

# Reward

This guide will look at the range of options available to reward workers and recognise their contribution. It will explore the different categories of reward including pay, bonuses and incentives and benefits. It will also outline the UK legal position.

July 2023

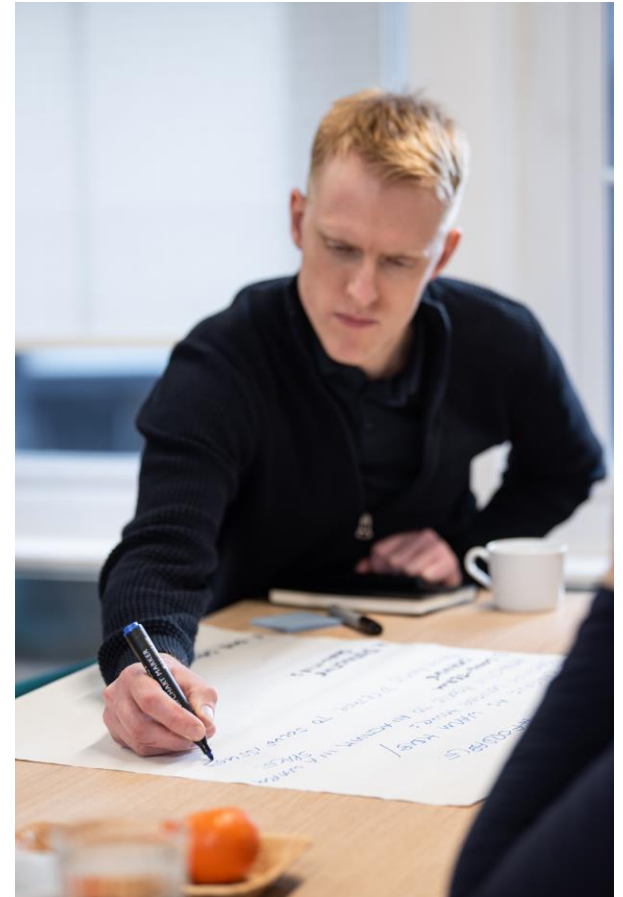
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## Introduction – what is reward?

The term 'reward' generally covers all financial provisions made to employees, including pay. However, it can also include wider provisions including a variety of non-pay benefits.



# Managing Reward

One of the main reasons for offering rewards is to influence employee behaviour so they will join your organisation, stay with you as an employer and perform well in their job. Looking at the some of the more traditional aims of each area:

- Salaries – attract people to your organisation.
- Bonus/Incentives – motivate employees to perform at their best (however, in some types of organisations, including charities, this can be more controversial).
- Benefits – retain employees.



However, these may change over time depending on individual circumstances. For example, some employees may not consider the financial elements of a reward package as important as the training and development opportunities available. Similarly, some individuals may be willing to work for lower pay if they have a strong attachment to the organisation's aims and objectives.

To ensure that your organisation is meeting the needs of individuals, you should find out exactly what attracts, keeps, and motivates your current and future employees so that your reward package can be tailored. Consider asking employees about this in your staff survey and exit interviews so you can get an understanding of the current levels of satisfaction.

Because there are various elements to reward, it's important to think about the appropriate mix of base to variable pay, fixed to flexible benefits, and financial to non-financial rewards to meet both employer and employee needs.



# Pay

All workers have a legal right to pay for work they have done. Pay can be divided into two categories:

- **Fixed (or base) pay** is a guaranteed wage or salary paid to employees for working a contracted period, such as a 35-hour week. This can include location allowances and other associated guaranteed payments.
- **Variable pay** is not guaranteed. This can include bonus, incentives and overtime payments.

The methods of pay and payment intervals should be set out in the contract of employment.

By law, all workers are entitled to an itemised pay statement. This should be provided on or before the payday, in hard or electronic copy. The statement must show how much the worker is being paid over a period of time, and any deductions.

## Pay Structures

A pay structure is a collection of wage grades, levels, or bands linking related jobs within a hierarchy. They are usually designed to:

- Bring order and clarity in managing pay rises and career development.
- Help ensure fairness and lawfulness, for example by avoiding pay discrimination.

