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Charity Leaders Network

# THE GOOD PAY GUIDE

for Charities and  
Social Enterprises

December 2013

# Foreword

By Lesley-Anne Alexander CBE,  
Chair of ACEVO and CEO of RNIB

For years the charity sector has become more complex and more professional as we bring our services to many more beneficiaries and causes across the country. In many cases these changes have gone unnoticed and the challenge of what it means to run a twenty-first century charity has remained out of the public eye. Guidance for trustees and remuneration committees remains thin on the ground.

That is why it gives me great pleasure to welcome ACEVO's Good Pay Guide for Charities and Social Enterprises. For more than two decades, the annual ACEVO Pay Survey has acted as the essential reference on executive pay in larger charities and voluntary organisations.

The 2013/14 Survey added weight to the sector's ongoing drive to be transparent about pay levels. It also highlighted the need to continue

tackling inequalities including the regional and gender differences in Chief Executive pay. The exciting thing about this guide is that it is a practical tool and reference document for trustees and remuneration committees grappling with the question of how to deliver value for money for beneficiaries, donors and staff. I hope that this useful tool will, in time, become established as a similarly well-respected statement of best practice on the transparency and good governance necessary when setting Chief Executive pay.

Readers will know that this Guide should be merely the beginning of a wider public conversation. I welcome this debate as an opportunity to shine a light on the great work of charities up and down the country and I hope these principles will be adopted as best practice right across the sector.

**Lesley-Anne Alexander CBE**  
**December 2013**

# Introduction

Today's charity and social enterprise sector is a huge contributor to our economy. The sector employs around a million people and turns over £38bn each year.<sup>1</sup> Yet with increased responsibility and organisational diversity has come increased scrutiny. And during this time perhaps no issue has been more contentious than that of senior executive pay.

At the heart of this question is a growing debate: how does professionalism sit alongside the non-profit ethos and public service values that define the sector?

At ACEVO we believe that professionalism does not conflict with the values that lie at the heart of charities. We see good management, good staff and good values as mutually reinforcing. Experience shows that committed, professional charity employees, with the support of their boards, produce exceptional outcomes for the beneficiaries and causes that they serve. And good, strong leadership is essential to high productivity throughout an organisation, whether that sector is public, private or charities and social enterprise.

This short guide aims to help boards ensure that employee pay best serves their charitable aims and objectives. It focusses on five principles of good pay for charities and social enterprises.

# The Five Principles of Good Pay

## **1. TRANSPARENCY**

Being open about how pay is set

## **2. PROPORTIONALITY**

Being fair and consistent

## **3. PERFORMANCE**

Ensuring that the salaries you pay work for your organisation and the beneficiaries you serve

## **4. RECRUITMENT & RETENTION**

Keeping valued staff within the organisation

## **5. PROCESS**

Ensuring that the principles of Good Pay are supported by appropriate procedures and policies

At ACEVO we believe good pay means that boards, beneficiaries, supporters and employees agree that it provides value for money. We hope that our five principles of good pay will help to guide charities and their trustees considering these complex issues.

## Context: The challenge for a diverse sector

A third of respondents to a recent opinion poll felt that charity chief executives should not be paid at all.<sup>1A</sup> This suggests that many people retain a traditional perception of charity as the preserve of unpaid volunteers. However, this view does not reflect the breadth and scope of the third sector as it exists today.

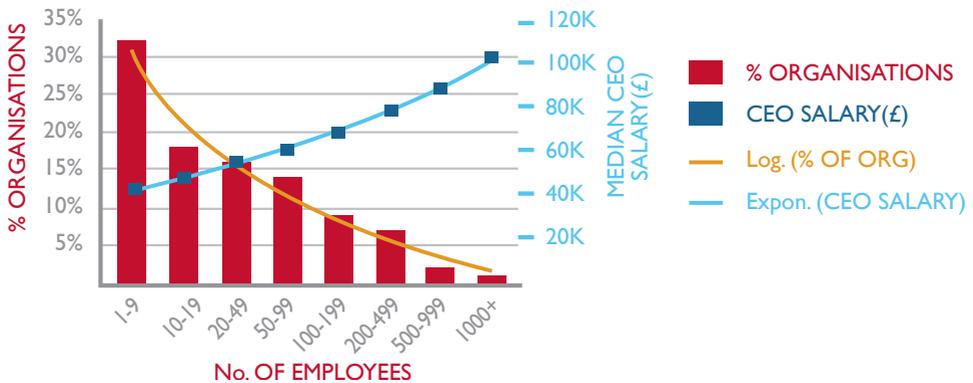
There are over 163,361 registered charities in the UK, carrying out a vast range of different activities and varying enormously in size and scope.<sup>2</sup> The range of the sector extends from national or international organisations turning over hundreds of millions of pounds per year, to small charities and community organisations operating on minimal budgets.

**1A.** <http://nfpsynergy.net/public-give-their-opinions-charity-staff-pay> **2.** NCVO, UK Civil Society Almanac 2012 (2012), <http://data.ncvo.org.uk/> [Accessed 12 December 2013].

