



## Toolkit for Managing Pay Differentials Practical Insights from Employers

We know that managing pay differentials year after year is one of the toughest challenges employers face. So, we reached out to our network to get a sense of how different organisations are tackling it. There's no one-size-fits-all solution—this is a challenge that affects many employers, from FTSE 100 companies to small charities and businesses. We hope this toolkit provides ideas and inspiration on how to approach compression by sharing methods from across our network.

**Watch our webinar on Managing Pay Differentials (recorded March 2025):**

<https://vimeo.com/1071861004>

### Summary - Our Top Five Lessons:

#### 1. Prioritise your lowest paid first

Start by prioritising pay increases for your lowest-paid staff who need it most. Then, based on the remaining budget, gradually extend increases to the rest of your team. Some employers ensure a minimum £1 per hour difference between pay bands to maintain fair differentials. Some employers stagger pay increases to help budgets - increasing the lowest paid when the new Living Wage rates are introduced in Autumn, then addressing increases for higher paid staff in Spring.

#### 2. Transparency and Buy-In are key when making difficult decisions

Sometimes difficult decisions need to be made, like reducing bonuses or overtime, to ensure that the real Living Wage can be implemented while maintaining pay differentials. It is important to include staff in making these decisions and involve unions where appropriate; no-one should be worse off due to the decision to pay the Living Wage. Be transparent with your team about why the decision was made. Show how their take-home pay will still increase overall and reinforce your commitment to ensuring everyone can live with dignity and security. Many employers have taken the time to visit departments in person, gather feedback, answer questions, and explain the rationale behind these changes.



### **3. Simplify your organisational structure**

Simplifying your structure and reducing the number of pay bands can make managing pay differentials easier. One employer, for example, combined multiple roles into fewer but better-paid positions by investing in staff training. This approach has not only made it easier to maintain fair pay differentials but has also been a valuable investment in their team's career development.

### **4. Explain to clients the importance of investing in fair pay**

If your organisation relies on client contracts, it's important to explain that investing in fair pay and pay differentials helps attract and retain the highest quality staff, ultimately benefiting the service you provide. Cutting pay to save money often ends up costing more in the long run, so it's worthwhile to emphasise this long-term value to your clients. [Take a look at the business benefits of paying a Living Wage here.](#)

### **5. Budget for increases when applying for funding**

For organisations that rely on funding, it's essential to budget for annual increases to the Living Wage and fair pay differentials in your applications. Funders are supportive of this approach and many view the real Living Wage as a gold-standard benchmark. Be sure to check out our list of [Living Wage Funders](#) who are committed to helping their beneficiaries pay the Living Wage.



## Starting with the Lowest Paid First

A clothing supplier in Greater Manchester has undergone a significant cultural shift in recent years, focusing on increasing pay for their lowest-paid employees. Their approach begins with assessing the available budget. They prioritise raising wages for those on the lowest pay bands first. If funds remain, they move on to the next band, and so on. This ensures those who need the increase most are prioritised, while employees in higher bands may see smaller increases—or, in some cases, none at all. For example, with a total pay rise budget of 6%, the lowest-paid staff might receive a 10% increase, the middle band 4%, and the highest band just 2%.

Previously, the highest-paid employees earned more than 25 times the salary of the lowest-paid. Now, the company has written into its constitution that the pay differential cannot exceed 10 times. In practice, their highest earners currently make no more than seven times the real Living Wage.

Other employers have taken similar approaches. An adult social care provider and a small museum both use graduated percentage increases, deliberately skewed to favour lower earners.

In another example, a FTSE 100 company and a hospitality venue have each committed to maintaining a minimum £1 per hour pay gap between their lowest-paid staff and their supervisors. Although the percentage gap may shrink over time, all employees are guaranteed annual pay increases aligned with the real Living Wage.

A large food retailer also works to build understanding among senior staff about the real Living Wage and the [“basket of goods”](#) it reflects. Emphasising that this is not about luxuries—but ensuring employees can afford basic living costs—has helped secure buy-in from senior leaders, even when pay differentials are tightened.

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## Staggering Pay Increases Over Time

Like many, a removals company has faced difficulties in maintaining pay differentials as the Living Wage rates increase. In a particularly challenging year, they decided to stagger pay rises, so that the company didn't absorb the costs in one go. When the new Living Wage rates were announced in November, they introduced it to their longest-serving and most experienced staff (age did not play a factor). Later in March, they extended the pay increase to the rest of the team and made a small adjustment for higher earners.



Similarly, a large private care provider divides pay increases into two phases: introducing Living Wage adjustments for lower bands in Autumn and addressing higher bands in Spring. They noted that transparency with staff has been key—their teams understand that prioritising the lowest-paid is essential before addressing other pay bands.

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## Transparency and Staff Engagement

Implementing the Living Wage and managing pay differentials can lead to difficult decisions—especially when budgets are tight. However, involving staff openly in these decisions can make a significant difference. Transparency fosters trust, builds understanding, and creates a shared sense of purpose.

