past 12 months, while among those reporting that the NMW has a moderate impact the rise was 27%. By contrast, among those organisations reporting that the NMW has had no impact on their pay costs, just 11% said that there had been an increase in the number of counteroffers made.

Whilst half (51%) of employers who have previously given counteroffers believe the number of counteroffers they expect to give in the next 12 months to be about the same, a quarter (25%) of employers anticipate offering even more than the past year. Among those employers most impacted by the NMW, 44% anticipate offering even more than the past year. Only 8% of employers believe they will offer less than the past year.

Money talks when it comes to counteroffers - 40% of employers who have made counteroffers or plan to in the next 12 months are exceeding offers given by other employers. A similar level (38%) salary match offers from other employers. Around one in 10 (9%) employers do so, but at a rate below the offer from other employers, but higher than the current salary.

Larger private sector businesses are more likely to offer a salary above the offer of other employers (43%) than SMEs (34%). Those workplaces most impacted by the increase in the NMW/NLW are more likely to match the offer of rival employers (45%) than exceed it (37%).

Counteroffers are seen by employers as more effective than ineffective in retaining employees for 12 months or more. Forty-five percent believe it is effective, compared to 29% of employers who believe it is ineffective. Employers that have been most impacted by the increase in the NMW/NLW say that counteroffers are effective (54%) at retaining staff for 12 months or more.

38 - To what extent have employers been affected by other major trends in the economy and labour market: for example, inflation, Brexit, the shift to homeworking or changes in the numbers of migrant workers in the UK?

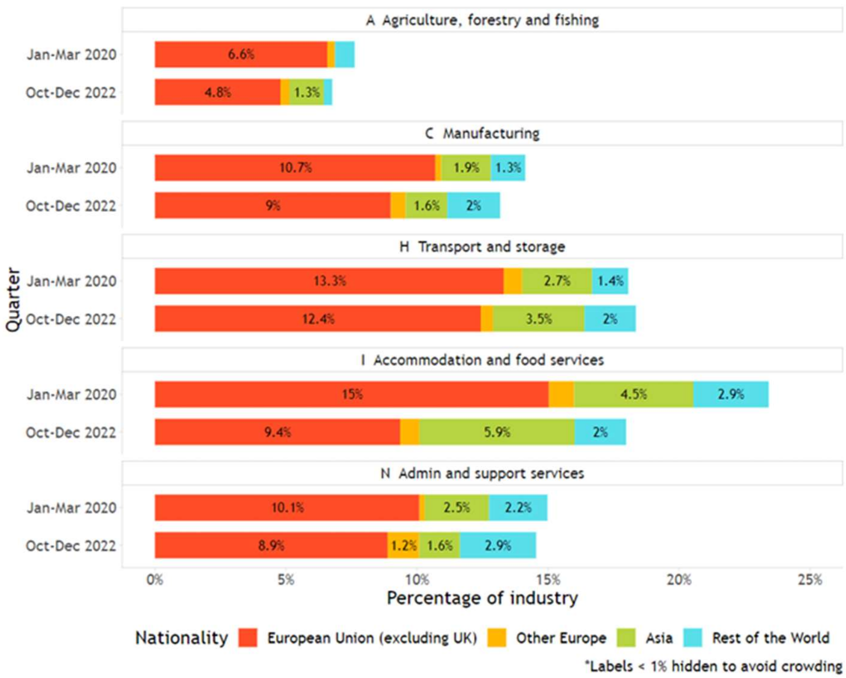
Migrant workers in the UK

In May, CIPD published a report which reviewed the state of play after the end of the free movement of labour from the EU and the introduction of the points-based immigration system in January 2021. The report sets the current context using official immigration data from the Home Office and Office for National Statistics (ONS) and focuses on employer responses to a series of questions on immigration.