Example pay structure:

	Band A	Band B	Band C
Administrator	£20,000	£22,000	£24,000
Officer	£26,000	£28,000	£30,000
Senior Officer	£32,000	£34,000	£36,000
Manager	£38,000	£40,000	£42,000

The **'span'** of each grade is the percentage difference between the minimum and maximum salary range. In the example shown, the **'span'** for point 1 is between £20,000 and £24,000 ( $£4,000$ ) = 20%. The wider the **'span'** the greater the development potential.

The **'differentials'** refer to the percentage difference between the midpoint of one grade to the next. In the example shown, the **'differential'** between grade 1 and 2 is £22,000 and £28,000 = 27.2%. This should be great enough to reward taking on more responsibility.

## Pay Structures continued

In the pay structure shown, each band consists of 3 increments. It is good practice to appoint staff at the lower band of each grade for consistency and fairness, although this may be negotiated. A policy on the frequency of band increases should be agreed and stated in the contract of employment until the top of the scale is reached. There are differing views on the use of such bands; some feel they lead to 'incrementalism' and others feel strongly that an employee is more valuable the longer they are with an organisation. Being clear on why you might operate a system is important. Some organisations include an element of performance measurement before people go through the bands. But see issues related to performance related pay below in the bonus and incentives section.

Alongside this, there should also be an annual salary review for cost of living. Workers should be advised in writing of an increase to salaries once this has been negotiated.

## Pay Grades

Key factors when considering an annual pay increase - which often includes performance-based increases as well as a cost-of-living uplift include:

- ability to pay
- inflation
- market rate changes
- employee perspectives

It is important to be transparent and consistent with employees during this process and communicate decisions that are made in a clear and empathetic way, especially during a time of financial hardship.



## Pay Awards (CoL increases)

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## Pay Progression

Pay progression is how an employee moves to higher band within a grade. It's distinct from salary rises linked to either inflation or a formal promotion to a higher band.

Organisations can use pay progression to:

- Encourage and reward desired employee behaviours.
- Maintain pay competitiveness while controlling wage costs.
- Provide a fair and transparent process to determine individual salary increases.

Progression is usually determined by the:

- Span of each pay band – the degree of width within each band.
- Number of pay grades within the overall pay structure.

It is sometimes possible for an overlap between the top levels of pay attached to one grade and the lower levels of the next grade up. This recognises the greater value of contribution from a highly experienced individual at the top of their grade compared to a newly appointed employee on a learning curve at the lower end of the grade above.

Your organisations pay progression policy should be clear and transparent, and outlines in the contract of employment.



# Bonuses and Incentives

Bonuses and incentives are a form of variable pay based on lump-sum payments linked to individual, collective or organisational performance (or some combination of these). They are not consolidated into base pay, though in certain situations (such as due to cost constraints) they can be given as part of, or instead of, a pay rise. They are usually paid in cash.



It's important to draw a distinction between incentives and bonuses, although the two terms are interlinked and often used interchangeably.

- **Incentives** aim to influence future employee behaviour or performance, usually using targets: if a specific target is met, the employee will receive a payment.
- **Bonuses** can be discretionary or non-discretionary. Like incentives, they may be used to influence employee performance or behaviour to meet pre-set objectives, but they could also be used to reward past achievements.

It's also helpful to differentiate between:

- **Non-cash incentives**, sometimes called performance improvement plans, aim to affect employees' future performance by awarding prizes or 'gifts', associated with some performance measure.
- **Employee recognition schemes** are retrospective as they recognise past performance rather than incentivising future efforts. They may be informal and discretionary. Such schemes may be linked with non-cash incentives.

For the employee, the main benefits of bonuses/cash incentives over consolidated salary increases are:

- Greater control over their level of remuneration.
- Higher payments are potentially possible.
- The bonus can be received in one go.