One care company, for example, had to remove night shift supplements in order to align with the Living Wage and preserve fair pay differentials. To help staff understand the changes, finance and payroll teams visited each site in person. They walked employees through the updates, clearly demonstrating how total pay would still increase, even if some benefits were reduced. The company's chairman highlighted the importance of transparency, using simple pie charts to show how much of the budget is allocated to resources versus staff salaries. This openness has encouraged more mindful use of resources, as the team recognises that it enables better pay for everyone.

A Living Wage hotel made a similar shift—redirecting funds previously used for incentive bonuses to guarantee a stable Living Wage for all employees. When they explained the change, staff appreciated the predictability and fairness of higher base pay compared to variable bonuses.

Another hotel engages every department annually when the new Living Wage rate is introduced. For housekeeping staff, many of whom do not speak English as a first language, translators are invited to ensure clear communication and to give everyone the chance to ask questions. These meetings are more than just informational—they're an opportunity to reaffirm the organisation's commitment to valuing its people.

In one small business, pay adjustments were made through full staff consultation. The team collectively decided to trade overtime rates for a higher base salary. Similarly, employees at a specialist retailer agreed to flatten pay scales in order to afford the real Living Wage for all staff. Their view was unanimous: "Everyone on the team should be able to afford the basics—nobody should be struggling." This transparent, inclusive process increased loyalty and boosted productivity, ultimately helping reduce overtime and recruitment costs. The retailer also shared their decision with customers, making a small price adjustment to help fund the



pay increases. Customers responded positively, expressing support and loyalty to the brand.

When a fintech company faced financial difficulties during the COVID-19 pandemic, they didn't make decisions behind closed doors. Instead, they engaged directly with staff to find a way forward together.

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## Remember to include Living Wage increases in funding bids

A small not-for-profit museum with a limited budget and reliant on external funding demonstrates that a commitment to fair pay is possible—even under financial constraints. The Director explained that while the museum can't offer high salaries, they have ensured accreditation with the Living Wage, giving staff the assurance of a liveable income. They also build annual salary increases into their funding bids, making their commitment to fair pay clear to funders. Many funders now view the Living Wage as a gold-standard benchmark and actively support organisations that implement it.

*(If you are a charity, take a look at our list of [Living Wage Funders](#). They have committed to support their beneficiaries to pay the Living Wage)*

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## Simplifying Pay Structures

Simplified pay structures can make managing pay differentials more straightforward and sustainable.

One museum has adopted a simple structure with just three pay bands. They also introduced a new pay policy that enshrines the Living Wage and includes an annual pay review for all staff. While percentage increases may be smaller for those in higher bands, the museum ensures that every employee's pay is reviewed regularly, taking into account inflation, market rates, and the available budget.

A Living Wage hotel follows a similarly lean model, with three clear pay bands: front-line staff, assistant manager, and manager. This streamlined structure makes it easier to maintain consistent percentage differences between roles while ensuring all employees benefit from annual increases.

Another hotel went a step further by restructuring their teams to support fair pay practices. In their kitchen, for instance, they consolidated several roles—such as porters and commis chefs—into fewer, better-paid bands. With added investment



in training, staff were equipped to take on greater responsibilities, preserving meaningful pay differentials while supporting career progression.

A care provider faced a more complex structure, with 39 separate “spine points” on their pay scale. To better manage pay differentials and affordability, they are in the process of reducing this to 25 spine points, making the system significantly more manageable.

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## Making the Case for Fair Pay with Clients

A large Recognised Service Provider (RSP) highlighted the significant benefits of working with clients who prioritise fair wages.

They’ve found that clients who agree to pay the real Living Wage and fair wage differentials attract noticeably better skilled employees, have markedly improved retention rates, and deliver higher service standards. By valuing their workforce, he said they can build strong, skilled teams that deliver consistent, exceptional results. This approach ultimately contributes to long-term cost-effectiveness. On the other hand, where clients refuse to pay the Living Wage, because the focus is so much on costs, pay differentials are often smaller, meaning even supervisors can end up being paid below the Living Wage.

The key takeaway here is to help clients see that paying less may seem like a short-term savings, but it can be a false economy in the long run. Encouraging clients to build in sufficient pay differentials—especially for supervisors—will help ensure providers can recruit top talent, support team growth, and create a more efficient, productive workforce.

[Take a look at the business benefits of paying a real Living Wage here.](#)

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## Thank you for your commitment to paying the Living Wage

We know that managing pay differentials can involve difficult decisions, especially when budgets are tight. But every step you take toward fair pay is a step toward ensuring your team can live with dignity and security.

We hope this toolkit offers practical ideas and reassurance that you’re not alone in facing these challenges. Your commitment to fairness is making a real difference—and we’re here to support you every step of the way.

Have an approach to share? We’d love to hear from you! Reach out to your relationship lead or contact us [here](#).



## ***Acknowledgements***

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*Read their reports on the implementing the Living Wage in the [hospitality sector](#), [adult social care](#), and [SMEs](#).*