REWARD CONSULTING

Innecto Insights

Autumn 2025 Edition

BUDGET IMPACT ON 2026 PAY PLANNING

Employers have been anxiously awaiting the Autumn Budget announcement from Rachel Reeves after weeks of speculation. The statement on 26 November introduced several measures that will directly influence pay budgeting for 2026. Below are the key implications for reward professionals.

Pay Compression Challenges from Minimum Wage Increases

From April 2026, the National Living Wage (NLW) for workers aged 21+ will rise to £12.71 per hour, a 4.1% increase on the previous year. This above-inflation uplift follows several years of significant increases to the wage floor, which have steadily eroded pay differentials between the lowest-paid roles and those in adjacent grades—such as graduate or supervisory positions.

As entry-level pay approaches higher bands, differentiation becomes harder to maintain, weakening the link between responsibility, skill, and reward. Employers will likely need to:

- Review job bands and pay structures to preserve meaningful differentials.
- Allocate more budget to lower grades, which may reduce funds available for technical or managerial roles.
- Balance fairness at entry levels with competitiveness for senior positions in the market.

The voluntary Living Wage has also risen by 6.7%, adding further pressure to maintain clarity and equity across pay frameworks.

Cost-of-Living Pressures and Pay Awards

Headline inflation is believed to have peaked, with the OBR forecasting 3.5% for 2025. In contrast, median pay awards for 2026 are projected at 3%. When inflation outpaces pay growth, employees experience a real-terms pay cut.

Budget measures, such as scrapping the two-child benefit cap, freezing rail fares, and reducing energy levies, aim to ease cost-of-living pressures. However, if inflation does not quickly return to the Bank of England's 2% target, employers risk:

- Morale and retention challenges, potentially leading to one-off "catch-up" payments.
- Increased complexity in pay planning, as entry-level wages will rise faster than median awards.

Employers should consider scenario-plan for inflation remaining above 3% and model the combined impact of rising wage floors and constrained pay budgets.

Pension Salary Sacrifice Changes

The Budget also signaled a major shift in salary sacrifice pension arrangements. From April 2029, a £2,000 cap will apply to the amount employees can contribute before incurring National Insurance charges. While this change is several years away, it will:

- Increase costs for both employees and employers, especially where matching schemes exist.
- Require adjustments to salary budgets to maintain competitiveness.
- Prompt a review of total reward strategies, as benefits such as pensions may become more expensive.

Employers should also consider offering financial education and advice, as rising costs may discourage employees from contributing to their pension pots.

A Triple Challenge and Opportunity

The combination of a rising wage floor, persistent cost-of-living pressures, and changes to pension tax relief creates a triple challenge for reward professionals. Yet, it also presents an opportunity to rethink reward strategy:

- Move beyond annual pay increases to a holistic total reward approach.
- Align pay, benefits, and career development with business objectives and affordability.
- Communicate the full value of employment clearly to employees.

The Autumn Budget adds cost pressures, but strategic planning now will help organisations remain competitive and attractive to talent in 2026 and beyond.

INNECTO INSIGHTS
ECONOMIC SNAPSHOT

Price pressures continue to ease and GDP momentum weakens, prompting expectations of rate cuts as the OBR lowers its growth outlook.

CURRENT ANALYSIS

UK inflation fell to 3.6% in October, the largest decline since March and follows three consecutive months of inflation holding at 3.8%. The decline was driven by a smaller rise in fuel prices and a drop in hotel prices. Services inflation, monitored by the BoE as key gauge of underlying price pressures, fell to 4.5%, the lowest this year. In an exception to the easing in price pressures, food and drink inflation rose to 4.9 per cent, up from 4.5 per cent in September. Core CPI (which excludes more volatile basket items such as food) fell to 3.4%, while core CPIH fell to 3.7%.

The economy has shown slowing momentum, with GDP growing 0.1% over the July to September period. Growth was driven by the services and construction sectors, while figures for September were heavily impacted by a slowdown in the UK automative industry caused by cyberattacks.