Some sectors are more exposed to immigration changes than others

Comparing the nationality breakdown between early 2020 and the end of 2022 for the sectors most likely to be affected by the restriction of freedom of movement (Manufacturing, logistics, administration, hospitality, and agriculture) – using the Labour Force Survey – corroborates the story that these sectors have been most affected (see Figure 4). All sectors have lower levels of EU staff, with hospitality the worst hit, from 15% of the workforce made up of EU nationals to 9.4% in the latest data. This has only been mildly offset by the increased level of Asian nationals working in the sector.

Figure 4: Nationality breakdown of shortage industries, pre-/post-pandemic (%)

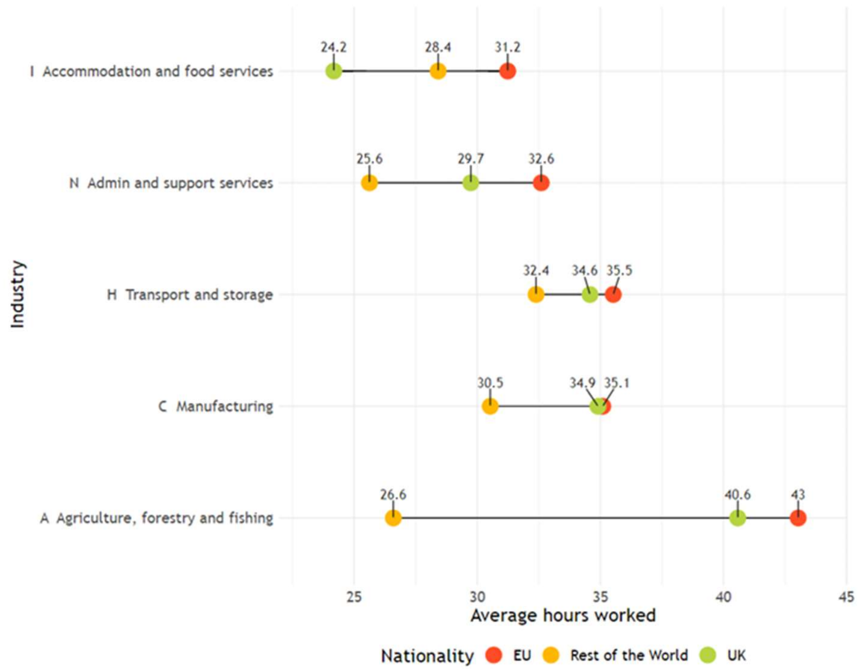


Source: Labour Force Survey.

EU nationals work longer hours

When considering labour supply, it’s important to consider hours worked as well as numbers of people. In the economy as a whole, the average UK worker’s total hours are 31 per week; however, for EU nationals it’s 32.8 hours per week – that is, across the whole economy, each EU national works 6% more hours than their UK counterpart. In each of the shortage industries, the average hours worked by EU nationals are higher than UK nationals (see Figure 5). The most evident difference is in hospitality, where for every four EU national workers in hospitality, you would need more than five UK national workers to take their place to have the same number of total hours worked a week. Combining this with the Portes and Springford estimate of the shortfall of workers in hospitality, this would mean 29% more UK workers would be required to fill this gap in hospitality alone (approximately 85,000).

Figure 5: Average hours worked in shortage industries, by nationality



Source: Labour Force Survey, October to December 2022.

