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# REPORT OF THE INQUIRY INTO CHARITY SENIOR EXECUTIVE PAY AND GUIDANCE FOR TRUSTEES ON SETTING REMUNERATION

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PUBLISHED: APRIL 2014

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# SCOPE OF THE INQUIRY

The National Council for Voluntary Organisations (NCVO) set up this Inquiry to:

- explore the arguments about what are appropriate levels of pay for charity senior executives and how these levels should be arrived at
- explore the relationship between salary levels and public trust and confidence in the sector as a whole
- produce definitive guidelines for charity trustees, informed by a broad debate on the issues involved, to take into account when setting salaries.

The Inquiry's task was to assist charity trustees in exercising their responsibility for setting the pay of their senior executives.

When the Inquiry began, it became clear that it needed to extend its remit to include making good practice recommendations about the process charity trustees should follow in setting pay in today's context and how they should explain these decisions.

The Inquiry's definition of a charity covers all those organisations operating in England and Wales that meet the legal definition of charity.<sup>1</sup>

All except two of the 18 members of the Inquiry are independent of NCVO and were specifically appointed to provide a diverse range of views. The membership includes trustees and representatives from a range of large and small charities, as well as remuneration and HR specialists.

## MEMBERS OF THE INQUIRY PANEL

- **Lord (Charles) Allen of Kensington CBE**, outgoing Chairman of the British Red Cross, Chairman of the Olympic Legacy charity 'Join In' and Global Radio Group. (Replaced during the Inquiry by David Bernstein CBE, incoming Chairman of the British Red Cross. Former chair of the Football Association, Wembley Stadium and Manchester City FC.)
- **Sir John Baker CBE**, Former Chair of the Senior Salaries Review Body (SSRB) and subsequent chair of an Independent Review into parliamentary pay, pensions and allowances.
- **Nick Brooks**, Partner and Head of not-for-profit sector group at accountancy firm Kingston Smith.
- **Andrew Dent CVO**, Chair of the volunteering charity Reach.
- **Sacha Deshmukh**, Deputy Chair of Citizens Advice (England and Wales), CEO of Smart Meter Central Delivery Body and Director of Consumer Futures.
- **Bruce Gordon**, NCVO Honorary Treasurer and Chairman of the Honorary Treasurers' Forum, representing the Treasurers of all the big charities in the UK.
- **Martyn Lewis CBE (Chair)**, Former BBC and ITV newscaster, Chair of NCVO, YouthNet, Families of the Fallen and the Queen's Award for Voluntary Service, and President of United Response.
- **Alice Maynard**, Chair of Scope and Founding Director of Future Inclusion, which ensures effective governance practices are embedded in organisations.
- **Alan Parker**, Chair of Save The Children, and Founder and Chairman of Brunswick Group.
- **Lord (Andrew) Phillips of Sudbury OBE**, Long-time charity campaigner, who has founded six charities including the Citizenship Foundation and the Solicitors Pro Bono Group (LawWorks) of both of which he is now President. Also founder of charity firm Bates Wells Braithwaite. Ex- Chancellor of the University of Essex.
- **David Sheepshanks CBE**, Chair of UK Sport, and of UK Community Foundations, which links philanthropists and other donors to local charities across the UK through a single access point.
- **Michael Smyth CBE**, chairs three charities including Community Links, the innovative east London social enterprise; he was for many years a partner at Clifford Chance and is a member of the Press Complaints Commission and visiting professor at Queen Mary University of London.
- **Professor Gillian Stamp**, Founder of Bioss International, works globally as a sounding board for chairmen, chief executives, senior civil servants and senior staff of organisations both large and small, including social entrepreneurs and voluntary organisations. A Fellow of the Windsor Leadership Trust, she was an adviser to a recent committee on reform of the Civil Service.
- **John Stewart**, Chair of Guide Dogs and Legal & General, with extensive senior management and business experience across a range of FTSE 100 companies.
- **Ian Theodoreson**, Chief Finance Officer of the Church of England, and Chairman of the Charity Finance Group, whose aim is to 'inspire the development of a financially confident, dynamic and trustworthy charity sector'.
- **John Wood**, Legal Board member of the Charity Commission from 2008 to 2014, and a consultant at the law firm Herbert Smith.
- **Mark Wood**, Director of the RAC, Chairman of the Trustees at the NSPCC and Chief Executive at JLT Employee Benefits.
- **Vicky Wright**, Deputy Chair of RNLI and immediate past President of CIPD (Chartered Institute of Personnel and Development), the professional body of the HR community.
- **Rosie Chapman**, (Secretariat) – An independent charity advisor. She was formerly Director of Policy and Effectiveness at the Charity Commission, and is a Fellow of the Institute of Chartered Secretaries and Administrators and current trustee of the Charity Finance Group.

All of the Inquiry Panel members served in a voluntary capacity.

## THE CHARITY COMMISSION

The Charity Commission has acted as an observer to the Inquiry, and given evidence from their case work as well as comment based on their regulatory experience. The regulator supports the Inquiry's findings and report.

# CHAIR'S INTRODUCTION

## WHY THIS INQUIRY HAS CALLED FOR 'TWO CLICKS TO CLARITY' ON CHARITY SENIOR EXECUTIVE PAY

This Inquiry was established in summer 2013 and has spent the months since going over the evidence on executive pay and listening to the views of hundreds of people with an opinion on how charities should approach setting the pay of their senior staff.

The Inquiry heard four main viewpoints on high pay in the charity sector, all of them strongly held and vigorously expressed:

1. that nobody who works for a charity should ever be paid
2. that pay for a small, top tier of managers is acceptable provided as many other people as possible are volunteers
3. that working for a charity is a special vocation and the highest paid should accept much less than they could command in the public and private sectors – what is known as the 'charity discount'
4. that charities should be well run on efficient business lines – and if that means high pay at the top, then so be it – this being the view of major philanthropists, companies and foundations that carry out detailed analysis of a charity's finances (including pay levels) before deciding on very substantial donations

that can run into six or seven figures.

It is clear that in the hugely diverse voluntary sector one size does not fit all. There are many different types of charities contributing to society in a wide variety of ways. They are faced with different challenges of organisation and service delivery, particularly as they grow. And, in the last two decades, many overlaps have developed between the public, private and voluntary sectors.

- Data suggests that a third of all income for general charities now comes from government contracts for provision of services.
- Some charities argue that they take few or no donations from the general public, or that their salary bill is more than covered by profits from their trading activities.
- Research and medical charities, especially those working to find cures for illnesses, have to compete on the open market for the best scientists.

On the other hand, it is a given in the charity sector that any judgement of pay levels should take into account the values and purpose of each particular charity. Donors expect this, and the Inquiry felt it important to remind trustees that this should be at the forefront of their minds as they decide pay levels.

Making the right choices on the charity pay front can be difficult for both trustees and donors. This is not helped by some public perceptions that are clearly out of date. For example, when we examined the calls for a 'charity discount' we

saw evidence that this discount already exists for the vast majority of paid charity leaders, giving them on average between 25% and 45% less pay than they could command elsewhere.

So we thought it helpful to bring together, in the body of our report, the statistics that reveal much about the UK's charity landscape as it is now, rather than how it might have been perceived in the past. Some may find a few surprises here, such as the following examples.

- There are almost 161,000 registered general charities in England and Wales, with an annual income of just over £39 billion – more than the UK defence budget.
- Almost half this income went to just 533 major charities, each with an annual revenue of over £10 million.
- Of all registered charities, 91% have no paid staff at all; they are run entirely by volunteers.
- The remaining 9% provide jobs for around 800,000 people – a substantial contribution to the employment figures.
- Fewer than 1% of charities employ a member of staff earning £60,000 or more.

Because of the sheer diversity of size and purpose of charities, the Inquiry thought it inappropriate to recommend a maximum figure for top level pay. We felt the issue was best addressed by moving down the twin tracks of guidance and transparency – detailed guidance for trustees, who have the clear responsibility for pay policy; and a much higher level of transparency to easily and speedily inform those existing and would-be

donors for whom pay levels are a major factor in their giving.

Our main recommendations are:

- that, as good practice, all charities that employ staff should consider publishing the precise remuneration, job titles and the names of their highest-paid people, and that those charities with a gross income of over £500,000 should actually adopt such a policy
- that this should be accompanied by a summary of the arguments used by the board of trustees to justify the amounts involved and explain how they reflect the charity's ethos and values
- that all this information should be brought together, not only within the (sometimes hard-to-access) annual accounts, but also on the charity's website no more than two clicks away from its home page.

I call this 'two clicks to clarity'. It would give donors speedy access to not only the actual amounts involved, but also the thinking behind them to better inform donors' giving decisions. Some will accept the explanations; others will not. The point is that this new transparency puts power firmly in the hands of the donors. It also puts proper pressure on trustees to justify publicly how their decisions on high-level pay square with their legal obligation to give constant priority to the best interests of the charity and its beneficiaries.

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# CHAIR'S INTRODUCTION

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We are delighted that our proposals have the support of the Charity Commission, and that some major charities are already starting to move in this direction. However, above all, we hope this enhanced transparency will have the backing of the millions of donors across the country, who should no longer have to dig around like detectives to unearth the financial facts to inform their choice of charities to support.

I am hugely grateful to the many people who helped this Inquiry:

- more than 400 people or organisations who took the trouble to put forward a wide range of arguments
- the larger charities who put us in touch with some of the people who wrote directly to them to complain about pay levels
- the highly articulate, informed and diligent Inquiry panel members, whose breadth of views and lack of restraint in expressing them ensured a vigorous debate, as well as, I believe, sound conclusions
- the NCVO support team, who provided invaluable high-quality research and advice
- the indefatigable Rosie Chapman who did the 'heavy lifting' that shaped this report.

**Martyn Lewis CBE**

Inquiry Chairman

# EXECUTIVE SUMMARY AND RECOMMENDATIONS

This Inquiry was set up following a series of media stories highlighting chief executive pay in some large charities. The Inquiry Panel was specifically appointed to represent and gather a diverse range of views and explore different perspectives on levels of senior staff remuneration in charities.

The charity sector undertakes a huge range of activities. It includes many different types of charity. They range from village halls; playgroups and hospital radios run largely, and often exclusively, by volunteers through to household names such as national medical research charities, international development charities, museums and art galleries, as well as hospitals, religious organisations and independent schools charities. The nature of what they do and the breadth of their operation inevitably determines how they are organised and the type of staff they employ.

However, all charities are governed by the same legal requirement (explained on [page 9](#)): that they exist exclusively for public benefit. In all cases, their trustees are ultimately accountable for decisions about pay. This provides the context for the Inquiry's findings and has shaped all of its recommendations.

The Inquiry has tried to balance quite divergent views, ranging from those who think that charities should be entirely led and run by

volunteers to those who believe the pay of senior staff in charities needs to be consistent with their peers in other sectors in order to attract and retain professional expertise to deliver the charity's aims. While the Inquiry's findings and recommendations may not reflect the views of everyone who contributed, the full range of views have been considered.

Examples of high pay have dominated some of the headlines, but the evidence shows that the vast majority of charities do not have any paid staff and, in those that do, the salaries quoted by the media are not typical.

The Inquiry recognises the evidence that the charity sector pays significantly less than other sectors for comparable senior roles. Most charities' remuneration strategies are essentially designed to attract and retain people who are already motivated and committed to charities' work.

Certain charities cannot operate effectively without employing highly professional and skilled staff. In fact, the nature and complexity of many charities makes this increasingly necessary. However, the Inquiry also believes that charities that depart from paying a salary that reflects their charitable context should have good and sound reasons for doing so. They should also be able to explain their approach and rationale.

Charities with audited accounts already publish the number of staff whose remuneration is £60,000 or more, in salary bands of £10,000. The Inquiry recommends that these charities go further, and develop and publish a remuneration statement explaining their pay strategy and stating the individual remuneration of their highest-paid staff by position and name. The Inquiry believes that giving trustees the tools and confidence to agree and explain the pay of their senior staff will improve public understanding and confidence in charities.

The Inquiry's report and findings are supported by the Charity Commission.

# EXECUTIVE SUMMARY AND RECOMMENDATIONS

## RECOMMENDATION ONE: PRINCIPLES FOR SETTING CHARITY REMUNERATION (PAGE 21)

The Inquiry recommends that the following principles for setting charity remuneration are adopted as good practice by all charities that employ staff. These principles should be interpreted according to their particular circumstances. The principles should apply where a charity's trustees consider it necessary to hire paid staff to carry out the charity's work and help fulfil its exclusive charitable purposes:

1. The overall goal of a charity's pay policy should be to offer fair pay to attract and keep appropriately-qualified staff to lead, manage, support and/or deliver the charity's aims. This should always be consistent with the charity's aims and recognise that for certain charities, particularly those with a volunteer ethos, it is possible to attract senior executives at a discount to public sector or private sector market rates.
2. Trustees are ultimately responsible for setting remuneration levels for the charity's senior staff. Trustees should clearly identify these senior staff, who will typically, although not always, be part of the charity's executive and/or senior management team.
3. To set the pay and rewards properly for these staff requires informed judgements as well as adherence to the charity's governance and constitutional arrangements.
4. In deciding top levels of pay and rewards trustees should consider:
  - a. the purposes, aims and values of the charity and its beneficiary needs
  - b. how this impacts on overall pay policy for all employees, and for the senior staff in particular, including whether a 'discount' compared with pay for similar roles in other sectors is appropriate
  - c. the types of skills, experiences and competencies that the charity needs from its senior staff, the specific scope of these roles and the link to pay
  - d. the charity's current business plan and how the implementation of this plan may affect the number of senior staff it needs to employ or recruit and the nature of these roles
  - e. the charity's ability to pay – this includes the cost to the charity of raising pay, and whether it is sustainable, and how appropriate the level of pay, and any pay increase, is in the context of the charity, as measured against the needs of its charitable purposes and beneficiaries
  - f. their assessment of the charity's performance and the senior staffs' performance against expectations, in both the short and long term
  - g. appropriate available information on pay policies and practices in other organisations that can help make the decision on whether a level of pay is fair and reasonable
  - h. the nature of the wider 'employment offer' they can make to potential employees, where pay is one part of a package that includes personal development, personal fulfilment and association with the public benefit delivered
  - i. the charity's track record in attracting and retaining committed and motivated employees
  - j. the likely impact on and views of beneficiaries, donors, funders, volunteers and potential volunteers, where appropriate
  - k. the relationship between the policy and practice for the pay of senior staff and that of the charity's whole workforce.