The easing of price pressures and sluggish economic growth lend well towards a cut in the interest rate by the BoE, as much needed impetus to balance tax rises announced in the Budget.

Figure 1: Inflation Indices
(change over 12 months)

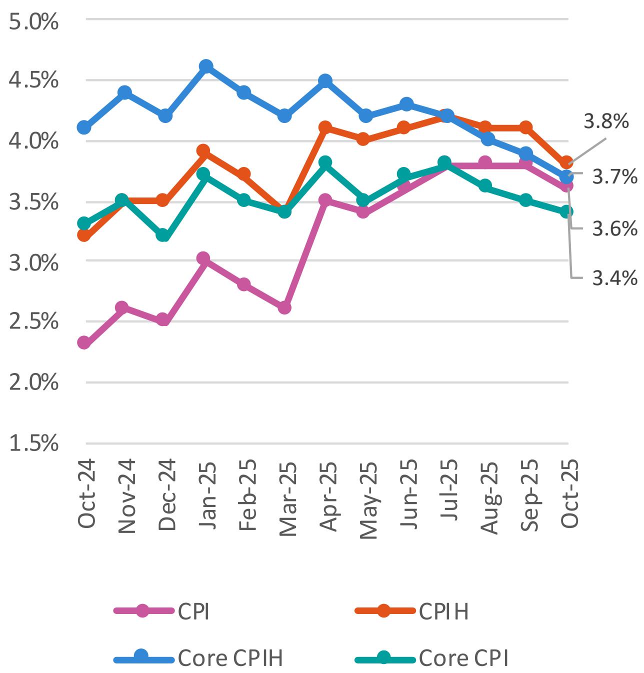
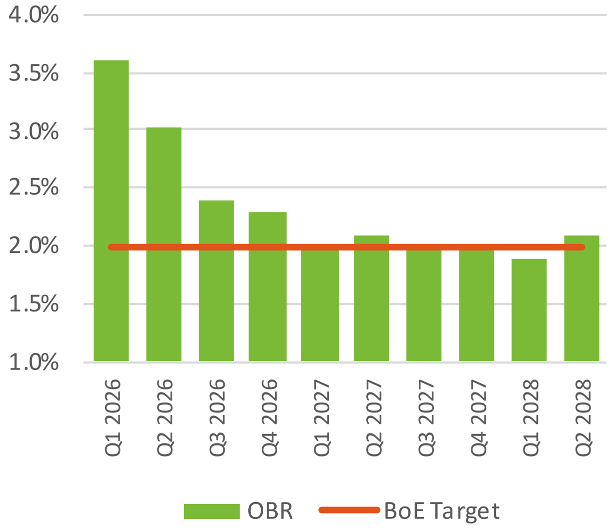


Figure 2: Inflation Forecast



FORECAST

In its November report, the OBR revised down its forecast for GDP growth to 1.5% per year, compared to 1.8% in its March report. This accounts for recent underperformance in productivity growth which has also been revised down in the medium term.

The organisation revised up its medium-term inflation forecast, driven by greater domestic inflation in the form of wage growth, as well as higher services and food inflation. CPI inflation is expected to be 3.5% to close out 2025, 2.5% in 2026, before returning to the 2% target rate in 2027, a year later than the March forecast.

The BoE similarly judges CPI inflation to have peaked this year, and its own predictions mirror the OBR forecast of the 2% target being reached in 2027.

How Innecto can support: Pathfinder

Pathfinder is Innecto's digital career-mapping platform that transforms static job frameworks into interactive, personalised career journeys. It shows clear pathways, skills gaps and progression options for employees, while giving HR real-time talent mobility insight. When career progression is visible, engagement rises, performance improves and attrition falls.

Pathfinder

INNECTO INSIGHTS
AVERAGE EARNINGS

CURRENT ANALYSIS

Pay momentum continues to weaken, with slowing nominal and real earnings growth and forecasts pointing to further easing through 2026 as labour market conditions loosen.

