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DAO(GEN)13/01

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Dear Accounting Officer

## **EXPENDITURE ON NON PAY REWARDS**

This letter is issued slightly in advance of Cabinet Office guidance on non pay rewards to staff so that those organisations giving consideration to the implications of non pay rewards will not be unnecessarily delayed. It guides departments, agencies and NDPBs on the propriety and regularity aspects to be taken into account when introducing non pay rewards schemes. This letter supersedes DAO (GEN) 1/94.

### **Action**

Accounting Officers are asked:

- to draw the attention of relevant staff to the guidance enclosed with this letter so that they can devise non pay reward schemes with due regard to propriety and regularity.
- to note contacts as follows:
  - *general policy on staff benefits and non pay rewards*: Duncan Everest, Performance and Reward Division, Cabinet Office; phone 020 7276 1671; email [duncan.everest@cabinet-office.x.gsi.gov.uk](mailto:duncan.everest@cabinet-office.x.gsi.gov.uk);
  - *general policy on regularity and propriety*: Debbie Edwards, Treasury Officer of Accounts team at the above address; phone 020 7270 5363; email [debbie.edwards@hm-treasury.gov.uk](mailto:debbie.edwards@hm-treasury.gov.uk);
  - *Tax and staff benefits; PAYE settlement agreements*: Inland Revenue, Employers Liaison Section, Public Departments, Cardiff: Helen Hillman (02920 326940); Jenny Mills (02920 32638) and Kim Havard (02920 326937).

Further copies of this guidance are available on the Treasury's GSI website. If you would like further copies and do not have access to the Treasury's GSI website, contact Mangai Rajasingham of the TOA team – phone 020 7270 5362, email [mangai.rajasingham@hm-treasury.gsi.gov.uk](mailto:mangai.rajasingham@hm-treasury.gsi.gov.uk), stating whether you require electronic or hard copies and give appropriate contact details.

*Yours sincerely*

*Glenn Hull*

**Glenn Hull**  
**Second Treasury Officer of Accounts**

**PROPRIETY AND REGULARITY ASPECTS OF STAFF BENEFITS AND NON PAY REWARD SCHEMES**

This guidance should be read in conjunction with paragraph 7.1.7 of the Civil Service Management Code (revised August 2001) and forthcoming guidance from the Cabinet Office on Non-Pay Rewards. The guidance in this DAO letter supersedes that in DAO(GEN)1/94, which shall be regarded as spent.

**General Principles**

2. Departments, agencies and NDPBs are asked to note that when they devise staff benefits and non pay reward schemes, they should pay particular attention to the Treasury's *Handbook on Regularity and Propriety*. This handbook emphasises that the scope of propriety in central government is wider than elsewhere and includes the standards of behaviour which Parliament and the public would expect from public servants in the way they spend public money. The appendix to this note sets out general guidance on regularity, propriety and vfm in relation to staff benefits and non pay rewards.

3. This guidance covers the following areas:

- Performance pay, working environment, equipment and token gifts
- Amenities and Recreational Facilities
- Other expenditure on non pay benefits
- Treasury approval and Parliamentary notification
- Liability to Income Tax
- Application to Non-Departmental Public Bodies
- Appendix – Regularity, Propriety and value for money aspects

**Performance pay, working environment, equipment and token gifts**

4. Departments and agencies are encouraged to offer cash bonuses to reward individuals and teams in accordance with the recommendations in the Cabinet Office report on Performance Management (December 1999) and the Treasury report Incentives for Change (January 2000). Departments should ensure that any payments under existing or new schemes do not lead to a breach in a department's or agency's administration costs limit.

5. Departments and agencies may also allocate funds to the following items:

- a. improvement in the working environment;
- b. job related items required for official duties;
- c. token gifts or one-off awards.



6. In all cases, the scale of the expenditure must be reasonable for an employer to provide and be a legitimate charge to administration costs on the relevant Departmental Estimate.