# EXECUTIVE SUMMARY AND RECOMMENDATIONS

## RECOMMENDATION TWO: A REMUNERATION POLICY (PAGE 22)

The Inquiry recommends that, as good practice, all charities that employ staff should consider adopting a remuneration policy and all charities with independently audited accounts (currently those with a gross income of over £500,000) should adopt such a policy.

## RECOMMENDATION THREE: THE ESTEEM AND VALUE ATTACHED TO WORKING FOR A CHARITY (PAGE 23)

The Inquiry recommends that charities consider the esteem and the value – financial or otherwise – derived by employees from working for a charity and the impact this may have on setting levels of remuneration for senior staff and others throughout the organisation. Where applicable the approach should be made available in a charity's remuneration statement.

## RECOMMENDATION FOUR: CHARITY REMUNERATION RATIOS (PAGE 26)

The Inquiry recommends that charities with an income of above £500,000 consider the use of remuneration ratios (the relationship expressed as a multiple between the highest pay to median pay in an organisation is regarded as the most reliable measure) as a helpful tool to assist in their approach to pay; for example in helping to identify the impact of pay decisions on individuals and the appropriate distribution of any increase in payroll spend across the whole charity each year.

## RECOMMENDATION FIVE: PUBLISHING AN ANNUAL STATEMENT (PAGE 28)

The Inquiry recommends that, as good practice, all charities with independently audited accounts should:

- publish an annual statement explaining their charity's ethos and policy on remuneration
- explain how this impacts on the delivery of their charitable purposes
- report the actual remuneration, roles and names of individual, highest-paid staff, as defined by the charity.

For some charities, the definition might include the chief executives and any staff in leadership positions who report directly to them.

Additionally, if an individual, whatever their level, earns more than the chief executive this should be disclosed.

Where a charity has a structure that includes subsidiary trading companies, these will appear in the charity's consolidated accounts. The Inquiry considers any staff employed within such a company, or companies, to be within the remit of this report's recommendations if they meet the charity's definition of their highest-paid staff.

In all cases, the definition and disclosure should include the charity's chief executive, irrespective of his or her salary.

The term 'remuneration' includes the total financial rewards made, or available, to an employee. (see the definition in the [Glossary](#) in Appendix C).

In addition to the remuneration disclosures that charities are required to include as a note to their accounts, as good practice the charity's remuneration statement should be:

- included within its Trustee Annual Report
- published in a prominent area of the charity's website, no more than two clicks away from the homepage and alongside the remuneration, roles and names of the highest-paid individuals. This is to ensure ease of access.

Below the charity audit threshold, other charities are encouraged to adopt a similar approach and, in all cases, to report the salary of their chief executive.



# CONTEXT

The summer of 2013 saw a series of media stories highlighting chief executive pay in some charities, in turn triggering a strong reaction from some members of the public, including donors. It is, of course, right and proper for the media to scrutinise charities, which play an important part in UK public life. Yet these stories were hardly new. The last 15 years have seen the spotlight turned on levels of charity pay at regular intervals, both in the UK<sup>i</sup> and elsewhere.<sup>iii</sup> Each time, the sector has responded with a range of guides recommending ways in which charity trustees should set pay levels for their chief executives and senior staff.<sup>iv</sup>

While the basic principles for setting pay may not have fundamentally changed since these reports were published, public expectations certainly have. Calls for greater transparency and disclosure have led to requirements for both listed companies and public bodies to publish more information about how they reward their senior staff.<sup>v</sup>

For charities, which are funded wholly or partly by public money in the form of donations and tax reliefs, the additional pressure to tell the public how their money is spent has clear implications for how they explain their pay decisions to donors, beneficiaries and the public.

Charities should have a head start here. They have historically succeeded in raising money for the causes they work for, and in speaking up for their beneficiaries, largely because of the compelling case they make about their beneficiaries' needs to potential donors, funders and opinion formers. The Inquiry argues that charities should use these same skills to explain what they need to run effective organisations and how that defines their approach to remuneration.

The parallels that are often drawn between private and charity sector pay determination have significant limitations. Setting pay in large public limited companies is the responsibility of remuneration committees of boards who have clear accountability to shareholders for the short- and long-term financial performance of the business. Recent legislation has given shareholders specific powers to hold a binding vote on certain aspects of executive remuneration. In extreme cases board members can be removed by the shareholders if they are not satisfied with their performance.

By contrast, and fundamental to this Inquiry, is the fact that all charities are legally different to other entities.

## THE LEGAL FOUNDATIONS OF THE REPORT

Charity law is unique in our legal system. It is firmly founded on certain values. Central to those is the requirement of exclusive public benefit both as regards the purposes of every charity and also the means by which the same may be pursued. The Common Law, buttressed by statute law, is absolute about that.

All charities accordingly share some common characteristics that must be observed by trustees when they consider pay. They must be completely independent in formulating their policy and decisions, and their decisions must be reached solely on the basis of the best interests of the charity and its beneficiaries.

Trustees exemplify the voluntary nature of the charity and are thus themselves unpaid, except in the rare cases where remuneration is authorised.

This, in brief, is the legal basis upon which this report is based.

The decisions charity trustees take are not simply business or managerial; they are judgements about the best means of achieving the charity's purposes and beneficiary needs. Inevitably, charities' purposes and how these are most efficiently delivered, along with their values and ethos, affect their considerations about pay and the balance between the need for paid employees and reliance on volunteers.

Yet there are some similarities between the private, public and charitable sectors. Charities also increasingly employ professionally qualified staff to deliver their services, and they expect them to share a commitment to the charity's charitable aims and ethos and meet performance targets. They stress the importance of demonstrating value for money in acquiring and deploying resources. The modern-day demands on charities also include expectations of efficient and effective delivery of their aims.

Within the charitable sector, there is a huge range of activities undertaken by different types of charity. However, all charities are governed by the legal reality: that they exist exclusively for public benefit. This provides the context for the Inquiry's findings and it has shaped all of its recommendations.

# AN OVERVIEW OF THE EVIDENCE

This section briefly reviews the available evidence on employment and remuneration in the voluntary sector. It draws upon charities' own annual reports and accounts, salary surveys and the Office for National Statistics' Labour Force Survey. These are summarised below.

- Only a small proportion of the charity sector employs staff. Using NCVO's 'general charities' definition (which excludes, for example, independent schools, fee-paying hospitals and government agencies with charitable status), it is estimated that only 9% of organisations employ paid staff. Of these charities, 91% are solely reliant on volunteers.
- Nevertheless, the charity sector is a major source of employment. It is estimated that 'general charities' employ 800,000 staff at a cost of £14.4 billion to the sector.
- Charities publish data on the number of staff earning £60,000 or more. Using the 'general charities' definition, it is estimated that 7,100 staff earned £60,000 or more in 2011; of these, 1,100 earned £100,000 or more. It is estimated that in all UK registered charities, 15,000 staff earned £60,000 or more in 2011; of these, 2,700 earned £100,000 or more.
- Fewer than 1% of UK charities in 2011 are estimated to have employed a member of staff earning £60,000 or more.
- Surveys consistently report that senior pay in charities is lower than for comparable roles in other sectors. Senior salaries in charities are estimated to be 25% lower than comparable roles in the private sectors, widening to about

45% when bonuses and longer-term financial incentives are included.

- Conversely, evidence indicates that at lower levels, pay is more likely to be comparable to roles in other sectors.

## CHARITIES IN THE UK

Charities in the UK are incredibly diverse. They range from the largest household-name charities with annual incomes of over £100 million to the smallest unregistered community groups, covering a wide range of charitable purposes from the relief of poverty to the advancement of animal welfare. They include organisations that self-define as 'social enterprises', those that fundraise from the general public and a number of public bodies that benefit from charitable status.

For the public at large, registered charities are perhaps the most recognisable manifestation of the voluntary sector. Charitable organisations are required to register with the Charity Commission for England and Wales if their income is over £5,000 a year; numerous small, unregistered charities also exist. By contrast, all charitable organisations based in Scotland and Northern Ireland are expected to register with the Office of the Scottish Charities Regulator (OSCR) and The Charity Commission for Northern Ireland (CCNI), respectively.

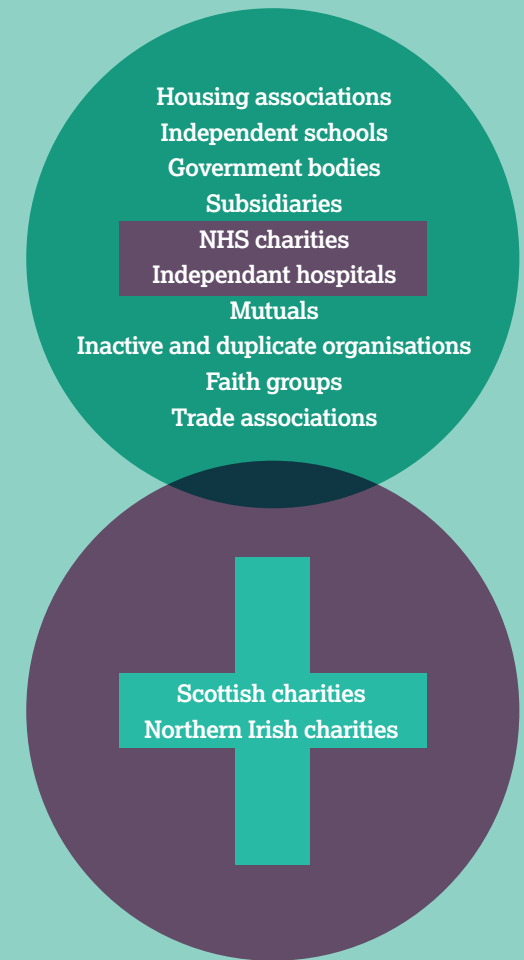
At December 2013, according to the Charity Commission for England and Wales, their register contained 163,709 charities with an

income of £61.4 billion.<sup>vi</sup> OSCR reports that 23,351 charities were registered in 2011 with an income of at least £9.4 billion.<sup>vii</sup> CCNI estimates between 7,000 and 12,000 charities operate under its jurisdiction.<sup>viii</sup>

Combining these registers suggests that there are almost 200,000 registered charities in the UK, with a total income of at least £70 billion. However, as many of these organisations might not be recognised as charities by the public, a narrower definition is also useful.

## A SUBSET OF REGISTERED CHARITIES: 'GENERAL CHARITIES'

NCVO and the Third Sector Research Centre (TSRC) produce estimates of the size, scope and income for a subset of registered charities, which have been termed the 'general charities'. The definition uses public registers as a starting point but excludes charities in certain categories: moribund organisations (ones that have not submitted returns for three years); government bodies with charitable status (such as the Arts Council or sector skills councils); charitable housing associations; independent schools and hospitals; and primarily religious organisations. The definition also excludes academy schools and most universities, as most of these charities are subject to separate regulatory and reporting requirements.<sup>ix</sup> Finally, it includes charities in Scotland and Northern Ireland.



# AN OVERVIEW OF THE EVIDENCE

Although it is not perfect, the ‘general charities’ definition is more likely to accord with public perception of the ‘charity sector’. Because it is a subset of all registered charities, it removes a large number of organisations and a significant proportion of the income reported by charity regulators. As such, NCVO/TSRC estimate that there were 161,266 general charities in the UK with a total income of £39.2 billion and a current expenditure of £38.0 billion in 2011/12. Almost half of this income accrued to 533 major charities, each with an annual revenue of more than £10m.<sup>x</sup>

The general public are important stakeholders: NCVO/TSRC estimate that gifts, legacies, purchases (such as membership fees) and other fundraised contributions accounted for £17.4 billion (44% of the total income) in 2011/12. Much of this is given freely, based on trust.

These ‘general charities’ are also substantial suppliers of services to the state; in 2011/12, £13.7 billion of their income was obtained through this route. Importantly, this income was increasingly in the form of contract payments for delivering services and it has driven much of the growth in the charity sector over the last two decades. It has been argued this has also driven growth in employment and the ‘professionalisation’ of the charitable sector.<sup>xi</sup>

**Table 1**

General charities 2011/12: by income	Less than £10k	£10k–£100k	£100k–£1m	£1m–£10m	£10m+	Total
Number of organisations	82,391	52,815	21,257	4,270	533	161,266
Proportion of organisations (%)	51.1	32.8	13.2	2.6	0.3	100.0
Income (£million)	228.5	1,856.1	6,544.2	11,821.5	18,798.8	39,249.1
Proportion of income (%)	0.6	4.7	16.7	30.1	47.9	100.0

## PAID STAFF AND VOLUNTEERS IN THE CHARITY SECTOR

The vast majority of all charities rely entirely upon the work of volunteers and do not employ any staff at all. There are estimated to be 12.6 million people in England formally volunteering once a month (some of whom volunteer outside of the charitable sector). Evidence suggests that over 900,000 people volunteer specifically as charity trustees.

According to their accounts, the 17,000 general charities in the UK that employed staff spent £14.4 billion on staff costs in 2011/12, employing an estimated 532,000 full time equivalent (FTE) staff. Almost all organisations with an income of £1m or more employed paid staff.

NCVO believes that the Labour Force Survey, a large-scale survey of households, provides a more reliable estimate of how many people work in the wider ‘voluntary sector’. Using this source, NCVO/TSRC estimate that the voluntary sector employed 793,000 staff in 2012, equivalent to approximately 630,000 FTE staff, and approximately 2% of the UK workforce. The Labour Force Survey also shows that 60% of paid employees are employed in health and social care organisations.

**Table 2**

General charities 2011/12: by income	Less than £10k	£10k–£100k	£100k–£1m	£1m–£10m	£10m+	Total
Staff: FTE estimate	4,599	13,110	91,579	151,206	271,866	532,360
Staff costs (£m million)	6.4	221.6	2,362.7	4,878.3	6,960.3	14,429.4
Organisations with staff	749	2,612	9,733	3,675	459	17,228
% of organisations with staff	0.9	4.9	45.8	86.1	86.1	10.7

# AN OVERVIEW OF THE EVIDENCE

## REMUNERATION IN THE CHARITY SECTOR

Evidence from numerous sources indicates that, at most levels, employees in the charity sector are paid less than their counterparts in the public or private sectors. The evidence is not conclusive about the size of any discount, how that discount varies (for example, with seniority), why any discount operates and the impact of a discount on recruitment, retention and motivation (the so-called ‘warm glow theory’ coined by the economist James Andreoni<sup>xiii</sup>).

