



Reward Risk Management

WHAT IS A PAY STRUCTURE?

The CIPD defines a pay structure as “a collection of pay grades, levels or bands, linking related jobs within a hierarchy or series, that provides a framework for the implementation of reward strategies and policies within an organisation”.

The principles objectives are:

- to align reward strategy with the business strategy
- to help ensure fairness and equity
- to develop clear processes for managing pay
- to enable staff to understand how pay is managed in the organisation

Types of pay structures

There are a number of different types of pay structure and what suits the organisation best will depend on a number of factors including; size of organisation, nature and types of jobs, and business objectives.

The following offers a brief insight into each type:

1. Spot Salaries, (Individual pay rates, Spot rates)

With a spot salary there is a single hourly or weekly pay rate or a single annual salary attached to each job, or possibly to each person, in an organisation.

Spot rates are often used for lower-skilled, or in trades type roles, where the ‘rate for the job’ or the ‘going rate’ is well publicised in the market.

Conversely, spot salaries often also occur at the other end of the scale for more senior positions, such as senior managers or directors, where the remuneration package may need to be designed to attract or retain a specific individual.

Spot salaries can be created for larger structures using a job evaluation scheme to align roles to a market tested rate.

With spot salaries is no formal structure in place for pay progression, although there will usually be policies for moving to a higher spot rate or for spot rates to be increased in line with inflation or market rates.

Example of spot salaries

Job	Pay rate
Team Leader	£14.50/hour
Maintenance Technician	£11.50/hour
Administrator	£9.50/hour

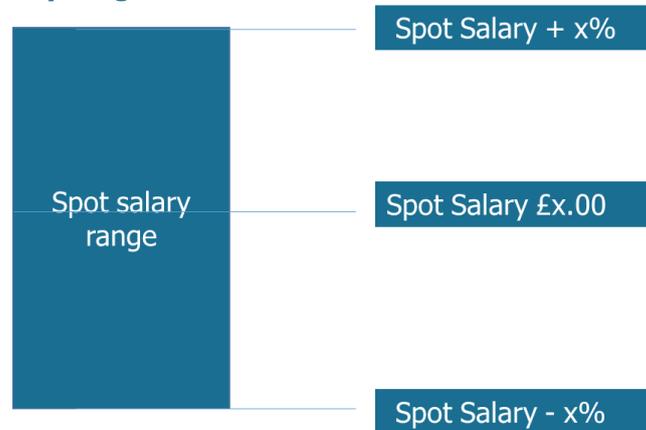
2. Individual pay ranges, individual job ranges, individual salary ranges

Instead of a spot salary, a pay range or salary range is attached to each job or individual employee.

Individual pay ranges may be considered preferable to individual pay rates as they allow some formal scope for pay progression.

Individual pay ranges also help when making the transition from a formal graded structure to spot salaries.

Example of a spot salary range



3. Narrow-graded pay structures

Narrow graded pay structures are made up of a large number of grades, typically 10 or more, with jobs of broadly equivalent worth slotted into each of the grades. These types of structure are often found in the public sector or services which were once closely aligned.

Progression is frequently by means of service increments – usually annual or 6-monthly. However, because the grades are very narrow, most employees reach the top of the pay range for their grade fairly quickly, potentially leading to demands for upgrading and grade drift (jobs being ranked more highly than justified).

Example of a narrow-graded pay structure

Grade	Step 1	Step 2	Step 3	Step 4	Step 5
12	£60,000	£62,000	£64,000	£66,000	£68,000
11	£55,000	£57,000	£59,000	£61,000	£63,000
10	£52,000	£54,000	£56,000	£58,000	£60,000
9	£49,000	£51,000	£53,000	£55,000	£57,000
8	£45,000	£46,000	£47,000	£48,000	£49,000
7	£42,000	£43,000	£44,000	£45,000	£46,000
6	£40,000	£39,100	£40,000	£40,800	£41,750
5	£35,700	£36,000	£37,000	£38,000	£39,000
4	£32,300	£32,500	£32,900	£33,400	£33,800
3	£24,500	£24,900	£25,700	£28,200	£29,000
2	£23,900	£24,000	£24,200	£24,500	£24,900
1	£19,250	£19,800	£20,075	£23,650	£22,400

4. Broad-graded pay structures

In this case there are fewer grades than narrow-graded structures, perhaps six to nine.

This means that the salary band within the grade is usually wider, which can help counter the problem of 'grade drift' as there is greater scope for individual employee's pay to progress further along the pay grade.

These types of structures are sometimes included within a definition of 'broadbanding'.