Earnings growth across the economy as a whole has slowed further as of the latest ONS measurement. Nominal regular earnings growth fell to 4.6% in the three months to September period, down from 4.7% in the prior period, and the lowest since April 2022. Comparing sectors, nominal earnings growth tracked higher in the public sector where it rose by 0.6 percentage points to 6.6%, compared to a 0.2 percentage point drop to 4.2% in the private sector. Earnings growth fell in every private sector industry and records the lowest in finance and business services. Total earnings growth (including bonuses) across the whole economy fell from 5.0% to 4.8%. Total earnings growth in the private sector also saw a fall, from 4.8% to 4.4%.

In real terms, regular earnings growth has dropped to 0.5%, the lowest in more than two years, while total earnings growth fell to 0.7%. Real-terms earnings growth has been eroding against the backdrop of sustained inflation and lower pay awards, raising the possibility of a real-terms pay cut if inflation does not fall in line with forecasts.

Figure 3: Average Weekly Earnings
(3 month rolling average)

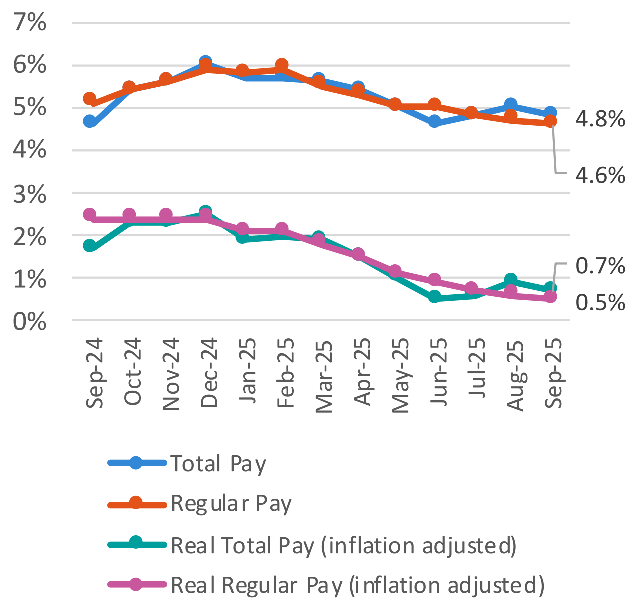
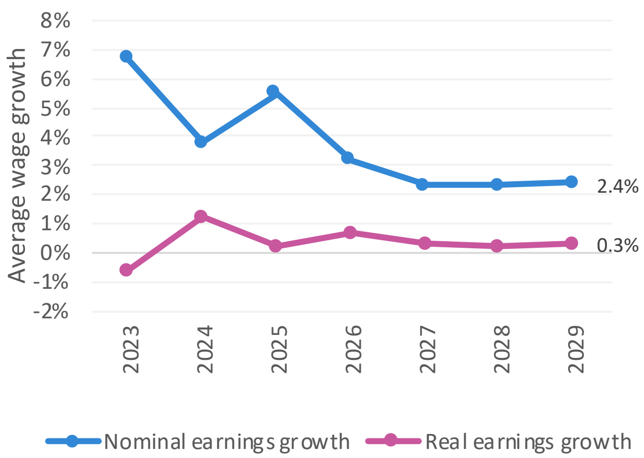


Figure 4: Nominal and real earnings growth forecast



FORECAST

Nominal earnings growth is expected to be 3.8% to close out 2025, according to forecasts by the OBR. It is then expected to average 3.3% before falling to 2.3% in 2027. The OBR predicts the downward trend will be driven by a combination of a loosening labour market conditions, falling inflation, lower average weekly hours worked as companies rebuild margins and pass on more of the recent rise in employer National Insurance contributions (NICs) to real wages after firms initially absorbed the rising cost in margins.

The BoE predicts earnings growth in the private sector will fall to 3.2% by the middle of 2026.