It is important to note at this point that the comparison of similar roles and salaries in different sectors is not without problems. Benchmark surveys are, by definition, based on self-selecting samples, whilst similar-sized organisations may operate very differently. Nevertheless, a number of broad statements can be made from a reading of the literature:

- Data from the Labour Force Survey suggests that over the period 1998–2007, wages in the voluntary sector have risen more quickly than in the public and private sectors. As a result, differentials have narrowed or, in some areas, no longer exist.<sup>xiv</sup>

- Differentials between charity employees’ salaries and their equivalents in comparably sized private and public sector organisations appear to be greatest at the most senior levels. Recently published research by the management consultancy, Hay Group, shows that the base salaries of charity chief executives are up to 25% less than their private-sector peers in equivalently sized organisations.<sup>xv</sup> This gap widens considerably to about 45% when bonuses and longer-term financial incentives are included.

- Conversely, evidence suggests that differentials are least likely to exist at lower responsibility levels.

The human resources and benchmarking company, XpertHR, produces regular salary surveys. Table 3 compares its 2013 Voluntary Sector Salary Survey (VSSS) with its National Management Salary Survey (NMSS) for organisations turning over £25m or less, to illustrate differentials. Differentials are greater if larger companies in the NMSS are included. The VSSS sample is largely composed of charities with a turnover of £1m or more.

**Table 3**

Responsibility level	NMSS		VSSS		VSSS as a % of NMSS	
	Median (£)	Average (£)	Median (£)	Average (£)	Median	Average
Director	110,011	114,663	79,226	80,072	72	69.8
Senior function head	90,000	87,428	61,500	62,340	68.3	71.3
Function head	69,156	68,540	50,737	51,426	73.4	75
Department manager	57,500	55,719	41,299	41,805	71.8	75
Professional level 4	40,600	40,940	36,600	37,098	90.1	90.6
Professional level 3	33,200	33,352	31,670	31,956	95.4	95.8
Professional level 2	27,540	27,491	26,004	26,370	94.4	95.9
Professional level 1	20,000	20,575	19,568	19,686	97.8	95.7
Entry level - trainee professional	16,814	17,385	15,607	16,099	92.8	92.6

# AN OVERVIEW OF THE EVIDENCE

Other industry surveys present similar statistics. For example, Croner has provided information showing changes in salary differentials over time between Croner's own charity survey and the private sector (see Table 4).

**Table 4**

Responsibility level	1990	1995	2000	2005	2009
CEO	NA	NA	NA	NA	-21.4
Other directors	-20.9	-11.7	-12.6	-18.8	-17.5
Head of function	-15.9	-18.2	-20.1	-15.7	-15.6
Senior manager	-13.1	-13.4	-16.8	-13.4	-13.9
Middle manager	-14.1	-7.6	-13	-10.7	-9.6
Junior manager	0.7	-1.8	-5.2	-3.9	-4.6
Trainee manager/supervisor	0.21	5.9	3.3	2.7	1

## REMUNERATION OF STAFF EARNING AT LEAST £60,000/YEAR

Charities required to produce audited accounts must also report the number of staff paid £60,000 or more a year, in bands of £10,000.<sup>xvi</sup> NCVO/TSRC have used a representative sample of audited accounts to estimate total numbers of staff in each band. Using this source, NCVO/TSRC estimate that 15,000 employees in all registered charities in the UK were paid at least £60,000 in 2011.

It is important to note that these estimates are for all registered charities in the UK not just the general charities subset: that is, they include employees working in statutory bodies with charitable status, private schools and hospitals and a number of other bodies.

**Table 5**

Charity by income	Registered charities: number of staff by salary bands			
	£60k-£100k	£100k-£250k	£250k+	Total*
£500k-£1m	335	16	0	352
£1m-£5m	2,119	176	1	2,296
£5m-£10m	1,670	283	1	1,954
£10m-£100m	5,399	946	14	6,359
£100m+	2,744	1,199	38	3,981
Total	12,266	2,621	55	14,942

\*These are estimates extrapolated from a sample: the Inquiry suggests rounding totals up/down to the nearest 100.

# AN OVERVIEW OF THE EVIDENCE

Using NCVO's narrower general charities subset (Table 6), it is estimated that 7,100 employees earned £60,000 or more in 2011. In fact, a majority of those earning £60,000 or more were employed in 'non-general charities'.

**Table 6**

Charity by income	General charities: number of staff by salary bands			
	£60k–£100k	£100k–£250k	£250k+	Total*
£500k–£1m	252	7	0	259
£1m–£5m	1,228	93	1	1,322
£5m–£10m	774	129	1	904
£10m–£100m	1,936	329	3	2,268
£100m+	1,874	492	26	2,392
Total	6,064	1,050	31	7,145

\*These are estimates extrapolated from a sample: the Inquiry suggests rounding totals up/down to the nearest 100

**Table 7**

Number of organisations	£60k–£100k	£100k–£150k	£150k–£250k	£250k+	Total (estimate)
Registered charities	2,693	820	212	24	2,745
General charities	1,319	320	82	9	1,329

To summarise the analysis of employees by salary band in England and Wales:

- 1.2% of staff employed by general charities were paid £60,000 or more in 2011; 0.2% of the workforce were paid £100,000 or more.
- Assuming the Labour Force Survey-based estimates of workforce (793,000) are accurate, and assuming the public are interested in all registered charities, then those earning £60,000+ in 2011 were equivalent to 1.9% of the workforce. This compares with 4.5% in the public sector and over 6% in the private sector.<sup>xvii</sup>
- More than two-thirds of staff earning £60,000+ in 2011 were employed by registered charities with an annual income of over £10m.
- Table 7 shows the number of charities paying salaries of £60,000 or more to one or more of their employees. Less than 1% of UK registered charities employ a member of staff earning £60,000 or more; the same is true for the general charities subset.

## TYPES OF CHARITIES THAT ARE MOST AND LEAST LIKELY TO PAY HIGHER SALARIES

The NCVO/TSRC analysis shows that of all registered charities those most likely to pay staff £60,000 or more are:

- educational charities, principally independent schools: the latter constitute 9% of registered charities with a turnover above £500,000, but account for 27% of those that have at least one employee paid over £60,000;
- business and professional associations;
- nursing homes and residential health-care providers; and
- medical research and general research charities.

Religious charities are least likely to pay staff £60,000 or more.

# WHAT PEOPLE SAID ABOUT PAY

Since August 2013, NCVO and the Inquiry have received a total of 423 comments on senior executive pay, comprising:

- 54 letters and emails from members of the public, submitted via the Inquiry's dedicated email address
- 104 comments from charities responding to an email NCVO sent to its members in August 2013
- 227 replies from charities to a survey the Inquiry circulated to NCVO members in November 2013
- 38 comments on two blogs about chief executive salaries posted by NCVO's director of public policy.

The Inquiry also spoke to a number of organisations and individuals who have an interest in the remuneration of senior staff of charities (see [Appendix B](#)).

This section summarises all of these views.

## THE VIEWS OF DONORS AND THE PUBLIC

The public contribute a significant proportion of the charity sector's overall income, whether through individual donations, covenants, legacies or membership subscriptions. They are a significant stakeholder.<sup>xviii</sup> Unlike company shareholders, charity donors do not expect a financial 'return' on donations.<sup>xix</sup> Instead, their expectations tend to centre on how effectively charities use their donations. They also increasingly pay attention to how charities measure and describe their impact (their social return).

The debate about the pay of senior staff in charities has periodically re-surfaced over the years. Recent research found that the top concern of people polled about charities was that they spent too much on executive salaries, with 42% of respondents citing this concern.<sup>xx</sup> However, the Inquiry is not aware of any evidence of the debate influencing the long-term behaviour of the majority of donors or levels of public trust in charity.<sup>xxi</sup>

With that caveat, the Inquiry canvassed a wide range of views on the pay of senior staff in charities through articles in *The Independent* and *The Daily Telegraph*.<sup>xxii</sup> The Inquiry received 54 submissions via this route.

Many of the NCVO members who responded to the Inquiry (see box below and [Appendix A](#)) said that they regularly donate to charity. The evidence from all of these donors reflected four distinct views.

# WHAT PEOPLE SAID ABOUT PAY

## THE FOUR VIEWS ABOUT CHARITY PAY AND CHARITY EMPLOYMENT

### 1. VOLUNTEERS ONLY

The first view expressed was that everybody working for a charity should be a volunteer. The statement below encapsulates the view of this group.

“ In simple terms – no pay at all, only allowances. Talking to an unpaid helper in my local charity shop I was amazed to discover that senior charity workers were being paid. I naively thought, for example, that when a senior executive retired [from business] their contribution to charity would be through similar unpaid work through their favourite charity.

” **Email from a donor to the Inquiry**

### 2. VOLUNTEER-CENTRIC

The second view expressed was that charities should only pay a few core staff, with as many volunteers as possible running the charity and delivering the service. A typical example of this view is:

‘The voluntary principle should pervade all aspects of a charity’s activities, and there should be more reliance on and use of volunteers.’ View expressed to the Inquiry

### 3. APPLYING THE CHARITY CONTEXT TO CHARITY PAY

The third view, accepting the need for charities to employ staff, was that there is an inherent value or reward in working for a charity. This should form part of the overall reward equation. The charity context should be reflected in lower or ‘discounted’ salaries compared with similar roles in other sectors. There was a clear expectation that senior staff should act out of altruism and be motivated by the charity’s purpose in tandem with a modest financial package. This view was particularly prevalent for charities involved in reducing poverty.

Examples of this view are:

“ Charity executives should be inspired by the values of the charity and should not expect pay commensurate with a commercial or private sector role.

” **Donor and member of a charity remuneration committee**

“ I feel that for large charities, fees in the £100,000/£125,000 range are tolerable, but not where a previously retired person is involved as he/she will have already provided for their retirement.

” **Donor**

“ CEO salaries should be capped. The public do not donate to pay for excessive salaries and anything over £50,000 would be seen as such.

” **Donor**

### 4. RECOGNISING THE ROLE OF PROFESSIONAL STAFF IN ACHIEVING CHARITABLE OUTCOMES

The fourth view, more likely to be heard from major philanthropists, trusts and large companies donating to charities, was that charities will always be financially scrutinised before receiving direct donations and this includes analysis of the charity’s pay levels and structure and the performance achieved. An example is:

“ Some [grant-making trusts] increasingly scrutinise executive pay over £60,000 and can withhold funding if they are dissatisfied and consider pay levels excessive. We need to be able to convince them that pay is fair to executives and to donors.

” **Charity trustee**

The nature of some charities’ funding and finances is changing, requiring more complex skill sets. For example, lenders and institutional funders of charities said they require assurance that a charity has senior staff with appropriate skills to help ensure a return on their investment. This increases when the charity is using new or innovative forms of investment. This is often a key part of such funders’ due-diligence considerations. For some charities, it was seen as a significant factor in determining salary levels, particularly where ‘poor’ pay was perceived by their funders as being directly related to senior staff exercising ‘poor’ judgement.

More generally, funders said that they valued charities’ increasing use of professional staff to help drive improvements in efficiency and effectiveness.

“ There should be different principles. Large charities are managing large amounts of money, sometimes more than £300 million a year. It is essential to have very experienced and skilled managers and senior executives. The difference between these charities and charities with no or few paid staff is huge.

” **Charity trustee, donor and employee**



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# WHAT PEOPLE SAID ABOUT PAY

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## THE VIEWS OF FORMER DONORS

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The Inquiry spoke to a number of people who had stopped donating to specific charities because they felt the chief executive's pay was too high.

Some of these donors also highlighted a perception of dissonance between charities' fundraising messages about their users' needs and how much they paid their senior staff.

'It is simply avarice. There has to be a brake on the increasing pay gap between highest and lowest salaries. I don't accept the complexity argument, and disagree that you have to pay more to get the best. There must be plenty of well-qualified people who would work for far less. Why not reduce the amount on offer the next time top jobs become vacant?' Former donor to a large charity

## COMPARING THE VIEWS OF DONORS AND THE PUBLIC WITH INFORMATION FROM OTHER SOURCES

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A 2012 survey asked people what factors they considered important in deciding to support a charity. Respondents suggested a variety of information, but an overwhelming 76% said details of the salaries of a charity's senior staff were important to their making a decision.<sup>xxiii</sup>

The Inquiry has found plenty of evidence that the public's perception of charities does not always match the reality. Some of the people

responding to the Inquiry thought, erroneously, that charities do not report anything about the salaries that they pay their senior staff. Information is in the public domain but clearly many people have either not sought this information or been unable to find it in annual reports or online or simply assumed no such information exists. Discoverability is clearly a key issue.

Research also suggests that the public's understanding of the term 'charity' is far narrower than the legal definition.<sup>xxiv</sup> While the legal definition includes many institutions such as schools, the arts and medical research institutions – all of which require specialist staff – the public perception remains that charities are largely run on a voluntary basis and do not require full-time professional and technical staff to manage and deliver their aims.

The public also tend to view the charity sector as homogenous, which in turn influences perceptions. Contemplating the private sector, nobody would, for example, compare the pay of a local shop owner to the chief executive of Tesco, nor an accountant handling a business with a turnover of £100,000 to a finance director responsible for international income and expenditure of over £100 million.

Despite the partial knowledge of the sector as a whole, public levels of trust and confidence in charities remain high. The most recent survey measuring the public's trust and confidence in charities showed the public giving charities an average score of 6.4 out of a maximum of 10, with over a third giving a score of between 8 and 10.<sup>xxv</sup> Those who gave low trust and confidence scores also expressed concern that charities 'spend too much of their funds on salaries/administration' and that they 'waste money'.<sup>xxvi</sup> As one

commentator said, 'Trust hangs precariously in the balance waiting for a big scandal to break, or more prosaically for the public to realise that charity workers are not volunteers but paid professionals.'<sup>xxvii</sup>

## BENEFICIARIES' EXPECTATIONS

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Beneficiaries – the users of a charity's services – are often the silent voice in the debate about charities' highest-paid staff.