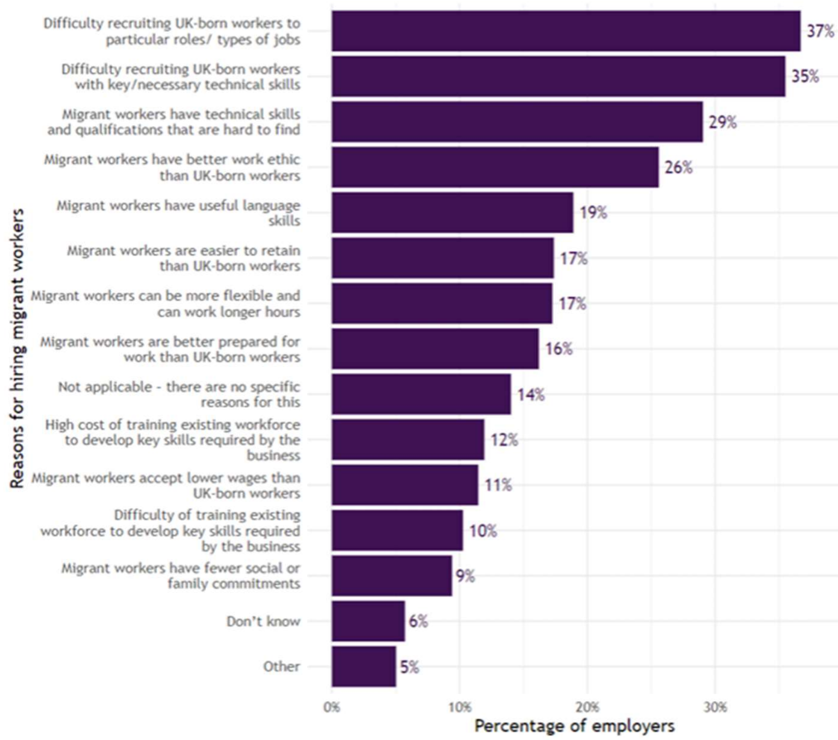
Reliance on migrant workers

Seven in 10 (71%) employers who employ migrant workers believe they are reliant on migrant workers to some degree. In all, 17% of employers are very reliant on migrant workers, with one in five employers (22%) somewhat reliant. A third of employers who have migrant workers are slightly reliant on these workers (33%). A quarter (24%) are not at all reliant on migrant workers.

Migrant workers fill gaps left by the UK-born workforce

The two main reasons employers hire migrant workers are because they have difficulty in recruiting UK-born workers to particular types of jobs or roles (37%) and because they have problems recruiting UK-born workers with the necessary technical skills (35%).

Figure 18: Reasons for hiring migrant workers among employers (%)



Source: CIPD *Labour Market Outlook* winter 2022/23.
Base: all employers who employ migrant workers: n=455.

Fewer employers have used the new system compared with the old one

One in five (19%) employers surveyed used the immigration system to sponsor non-EU workers prior to January 2021. A similar level did not know whether they had or not (22%). 15% of employers have used the immigration system since January 2021. The rates were highest in healthcare (29%) and IT (24%).

Employers' views on the new system are mixed

Four in 10 employers (41%) find the new points-based immigration system somewhat difficult or very difficult to use. However, a similar proportion (45%) say the system is somewhat or very easy to understand and use. SMEs are more likely to say the system is easy to use and understand (57%) than larger organisations (43%). This may be because smaller employers using the system typically have to recruit fewer migrant workers than larger employers.

More than half of respondents (54%) whose organisation has used the points-based immigration system since January 2021 believe it is effective in helping their organisation address skill and labour shortages. However, over a third (34%) believe it is ineffective in addressing skills and labour shortages.

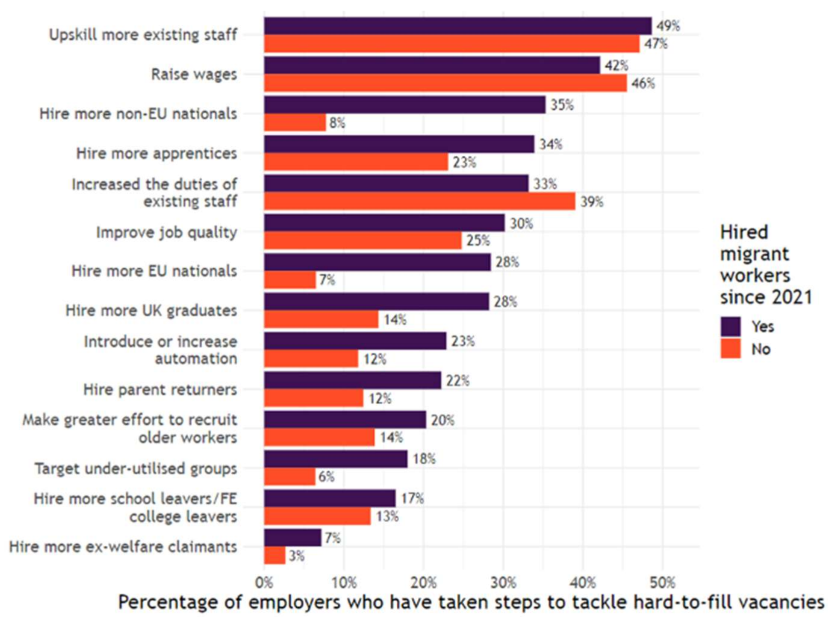
Link between skill shortages and use of the immigration system