But the downside for employees includes:

- Non-consolidated payments must be re-earned and may not count towards variable payments (such as overtime) or benefits (such as occupational sick pay).
- Payments may be unpredictable or lower than expected if targets cannot be met.

For the organisation, the advantages include:

- Ongoing motivation as bonuses must be re-earned.
- Lack of impact on certain employer on-costs that are linked to basic salary levels, such as pension contributions.
- Capacity for maintaining market pay competitiveness without necessarily inflating the annual pay bill.
- Flexibility through, for example, the ability to reduce or even halt payments during economic downturns.

Where performance is being used to decide pay this should be considered carefully, particularly in the charity sector. There can be issues with having an effective and fair system for measuring performance linked to pay and such systems can be cumbersome. Organisations should consult with staff before introducing such a system.



# Benefits

Employee benefits are non-cash provisions within the reward package, although they can have a financial cost for employers, for example paid holidays or pensions.

## Pensions

These are widespread due to legal requirements. Since automatic enrolment, the decision regarding workplace pensions comes down to how much should be contributed. Workplace pensions need to be reviewed regularly in line with an ever-changing body of legislation and to check they're delivering value for money. Organisations should ensure they have effective employee communication and guidance in place, not only to meet legal requirements and ensure staff understand their pension and retirement options, but also to raise awareness of the value of the benefit on offer.

More information can be found on the Gov.uk website: <https://www.gov.uk/topic/business-tax/pension-scheme-administration>



## Annual Leave and time off

Employers are legally required to offer 5.6 weeks of paid annual leave per year to all workers, although it is common for organisations to offer more than the minimum to remain competitive.

There are also statutory entitlements to other types of time off work including maternity, paternity, adoption, parental and bereavement leave. As with holidays, many employers often provide more generous time off arrangements than required by law.

It is also important to consider other forms of discretionary paid time-off, such as for voluntary work, training and development, study leave, etc.

## Healthcare

These benefits may be provided to ensure both the welfare and productivity of employees.

Common types of benefits include:

- Employee assistance programmes.
- Eye care vouchers.
- Death in service/life assurance.
- Occupational sick pay.
- Free vaccinations.
- Programmes to encourage physical fitness.



# Cost of Living Crisis: Benefits that can help cut living costs

During times of financial hardship, it is important to consider options for cutting costs through different schemes and initiatives that can be introduced or improved to support employees.



## Commuting Costs

- Promoting agile working
- Allowing people who travel by public transport to come to work when it's cheaper (after peak hours)
- Interest-free loans to buy public transport season-tickets, bikes, or cycles
- Joining the government backed 'cycle to work scheme'

## Childcare

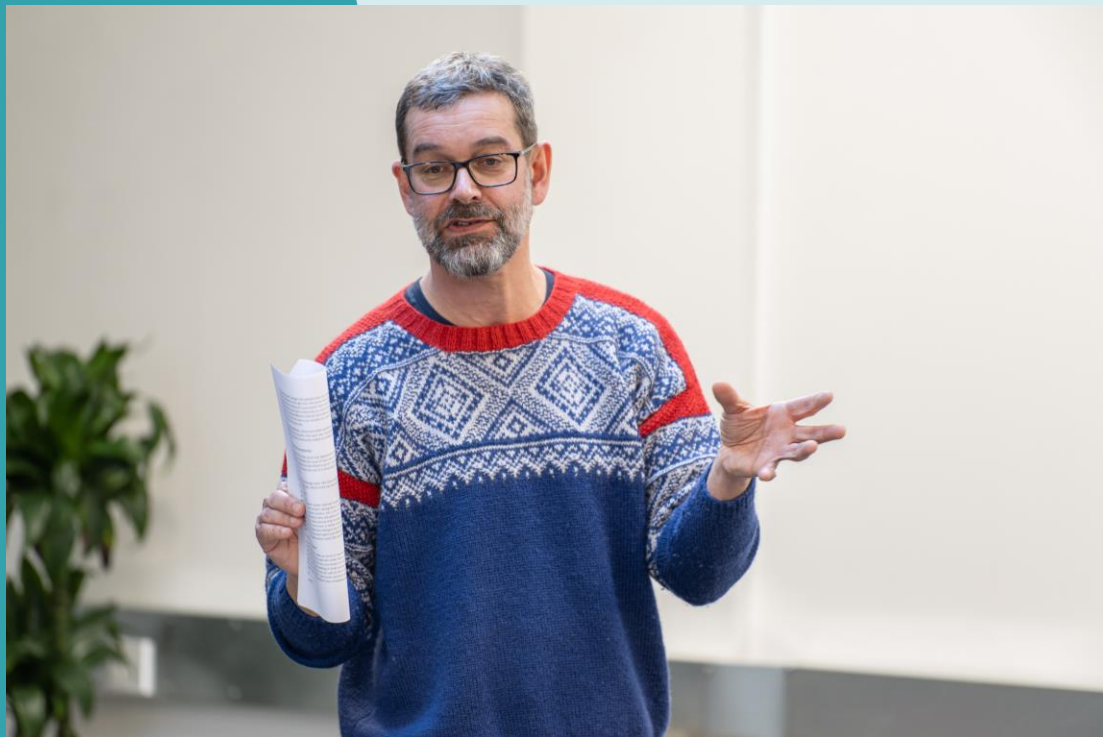
- Flexible working
- Paid leave for caring responsibilities
- Guidance for staff trying to access the government's tax-free childcare schemes
- Maternity loans