Beneficiaries are entitled to the best service that the charity can provide. The notion of relying on 'charity' has been replaced by expectations of a professionally delivered service. Like other 'consumers', beneficiaries now assume that they will receive a 'good' service, whoever provides it.<sup>xxviii</sup>

The Inquiry has not found any evidence to show that beneficiaries have a particular view on pay. Instead, the quality of service appears to be the crucial factor when beneficiaries decide whether or not their needs have been met.

Volunteers play a vital role in the majority of charities and will continue to do; it is a role that beneficiaries value. Yet some charities cannot deliver their responsibilities without paid staff, for example, because of regulatory or clinical expectations or to guarantee services that need to be delivered consistently to professional standards.<sup>xxix</sup>

Service commissioners' requirements reinforce those of beneficiaries. For example, as the government outsources more services to the charity sector, such as academy schools and social, employability and medical care services, it does so with the expectation that these services will be delivered professionally.

# WHAT PEOPLE SAID ABOUT PAY

## CHARITIES' VIEWS

A summary of these responses is included in [Appendix A](#). Whilst the responses showed a wide range of views, a particularly strong theme was recognition that charities needed to be more transparent about their salaries.

Another theme was the expectation that charities should be fair in the way they treat staff at all levels, including in their remuneration policies. Some charity employees, responding to the survey in a personal capacity, also said they saw their work as a vocation, accepting that their earning potential would never match that in other sectors at similar levels.

Others said that people should be properly rewarded for the work they do.

**“Charities are businesses...we just have different outcomes, different bottom lines. Why shouldn't we reward people for doing good?”**

**” Lord Victor Adebowale, Chief Executive, Turning Point<sup>xxx</sup>**

The Inquiry also heard from charities that said they had to pay at a certain level to retain the professional staff they needed and that their finance model was competitively tendered.

**“The recent Public Administration Select Committee session on charity chief executive pay heard evidence from Charles Wake, the Chair of St Andrew's Healthcare, which is the UK's largest charity providing specialist mental healthcare services. Mr Wake explained that his charity was a trading charity [ie it did not rely on donations or grants], which was managed in a business-like manner and did not fundraise. He also explained that St Andrew's chief executive would earn much more as a consultant in the**

independent and private sector.<sup>xxxi</sup> The charity's biggest concern was how it would be able to attract and retain somebody of the existing chief executive's calibre. The charity had a remuneration committee and outside professionals who advised it on executive pay.

**” Charles Wake, Chair of St Andrew's Healthcare, talking at the Public Administration Select Committee on 10 December 2014<sup>xxxii</sup>**

A hospice in Cornwall delivers end-of-life care. Two of its senior staff are medical clinicians whose pay is linked to NHS pay scales. Both are paid significantly more than the charity's chief executive.

Some charities told the Inquiry that the commissioners of their services had neutral views on pay, although in some cases clinical or commissioners' requirements might affect remuneration levels of some senior staff. The Inquiry was also told that charities' pay – especially at lower levels – was sometimes influenced by competitive tendering for public service contracts.

Martyn Lewis CBE, the Chair of the Inquiry, also invited the trustee chairs of large charities to give their views. A representative response from the chair of one of these charities was as follows:

**“Our large charities are exceedingly complex organisations in which leading staff have far-reaching and multi-functional roles in which there are major requirements not only for charitable operations, strategy and delivery – but also for the safety of a great many people and property; for financial management involving the highest standards of excellence and probity; for effective management across a large staff and volunteer base with wide-ranging expertise; and**

for development and innovation in what is now a very fast-moving world. While we must, of course, dispense our funds – including salaries – with our charitable intent absolutely to the fore, our organisations must attract leaders of the highest possible calibre in what is a competitive employment market.

In the end, our charitable objects and performance depends on us employing the best possible people – and my experience from over 30 years' working alongside charities is that the payback in our capability outweighs our salary expenditure many-fold.

**” Chair, RSPB**

Smaller charities asked the Inquiry to be proportionate in its recommendations and to be mindful of the need to avoid burdening small charities with additional requirements.<sup>xxxiii</sup>

A number of respondents, largely working for smaller charities, argued that the issue of high pay only applied to a relatively small number of charities, largely located in London and the south east. A small number of these respondents also felt very strongly that the pay of senior staff was too high in larger charities and that this was out of step with charity values.

**“...It's crucially important to see charity sector workers paid appropriately. But we need to acknowledge...that our sector is categorically different to the profit-led sector, and that different standards should apply; standards which have our ethics at their core. Many of us hold to the (inherently reasonable and justifiable) belief that means significant pay moderation at senior levels, junior pay that provides a decent standard of living, and a focus on maintaining the strength of front-line services.**

NCVO [should] state a strong position based on specified normative values, then test the validity of that position honestly, thoroughly and openly, based on the context of those values.

**” David Houghton-Carter commenting on Karl Wilding's blog, 'Executive pay: what's the magic formula?'<sup>xxxiv</sup>**

# WHAT PEOPLE SAID ABOUT PAY

Others said that ‘high’ pay was an irrelevant or secondary issue; what was more important to them was seeking sufficient funds to deliver their charity’s aims and to secure its future.

The Inquiry heard from some charities that believed salaries at the top of charities were accelerating away from the bottom; a pattern they saw in other sectors. They felt this trend was worse where charity remuneration committees focused only on senior executive salaries. Others told the Inquiry they were as concerned about the gap between the top and bottom salaries in a charity, as they were about chief executives’ pay. The Inquiry also heard that ratios varied dramatically within the charitable sector, particularly where care workers and others on minimum wage terms were employed. However, several people also warned of the dangers and perverse incentives attached to setting fixed ratios between the highest and lowest-paid employees in a charity.

The Inquiry believes that low pay is an issue that is worth investigating, although it is outside the scope of this Inquiry.

## CONCLUSIONS

Having looked at all of the evidence the Inquiry has concluded that:

- the nature of charity and charity values are a fundamental part of the decisions regarding pay for all employees, particularly senior staff
- there are many drivers affecting senior staff pay and attitudes towards this; there is no one size or model that is appropriate to all
- most of the public, and some donors, have a partial understanding of charity senior pay levels, the role played by senior charity employees and the process for determining their pay
- whilst some donors have some strongly held views, many appear, by their continued donations, to recognise the value provided by employing paid professional staff; charities have not helped themselves in the way that they have communicated their remuneration decisions. That is why the Inquiry calls for more transparent reporting and explanation of senior staff pay, alongside better communication of individual salaries and remuneration policies.

These conclusions form the basis for our recommendations and key principles for charities to consider in deciding the remuneration of their senior staff.

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# SETTING PAY: KEY PRINCIPLES FOR CHARITIES

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## CHARITIES' CHARACTERISTICS AND VALUES INFLUENCING PAY DECISIONS

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The legal characteristics common to all charities, described on [page 30](#), influence their pay decisions. However, the way charities deliver their purposes for the public benefit varies significantly. The majority of individual charities involve volunteers in raising funds and delivering their purposes. However, as described in the evidence section of the report, charities as a whole increasingly earn much of their income through payments for delivering services.

Each charity's pattern of funding and activities is fundamental to its approach in deciding its pay policy and practice. Thus each charity trustee body needs to develop and implement a pay policy that supports the success of its charity, and policies will vary from one charity to another.

Some charity trustees believe that the voluntary principle is the bedrock of their charity and that paying any staff goes against this principle. They use volunteers because they feel that this approach is the most effective and appropriate way of delivering their charitable purposes.

Trustees of other charities believe that the nature and breadth of their operations means it is necessary to pay some or all of their staff rates

that are competitive with other sectors if the charity is to be able to achieve its charitable purposes professionally and effectively. This applies particularly, but not exclusively, to the growing number of charities delivering services paid for through local authority or government funds, some of which win contracts against competition from commercial providers or as partners with, or sub-contractors for, them. These charities are particularly prevalent in the social care, health, employability, housing and education sectors. Charities involved in these areas say that they need to attract people with the right skills and experience to administer these contracts and the standards of delivery expected within them. They also say that they need to pay competitive rates in order to do so.

Some trustee boards adopt a hybrid model. They seek to combine charitable principles, volunteering and philanthropy with a professional and business-like approach supported by a paid workforce to deliver increased public benefit. In many cases a core of employed staff has allowed such charities to expand. This is because the staff have enabled the charities to be more efficient in delivering

services, to increase their fundraising capacity where applicable, and to substantially improve the reach and achievement of their work. These charities say that a mix of paid employee resource and volunteer engagement has led to improvement in benefit felt by donors (as they see more benefit delivered), volunteers (whose efforts are better focused) and beneficiaries (who receive improved outcomes).

No one model is right or wrong; the best model will depend upon the circumstances of each charity.

# SETTING PAY: KEY PRINCIPLES FOR CHARITIES

## KEY PRINCIPLES

Charities told the Inquiry they would like to see it deliver common remuneration principles that should apply to all registered charities. The following recommendations are good practice guidance for setting remuneration, particularly in relation to the pay of senior staff. They aim to reflect the sector's diversity and recognise that the way that principles and good practices are applied will vary between charities.

## RECOMMENDATION ONE: PRINCIPLES FOR SETTING CHARITY REMUNERATION

The Inquiry recommends that the following principles for setting charity remuneration are adopted as good practice by all charities that employ staff. These principles should be interpreted according to their particular circumstances. The principles should apply where a charity's trustees consider it necessary to hire paid staff to carry out the charity's work and help fulfil its exclusive charitable purposes:

1. The overall goal of a charity's pay policy should be to offer fair pay to attract and keep appropriately-qualified staff to lead, manage, support and/or deliver the charity's aims. This should be always consistent with the charity's aims and recognise that for certain charities, particularly those with a volunteer ethos, it is possible to attract senior executives at a discount to public sector or private sector market rates.
2. Trustees are responsible for setting appropriate performance goals and remuneration levels for the charity's most senior staff. Trustees should clearly identify these senior staff, who will typically, although not always, be part of the charity's executive and/or senior management team.
3. To set the pay and rewards properly for these staff requires informed judgements as well as adherence to the charity's governance and constitutional arrangements.
4. In deciding top levels of pay and rewards trustees should consider:
  - a. the purposes, aims and values of the charity and its beneficiary needs
  - b. how this impacts on overall pay policy for all employees, and for the senior staff in particular, including whether a 'discount' compared with pay for similar roles in other sectors is appropriate
  - c. the types of skills, experiences and competencies that the charity needs from its senior staff, the specific scope of these roles in the charity and the link to pay
  - d. the charity's current business plan and how the implementation of this plan may affect the number of senior staff the charity needs to employ or recruit and the nature of these roles
  - e. the charity's ability to pay. This includes the cost to the charity of raising pay, and whether it is sustainable, and how appropriate the level of pay, and any pay increase, is in the context of the charity, as measured against the needs of its charitable purposes and beneficiaries
  - f. their assessment of the charity's performance and the senior staffs' performance against expectations, both short-and-long term
  - g. appropriate available information on pay policies and practices in other organisations that can help make the decision on whether a level of pay is fair and reasonable
  - h. the nature of the wider 'employment offer' they can make to potential employees, where pay is one part of a package that includes personal development, personal fulfilment, and association with the public benefit delivered
  - i. the charity's track record in attracting and retaining committed and motivated employees
  - j. the likely impact on and views of beneficiaries, donors, funders, volunteers and potential volunteers, where appropriate
  - k. the relationship between the policy and practice for the pay of senior staff and that of the charity's whole workforce.

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# SETTING PAY: KEY PRINCIPLES FOR CHARITIES

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## ESTABLISHING A REMUNERATION POLICY

### RECOMMENDATION TWO: A REMUNERATION POLICY

The Inquiry recommends that, as good practice, all charities that employ staff should consider adopting a remuneration policy, and all charities with independently audited accounts (currently those charities with a gross income of over £500,000) should adopt such a policy.

The charity's purposes, ethos and achievements, as well as its income and activities, will inform its overall remuneration policy and how it is implemented.

For smaller or less complex charities, the remuneration policy may be relatively straightforward: stating the process it follows when setting remuneration, including the role of trustees, and taking into account the charity's income and aims. It may refer, for example, to whether the charity uses an external benchmark when setting pay, such as the minimum wage, the 'Living Wage' or local authority pay scales.

Guidance on setting pay for senior staff in charities can be found on [page 30](#).



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# SETTING PAY: THE VALUE OF WORKING FOR A CHARITY

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## SALARY LIMITS

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The Inquiry believes it is neither possible nor desirable to recommend a general salary ‘cap’ or benchmark for the highest-paid charity staff. This is because there are simply too many different types and sizes of charities to take into account their labour market needs and the resources required for delivering their different missions. A cap could create perverse practical outcomes, such as apportioning a bigger element of remuneration into ‘non-salary’ benefits, or create obstacles to recruiting the appropriate leaders and managers for charities in complex areas such as health, international development and education.

It is the role of trustees to set the pay of senior staff and to agree the charity’s overall remuneration policy.

The charity sector is diverse and the Inquiry does not think it benefits donors and beneficiaries to set artificial limits on the structure and levels of remuneration within charities; this must continue to be left to trustee boards. It is also ultimately the responsibility of donors to satisfy themselves on questions of pay. They cannot ‘outsource’ their decision to the Charity Commission, NCVO or another charity. But this means that charities must make a real effort to enable donors to understand their pay policies and levels of pay.

## THE CHARITY CONTEXT AND PERCEIVED REWARDS INHERENT IN WORKING FOR A CHARITY

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### RECOMMENDATION THREE: THE VALUE ATTACHED TO WORKING FOR A CHARITY

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The Inquiry recommends that charities consider the esteem and the value – financial or otherwise – derived by employees from working for a charity and the impact this may have on setting levels of remuneration for senior staff and others throughout the organisation. Where applicable, the approach should be made available in a remuneration statement.

The evidence discussed earlier in the report indicates that charity staff, particularly senior staff working in charities with a volunteering and/or campaigning mission, are paid significantly less than their skills and experience would command in the private or public sectors.

In particular, trustees of those charities that are funded primarily by donations and philanthropy can generally attract and retain key talent for their charity at lower rates than those paid for comparably qualified and experienced people in the private sector. The difference, or ‘discount’, generally reflects the ‘charity context’ or perceived rewards inherent in working for a charity for which an executive has high levels of commitment and passion. The Inquiry thinks that this view is consistent with the charity context, and an attribute that can enhance the already high levels of public trust and confidence in the sector.