How Innecto can support: PayLab

INNECTO INSIGHTS

PAY AWARDS

Despite public-sector-driven upticks, pay awards hold steady around 3%, with most deals lower than last year and inflation outpacing settlements.

CURRENT ANALYSIS

Brightmine's latest analysis of pay settlements across all sectors shows a median increase of 3.3% in the three months to October, up from the 3% norm seen throughout 2025. This uptick in the median is being driven by the short-term impact of public sector settlements. The median public sector pay award in 2025-to-date is 3.8% — by contrast, the private sector services and manufacturing sector median remained aligned with the whole-economy median of 3%. Using a matched-sample analysis, Brightmine find that more than half of pay deals (53.3%) were lower than those agreed in 2024, with only 13% of all awards exceeding last year's award. This is a continuation of a trend seen through this year of pay awards being lower than 2024.

The 3% median award indicates that, in the short-term, pay awards have remained stable after changes to NIC contributions in April 2025, as firms have not yet passed on the higher cost through wages. A survey by BoE found that only 17% responded to higher costs by paying lower wages than they otherwise would have. In contrast, changes are more concentrated on labour demand margin as a striking 44% report to lowering employment. 64% of firms report lowering profit margins.

Figure 5: Base Pay Awards
(3 month rolling average)

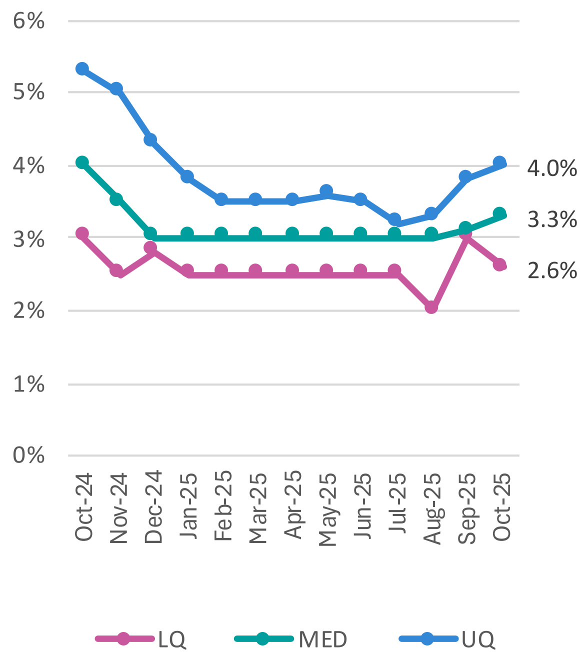
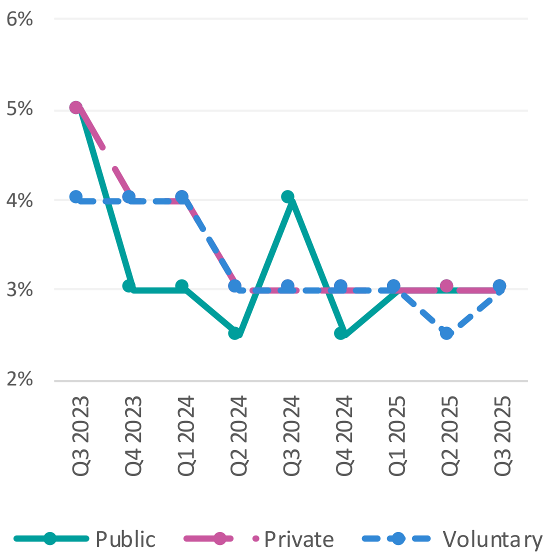


Figure 6: Median Pay Expectations
Split by Sector



FORECAST

The pass-through of higher employment costs to wages is expected to be more evident by 2027, according to the OBR. Looking to 2026, pay awards remain anchored to a 3% forecast in Brightmine's sample, reflecting caution among those organisations amid cost pressures and economic uncertainty. In their latest Labour Market Outlook, the CIPD also find year-ahead expected median pay award to be at 3%. This reflects the private, public and voluntary sectors; in the voluntary sector, expected award is up from 2.5%.