The large majority of charities are clustered at the smaller end of the scale:

- 42% of registered charities have an annual income under £10,000
- fewer than 25% have an annual income of more than £100,000.<sup>3</sup>

Very large charities will have significantly different staffing requirements to their smaller counterparts, and a very different level of resource to fund staff remuneration. There is, consequently, a close correlation between organisational turnover and senior staff pay levels. The most recent ACEVO Pay Survey shows that median chief executive salary usually reaches the £100,000 level when the number of employees reaches 1,000 (not including volunteers).<sup>4</sup>



Chief executive pay correlates closely with charities’ revenue levels. Median CEO salary is only £34,600 for charities turning over less than £150,000 a year, whereas the median exceeds the £100,000 threshold as charities reach an annual revenue of £25-50 million. Similar variations can be found between charity sub-sectors: the median CEO salary at sports charities was £78,858 (the highest median) compared to £49,000 for religious charities.<sup>5</sup>

This level of diversity presents a challenge. It is impossible to apply ‘one-size-fits-all’ structure on senior staff remuneration across the whole of the voluntary sector. That’s why this guide aims to set out the principles that should inform trustees’ thinking during the decision-making process.

3. <http://www.dsc.org.uk/PolicyandResearch/News/CharityPayhaveyoursay> [Accessed 12 December 2013]. 4. ACEVO Pay Survey 2013/14, [http://www.acevo.org.uk/leadingtheceoandchair?&nccsm=21&\\_\\_nccspID=1103](http://www.acevo.org.uk/leadingtheceoandchair?&nccsm=21&__nccspID=1103) [Accessed 12 December 2013]. 5. ACEVO Pay Survey 2013/14.

# Principle 1: Transparency

Transparency is the first principle of good pay and is crucial if the voluntary sector is to retain public trust. The Edelman Trust Barometer, a yearly publication from the eponymous public affairs firm, shows that charities and social enterprises are consistently ranked among the most trusted organisations across various sectors. This is the case in many different countries, and it has remained relatively constant through time.<sup>6</sup> However, maintaining that trusted status demands increasing openness from charities, no matter how established they are. Charities need to move with the times.

Given the high profile attached to senior executive pay in any walk of life, and the potential for such decisions to provoke public misunderstanding and anger, transparency in relation to how remuneration levels are set is essential to good practice. Lack of openness around corporate governance can erode trust in any institution. Indeed, charities should welcome transparency and debate, and the light this sheds on their work.<sup>7</sup>

## The Mechanics of Transparency

Transparent governance for charities requires that, so far as possible, the organisation's decisions, activity, strategy and processes are open to all. They must be accessible and understandable by beneficiaries, funders and donors, employees and volunteers, and the general public.

Transparency will be achieved by clear and frequent communication with all stakeholder groups. It is the responsibility of charity boards, working in conjunction with senior management, to foster an organisational culture of transparency and openness, and to ensure that the necessary mechanisms are in place to support it in practice.

At minimum, these mechanisms should include:

- Easily-accessible and well-promoted corporate information,
- An easily-accessible corporate plan,
- Clear articulation of how the value for money of executive pay is assessed, and
- Where collaboration supports charitable objectives and does not contravene the corporate plan, the presumption that it should be carried out openly with other organisations.

<sup>6</sup>. Edelman Insights, *Edelman Trust Barometer 2013*. <http://www.slideshare.net/EdelmanInsights/global-deck-2013-edelman-trust-barometer-16086761>. [Accessed 1 December 2013]. <sup>7</sup>. Wikipedia, 'United Kingdom parliamentary expenses scandal'. [http://en.wikipedia.org/wiki/United\\_Kingdom\\_parliamentary\\_expenses\\_scandal](http://en.wikipedia.org/wiki/United_Kingdom_parliamentary_expenses_scandal). [Accessed 10 December 2013]

Charity boards must also be aware of the differing expectations of different audiences and groups. For example, with funders and the general public, transparency demands that:

- Procedures for setting pay are made publicly available for scrutiny,
- Executive salaries, (either precise figures or in bands) are published,
- The lowest salaries in the organisation, and the ratio between highest and lowest pay, are easily accessible, and,
- The charity's outputs and impact are reviewed and a decision is taken on how they are published.

With beneficiaries, transparency additionally demands a meaningful dialogue and consultation on service levels and quality. With employees, transparency additionally demands that they have access to corporate governance procedures and other corporate information. Trustees are ultimately responsible for a charity's governance – and the setting of pay – so it is in their interests to be prepared to be transparent about their decision-making.

## **CASE STUDY I:**

### **Christian Aid – communicating the CEO's value**

In August 2013, in response to media criticism of foreign aid charities, Christian Aid published a press release detailing how and why their Chief Executive, Loretta Minghella OBE, receives her salary. The publication was particularly effective in outlining the role of the organisation's Chief Executive, and their policy 'of not paying higher salaries than are necessary and/or reasonable'.<sup>8</sup>

*It also outlined:*

- A summary of how the Board of Trustees set pay
- The Chief Executive's previous experience that made her suitable to the role
- How many other Directors receive large salaries
- A summary of how executive salaries are regularly benchmarked against the sector, against external guides to fair pay, and against other economic indicators such as average weekly earnings and the consumer price index.