# SETTING PAY: THE VALUE OF WORKING FOR A CHARITY

## CASE STUDY: MÉDECINS SANS FRONTIÈRES/ DOCTORS WITHOUT BORDERS UK

“ The charity, registered with the Charity Commission, provides international emergency medical aid. In 2011/12 its income and expenditure was £23.9million and £25.3 million respectively. It employed 135 FTE staff; one employee’s remuneration was more than £60,000. The charity operates a pay policy whereby the highest employee never earns more than three times the lowest-paid employee.

” Extract from the notes to Médecins Sans Frontières’ annual accounts for the year ending 31 December 2012

## CASE STUDY: MARY’S MEALS

“ Mary’s Meals is a charity registered in Scotland, which provides meals for schoolchildren in poor communities. At a Public Administration Select Committee session into charity chief executive pay Magnus MacFarlane-Barrow, the chief executive of Mary’s Meals, explained his charity decided to introduce a pay cap because it would be hard to justify a ‘genuine partnership’ with people living and working in impoverished conditions. He believed this stance also helped their fundraising efforts. On average Mary’s Meals paid staff £32,000, with the highest salary being £45,380. Mr MacFarlane-Barrow did not get paid the highest amount.

In terms of whether a similar pay cap would work in other charities, he argued that each charity carries out a different mission, which requires people with different skills and would involve a different pay policy.

” Magnus MacFarlane-Barrow, chief executive of Mary’s Meals talking at the Public Administration Select Committee on 10 December 2014<sup>xxxv</sup>

## CASE STUDY: OXFAM

“ ...we have never had any difficulty in attracting a sufficient pool of well-qualified candidates who are prepared to work for less than in other sectors, and who are prepared to ‘give back’ to society. Regrettably we have found it necessary a few times to pay more for senior executives than we would otherwise have chosen, because of salary increases elsewhere in the charity sector.

There are real dangers in setting benchmarking targets to pay above the median pay. This can lead to rapid salary escalation...if more than a quarter of employers target to pay around the 75th percentile of the market. Charities should be especially wary of adopting a target to pay above median, when employment research suggests that once pay is “good enough”, other factors can motivate more successfully.

” Chair of Oxfam in a letter to the Inquiry

Other charities told the Inquiry that it was not always appropriate, or possible, to pay senior staff in charities less than equivalent roles in other sectors. The Inquiry does not think that it is helpful or desirable to provide an aspirational figure for charities considering whether to apply a ‘charity discount’ as part of their remuneration policy. This will depend entirely on the charity’s values, its beneficiary needs, the environment in which it works and the individuals it employs and their roles and responsibilities.



# SETTING PAY: THE VALUE OF WORKING FOR A CHARITY

The Inquiry also heard from some charities that said that if individuals were offered salaries with too big a ‘charity discount’, too many suitable and qualified people could be deterred from applying for roles. For example, the Inquiry was told of two areas where a ‘charity discount’ would be likely to seriously restrict the availability of appropriately qualified candidates for key professional roles:

- Specific, high-level skill areas in support functions with overall skilled labour shortages; these included finance and technology and, within the charity sector itself, fundraising.
- Charities that are generally financed through competitively contracted service provision, and/or paid fees, where there is also direct competition for scarce talent with the private or public sectors, for example in health care and education.

This may also apply to chief executive roles in particular types of charity.

“We do not believe there can be a charity discount in the education sector. Market forces prevail. In fundraising charities, much will depend on size and scope.

” **Top 15 charity**

The Inquiry concludes that much of the evidence shows the charity sector pays less than other sectors for comparable senior roles and that salary numbers in charities are not extreme. It also believes that charities that pay the same levels as other sectors should have good and clear reasons for doing so and be able to explain their approach and rationale.

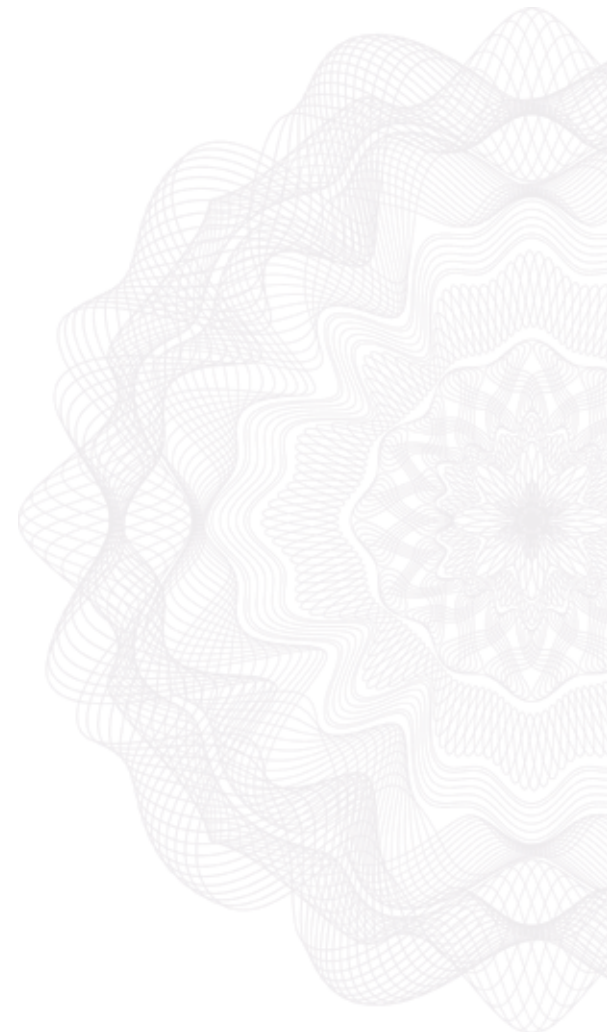
## THE USE OF BONUS PAYMENTS

Bonuses are included within the definition of remuneration (see [Glossary](#)). In practice there appear to be very few charities that pay bonuses to their senior staff. The Inquiry believes that it should not normally be necessary to incentivise senior staff in a charity through an explicit incentive bonus payment. The charity sector’s remuneration strategy is essentially to attract and retain people who are already motivated, therefore incentive payments should be rare. If a charity does wish to pay a bonus to its senior staff then trustees should be clear, explain their reasoning and regularly review their approach.

## THE RELATIONSHIP BETWEEN THE PAY OF SENIOR STAFF AND THE CHARITY’S OTHER WORKFORCE

A charity’s remuneration policy needs to have a clear rationale across its entire workforce. The relationship between different levels and structure of pay within the organisation needs to be monitored and understood.

Whatever the intangible benefits of working for a charity, all staff should be paid at or above the minimum wage (having regard to their age).<sup>xxxvii</sup> Pay levels of more junior staff, for example, mean that paying a ‘reduced’ salary, because of the ‘value’ of working for a charity, is unlikely to be applicable.



# SETTING PAY: THE VALUE OF WORKING FOR A CHARITY

## THE USE OF REMUNERATION RATIOS

### RECOMMENDATION FOUR: CHARITY REMUNERATION RATIOS

The Inquiry recommends that charities with an income of above £500,000 consider the use of remuneration ratios (the multiple between the highest pay to median pay in an organisation is regarded as the most reliable measure) as a helpful tool to assist in their approach to pay; for example in helping to identify the impact of pay decisions on individuals and the appropriate distribution of any increase in payroll spend across the whole charity each year. Where charities choose to use such ratios, they should also use them to help explain, within their remuneration statement, their approach to pay.

Ratios, or the multiple between the highest to lowest salary or highest to median salary, are sometimes used to help understand and explain how the pay of senior staff relates to the pay of the wider workforce in an organisation. This is also known as ‘pay dispersion’.

Ratios are not always helpful. There is not a pay ratio that is right for all charities or indeed within particular sub-sectors, as charities operate in very different ways. Neither does the Inquiry recommend a ‘cap’ or limit on the gap between the highest- and lowest-paid members of staff, as this would be too mechanistic and would create perverse outcomes. For example, organisations might outsource their lowest-paid staff. The Inquiry heard of one instance where a charity had a salary ratio of 1:12, with a cleaner being the lowest-paid member of staff. If the charity outsourced its cleaners its ratio would be reduced to 1:8.

Another example is a charity that is growing, which means it may not have a stable pay structure from year to year. If, say, a charity doubles in size between one year and the next, it may mean higher pay for its chief executive and senior staff and the employment of more staff at junior levels. A ratio that ‘increases’ may therefore simply be a sign of organisational success.

In other sectors the ratio of highest to median earnings of an organisation’s workforce has been adopted as a suitable benchmark for organisations to use.<sup>xxxviii</sup> The median remuneration of an organisation is defined as the total remuneration of those staff lying in the middle of the linear distribution of the total staff,

excluding the highest paid employee. The calculation is based on annualised, FTE remuneration. The rationale given for adopting this multiple is that median earnings are more representative of the pay of the whole of an organisation’s employees and will not be significantly affected by large or small salaries that may skew an average (mean), and a multiple based upon median earnings is less sensitive to changes in the bottom of the workforce structure, and therefore less susceptible to manipulation.<sup>xxxix</sup>

Trustees should use their judgement in setting appropriate levels of pay across the whole organisation. However, considering the use of ratios, including whether to publish them, can act as a beneficial prompt to trustee boards or remuneration committees. Looking at ratios can help trustees to review the impact of pay decisions on individuals and consider the appropriate distribution of any increase in payroll spend across the whole charity each year. Ratios can also help to identify and track the impact that differential pay policies and pay outcomes have on employees, their internal relationships and their lives.

# TRANSPARENCY IN REPORTING REMUNERATION

People already have high levels of trust in charities.<sup>xi</sup> Charities excel at telling compelling, interesting and informative stories about their beneficiaries, which inspire the public to donate and organisations to fund them. Charities are experts in the art of clarity and persuasion, and people and organisations respond generously, inherently trusting in their work.

Given donors' legitimate concerns about where their money is going and wider concerns about pay policies and costs, charities should not shy away from more open communication of senior staff pay levels and pay policies. The Inquiry found very few examples of this open communication in charities' annual reports or on their websites.

Most large charities must follow the Accounting and Reporting by Charities: Statement of Recommended Practice 2005 (Charities SORP) framework when preparing their accounts.<sup>xii</sup> Currently charities with, essentially, an income of more than £500,000 have to show in their annual accounts the number of staff whose remuneration is £60,000 or more, in salary bands of £10,000, or explain why they do not and risk a qualified audit statement.<sup>xiii</sup>

Other sectors have brought in increased transparency requirements as part of their accountability to shareholders or to citizens more broadly.<sup>xiii</sup>

The Inquiry believes more is required of charities and that charities' unique role and relationship with their donors, beneficiaries and the public means that they should achieve the very highest standards of transparency and accountability.

## REPORTING CHANGES AHEAD

The SORP Committee recently consulted on changes to the reporting framework for charities, including those on reporting remuneration. Specifically, the consultation included a proposed change to the Charities SORP to require charities to publish their senior executives' aggregate remuneration as a note to their annual accounts. The proposal also reflects the Financial Reporting Council's new requirement, under the new Financial Reporting Standard, requiring all entities using this standard (ie not just charities) to disclose this information in the notes to their accounts.<sup>xiv</sup>

As a result, the SORP Committee is proposing that:

- the Financial Reporting Council agrees changes to the Charities SORP, which will require larger charities to disclose their remuneration policy in their trustee annual report<sup>xiv</sup>
- the banding disclosure is retained and extended to become a requirement for all charities who prepare accounts (ie not just larger charities).

It has not supported the identification of the role and pay of the charity's highest-paid employee.

At the time of writing the Financial Reporting Council's response to the new SORP proposals is awaited.

The SORP Committee's proposals are helpful, particularly in the current climate. Yet the Inquiry believes that charities should achieve the very highest standards of transparency and accountability. Rather than publishing the minimum required, charities should embrace accountability and transparency in reporting their remuneration policies and practices. The information they produce on remuneration should be clearly accessible to the public.

# TRANSPARENCY IN REPORTING REMUNERATION

## RECOMMENDATION FIVE: PUBLISHING AN ANNUAL STATEMENT

The Inquiry recommends that, as good practice, every charity with independently audited accounts (currently those charities with a gross income of over £500,000) should:

- publish an annual statement explaining their charity's ethos and policy on remuneration
- explain how this impacts on the delivery of their charitable purposes
- report the actual remuneration, roles and names of individual highest-paid staff, as defined by the charity.

For some charities the definition might include the chief executives and any staff in leadership positions who report directly to them (apart from PAs and other support staff). Additionally, if an individual, whatever their level, earns more than the chief executive this should be disclosed.

Where a charity has a structure that includes subsidiary trading companies, these will appear in the charity's consolidated accounts. Any staff employed within such companies who also fit within the criteria for key management personnel, or the charity's highest-paid individual, should also be included in the charity's report and statement of its senior staff remuneration.

In all cases, the definition and disclosure should include the charity's chief executive, irrespective of his or her salary.

The term 'remuneration' includes the total financial rewards made, or available, to an employee. (see the definition in the [Glossary](#) in Appendix C).

In addition to the remuneration disclosures that charities are required to include as a note to their accounts, as good practice the charity's remuneration statement should be:

- included within its Trustee Annual Report
- published in a prominent area of the charity's website no more than two clicks away from the homepage and alongside the remuneration, roles and names of the highest-paid individuals. This is to ensure ease of access.

Below this charity audit threshold other charities are encouraged to adopt a similar approach and, in all cases, to report the salary of their chief executive.

Charities should also use their annual remuneration statements to explain clearly the challenges they face in delivering some services and why they need specialist people to enable them to do so, and some already do.

A charity's annual accounts will include the audited remuneration figures. So, for example, if someone starts a job halfway through the year, only their half-year salary will be recorded. The charity's website entry could however include the current figures on an annualised basis.

It is up to each charity to decide how many people to include within their definition of their charity's highest-paid staff. The Financial Reporting Council's definition of key management personnel, as adapted for charities, provides a helpful starting point for charities:

'Those persons to which the trustees delegate day-to-day authority and responsibility for managing, planning and directing the activities of the charity; and often described as the senior management team.'

# TRANSPARENCY IN REPORTING REMUNERATION

## CASE STUDY: EXAMPLE OF A CURRENT REMUNERATION STATEMENT ON A CHARITY'S WEBSITE

### HOW WE DECIDE HOW MUCH TO PAY OUR STAFF

CFG (Charity Finance Group) is committed to ensuring that we pay our staff fairly and in a way which ensures we attract and retain the right skills to have the greatest impact in delivering our charitable objectives.