While the median award has remained steady, there is also a smaller proportion of employers who expect to pay at the higher end. In the CIPD's latest survey, 21% of employers plan to offer a pay rise of 5% or more, compared to 34% at the same time last year.

With CPI currently tracking at 3.6%, the risks of pay awards falling below inflation remain.

How Innecto can support: Advance

Anticipate cost implications and model impact on salaries with ease via Advance, our complete solution for pay review. Our user-friendly, fully customisable modeler removes the need for time hungry spreadsheets. By configuring the system to your internal pay practices and policies, you can keep track of spend and how proposed increases impact your pay position, whilst tracking progression year-on-year against your pay policy.

INNECTO INSIGHTS
PAY EQUITY

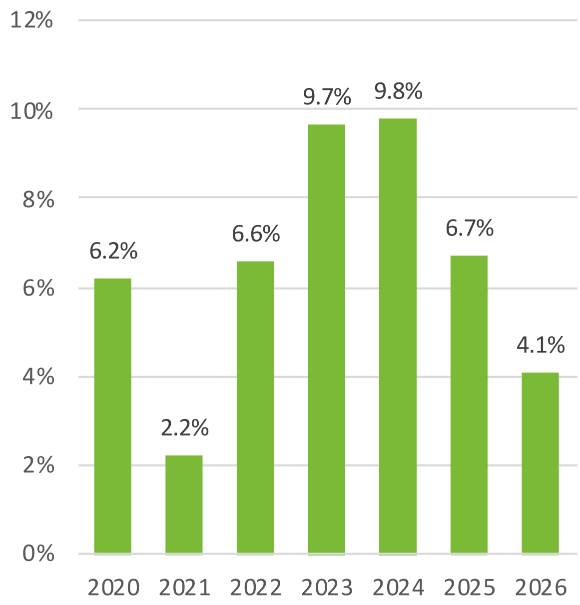
National Living Wage rises to £12.71 in April 2026, the lowest percentage increase since 2021. Above inflationary increases aim to deliver real-terms pay growth, while the gender pay gap continues its slow long-term decline.

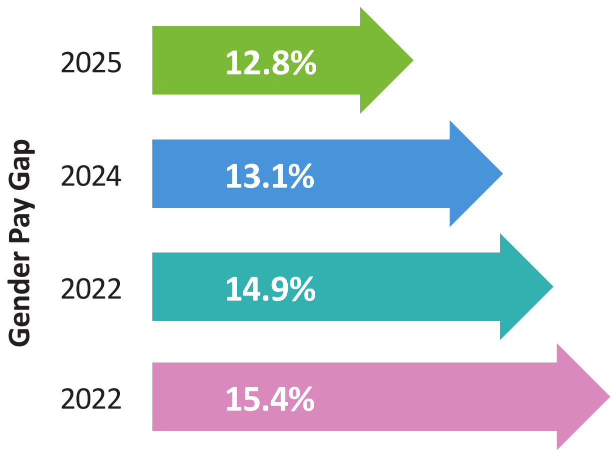
The Government announced in the November Budget that the National Living Wage (NLW), which applies to adults aged 21 and over, will increase 4.1% to £12.71 an hour effective April 2026. This is in line with Low Pay Commission recommendations to achieve two-thirds of median earnings. In parallel, the National Minimum Wage (NMW) which still applies to 18–20-year-olds, will increase faster, by 8.5% to £10.85 per hour. These changes translate to an increase in gross annual earnings of £900 for a full-time worker on the NLW and £1,500 for those on the NMW. The increases reflect prevailing economic conditions, and exceeds inflation expectations between April 2026-2027, giving workers a real-terms pay rise.

The new real Living Wage was announced in October, at £13.45 across the UK and £14.80 per hour in London. The approximately 16,000 UK employers who have registered to voluntarily pay this rate have until 1st May 2026 to implement them.

