

# Head of People Services Report for Remuneration Committee

Wednesday 3 December 2025

Pay Review April 2026

## Implications for HR and Pay Decisions

### **Cost-of-Living Pressures**

Despite falling inflation, household costs remain high. Staff will expect pay adjustments to maintain real income.

### **Recruitment & Retention**

Competition with NHS and social care providers continues. NHS pay uplift for 2025/26 was **3.6%**, setting a benchmark.

### **Minimum Wage Compliance**

National Living Wage rises to **£12.71/hour (April 2026)**. Entry-level roles must be reviewed to avoid compression.

### **Budget Constraints**

Rising employer pension costs and operational expenses require careful workforce planning and prioritization.

### **Recommended Actions:**

- **Apply a minimum 3.6% uplift** to maintain parity with NHS recommendations.
- **Review lower pay bands** to ensure compliance with April 2026 National Living Wage.
- **Model affordability scenarios** for staged increases and potential recruitment incentives.
- **Communicate transparently** with staff about economic context and pay strategy.

### **Next Steps:**

- HR to prepare **pay benchmarking report** by January 2026.
- Finance to confirm **budget envelope for pay awards** by February 2026.
- Leadership to approve **pay policy update** by March 2026.

## NHS Pensions Update

### **Employer Contribution Rate**

- The **employer contribution rate remains at 23.7% of pensionable pay**, but **employers only pay 14.38% directly**.
- The remaining **9.4% is funded centrally by NHS England or DHSC**, continuing the transitional approach introduced in 2019/20.
- An **administration levy of 0.08%** of pensionable pay also applies, collected alongside contributions.

### **Member Contribution Tiers (from 1 April 2025)**

Contribution tiers have been updated to reflect pay awards:

Up to £13,259 → 5.2%

£13,260–£27,797 → 6.5%

£27,798–£33,868 → 8.3%

£33,869–£50,845 → 9.8%

£50,846–£65,190 → 10.7%

£65,191+ → 12.5%

### **Regulatory Changes**

- **Part-time staff overtime pensionability clarified:** Additional hours up to whole-time equivalent (WTE) are now automatically pensionable. Employers must **notify affected staff by 1 October 2025** and allow elections for arrears by July 2026.
- Contribution calculations during **reduced pay periods** (e.g., sickness/maternity) confirmed to use **actual pensionable pay**, not WTE.

## Royal London Update

### **Auto-Enrolment Minimum Contributions**

Under UK law (applies to Royal London workplace pensions):

- **Total minimum contribution: 8% of qualifying earnings**
  - **Employer: at least 3%**
  - **Employee: typically, 5%** (including tax relief)

- Qualifying earnings band for 2025/26:
  - **Lower limit (LEL):** £6,240
  - **Upper limit (UEL):** £50,270.

### **Contribution Basis Options**

Employers can certify contributions on:

- **Qualifying earnings** (standard method)
- **Basic pay** (minimum 9% total, employer at least 4%)
- **Total pay** (minimum 8% total, employer at least 3%).

### **Employer Duties**

- Must auto-enrol eligible employees (aged 22+, earning £10,000+) and contribute from day one.
- Six weeks to set up scheme; can postpone up to three months.

### **Additional Contributions**

- Employees can make **extra contributions** anytime.
- Annual allowance: **£60,000** (including employer contributions). Carry forward unused allowance from previous 3 years.

### AfC Update

#### **Expected Pay Uplift**

England & Wales:

- The NHS Pay Review Body process for 2026/27 has started early, aiming for a timely announcement.
- Current prediction: 3% increase across all bands, based on inflation forecasts (3.5–4%) and government affordability evidence.

## Indicative Pay Bands for England (2025/26 confirmed, 2026/27 projected)

(Excluding High-Cost Area Supplements)

Band	2025/26 Pay	Projected 2026/27 (+3%)
2	£24,464	~ £25,198
3	£24,939–£26,599	~ £25,687–£27,397
4	£27,484–£30,162	~ £28,308–£31,067
5	£31,049–£37,796	~ £32,000–£38,930
6	£38,682–£46,580	~ £39,842–£47,977
7	£47,809–£54,709	~ £49,243–£56,350
8a	£55,690–£62,682	~ £57,361–£64,562
8b	£64,455–£74,902	~ £66,389–£77,149
8c	£76,964–£88,682	~ £79,273–£91,342
8d	£91,341–£105,377	~ £94,081–£108,538
9	£109,277–£125,636	~ £112,555–£129,405

### Key Points for HR Planning:

- Minimum uplift likely 3%, but unions may push for higher if inflation remains above 3%.
- Band 2 & 3 roles must stay aligned with National Living Wage (rising to £12.71/hour by April 2026).
- High-Cost Area Supplements (London & fringe) continue unchanged for now.
- Pay structure review planned for 2026/27 to simplify progression and address compression issues

### Economic Overview

- **GDP Growth:** UK economy is expected to grow modestly at **1.3% in 2025**, slowing slightly to **1.2% in 2026**. Recovery remains fragile.
- **Inflation:** Forecast to fall from **4.2% (2024)** to **3.5% (2025)** and **2.5% (2026)**, reaching the Bank of England's 2% target by mid-2027.
- **Interest Rates:** Base rate reduced to **4.0% in 2025**, expected to fall further to **3.25% in 2026**, easing borrowing costs.

- **Labour Market:** Unemployment rising to **4.7%**, vacancies declining, but wage pressures persist in health and care roles.
- **Public Finances:** High borrowing and tax burden limit government flexibility; funding for non-NHS providers remains constrained.

### National Living Wage (NLW)

The NLW is increasing to £12.71 from April 2026.

Historically we had paid 18–20-year-olds the National Minimum Wage rate, however in the recent retail benchmarking and pay review, the decision to remove this as it was agreed that we should pay the person for the role they do regardless of their age.

### Exceptions & Recommendations

Last month we paid our Retail staff an increase (backdated to 1/10/25) due to a benchmarking activity which ensured we were offering the staff a reasonable incentive and helped us to remain competitive when advertising new vacancies. We saw the success of this in our last round of retail recruitment, our first using Jobtrain, where we received over 80 applications and successfully secured 4 new members of staff.

However, the knock-on effect of the increase to the NLW of 4.1% means we must address the current groups of staff who will be affected as from 1 April 2026:

- Housekeeping & Kitchen Assistants
- Shop Assistants
- Drivers – Wellbeing
- Retail Ebayer

The Facilities Operative role is also affected as the base role is currently calculated at NLW, earlier in the year we re-benchmarked the on-call aspect and combined it with their salary, the amount was £1,000 FTE. Therefore, I suggest enhancing their pay to £13.19 per hour to ensure they do not suffer a detriment. The calculations are on the spreadsheet.