In accordance with the SORP CFG discloses:

- all payments to trustees (no trustees receive 'pay')
- the number of staff in receipt of more than £60,000 and above (in bands of £10,000)
- pensions and other benefits.

CFG has a remuneration committee, which meets annually, is comprised of the CFG Chair, Vice-Chair, Treasurer and one other (who shall be appointed by the Chair), which sets the pay for all staff. The CEO is in attendance for the meeting (leaving for the discussion regarding the CEO's remuneration) and no members of the executive are members of the committee.

The main responsibilities of the Committee are to:

- review the CFG salary banding against an agreed independent market benchmarking tool (currently CCH Charity Salary survey) and make such amendments as are appropriate to ensure that CFG salaries remain competitive
- determine the remuneration package of the Chief Executive
- approve the annual percentage increase in the payroll for all staff (which can be zero) taking into account RPI as at 31 December for the previous year
- approve any consolidated pay awards and staff salary increases outside of the annual review process as recommended from time to time by the Chief Executive
- approve any non-consolidated pay awards (bonus) as recommended by the Chief Executive
- determine pension arrangements
- ensure that contractual terms on termination are fair to the individual and the charity, that poor performance is not rewarded and a duty to mitigate loss is recognised.

In determining CFG's remuneration policy the remuneration committee takes into account all factors which are deemed necessary. The objective of the policy is to ensure that the Chief Executive and staff team are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Charity. The appropriateness and relevance of the remuneration policy is reviewed annually including reference to comparisons with other charities ensuring CFG remains sensitive to the broader issues e.g. pay and employment conditions elsewhere.

We aim to recruit, subject to experience, at the lower-medium point within a band, providing scope to be rewarded for excellence. We do not employ interns without pay and we aim to pay the living wage for all our staff. We support the Charityworks programme and host two Charityworks graduates within our staff team.

Delivery of CFG's charitable vision and purpose is primarily dependent on our staff which is the largest single element of charitable expenditure. In 2012-13 CFG awarded staff a 1.5% cost of living uplift in salary. One member of staff earns more than £60,000 per annum (being remunerated between £80,000 and £90,000).

Our Annual Reports can be found here: [www.cfg.org.uk/about-us/annual-reports.aspx](http://www.cfg.org.uk/about-us/annual-reports.aspx)  
Extract from Charity Finance Group's website<sup>xlvi</sup>

# GUIDANCE ON SETTING PAY FOR SENIOR STAFF IN CHARITIES

The trustees of all charities that employ staff should satisfy themselves that the charity complies with all relevant employment law, the pay of the individuals is affordable given the level of income and the approach to deciding levels of pay is aligned with the charity's purposes, aims and the needs of its beneficiaries.

## CHARITIES' CHARACTERISTICS AND VALUES INFLUENCING PAY DECISIONS

Charities have a number of common characteristics that influence pay decisions.

- Charities can undertake a range of activities and services but they must all, by law, exist to advance their exclusively charitable objects for the public benefit.
- Charities do not make profits; any surplus funds a charity holds are dedicated to its charitable work.
- Charities must be independent, and the trustees must make decisions (including pay decisions) solely in the best interests of the charity.

However, the way charities deliver their purposes for the public benefit varies significantly. A charity's individual characteristics are fundamental to the way they approach pay policy and pay practice. Each charity trustee body needs to develop and implement a pay policy that supports the success of their charity. Policies will therefore vary from one charity to another.

## KEY PRINCIPLES

The Inquiry recommends that all charities that employ staff adopt the following principles as good practice for setting charity remuneration. Charities should interpret them according to their own circumstances and apply them when trustees consider it necessary to hire paid staff to carry out the charity's work and fulfil its exclusive charitable purposes.

1. The overall goal of a charity's pay policy should be to offer fair pay to attract and keep appropriately qualified staff to lead, manage, support and/or deliver the charity's aims. This should be always consistent with the charity's aims and recognise that for certain charities, particularly those with a volunteer ethos, it is possible to attract senior executives at a discount to public sector or private sector market rates.

2. Trustees are ultimately responsible for setting remuneration levels for the charity's senior staff. Trustees should clearly identify these senior staff, who will typically, although not always, be part of the charity's executive and/or senior management team.
3. Informed judgements, as well as adherence to the charity's governance and constitutional arrangements, should be used to set the pay and rewards properly for these staff.
4. In deciding top levels of pay and rewards trustees should consider:
  - a. the purposes, aims and values of the charity and its beneficiary needs
  - b. how this impacts on overall pay policy for all employees, and for the senior staff in particular, including whether a 'discount' compared with pay for similar roles in other sectors is appropriate
  - c. the types of skills, experiences and competencies that the charity needs from its senior staff, the specific scope of these roles and the link to pay
  - d. the charity's current business plan and how the implementation of this plan may affect the number of senior staff the charity needs to employ or recruit and the nature of these roles

- e. the charity's ability to pay – this includes the cost to the charity of raising pay, and whether it is sustainable, and how appropriate the level of pay, and any pay increase, is in the context of the charity, as measured against the needs of its charitable purposes and beneficiaries
- f. their assessment of the charity's performance and the senior staff's performance against expectations, in both short and long term
- g. appropriate available information on pay policies and practices in other organisations that can inform the decision on whether a level of pay is fair and reasonable
- h. the nature of the wider 'employment offer' they can make to potential employees, where pay is one part of a package that includes personal development, personal fulfilment and association with the public benefit delivered
- i. the charity's track record in attracting and retaining committed and motivated employees
- j. the likely impact on, and views of, beneficiaries, donors, funders, volunteers and potential volunteers, where appropriate
- k. the relationship between the policy and practice for the pay of senior staff and that of the charity's whole workforce.

# GUIDANCE ON SETTING PAY FOR SENIOR STAFF IN CHARITIES

## THE ROLE OF TRUSTEES AND REMUNERATION COMMITTEES

In smaller charities, the task of researching and agreeing recommended remuneration levels may fall to the board at large.

Larger charities may find using the board process unwieldy and decide it is more effective to set up a specific remuneration committee to oversee the policy and process. This decision will depend on the size of the charity and its type of activities. For some, this point may arrive when 20 to 30 staff are employed and the charity's turnover is £1 million; for others it may be when the charity employs over 100 people. Larger charities sometimes use independent committee members both to bring specialist skills to the committee and to provide an impartial perspective.

## ESTABLISHING A REMUNERATION POLICY

The charity's purposes, values and achievements, as well as its income and activities, will inform the development and implementation of its overall remuneration policy.

A smaller or less complex charity may develop a relatively straightforward policy describing the process followed when setting remuneration, including the role of trustees and the charity's income and aims. It could refer, for example, to

whether the charity sets pay levels using an external benchmark such as the minimum wage, the Living Wage or local authority pay scales.

As good practice, charities with an income of more than £500,000, and with independently audited accounts, should adopt a formal remuneration policy.

## SCOPE OF SENIOR STAFF ROLES AND PERSON SPECIFICATIONS

The scope of particular senior executive roles will reflect the charity's size and complexity, as well as the specific technical skill sets, competencies, breadth and depth of knowledge the role requires. The largest charities may need specific skills, experience or particular specialisms; these roles may command a remuneration premium as a result of their scarcity or the specific high technical value that they add. For example, charities may need executives with international leadership experience, specific high levels of technical knowledge (such as in specific branches of medicine, emergency aid in dangerous locations) or investment management. In some cases, there is an international market for such talent that may be taken into consideration.

A charity's size and complexity cannot on their own justify what may be perceived as high salaries. Leaders of smaller charities, for example, carrying out functions previously run as government functions can face greater challenges and organisational complexity than those of long-established, well-endowed

charities with a settled cohort of skilled senior staff already in place.

While trustees may decide to make exceptions to the charity's pay policy for exceptional individuals, they should be careful that this does not become an unnecessary general practice to attract and retain senior staff.

## ASSESSING PERFORMANCE AGAINST SHORT- AND LONG-TERM EXPECTATIONS AND THE LINK TO REMUNERATION

The majority of charities do not incentivise senior staff through use of variable remuneration or bonuses linked directly to achievement of short-term performance goals. For many charities this would contravene their ethos where their staff's main motivation for achieving organisational goals is a deep commitment to the charity's aims. However, trustees should set goals for senior staff to deliver the charity's aims and be able to review achievement of those goals on a regular basis.

Performance should be part of the decision-making process when reviewing the remuneration of senior staff.

Remuneration is typically reviewed annually in charities. As in in the private or public sectors, however, it is not usual for charities to guarantee an increase in remuneration to all or any employees.

When making changes to individual senior staff salaries, trustees need to be clear on why any increase is awarded, and take account of the effects of the pay policy at levels below senior management, when making their decisions.

## INFORMATION ON PAY AVAILABLE FROM OTHER SOURCES

When charities seek external sources of information to help decide their own senior staff pay, they should bear in mind the nature of the charity, the senior staff roles, the size and complexity of the organisation and the labour markets in which they operate. Small charities may require very little information and already use rates of pay that are linked to external comparators such as local authority, NHS or academic pay scales.

For larger charities a wider pool of intelligence may be relevant. Such intelligence should be used with care and alongside other relevant internal information including recruitment and voluntary turnover information.

Some charities find it helpful to use specialist firms to provide advice on comparative salaries. These firms include Agenda Consulting, Croner, Hays Group and XPerTHR.<sup>1</sup> This list should not be regarded as exclusive or an endorsement.

1. See [www.agendaconsulting.co.uk/benchmarking/people\\_count\\_third\\_sector/index.php](http://www.agendaconsulting.co.uk/benchmarking/people_count_third_sector/index.php)  
[www.croner.co.uk/croner/jsp/CronerHome.do?cache=false&channelId=-238414](http://www.croner.co.uk/croner/jsp/CronerHome.do?cache=false&channelId=-238414),  
[www.haygroup.com/uk/](http://www.haygroup.com/uk/) and  
[www.xperthr.co.uk/why-choose-xperthr/](http://www.xperthr.co.uk/why-choose-xperthr/) (all accessed April 2014).

# GUIDANCE ON SETTING PAY FOR SENIOR STAFF IN CHARITIES

If market intelligence has significantly informed the decision to make a pay award to senior staff, the charity's published remuneration statement should clearly state the comparator group and the basis of comparison used.

Trustees should consider the risks of overreliance on market information in setting remuneration levels for senior staff. They should be aware that in the private sector the use of executive pay market information is widely believed to have driven up executive pay levels. While there is evidence of an active labour market within the charity sector at senior levels, the sector generally has relatively high retention rates for these roles.

A number of charities have a policy of 'growing their own' leaders as one means of countering upward salary pressures. Others invest in succession planning and leadership development to keep specific individuals and so reduce the risk of damage to the charity of their leaving.

## A CHARITY'S ABILITY TO PAY

In deciding a charity's overall remuneration strategy and specific levels of pay for senior staff, trustees will need to consider:

- the benefit to the charity that such remunerated positions will bring
- the cost to the charity of increasing remuneration levels
- the overall consequences of increasing pay, particularly at senior levels, in terms of employee, donor and beneficiary perceptions
- whether it is affordable, including the longer

term implications perhaps based upon a risk assessment of future income and expenditure

- the appropriateness of the pay in the context of the charity and its beneficiaries' needs.

## THE RELATIONSHIP BETWEEN TOP-LEVEL PAY AND THE REST OF THE CHARITY'S WORKFORCE

A charity's remuneration policy needs to have a clear rationale across its entire workforce. The relationship between different levels of pay and pay structures in the charity needs to be monitored, understood and explainable. Ratios, or the multiple between the highest to lowest salary or highest to median salary, are sometimes used to help understand and explain how the pay of senior staff relates to the pay of the wider workforce in an organisation. This is also known as 'pay dispersion'.

Ratios can be a useful tool for charities to use and to help explain their approach to pay. Where charities choose to use ratios they might also use them to help explain, within their remuneration statement, their approach to pay.

Ratios can help to recognise and track the impact that differential pay policies and pay outcomes have on employees, their internal relationships and their lives.

Considering and publishing pay ratios could also provide a helpful prompt to help trustee boards or their remuneration committees to review annually the impact of pay decisions for the whole charity and to consider the appropriate

distribution of any increase in payroll spend.

In other sectors, the ratio of highest-to-median earnings of an organisation's workforce has been adopted as a suitable benchmark. The median remuneration of an organisation is defined as the total remuneration of those staff lying in the middle of the linear distribution of the total staff, excluding the highest-paid employee. The calculation is based on annualised, FTE remuneration. The rationale given for adopting this multiple is that median earnings are more representative of the pay of the whole of an organisation's employees and will not be significantly affected by large or small salaries that may skew an average (mean) and a multiple based upon median earnings is less sensitive to changes in the bottom of the workforce structure, and therefore less susceptible to manipulation.

## CALCULATING CHANGES IN REMUNERATION OVER TIME

The cost of living and both a charity's and an individual's performance will all affect how much remuneration levels change over time.

If a charity is prioritising improving pay for the lowest paid, needs to adapt to changes in the minimum wage or wants to adopt the Living Wage, senior staff may receive a lower salary increase than others in the organisation. The costs of such decisions will clearly have an impact on the amount of money available to fund any additional salary increases.



# GUIDANCE ON SETTING PAY FOR SENIOR STAFF IN CHARITIES

## PUBLISHING AN ANNUAL REMUNERATION STATEMENT

As good practice, all large charities should publish an annual statement explaining its remuneration ethos and policy and how this impacts on the delivery of its charitable purposes; as well as the actual remuneration, roles and names of individual highest-paid staff.

It is up to each charity to define their highest-paid staff and the Financial Reporting Council's definition of key management personnel, as adapted for charities, provides a helpful starting point for charities:

'Those persons to which the trustees delegate day-to-day authority and responsibility for managing, planning and directing the activities of the charity; and often described as the senior management team.'

For some charities the definition might include the chief executives and any staff in leadership positions who report directly to them. If an individual of any level earns more than the chief executive, this should be disclosed.

Where a charity has a structure that includes subsidiary trading companies, these will appear in the charity's consolidated accounts. Any staff employed within such companies, who also fit within the criteria for key management personnel, or the charity's highest-paid individual, should also be included in the charity's report and statement of its senior staff remuneration.