As a result of changes to the wage floor, 2.5% of all employee jobs were low-paid in April 2025 (defined as less than two-thirds of median hourly pay), the lowest since the series began. At the upper end, the proportion of high paid jobs (1.5 times median hourly pay) increased to 23.2%, returning closer to its April 2023 proportion.

Figure 7: NLW Increases





The ONS headline gender pay gap (GPG) figure (which is based on median hourly earnings for full-time employees) has fallen by more than a quarter, and in April 2025, it stood at 6.9%, down from 7.1% a year earlier, and narrowed to 7% in April 2024, down from 7.5% in 2023. Among all employees, the gender pay gap narrowed to 12.8%, down from 13.1% in 2023. This gap is wider due to a larger proportion of women working part-time. The gender pay gap was largest in skilled trades occupations, where it was 13.9%. It was lowest for sales and customer service occupations, followed by caring, leisure and other service roles at 1.8% and 3.1% respectively.

Long-term analysis of the gender pay gap reveals a gradual decline in the median gap, which has fallen by around a quarter over the past decade. Despite the introduction of mandatory reporting regulations, progress has been slow — suggesting that additional action is needed from employers to drive meaningful change.

How Innecto can support: Evaluate

Ensuring consistent grading is a key foundation for ensuring pay equity. Evaluate is a job levelling tool that makes evaluating roles quick and straightforward, reducing the resource your department needs to commit to completing this vital yet often time-consuming task. Our robust system for evaluating jobs gives HR confidence that roles are being assessed fairly and consistently and enables HR to create a strong foundation to build an effective organisation.

Evaluate

INNECTO INSIGHTS

RECRUITMENT & RETENTION

Labour market conditions are weakening, with unemployment at a four-year high and youth joblessness sharply up. Employers report fewer hiring difficulties as vacancies level off and labour supply increases.

The labour market statistics released by ONS indicate further weakening in labour demand in the UK economy. The unemployment rate reached 5% in September 2025, the highest level since February 2021. The unemployment rate for those aged 16-17 has accelerated fast in the second half of this year to reach 36%, the highest in more than a decade, while 12.7% of those aged 18-24 are considered unemployed.

Job vacancies saw a small uplift, rising by 2,000 to 723,000 between August and October 2025 compared to the previous quarter - the first increase in more than three years - though numbers remain well below the peak of 1.3 million recorded from March to May 2022.

Payrolled employment decreased by 0.6% in the twelve months to October 2025, equivalent to 180,000 fewer employees. The largest decrease was noted in the wholesale and retail sector, with a fall of 71,000 employees.

Figure 8: Unemployment rate by Age Group

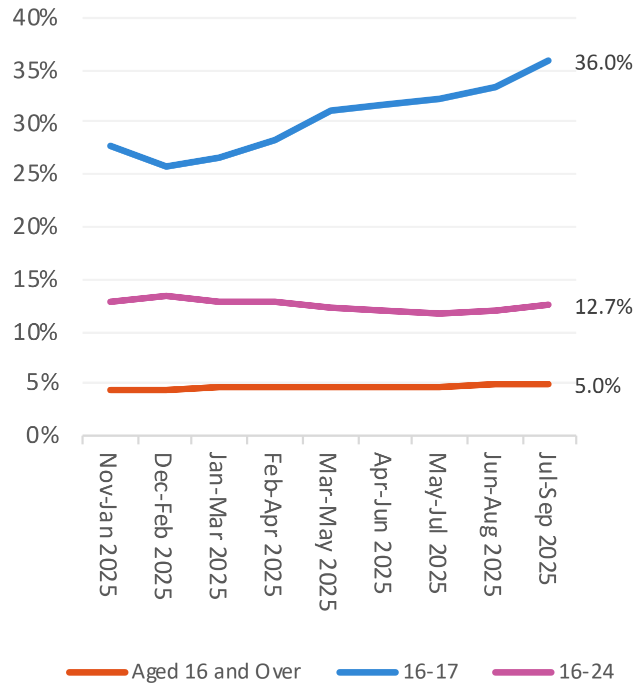
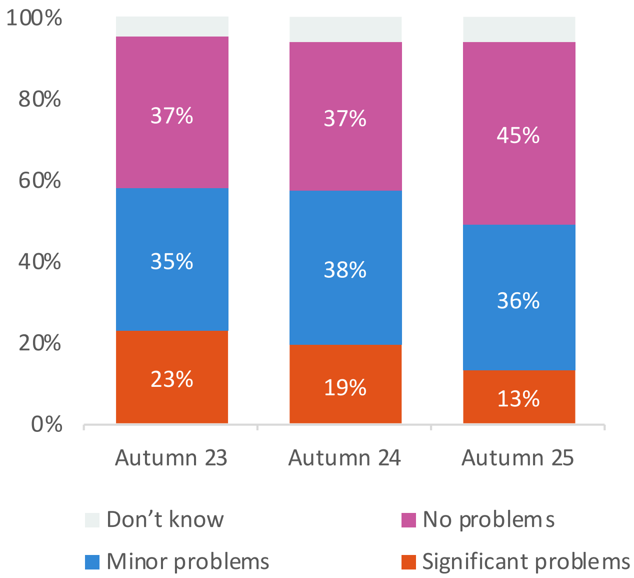