## Food Costs

- Free or subsidised meals, snacks and drinks e.g., tea, coffee, milk, fruit etc.
- Workplace cooking facilities

## Housing Costs

- Rental deposit schemes
- Providing information and guidance on employees' legal rights regarding housing
- Paid leave to move home
- Signposting ways of reducing energy use



# The UK Legal Position

In all pay and reward policies, UK employers must meet legal requirements, for example, on equal pay or the National Minimum Wage.

## Equal Pay

The Equality Act 2010 ensures that men and women receive equal pay for equal work.

Factors that make it unlawful to pay men and women differently:

- Like work: similar role, knowledge and skills required.
- Rated as equivalent: considered under a job evaluation scheme, the role must require the same or similar effort, skills and decision making.
- Equal value: when there is no job evaluation scheme, but the role provides the same value.

## National minimum wage and national living wage

The National Minimum Wage and Living Wage rate is based on recommendations by the Low Pay Commission (LPC) and increases each year on 1 April. To be classified as a 'worker', people must either be at school leaving age to receive the National Minimum, or 23+ to receive the National Living Wage.

National Minimum and Living Wage: current rates as of 1 April 2023

Age	23+	21-22	18-20	16-17	Apprentice
Rate	£10.42	£10.18	£7.49	£5.28	£5.28

## Benefits and tax

You should consult a payroll or tax specialist to understand whether any benefits might incur a tax liability for you or your employees.



## Statutory sick pay (SSP)

SSP should be paid for qualifying days, i.e., days the employee usually works, and on payday. It should be paid when an employee is sick for at least 4 days in a row. If an employee has worked 1 minute of a day, this cannot be included as a sick day. SSP payments should stop when the employee returns to work, or after the qualifying period. Employees must provide notice and proof of sickness, after 7 days of sickness. Many organisations adopt an organisational sick pay in addition to SSP.

SSP: current rate as of 1 April 2023

Rate	Duration
£109.40 per week	Up to 28 weeks

## Annual leave

All workers are entitled to 28 days paid annual leave per year, equivalent to 5.6 weeks. This includes the 8 bank holidays.

Part-time workers are entitled to an equal proportion by multiplying the number of days per week they work by the total weeks.

If someone is sick during their annual leave, they should report this and can request that their annual leave should be replaced by sick leave. Workers can keep these days to be used at another time. If a worker is on long-term sick leave, they are entitled to carry over 4 weeks of unused annual leave.



## Useful links

- [Acas: Equal Pay](#)
- [Gov.uk: Holidays, time off, sick leave, maternity, and paternity leave.](#)
- [Gov.uk: National Minimum Wage and National Living Wage rates](#)

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