### **Amenities and Recreational Facilities**

7. The Government contributes generally towards the cost of sport and recreation in the Civil Service through a grant in aid to the Civil Service Sports Council. In addition, departments may make reasonable provision for amenities and recreational facilities for the use of all staff. Arrangements will vary between departments depending on numbers and location of staff, but are subject to the following points:

- Expenditure needs to be assessed in terms of staff welfare, morale and motivation, and also the value and propriety of using public money to finance the provision of such facilities – it may not be sufficient to draw analogies to the provision of similar facilities in the private sector.
- Accounting Officers should take a close interest in such facilities and be satisfied that departmental guidelines are clearly and properly drawn up, and that arrangements are in place to ensure that management adheres to these guidelines. It is recommended that these guidelines should provide for the Accounting Officer to approve any major or unusual cases or any cases carrying the risk of public criticism.
- Departments should assess expenditure on these facilities in the same way as they would any other capital project. In addition, departments should consider whether alternative options might get better value for money such as: negotiated discounts for use staff to use alternative providers; or a group subscription for staff use.
- There should be consideration whether staff could reasonably contribute, either collectively through representative groups or individually through charges for the use of facilities.

8. If departments are including the cost of recreational facilities in another wider project, they should ensure that the costs and nature of the amenity or recreational facility is clearly identified and assessed in its own right.

### **Other expenditure on non pay benefits**

9. Departmental non pay benefit schemes include the following examples:
- a. gifts, vouchers, and entertainment offered as rewards under recognition schemes;
  - b. payment by the employer of its staffs' personal subscriptions to sports or leisure clubs;
  - c. rewards leading to donations to a charity or other external body;

- d. provision of cars where they are needed for official purposes and are covered by an existing and agreed scheme which includes charging for any private use.

10. When introducing such schemes, departments and agencies should actively consider whether they represent an appropriate use of public funds. Departments and agencies are advised to be open and transparent in the way they deal with non pay rewards. They should have clear policies on disclosure of information about the awards which have been made and the procedures adopted for making those awards.

11. Also departments and agencies should avoid any criticism that departments are unfairly giving preference to a particular group, eg to certain shops, companies or charities. It is therefore recommended that the recipient of the reward be given some choice or that departments and agencies use third-party suppliers where, for example, voucher schemes are introduced.

### **Treasury approval and Parliamentary notification**

12. In all cases, departments and agencies should ensure that when they introduce such schemes, they seek Treasury approval where the total costs of the likely expenditure is outside the department's or agency's delegated authority or where a particular aspect of a scheme is novel or contentious. That delegation may be explicitly related to specific items or part of delegations on administration costs generally, according to the judgement of the appropriate spending team. Where Treasury approval is required to the introduction of such schemes, spending teams will seek the advice of the Cabinet Office on policy in relation to staff benefits and from TOA for advice on propriety.

13. If departments are uncertain whether Treasury approval is required, they should consult their Treasury spending team.

14. Departments should draw Parliament's attention to non-pay reward schemes where the total costs are over £100,000 or 0.5% of gross departmental or agency expenditure, whichever is the lesser, by identifying it in the introduction the department's Estimate and noting the resource accounts (or in the case of agencies, the annual report and accounts).

### **Liability to Income Tax**

15. Department should be aware that the provision of facilities and amenities for members of staff may have tax implications.

16. Benefits in kind (ie benefits to staff which are not cash) provided to employees may be taxable depending on the salary of the individual receiving the benefit. However, sports and recreational facilities provided to staff generally are exempt from a benefit in kind charge provided certain conditions are met:

- to qualify for the exemption, the facilities must be available to staff generally. Facilities provided to only a few selected members of staff do not qualify;
- facilities which are open to members of public generally do not qualify;
- subscriptions to sports clubs paid for by departments are not within the exemption;
- facilities provided jointly with another department or with a private sector employer can qualify for the exemption, provide the facilities are available to staff generally of each employer; and
- where facilities provided to staff are taxable, the benefit in kind charge may be reduced by any contributions from members of staff.