Example broad-graded pay structure

Grade	Bottom	Mid	Top
9	£60,000	£64,000	£68,000
8	£52,000	£56,000	£60,000
7	£49,000	£53,000	£57,000
6	£42,000	£44,000	£46,000
5	£35,700	£37,000	£39,000
4	£32,300	£32,900	£33,800
3	£24,500	£25,700	£29,000
2	£23,900	£24,200	£24,900
1	£19,250	£20,075	£22,400

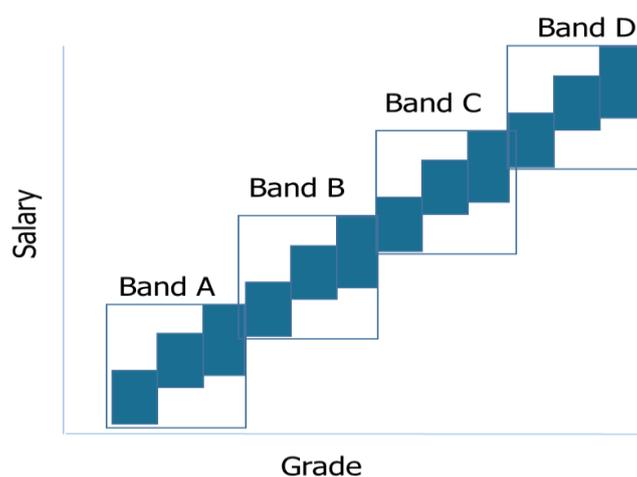
5. Broadbanding

Broadbanding involves the use of a small number of pay bands, usually just four or five, and is designed to allow for much greater pay flexibility than traditional graded structures.

There is a much broader range of pay rates within the band, and each band can cover a wide-ranging level of role type/responsibility.

Whilst classic broadbanding would allow unlimited progression, this is now less usual and structures often have upper limits; partly to counter concerns over equal pay issues.

Example of grades fitting into a broadbanded pay structure



6. Pay spines

Such arrangements are traditionally found in local government or other organisations with pay structures that mirror local government arrangements.

As with narrow-graded pay structures, these take the form of long grading structures based on a series of incremental points that usually allow for service-related pay progression.

Example of a pay spine

SCP	Salary £s
5	17,800
6	18,150
7	18,350
8	18,550
9	18,825
10	19,070
11	19,315
12	19,560
13	19,805
14	20,050
15	20,295
16	20,540
17	20,785
18	21,030
19	21,275
20	21,520

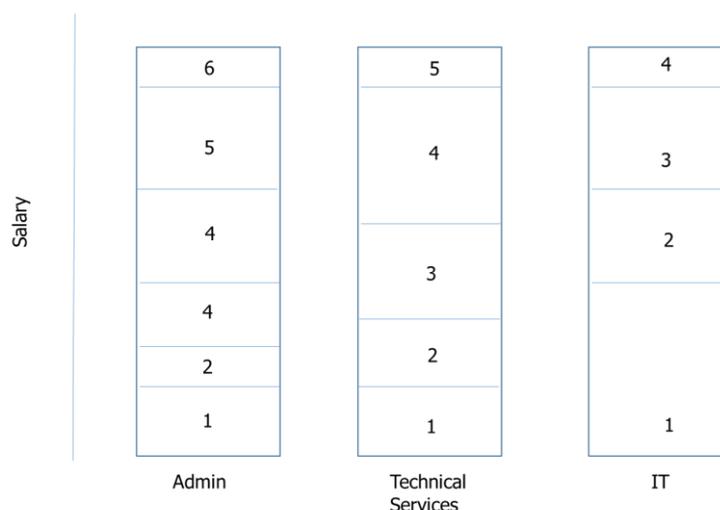
7. Job families

This approach groups jobs within similar occupations or functions together, usually with around six to eight levels, similar to the number of grades found in broad-graded structures.

There are separate pay structures for different families (for example, one for sales staff, one for IT staff and so on).

This approach may be helpful in facilitating higher rates for highly sought-after workers such as specialist staff.

Example of job families structure



8. Career families, career-grade structures

Similar to job families, this system identifies a family for the role, but in this case every family employs exactly the same grades and pay ranges for all of the levels included within it.

Essentially there are four or five broad bands that cover all posts within the organisation. Each band spread can be more than 100% (ie. £20,000 to £45,000). Each post is allocated to a band.

The focus is on careers – skills, competence, personal growth.

Policy guidelines define target rates for roles and market relativities. Managers pay within the band and their budget.

The emphasis is on flexibility and the right person for the job, rather than on grading structure and rigid guidelines.

This equality amongst families enables employers and employees to easily compare the different families.

Reward Risk Management Ltd
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