The survey data also shows that employers with hard-to-fill vacancies are most likely to have used the new immigration system since its introduction in January 2021. In all, about a fifth (21%) of employers with hard-to-fill vacancies have sponsored migrant workers through the new points-based immigration system since January 2021. This compares with just 8% of organisations that have used the new immigration system that doesn't have hard-to-fill vacancies and 15% of all employers.

Employers hiring migrant workers since 2021 are more likely to have hard-to-fill vacancies (79%) compared with those who have not used the post-2021 system (50%).

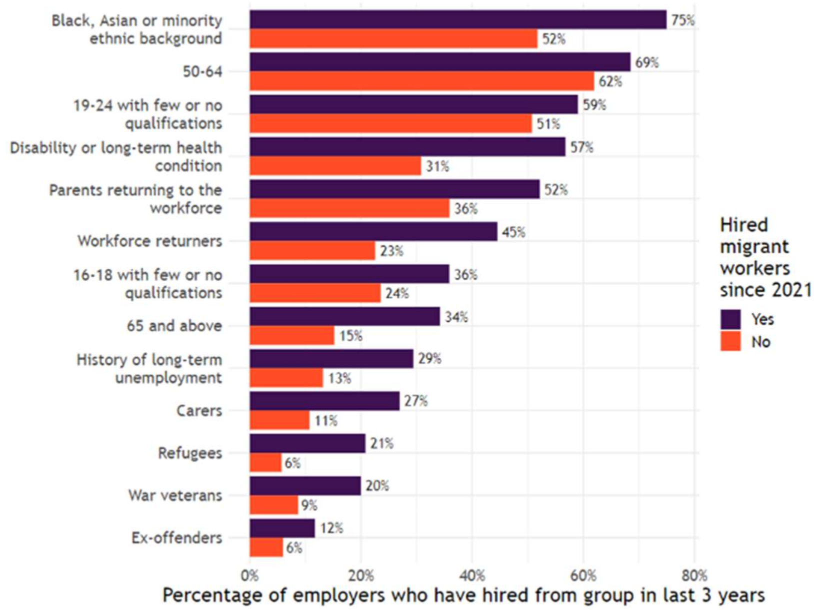
Employers using the immigration system are more likely to have recruited from a range of disadvantaged groups in the UK (Figure 30). They also plan to recruit from these groups in the future at a greater level than other employers (Figure 29).

Figure 29: Steps taken by employers to tackle hard-to-fill vacancies in the last six months (%)



Source: CIPD *Labour Market Outlook* winter 2022/23.
Base: employers with hard-to-fill vacancies who have (n=231) and have not (n=639) used new points-based immigration system.

Figure 30: Hiring of groups with barriers to work in the past three years, comparing employers who have and have not hired migrant workers since January 2021 (%)



Source: CIPD *Labour Market Outlook* winter 2022/23.
Base: all employers who have (n=286) and have not (n=1,337) used new points-based immigration system.

40 - How has inflation and the cost of living factored into wage setting? What has been your experience of wage growth and inflation in the last year, and what are your views on forecasts for the next couple of years?

The labour market remains competitive, and this is clear from the record-breaking regular pay growth of 7.8%. This only resulted in real growth of 0.1% after inflation was factored in, but we can finally say that pay is growing. While this may be good news for workers, high nominal pay rises are now an established feature of the labour market and this will worry the Bank of England who will be keen to mitigate the effects of a wage-price spiral.

