

# The Rise and Rise of Regulation

E – reward conference: Stuart Hyland and Dave Borton

November 2016

# Agenda

---

In this session we will:

- ▶ Summarise some of the key regulatory changes this year
- ▶ Discuss the Reward function's role in delivering them
- ▶ Consider other pressures and priorities for Reward functions
- ▶ Raise questions about the evolving role of reward professionals in the years ahead

# Legislation overview

---

## Apprenticeship levy

- ▶ Apprenticeship levy paid by employer with pay bill £3mn+ each year as of April 2017
- ▶ Charged via PAYE at a 0.5% of the annual pay bill with a £15,000 allowance (£1,250 per month) per single PAYE scheme
- ▶ Significant additional tax burden for larger employers which pressurises pay budgets

## Gender pay reporting

- ▶ Employers with 250+ employees must report
- ▶ Pay, short and long term bonuses and salary quartiles
- ▶ Creates requirement to develop and communicate a story to explain any gap
- ▶ Public/private sector alignment subject to consultation

## Pension allowance cap

- ▶ The Lifetime Allowance limit on pensions has reduced to £1mn
- ▶ Tapered annual allowance if 'adjusted income' is over £150,000. Reduces by £1 for every £2 that income exceeds £150,000, up to a maximum reduction of £30,000.
- ▶ Alternative savings mechanisms important for senior populations, not just executive teams

## Minimum wage and living wage

- ▶ Government aspiration to raise the minimum wage from £7.20 to £9 per hour for over 25s by 2020
- ▶ Labour party proposals for real living wage: £10 per hour by 2020
- ▶ The impact of any increases creates issues of affordability and salary compression at lower grade levels

# The rise of legislation is impacting businesses in different ways

How do the following regulatory developments rank in terms of potential impact upon your organisation over the next 18 months?

Answer options	Most impactful	Not applicable
Apprenticeship levy	28%	28%
Gender pay gap reporting	31%	13%
Living wage	18%	21%
Pension allowance cap	16%	15%

Data from EY Future of Reward Survey, 2016

- ▶ Analysis of the workforce in response to legislation is ending up at the reward team's table
- ▶ Solutions to identified issues not solely under Reward's control (e.g. talent, OD or finance teams),
- ▶ Additional pressures on the Reward function

# Future of reward survey

---

- ▶ 61 organisations (combined employee base of +850,000)
- ▶ Survey completed during July – October 2016
- ▶ Specific focus on regulation, reward strategies, performance management and employer brand
- ▶ Public and private sector, with large listed and privately owned businesses
- ▶ Respondents were predominantly HR and reward leaders

# Reward strategy priorities

- ▶ Which of the following factors have influenced recent decision making around your reward strategy?

Reward strategy factor	Strong consideration in reward approach	Will consider in near future
Managing cost/ROI	83%	11%
Employee performance	80%	4%
Business strategy	79%	16%
Attraction, engagement and retention	75%	23%
Influencing employee behaviours	71%	20%
Market/sector trends	72%	14%

## Plans for the near future



36% will plan for digitisation



56% will plan for uncertainty following the Brexit vote



41% will plan for changing workforce demographics

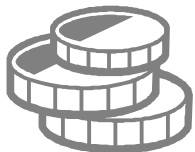
- ▶ Traditional tenets of reward management still important
- ▶ A range of new factors on the horizon

# Hot topic 1: performance management

---



- ▶ 66% said that performance was fit for purpose in their business context yet 59% were planning to review approaches in the near future.



- ▶ 45% of organisations are looking at reviewing pay for performance links in the near future



- ▶ 85% of respondents rated line management capability on performance management as average, patchy or poor.

# Insights and experience

---

- ▶ Considerable interest in approaches to performance management
- ▶ A focus on ratings but less on the quality of interaction
- ▶ A rating-less approach may not be right for all organisations and could be quite damaging for some
- ▶ Care is needed to assess the business impact of change, rather than changing simply because others are doing so
- ▶ Performance management has to be organisation/context specific



# Hot topic 2: Employer brand

---

- ▶ Only 28% reported their employer brand was well understood across all areas

- ▶ 46% respondents stated they have recently reviewed or plan to review their employer brand in the next 12 months

‘World-class organisation ... predicated on the values of our founder ... unique ownership structure where everyone can share in the success of the firm’.

**Strategic differentiator?**

‘Our total reward offer’  
‘We are an industry leader’

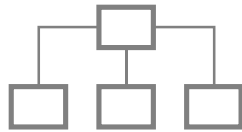
**Recruitment proposition?**

# Insights and experience

---

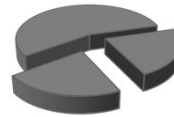
- ▶ Recruitment proposition for part of the business or organisation-wide strategic differentiator?
- ▶ Do organisations understand the value of an effective employer brand?
- ▶ This is no longer something which can be directly controlled or taken for granted by employers – social media can undermine your brand
- ▶ Potential employees might not distinguish between particular parts of an organisation – do existing employees?

# Are the rise of regulation and current hot topics a distraction from underlying issues?



- ▶ 48% stated their organisation did not have a 3-5 year workforce plan
- ▶ 74% of respondents stated Reward was not perceived as a strategic function capable of driving business performance

'I don't feel we have planned our workforce and have visibility within the HR function as much as it should'



- ▶ Only 23% of respondents indicated their reward strategy was fully informed by the principles of total reward

'Perhaps we under sell what we offer'



- ▶ Almost half could not confirm that reward programmes were driving the desired behaviour from employees

'There is not a strong enough link between displaying the correct behaviours and reward/career development'

# Conclusions

---

- ▶ Reward's role in interpreting and responding to legislation and hot topics
- ▶ Ongoing pressure for change is accelerating but day to day operational demands cannot be ignored
- ▶ Increased workload and impact on reward operating models
- ▶ Are reward functions leading change or are they being led?
- ▶ If reward isn't seen as a strategic business partner did we miss an opportunity?

# Thank You

**EY** | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

ED None

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](https://www.ey.com)