

**HaRe Group newsletter: 16 May 2014**

**Subject: Bracing for the Budget Bump**

This week, many employees will be considering the forthcoming:

- Higher fuel costs
- Higher medical costs
- Higher education costs for their children
- and always the CPI (chugging along at almost 3% per annum)

To fend off these incoming bumps, what can these employees look forward to? Salary increases of around 3% p.a. (This is what my recent research into discretionary remuneration budgets revealed about larger Australian companies in 2014. Employees in enterprise agreements tend to receive higher wage increases of around 3.5% p.a.).

If there are no substantial improvements to remuneration budgets, it's clear that the CPI and the 2014 Federal Budget will be eroding the real incomes of many working Australians in coming years. Putting aside macro economics and politics, the reality is that many employees will need to find better paid work just to keep pace with rising living costs and higher taxation. Another bump coming is the prospect of the GST rate increasing sooner than later, thanks to the shortfall in States' funding.

In this context, it's likely that employers will eventually feel their employees' discontent as their costs of living increase beyond normal pay rises. Remuneration budgets will not increase in current economic conditions unless an organisation has significant and sustainable productivity improvements. So what additional compensation can employees be offered to discourage job searching? In particular, what can you do to brace your organisation and keep your best, most productive (*High Potential*) employees engaged?

In financial terms, merit pay increases need to favour the most productive people. A uniform distribution of the available remuneration budget could disengage many *HiPos* – why allocate equal pay increases for unequal performance? While the under-performing employees would receive lower increases, they should have an unambiguous discussion with their manager that explains what they need to do to receive a greater increase next time.

Variable performance-based pay is also a logical opportunity for some employees – especially for those people who make a direct contribution to financial performance. At risk of repetition, incentives make sense when:

- Objectives are properly resourced by the employer and not subject to any unreasonable external interference
- Outcomes will deviate within a range controlled by participating employees
- Funding reflects the organisation's bottom line performance
- Measures are quantitative, impartial and respected by employees

Of course, employees should also be encouraged to think strategically about their work situation – they should know what career opportunities are available to them and what the organisation will do to prepare them for this future. While more pay is not immediately available, every employer should be investing in their people by providing development programs that will equip their people for any prospective role.

People managers can mitigate their employees' financial irritation by offering clear and consistent information about the organisation's business context and each employee's potential. Managers should also provide continuous feedback and ongoing encouragement, along with direct action to prepare each employee for future opportunities.

*Simon Hare*

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