Even once pay starts to rise in real terms it will be some time before the ground lost during the squeeze will be made up. Employers are uniquely well-placed to understand their employee’s financial situation, and uniquely well-placed to help. To alleviate the burden, employers can make fringe benefits work harder. Benefits such as flexible working to reduce commuting costs, childcare support, and occupational sick pay can make a big difference to people's financial situation and wellbeing.

Overall, the latest ONS statistics show a slow easing of pressure on the labour market. Demand for workers, as evidenced by job vacancies, decreased for the thirteenth consecutive period. The supply of potential workers is increasing as unemployment edges slightly higher. Many people are leaving economically inactive categories to look for work, but evidence suggests this group are finding it harder to get into jobs. In a challenging recruitment environment, employers could do more to support these groups back into work. They include people who have taken a career break to look after family and even retirees considering returning to work.

Summer 2023 Labour Market Outlook

Half (49%) of employers have responded to hard-to-fill vacancies by upskilling more existing staff. As with previous quarters, many employers have had to raise wages (44%) and increase the duties of existing staff (35%) in the past six months. However, in the future, fewer employers plan to raise wages (32%) and to increase the duties of existing staff (29%). Responding to hard-to-fill vacancies by upskilling staff is higher among employers in the public sector (58%) than in the private sector (47%). However, public sector employers are increasing the duties of existing staff at a significantly higher rate (43%) than private sector employers (32%). Comparatively, fewer public sector employers have been raising wages to address hard-to-fill vacancies (21%) compared with the private sector (50%).

A quarter (24%) plan to address hard-to-fill vacancies by introducing or increasing automation in the future, compared with 18% of employers who have done so in the last six months. Of employers who plan to raise wages in response to hard-to-fill vacancies, half (53%) plan to improve efficiency or raise productivity. A similar level plan to raise prices for products or services (50%) or take lower profits/absorb costs/accept higher overheads (46%).

Impact of cost of living on employers

Our autumn 2022 LMO found that most (72%) UK employers expected their workers' financial situation to worsen over the next 12 months.

The survey found that 42% of employers were worried about the financial wellbeing of their staff, rising to 56% in the voluntary sector and 46% in the public sector. In response, most employers (51%) said their senior managers are discussing the risk more frequently.

In a curious show of uncertainty, the number of employers who are confident that they'll be able to support their employees' financial wellbeing over the next 12 months is equal to the number of employers who are not confident – 27%. However, private sector employers felt significantly more confident they could help (32%), compared to public sector organisations (12%).

Championing better work and working lives

Increasing wages is the most common response to the cost-of-living crisis

Of the various things employers can do to help their workers, our November 2022 LMO finds that many said they've increased wages (36%) or introduced more flexible working (29%). But a number said they've also shared financial information and guidance (23%) or highlighted how their employee benefits package can help with rising prices (23%).

Looking ahead, 30% of employers planned to raise wages next year to help with cost of living, while 20% planned to highlight financial information and guidance. Meanwhile, 18% intended to highlight how their benefits package can help employees with rising prices. Similar proportions planned to introduce or improve benefits (15%), bring in more flexible working (15%), and introduce bonuses/allowances (13%).

Some common initiatives adopted by employers to provide further financial wellbeing support are:

- Ask staff for their feedback (at least once a year) on their pay and benefits (45%).
- Actively measuring staff understanding about the pay and benefits on offer at least annually (35%).
- Encouraging staff to talk about their money concerns in the workplace (34%)
- Targeting communications about employee benefits and financial education to specific employee groups (33%).
- Supporting and developing line managers so they can talk to staff about financial wellbeing (31%).
- Asking workers about their financial wellbeing at least annually (29%).

We recommended that employers should pay a fair and liveable wage; offer financial wellbeing benefits; and provide opportunities for in-work progression. Ideally, this should be brought together as a policy. Our research found that 32% of employers have already adopted a policy, while a further 7% plan to create one in the coming months.