Figure 9: Anticipated problems filling vacancies



The OBR expect the unemployment rate to stay close to its current level of 5% in the coming quarters, then fall gradually to 4.1% from 2027. Compared to its March forecast, the OBR expects a 0.6 percentage point higher unemployment rate in 2026 (around 240,000 people).

A survey by the CIPD found that fewer employers anticipate significant problems filling roles in the short term. Meanwhile, a higher proportion of employers anticipate no problem filling vacancies. The impact is strongest in lower-paying industries, such as in arts, entertainment and recreation, retail and hospitality. An increase in wages relative to other industries, is making these industries more attractive, while an increased supply of labour, has eased recruitment pressures.

How Innecto can support: Hapi

The challenging labour market has increased the focus on how you can stand out amongst competitors. Innecto can support on developing your wider total reward package to elevate key benefits. Our industry leading mobile and web-based app, Hapi, also provides the perfect home for all components of your employee deal, making it visible and accessible to all. Hapi allows you to effectively communicate, manage and analyse your employee deal to drive engagement and retention.

INNECTO INSIGHTS
WHAT WE DO

As the UK's largest independent Reward consultancy, we provide honest advice, support and practical help to solve any challenge relating to attracting, retaining and motivating people. Through our highly experienced team of Client Directors and Reward Consultants we provide the insight and expertise to leverage your pay and reward spend and harness the power of your greatest asset – your employees.

In 2019, Innecto was acquired by AIM-listed Personal Group, providing us with expanded resources and support from an in-house development and tech team. This partnership has allowed us to enhance our offerings, including advanced tools like Pathfinder, Evaluate, PayLab, and Advance, which empower our clients to make data-driven decisions with clarity and efficiency.

Our team of experienced consultants offers actionable insights across the pay and reward spectrum, from executive compensation to employee engagement and retention. Innecto is committed to driving organisational success through impactful reward solutions, seamlessly integrating consultancy and technology to help clients harness the power of their workforce.

Data Sources

1. ONS Inflation and Price Indices, November 2025
2. Office for Budget Responsibility (OBR), The Economy Forecast, November 2025
3. Bank of England, Monetary Policy Report November 2025
4. Office for National Statistics (ONS), Average Weekly Earnings, November 2025
5. Office for Budget Responsibility (OBR), Economic and fiscal outlook – November 2025
6. Brightmine Pay Trends, November 2025
7. Low Pay Commission, National Living Wage 2025
8. CIPD Labour Market Outlook; Autumn 2025
9. Bank of England's Decision Makers Panel (DMP), November 2025
10. ONS, Employment in the UK, November 2025

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www.innecto.com
+44 (0)20 3457 0894
enquiries@innecto.com
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