In all cases, the definition and disclosure should include the charity's chief executive, irrespective of his or her salary.

The term 'remuneration' includes the total financial rewards made, or available, to an employee. (See the definition in the [Glossary](#) at the end of this guidance.)

In addition to the remuneration disclosures that charities are required to include as a note to their accounts, as good practice the charity's remuneration statement should be:

- included within its Trustee Annual Report
- published in a prominent area of the charity's website no more than two clicks away from the homepage. This is to ensure ease of access.

Below this charity audit threshold, other charities should consider adopting a similar approach and, in all cases, report the salary of their chief executive.

Charities can also use their annual remuneration statements to explain clearly the complexity and challenges they face in delivering some services and why they need specialist people to enable them to do so.

A charity's annual accounts will include the audited remuneration figures. So, for example, if someone starts a job halfway through the year, only their half-year salary will be recorded. The charity's website entry could, however, include the current figures.

There is strong anecdotal evidence to suggest that publication of comparative data in other sectors has inflated salaries, with individuals using the information to attempt to 'leapfrog' others. However, collecting and publishing aggregate information about senior executive remuneration helps public understanding and accountability, and the benefits will usually outweigh potential downsides.

# END NOTES

- i.** This is a wider group of charities than those found on the Charity Commission's register because it includes organisations such as academy schools, which are subject to separate regulatory arrangements.
- ii.** Hope, C. (2013) '30 charity chiefs paid more than £100,000', The Daily Telegraph, 6 August 2013, [www.telegraph.co.uk/news/politics/10224104/30-charity-chiefs-paid-more-than-100000.html](http://www.telegraph.co.uk/news/politics/10224104/30-charity-chiefs-paid-more-than-100000.html) (accessed April 2014).
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- Abercrombie, F. (1996) 'Charity fat cats – fact or fiction?' Charity Finance, February, p.32. The article reported media accusations that in some charities, directors and executives were among what the article described as the 'fat cats'.
- iii.** For an example in the United States see Briody, B. (2013) '10 insanely overpaid nonprofit execs', Huffington Post, 8 April 2013, [www.huffingtonpost.com](http://www.huffingtonpost.com)
- [com/2013/04/08/10-insanely-overpaid-nonp\\_n\\_3038162.html?ir=Impact](http://com/2013/04/08/10-insanely-overpaid-nonp_n_3038162.html?ir=Impact) (accessed April 2014), and in Ireland see Phelan, S. (2013) 'Bosses of 14 charities get salaries over €100k', Irish Independent, 29 October 2013, [www.independent.ie/irish-news/bosses-of-14-charities-get-salaries-over-100k-29707277.html](http://www.independent.ie/irish-news/bosses-of-14-charities-get-salaries-over-100k-29707277.html) (accessed April 2014).
- iv.** For an example see Blue Spark Consulting (2009) *Reward for the Chief Executive and Senior Management*. London: Acevo.
- v.** For example, legislative reforms that took effect on 1 October 2013 now require quoted companies directors' remuneration reports to contain:
- (i)** a statement by the chair of the remuneration committee
- (ii)** the company's policy on directors' remuneration. The remuneration policy must include a statement of how pay and employment conditions of employees generally were taken into account when setting the remuneration policy. It must also set out whether and, if so, how the company has consulted with employees when drawing up the remuneration policy. The statement must set out whether any comparison metrics were taken into account and, if so, what they were and how they were taken into account
- (iii)** information on how the remuneration policy was implemented in the financial year being reported on. (The report must include details of actual payments made by the company, set out as a single figure, for the total pay each director received in the year.)
- A second example is Section 40 of the Localism Act 2011, which requires local authorities to publish a pay policy statement; this statement must include their approach to the publication of information relating to the remuneration of their chief officers.
- vi.** See Charity Commission (no date) 'Sector facts and figures', [www.charitycommission.gov.uk/about-charities/sector-facts-and-figures/](http://www.charitycommission.gov.uk/about-charities/sector-facts-and-figures/) (accessed April 2014).
- vii.** See OSCR (2012) Scottish Charities 2011. Dundee: OSCR, [www.oscr.org.uk/media/294663/2012-02-02\\_scottish\\_charities\\_2011\\_published.pdf](http://www.oscr.org.uk/media/294663/2012-02-02_scottish_charities_2011_published.pdf) (accessed April 2014).
- viii.** See Charity Commission (no date) 'Do I need to register?' [www.charitycommissionni.org.uk/Start\\_up\\_a\\_charity/Do\\_I\\_need\\_to\\_register/default.aspx](http://www.charitycommissionni.org.uk/Start_up_a_charity/Do_I_need_to_register/default.aspx) (accessed April 2014).
- ix.** For example, the Education Funding Agency oversees the arrangements that provide parliament with assurance that academy schools operate to high standards of propriety and regularity, and the Higher Education Funding Council for England is responsible for the regulation of most English higher education institutions.
- x.** NCVO/TSRC (2014) *Civil Society Almanac 2014*. London: NCVO. All subsequent figures for general charities are taken from this publication. A longer explanation of the general charities definition can be found at <http://data.ncvo.org.uk/a/almanac14/why-are-our-estimates-lower-than-the-charity-commissions-figures-2/> (accessed April 2014).
- xi.** Cunningham and James argue that the 'labour-intensive nature of public service work' has had a profound impact on voluntary sector employment, creating a number of significant challenges, not least of which has been the pressure to be more business-like. Cunningham, I. and James, P. (2011) *Voluntary Organizations and Public Service Delivery*. London: Routledge.
- xii.** See UK Voluntary Sector Workforce Almanac 2013 website: [www.3rdsectorworkforce.org.uk/2012-update/](http://www.3rdsectorworkforce.org.uk/2012-update/) (accessed April 2014).
- xiii.** For further information see Andreoni, J. (1990) 'Impure altruism and donations to public goods: A theory of warm-glow giving', The Economic Journal, vol. 100, no. 401.
- xiv.** See Rutherford, A. (2010) *On the Up: Voluntary Sector Wages in the UK 1998–2007*. Stirling: University of Stirling, [www.stir.ac.uk/media/schools/management/documents/workingpapers/SEDP-2010-06-Rutherford.pdf](http://www.stir.ac.uk/media/schools/management/documents/workingpapers/SEDP-2010-06-Rutherford.pdf) (accessed April 2014).
- xv.** Magee, J. (2013) 'Are charity sector chief executives overpaid?' Hay Group Press Release, 6 December 2013, <http://www.haygroup.com/uk/press/details.aspx?id=41959> (accessed January 2014).
- xvi.** Most charities are required to follow the Accounting and Reporting by Charities: Statement of Recommended Practice Charities SORP 2005 framework when preparing their accounts. A few charities working in particular areas, such as housing providers, are exempt from this requirement because they are required to adhere to specialist reporting frameworks.

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- Charities that had an income of more than £500,000 in the relevant financial year, or had an income of more than £250,000 and assets worth more than £3.26m, are required to have their accounts independently audited.
- The Charities SORP uses the term ‘emolument’ instead of remuneration, as this is the term that has historically been used in case law. Emolument is defined as including salaries and taxable benefits in kind but not employer pension costs.
- xvii.** Figures quoted by Mohan, J. in ‘Analysis: High pay in charities’ [www.birmingham.ac.uk/generic/tsrc/research/quantitative-analysis/High-pay.aspx?dm\\_i=AIN,23LNC,4UFA7T,7KQCO,1](http://www.birmingham.ac.uk/generic/tsrc/research/quantitative-analysis/High-pay.aspx?dm_i=AIN,23LNC,4UFA7T,7KQCO,1) (accessed April 2014).
- xviii.** <http://data.ncvo.org.uk/a/almanac13/what-are-the-sectors-different-sources-and-types-of-income-2/> (accessed April 2014).
- xix.** Some forms of social investment do provide a ‘return’ to the donor or investor, but the donor will have decided in advance whether they are ‘investing’ or donating to the charity, as different accounting and investment rules apply to each.
- xx.** Wixley, S. and Noble, J. (2014) *Mind the Gap: What the public thinks about charities*. London: NPC/Ipsos MORI, [www.ipsos-mori.com/researchpublications/researcharchive/3352/State-of-the-Charities-Sector-poll-for-New-Philanthropy-Capital.aspx](http://www.ipsos-mori.com/researchpublications/researcharchive/3352/State-of-the-Charities-Sector-poll-for-New-Philanthropy-Capital.aspx) and [www.thinknpc.org/publications/mind-the-gap/](http://www.thinknpc.org/publications/mind-the-gap/) (accessed April 2014).
- xxi.** Instead see, for example, the nine typical charity donor profiles described in Schlegelmilch, B. S., Diamantopoulos, A. and Love, A. (1997) ‘Characteristics affecting charitable donations: Empirical evidence from Britain’, *Journal of Marketing Practice: Applied Marketing Science*, vol. 3, no. 1, pp.14–28.
- xxii.** Stevenson, C. and Preskey, N. (2013) ‘Charities chief’s £653,000 pay reignites row’, *The Independent*, 20 October 2013, [www.independent.co.uk/news/uk/home-news/charity-chiefs-653000-pay-reignites-row-8891812.html](http://www.independent.co.uk/news/uk/home-news/charity-chiefs-653000-pay-reignites-row-8891812.html) (accessed April 2014).
- Hope, C. (2013) ‘Charities set to be forced to be more open about how much they pay their top executives’, *The Daily Telegraph*, 14 December 2013, [www.telegraph.co.uk/news/politics/10516542/Charities-set-to-be-forced-to-be-more-open-about-how-much-they-pay-their-top-executives.html](http://www.telegraph.co.uk/news/politics/10516542/Charities-set-to-be-forced-to-be-more-open-about-how-much-they-pay-their-top-executives.html) (accessed April 2014).
- xxiii.** Ipsos MORI (2012) *Public Perceptions of Charity: A report for the Charities Act 2006 review*. London: Ipsos MORI, [www.gov.uk/government/consultations/charities-act-2006-review](http://www.gov.uk/government/consultations/charities-act-2006-review) (accessed April 2014).
- xxiv.** Charity Commission (2008) *A Balancing Act: New Perspectives on the charity/beneficiary relationship*. London: Charity Commission, [www.charitycommission.gov.uk/about-the-commission/our-research/research-reports/](http://www.charitycommission.gov.uk/about-the-commission/our-research/research-reports/) (accessed April 2014), p.10. See also [www.charitycommission.gov.uk/media/95305/rs18moribal.pdf](http://www.charitycommission.gov.uk/media/95305/rs18moribal.pdf) (accessed April 2014).
- The report quotes research carried out for the Commission by Ipsos MORI, which found that only 26 per cent of people surveyed knew that educational institutions could be charitable. Sixty-five per cent viewed a hospice and an animal shelter/refuge as organisations that could be registered as charities; these were the organisations that were selected most frequently by respondents as possible charities.
- xxv.** Ipsos MORI (2012) *Public Perceptions of Charity: A report for the Charities Act 2006 review*. London: Ipsos MORI, [www.gov.uk/government/consultations/charities-act-2006-review](http://www.gov.uk/government/consultations/charities-act-2006-review) (accessed April 2014).
- xxvi.** This is not new. For an example, see also Gaskin, K. and Fenton, N. (1997) *Blurred Vision: Public Trust in Charities*. Loughborough: Loughborough University, which reported the results of research conducted to explore public trust in charities.
- xxvii.** Impact Coalition (2013) *Through A Glass Darkly: The case for accelerating the drive for accountability, clarity and transparency in the charity sector*. London: Impact Coalition, <http://cfg.org.uk/resources/Publications/~media/Files/Resources/Briefings/Through%20a%20Glass%20Darkly.ashx> (accessed April 2014).
- xxviii.** Charity Commission (2008) *A Balancing Act: New Perspectives on the charity/beneficiary relationship*. London: Charity Commission, [www.charitycommission.gov.uk/about-the-commission/our-research/research-reports/](http://www.charitycommission.gov.uk/about-the-commission/our-research/research-reports/) (accessed April 2014), p.14.
- xxix.** There is also evidence to suggest that there are limits to how far the public wants to be actively involved in delivering what are currently public services. See, for example, Ipsos MORI (2010) *What do People Want, Need and Expect From Public Services*. London: Ipsos MORI, [www.ipsos-mori.com/researchpublications/publications/1345/What-do-people-want-need-and-expect-from-public-services.aspx](http://www.ipsos-mori.com/researchpublications/publications/1345/What-do-people-want-need-and-expect-from-public-services.aspx) (accessed April 2014).
- xxx.** Quoted by Mason, T. (2013) ‘Adebowale: I will not be silenced by the Lobbying Bill’, *Civil Society Media*, 12 November 2013, [www.civilsociety.co.uk/governance/news/content/16415/adebowale\\_i\\_will\\_not\\_be\\_silenced\\_by\\_the\\_lobbying\\_bill?utm\\_source=12+November+2013+Governance&utm\\_campaign=12+November+Governance&utm\\_medium=email](http://www.civilsociety.co.uk/governance/news/content/16415/adebowale_i_will_not_be_silenced_by_the_lobbying_bill?utm_source=12+November+2013+Governance&utm_campaign=12+November+Governance&utm_medium=email) (accessed April 2014).
- xxxi.** St Andrew’s is quoted as paying its chief executive £325,000 in Mair, V. (2013) ‘St Andrew’s Healthcare chair to face MPs on CEO pay’, *Civil Society*, 12 December 2013, [www.civilsociety.co.uk/governance/news/content/16583/st\\_andrews\\_healthcare\\_chair\\_to\\_face\\_mps\\_on\\_ceo\\_pay](http://www.civilsociety.co.uk/governance/news/content/16583/st_andrews_healthcare_chair_to_face_mps_on_ceo_pay) (accessed April 2014).
- xxxii.** Commons Select Committee (2013) ‘Charity chief executive pay’, [www.parliament.uk/business/committees/committees-a-z/commons-select/public-administration-select-committee/inquiries/parliament-2010/charity-chief-executive-pay1/](http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-administration-select-committee/inquiries/parliament-2010/charity-chief-executive-pay1/) (accessed April 2014) and House of Commons Select Committee on Public Administration

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(2013) Formal Minutes of the Select Committee on Public Administration, Session 2013–14. London: House of Commons Select Committee on Public Administration, [www.parliament.uk/documents/commons-committees/public-administration/FormalMinutes2013-14.pdf](http://www.parliament.uk/documents/commons-committees/public-administration/FormalMinutes2013-14.pdf) (accessed April 2014).