17. Departments should seek advice from the Inland Revenue, Employers Liaison Section, Public Departments, Cardiff on the tax treatment of any benefits in kind. The contacts are Helen Hillman (02920 326940), Jenny Mills (02920326938) and Kim Havard (02920 326937)

18. With small or irregular non-cash incentives schemes, employers can ensure that tax does not act as a potential barrier to implementation and undermine any award received by an employee by entering into a PAYE settlement agreement (PSA) with the Inland Revenue. A PSA is a system whereby the employer enters into a voluntary agreement with the Inland Revenue to meet the tax on the rewards and pay NICS on them. This means that the employee does not have to declare such awards on their tax returns or pay tax on them. See IR leaflet number 155, available at [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

### **Application to Non-Departmental Public Bodies**

19. Sponsor departments are asked to send this guidance to NDPBs which they sponsor and to make arrangements for the guidance to be implemented by them. The principles set out in this guidance apply to NDPBs because they too are required to pay due regard to regularity, propriety and vfm. If appropriate, because the expenditure would be outside their delegated authorities, NDPBs should seek approval from their sponsor department. The sponsor departments will also need to determine whether NDPB expenditure on staff benefits and non pay reward schemes require Treasury approval. Any schemes which are novel or contentious must be approved by the Treasury, irrespective of any delegated authorities.

20. Where formal approval is not needed, departments may wish to consider asking NDPBs to consult them if in any doubt about the propriety and regularity of any schemes. The Treasury need not be consulted but is ready to give advice to departments if they wish.

21. Sponsor departments should consider whether expenditure of non pay reward scheme should be drawn to Parliament's attention by note in the NDPB's accounts. Any expenditure of the type described in this guidance should be noted in the NDPB's

accounts if it is greater than £100,000, or 0.5% of gross expenditure, whichever is the lesser.

22. Sponsor departments' and NDPBs' attention is drawn to the attached appendix stressing the need for effective internal control arrangements and other factors to be established when introducing such schemes. Where authority to incur expenditure on non pay rewards is delegated to an NDPB it may be appropriate for the sponsor department to require that proposed expenditure should be considered personally by the NDPB's Accounting Officer and or referred to the NDPB board.

**TOA, HM TREASURY**  
October 2001

## APPENDIX

### Regularity, Propriety and VFM Aspects

#### *Internal controls*

1. It is essential that departments and agencies have effective internal controls in place, thus ensuring that:
  - a. senior management has give proper consideration to the establishment of schemes of the type described in this letter; and
  - b. expenditure on those schemes is incurred only as intended by senior management.
2. Departments should pay particular attention to the Treasury's *Handbook on Regularity and Propriety* which emphasises that the scope of propriety in central government goes wider than common usage elsewhere and includes the standards of behaviour which Parliament and the public would expect from public servants in the way they spend public money. Some of the desirable features of such control systems are as follows

#### *Assessment of schemes*

3. As in other areas, organisations should adopt a risk based approach to the systems they design and operate to control the use made of non pay rewards. They should first consider the objectives which the organisation is seeking to achieve in its use of non pay rewards. Next, the risks which might prevent those objectives from being met need to be considered and then controls put in place which are proportionate to those risks. Finally appropriate governance arrangements need to be in place to ensure that the whole process operates properly and that any emerging difficulties are drawn to the attention of the appropriate level of management in good time.
4. When constructing **objectives**, organisations should take care that they are meaningful and focussed: for example by measuring performance against competitors in local labour markets in order to recruit suitable staff. Broad objectives such as “to improve morale” should be accompanied by proposals on monitoring relevant indicators such as staff attitudes or retention and on how such monitoring will inform decisions on the effectiveness and future use of non pay benefits.
5. An assessment of **risk** should be conducted within the context of the organisation's strategic risk assessment. The positive benefits of using non-pay rewards as part of a human resources strategy need to be set against the risks of these schemes being seen as improper use of public funds. Organisations will want to consider other factors as they relate to their own circumstances. For example staff expectations may be unrealistically raised, risking a lowering of morale, or there could be value for money or budgetary implications of an “uncapped” amount of non pay reward. Organisations may also identify risks associated with bad publicity including being perceived to favour, local suppliers of the benefits on offer.

6. The nature of appropriate **controls** will naturally depend on the degree of risk identified. A robust financial framework will be fundamental to most systems of control although the precise nature may vary.

7. Given the developing nature of this area and sensitivities associated with it in the past, Accounting Officers will wish to ensure that emerging issues are brought to their attention in good time. The system of **corporate governance** in place will determine how that might be done. Guidelines on implementation of the Turnbull recommendations are set out in DAO 13/00

8. On all these matters Accounting Officers will wish to consult their Heads of Internal Audit.