Dear Accounting Officer

EXPENDITURE ON NON PAY REWARDS

Purpose of this letter

1. To guide departments, agencies and NDPBs on the propriety and regularity aspects to be taken into account when introducing non pay reward schemes. This letter supersedes the Dear Principal Finance Officer letter of 31 January 1994.

Action

2. 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; and

• To draw this letter to the attention of those Agencies and NDPBs for which they are responsible.
Contacts

3. Please note the following contacts:

- **General queries on pay, staff benefits and non pay rewards:** should be addressed to a department’s personnel branch in the first instance.

- **General policy on pay and remuneration:** Gerry McPeake, Central Personnel Group, DFP, phone 028 90526509, e-mail: gerry.mcpeake@dfpni.gov.uk

- **General policy on regularity and propriety:** Mark McNaughten, Financial Reporting and Accountability Branch, DFP; phone 028 91858112, e-mail: mark.mcnaughten@dfpni.gov.uk or Karen Beattie, Financial Reporting and Accountability Branch, DFP; phone 028 91858133, e-mail: karen.beattie@dfpni.gov.uk

- **Tax and staff benefits: PAYE settlement agreements:** Inland Revenue, Employers Liaison Section, Public Departments, Cardiff: Helen Hillman (02920 326940); Jenny Mills (02920 326938) and Kim Havard (02920 326937)

Guidance

4. Further copies of this guidance are available on the AFMD website at [www.dfpni.gov.uk/afmd](http://www.dfpni.gov.uk/afmd)

Yours sincerely

**David Thomson**

DAVID THOMSON
Treasury Officer of Accounts
ANNEX TO DAO(DFP)05/03

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

1. This guidance should be read in conjunction with the guidance from the Cabinet Office on Non Pay Rewards which is attached. This guidance supersedes that in DPFO letter of 31 January 1994, which is now cancelled.

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:

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

Special Bonus Scheme, working environment, equipment and token gifts

4. Departments and agencies may consider the use of the Special Bonus Scheme to reward individuals and/or teams for exceptional performance in particularly demanding tasks or situations (CSC 7/91 refers).

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 Executive contributes generally towards the cost of sport and recreation in the Civil Service through a grant in aid to the Northern Ireland Civil Service Sports Association. 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 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 are clearly identified and assessed in their 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. provision of health awareness and welfare programmes or counselling for staff

d. rewards leading to donations to a charity or other external body;

e. 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.

**DFP approval and Parliamentary notification**

12. In all cases, departments and agencies should ensure that when they introduce such schemes, they seek DFP 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 Supply Officer. Where DFP approval is required to the introduction of such schemes, Supply Officers will seek the advice of the Central Personnel Group on policy in relation to staff benefits and from the Treasury Officer of Accounts for advice on propriety.

13. If departments are uncertain whether DFP approval is required, they should consult their Supply Officer.

14. Departments should draw Parliament’s attention (or the Assembly’s attention during devolution) 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 to 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. Departments 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, provided 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 (02920 326938) and Kim Havard (02920 326937)

18. With small or infrequent 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 national insurance contributions 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 [http://www.hmrc.gov.uk/leaflets/obsolete.htm](http://www.hmrc.gov.uk/leaflets/obsolete.htm).

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 a DFP approval. Any schemes which are novel or contentious must be approved by DFP, 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. DFP 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 more 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.
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 given 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 (DFP)05/01.

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