Public Administration (2013) *Formal Minutes of the Select Committee on Public Administration, Session 2013–14*. London: House of Commons Select Committee on Public Administration, [www.parliament.uk/documents/commons-committees/public-administration/FormalMinutes2013-14.pdf](http://www.parliament.uk/documents/commons-committees/public-administration/FormalMinutes2013-14.pdf) (accessed April 2014).

[hm-treasury.gov.uk/d/frem\\_hutton\\_review\\_fairpay\\_additional\\_guidance\\_update\\_2012-13.pdf](http://hm-treasury.gov.uk/d/frem_hutton_review_fairpay_additional_guidance_update_2012-13.pdf) (accessed April 2014).

Companies and Groups (Accounts and Reports Amendment) Regulations 2013 and related amendments to the Companies Act 2006 impose new obligations on listed companies.

**xxxiii.** By comparison, unless a private limited company's articles of association say it must, or enough shareholders ask for one, it will qualify for an audit exemption (ie it does not need an audit of its annual accounts) if it has at least two of the following:

- an annual turnover of no more than £6.5 million
- assets worth no more than £3.26 million
- 50 or fewer employees on average.

**xxxiv.** Comment by David Hoghton-Carter on 22 October 2013 in response to Karl Wilding's blog posted on 17 October 2013: 'Executive pay: what's the magic formula?' <http://blogs.ncvo.org.uk/2013/10/17/executive-pay-whats-the-magic-formula/> (accessed April 2014).

**xxxv.** Commons Select Committee (2013) 'Charity chief executive pay', [www.parliament.uk/business/committees/committees-a-z/commons-select/public-administration-select-committee/inquiries/parliament-2010/charity-chief-executive-pay1/](http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-administration-select-committee/inquiries/parliament-2010/charity-chief-executive-pay1/) (accessed April 2014) and House of Commons Select Committee on

**xxxvi.** This is not meant to exclude the payment of bonuses for staff at lower levels within a charity, for example for those working in charity shops, and in parts of fundraising, where offering incentives through bonuses may be seen as appropriate.

**xxxvii.** The Inquiry also received evidence from some charities that had adopted the Living Wage as a proxy for the amount required for what they regarded as the basic cost of living in the UK. See [www.livingwage.org.uk/](http://www.livingwage.org.uk/) (accessed April 2014).

**xxxviii.** See, for example, the Fair Pay Code within Hutton, W. (2011) *Hutton Review of Fair Pay in the Public Sector: Final Report*. London: HM Treasury, [http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/indreview\\_willhutton\\_fairpay.htm](http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/indreview_willhutton_fairpay.htm) (accessed April 2014).

**xxxix.** Explanation taken from Cabinet Office (2012) *Hutton Review of Fair Pay: Implementation guidance*. London: Cabinet Office, <http://webarchive.nationalarchives.gov.uk/20130129110402/http://www>

**xi.** Ipsos MORI (2012) *Public Perceptions of Charity: A report for the Charities Act 2006 review*. London: Ipsos MORI, [www.gov.uk/government/consultations/charities-act-2006-review](http://www.gov.uk/government/consultations/charities-act-2006-review) (accessed April 2014).

**xli.** The Charity Commission and OSCR, the Scottish charity regulator, are authorised by the Financial Reporting Council as the SORP-making body for charities. To assist them in fulfilling that role they have convened an expert committee – the SORP Committee – and they act on the Committee's recommendations. The recommendations of the SORP Committee are also tested through extensive consultation before recommendations are finalised and published.

**xlii.** Charity Commission (2008) *Accounting and Reporting by Charities: Statement and Recommended Practice Charities SORP 2005* (2nd edition). London: Charity Commission, paragraphs 234–238.

**xliii.** For example Hutton, W. (2011) *Hutton Review of Fair Pay in the Public Sector: Final Report*. London: HM Treasury, [http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/indreview\\_willhutton\\_fairpay.htm](http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/indreview_willhutton_fairpay.htm) (accessed April 2014), which led to increased transparency requirements of local authorities contained in Section 40 of the Localism Act 2011. The Enterprise and Regulatory Reform Act 2013, Large and Medium-sized

**xliv.** The Financial Reporting Council is the body that ultimately authorises and issues the charities SORP. All entities reporting under the new Financial Reporting Standard (FRS 102) will need to make this disclosure in the notes to their accounts (not the trustee annual report). See paragraph 33.6 of FRS 102. This standard applies to periods commencing on or after 1 January 2015. The SORP consultation reflects this requirement.

**xlvi.** Defined as those charities with independently audited accounts (currently charities with a gross income of more than £500,000).

**xlvi.** CFG (no date) 'How we decide how much to pay our staff', [www.cfg.org.uk/about-us/how-we-pay-our-staff.aspx](http://www.cfg.org.uk/about-us/how-we-pay-our-staff.aspx) (accessed April 2014).

# APPENDICES

## APPENDIX A SUMMARY OF RESPONSES BY NCVO MEMBERS TO A SURVEY ON SENIOR EXECUTIVE REMUNERATION

In autumn 2013, 227 NCVO members completed a survey and submitted it via the Inquiry's dedicated email address. The following is a summary of the recurring themes in the responses from these NCVO member organisations to the questions. Some of the responses were by trustees on behalf of the charity; others came from staff.

### Q1. Key principles for setting salaries – is there a core set?

Of the 160,000 registered charities, only 20,000 are employers. Are there particular values that charities should abide by when setting the salaries of their senior executives? Is it possible, or desirable, to propose common principles that trustees can apply irrespective of the size of the charity? Or should different principles apply to larger and smaller charities?

There was no majority view or consensus on this question. The responses reflected a wide range of views, including the following.

- It is difficult to set a common set of principles for all types of charity.
- Pay should be determined by the charity's budget, complexity, staff size, risk (financial, client group etc), location, area in which it is working (eg anti-poverty charities) and demands on the individual.
- Charities must be able to justify their pay levels morally and intellectually.
- Salaries should be related to principles. An executive's salary should appear 'reasonable'. A

cap of £100,000 should be the norm.

- The principle of accepting a reduced salary for working for a charity may no longer be valid. Being a charity is not a relevant factor when setting salaries and trustees should seek to attract the best people for the job.
- The sector needs to be more comfortable with greater levels of transparency (see question 4 below for suggestions that were made.)
- The sector should be prepared to defend the salaries it pays, especially as charities are an easy target. Most charity staff are not overpaid, although one or two executives may be.
- The main motivation for working in the sector should not be income-led.
- Large charities are equivalent to some large businesses and need to pay accordingly.

### Q2. Comparisons with others

Is it possible, or desirable, to compare senior executive salaries with other sectors? Or is the sector unique? Is there, or should there be, an expectation that charity senior executives be paid a lower salary (a 'charity discount') than they might expect in a similar role in another sector? Or does such an approach affect the quality of service that beneficiaries receive?

Responses were evenly spread, reflecting three broad positions.

- Charities are unique, and have unique values, therefore a 'discount' should apply if charities are to remain connected to their cause and

users. To work in a charity is a vocation. Other sectors pay too much.

- A charity 'discount' should apply, but it should not be excessive.
- There is no reason why the pay of charity chief executives should be different to other sectors. People should be paid according to the skills and expertise they bring. To do otherwise runs the risk of not getting the right people for the job.

### Q3. The role of benchmarking and ratios in setting senior executives' salaries

- There was a lot of interest in the potential use of ratios; this was a recurring theme of many of the responses. There were a variety of views on what might be 'acceptable ratios' with suggestions ranging from 1:3.5 through to 1:20. However, several of the responses argued for a ratio benchmark of 1:8 to 1:10, because this ratio was seen as the equivalent of the gap between the Living Wage and a salary of £100,000. There was a lot of support for using ratios as a benchmark, which some people suggested as mirroring the Scandinavian approach to pay.
- There was overwhelming support for benchmarking, with the caveat that while benchmarking techniques should contribute to decisions on pay, they should not determine these decisions.

### Q4. Transparency

Should charities be required to be more transparent about what individual senior executives are paid?

Responses to this question were broadly split between the following views.

- A majority view that it is fundamental that charities are transparent about the levels of pay their senior executives receive, with a few respondents suggesting that this should also include publishing individual job descriptions and responsibilities. Several of these respondents also stressed the important role that charities needed to play in educating the public about charity salaries.
- The view amongst a significant minority that the existing requirements to publish salary details in £10,000 bands above £60,000 went far enough and that publishing any more details would just encourage criticism by the public. A public education exercise was seen as being required before any further disclosure was introduced.
- A view expressed by a few respondents that, in addition to greater transparency on senior executive pay, charities should publish more information about the salaries of their lowest-paid staff.
- The comment by a few people that transparency requirements should be the same across the public, private and charity sectors – no more or less.

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## Q5. Role of public perception

What should be the role of public perception, beneficiaries' views and donors' opinions in determining the salaries of senior executives?

- Many replies said that trustees should be mindful of all stakeholders' perceptions in determining remuneration policy. However, these respondents also said that charities should ensure that public perception was not the dominant influence on salary setting for senior executives in the charity sector or, as many argued, of any influence.
- Trustees' responsibility for setting senior executive salaries was seen as paramount, with many arguing that pay could not be set by reference to public opinion.
- A distinction was also drawn in some replies between the role of donors – who fund charities – and the public more generally.
- The role of charities in educating the public was seen as vital by several respondents. These respondents saw a big gap between the public's perception of what charities do, including how much their staff should and do earn, and the reality. A few responses developed this theme by saying that charities have to be able to explain and account for their practice and actions, which nowadays includes executive pay.

## Q6. Other comments

Do you have any other thoughts on pay in the charity sector?

The Inquiry also received other comments relating to remuneration.

- A few respondents expressed the view that while some senior executives' pay is clearly too high and they had been shocked by the figures, most charity workers were not overpaid.
- Some charities' salaries have got out of hand and so the introduction of a pay structure for the charity sector would be very helpful.
- There is insufficient understanding, in the country as a whole, about the volunteer/employee divide.
- There is a geographical north–south divide on pay; it is not an issue in the north. Pay is a London-centric agenda.
- The sector needs to do more to defend itself; it is an easy target.
- This debate reflects a political agenda and is a distraction.
- The sector has exercised considerable restraint compared with the private sector.
- Introducing a Charter Mark for terms and conditions could be helpful.

## APPENDIX B ACKNOWLEDGEMENTS

The Inquiry would like to thank all those who have contributed evidence and insights to the Review. (See [Appendix A](#).)

We would also like to thank those organisations and individuals listed below, who have helped shape the Inquiry's views in meetings or one-to-one discussions.

- Kai Adams, Green Park Interim and Executive Search
- Fiona Ellis, Vice Chair, and Joe Irvin, Chief Executive, NAVCA
- Charlie Elphicke, MP
- Duncan Exley, Executive Director, The Equality Trust
- Simon Hebditch, Chair, and Alex Swallow, Chief Executive, Small Charities Coalition
- Tina Lewis, Head of Human Resources, National Trust
- Jonathan Magee, Hay Group
- Steve McKay and John Mohan, Third Sector Research Centre
- Julia Oliver, Odgers Berndtson
- Priti Patel, MP
- Charity Finance Group's Large Charities Special Interest Group meeting, 13 February 2014

- NCVO Governance Forum, 3 March 2014
- NCVO Large Charities Chairs' dinner, 18 February 2014
- Work Foundation seminar, 19 November 2013: Risk and Reward, where next for executive pay in the UK?
- Four former donors to two national charities

The Inquiry would also like to thank Karl Wilding, Charlotte Ravenscroft, Elizabeth Chamberlain, Aidan Warner and Alison Evans from NCVO, along with Sush Amar and Ray Jones, for their help and advice.

# APPENDICES

## APPENDIX C GLOSSARY

This report uses the following definitions within the charity context.

**Allowances** may include regional pay premia, other special payments on joining the organisation and any cash allowances paid, for example, in lieu of participation in an employer pension scheme. These are generally taxable.

**Benefit in kind** includes goods or services available to the individual, such as a company car, health care or child care vouchers. Generally these are taxable.

**Bonus** is a variable cash amount that may be paid linked to performance of the individual, team or organisation. Bonus may be paid weekly, monthly or annually, at a varying level, or not paid at all.

**Pension** includes defined benefit and defined contribution plans.

**Salary (or base salary)** is the individual's contractual fixed annual cash earnings. This may be expressed as an annual, monthly, weekly or hourly rate of fixed pre-tax earnings.

**Severance arrangements** include an enhancement contractual or discretionary payment over and above the statutory redundancy payments to which an employee is eligible. Note: this is not included in calculation of total remuneration on an annual basis, but should be considered as part of pay policy.

**Total Remuneration (or pay)** consists of the total financial rewards made, or available, to an employee. These may be in the form of cash or benefits in kind and include pension arrangements. (The Charities SORP and HM Revenue and Customs use the term 'emolument' to describe total remuneration, and the new accounting standard uses the phrase 'short-term employee benefits'.)

## APPENDIX D USEFUL PUBLICATIONS

Acevo (2013) *The Good Pay Guide for Charities and Social Enterprises*. London: Acevo.

Charity Commission (2013) *It's Your Decision: Charity trustees and decision making*. London: Charity Commission.

Dorothy, D. (2010) *Good Governance: A practical guide for trustees, chairs and CEOs*. London: NCVO.

Hay Group (2012) *A Spring Clean for Chief Executive Pay in the Housing Sector?* London: Hay Group.

Institute of Chartered Secretaries and Administrators (2010) *ICSA Guidance on Terms of Reference: Remuneration Committee*. London: Institute of Chartered Secretaries and Administrators.

NHS Commissioning Board (2012) *Clinical Commissioning Groups: Remuneration guidance for chief officers and chief finance officers*. Redditch: NHS England.

Russell-Cooke Solicitors (2009) *Contracts of Employment*. London: Acevo.

Third Sector Research Centre Knowledge Portal: [www.birmingham.ac.uk/generic/tsrc/index.aspx](http://www.birmingham.ac.uk/generic/tsrc/index.aspx) (accessed April 2014).



Produced by:

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Registered charity number 225922  
[www.ncvo.org.uk](http://www.ncvo.org.uk)