We suggest that this type of document is routinely published by larger, more complex charities - not just in their annual report - and that every effort is taken to draw public attention to it.

**8.** Christian Aid, 'Comment: Loretta Minghella's salary 2012/13' (August 2013). <http://www.christianaid.org.uk/pressoffice/pressreleases/comment/loretta-minghella-salary-2012-13.aspx> [Accessed 10 December 2013].

# Principle 2: Proportionality

What is proportionate pay? It is a contentious question, especially in the voluntary sector. Charity workers cannot point to record sales or growing profit margins to justify their remuneration. Any discussion of proportionality in the voluntary sector requires an understanding of the diverse and complex range of activities that charities undertake, and of the importance of talented and experienced staff to the fulfilment of charities' public benefit objectives.

The enormous diversity of the voluntary sector makes it difficult to issue blanket guidelines as to what constitutes 'proportionate' pay.

So where should a trustee go for guidance? A good principle on remuneration is found in the Financial Reporting Council's UK Corporate Governance Code:

"Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance."

"There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration."<sup>9</sup>

Clearly, it is less simple to reward performance in a non-profit organisation than in a private company. However, charities should ensure that remuneration levels are linked to a regular and objective system of performance appraisal, and benchmarked against comparable roles.

<sup>9</sup> Financial Reporting Council, *The UK Corporate Governance Code* (September 2012), <http://www.iod.com/guidance/briefings/bis-corporate-governance>. [Accessed on 10 December 2013]. p. 7.



## The Mechanics of Proportionality

A clear policy on proportionate pay will be useful to trustees when responding to public queries. One such example is the international development charity CAFOD, which is examined in the following case-study.

Trustees have three main measures to evaluate the proportionality of their salaries: comparison within the organisation, comparison within the sector, and comparison versus similar sectors.

### A) Within the organisation

Senior executive pay will generally be linked to that of other directors. It will be set after considering organisation turnover, number of employees, in-job risk, pay of other directors and any other benefits and incentives (for example pension contributions).

The charity sector is notable for relative equality between its highest- and lowest-paid employees. Comparing the median pay of ACEVO members - £60,000 in the latest ACEVO Pay Survey - to the UK living wage as set annually by the Centre for Research in Social Policy at Loughborough University, it may be estimated that organisational pay ratios in charities with Chief Executives are typically between 3:1 and 5:1.<sup>10</sup>

This contrasts favourably with ratios in other sectors such as universities (national average around 18:1)<sup>11</sup> and local government (national average around 15:1), and very favourably with large corporations like the FTSE 100 (whose average in 2011 was 262:1).

The Hutton Review of Fair Pay emphasised the value of annually publishing the ratio of top-to-median pay. It concluded that a statutory cap on pay ratios in the public sector would be counterproductive, due to the diversity of organisations affected.<sup>12</sup> It thus drew a very similar conclusion to ACEVO: good pay means value for money, transparently set and communicated, and so it is different in every organisation.

**10.** *The UK Living Wage (outside London) is currently set at £7.65 per hour, which equates to £13,923 per annum for a 35-hour week. It is updated annually by the Centre for Research in Social Policy at Loughborough University.* **11.** *The Fair Pay Campus Report 2013, <http://fairpayunis.wordpress.com/> [Accessed 10 December 2013].* **12.** *Hutton Review of Fair Pay in the Public Sector: Final Report (March 2011). [http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/hutton\\_fairpay\\_review.pdf](http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf) [Accessed 10 December 2013].*



## B) Within the sector

Many large charities may 'benchmark' their executive pay against trends such as those identified in the ACEVO Pay Survey. This survey has been published for more than two decades, and includes a comprehensive summary of CEO salaries and how they vary according to organisation size and type, alongside extensive information on good governance and the backgrounds from which CEOs are drawn.

In addition, boards may wish to supplement benchmarking data with more current data drawn from recruitment consultants or headhunting agencies. Benchmark data is usually slightly out of date due to the data collection methods used. Recruitment agencies are likely to have access to the latest market rates for comparable roles within the sector, so boards may wish to make use of this when using an agency.

## C) Other comparable sectors

Pay is often set not only according to the dictates of the organisation, and the job market in the sector, but also with consideration of average senior pay in other comparable sectors.

These include:

- Senior Civil Servant - median £77,000<sup>13</sup>
- Member of Parliament - £65,737<sup>14</sup>
- NHS Consultant Doctor - basic salary between £75,249 and £101,451<sup>15</sup>
- NHS General Practitioner in a CCG - basic salary between £54,319 and £81,969<sup>16</sup>
- Senior NHS Nurse - basic salary between £77,850 and £98,453<sup>17</sup>
- Police Chief Constable - between £127,000 and £181,455<sup>18</sup>
- University Vice-Chancellor – mean £214,201<sup>19</sup>

**13.** Pay level in 2012. House of Commons Library Standard Note SN/SG/4675, 'Civil servants' and MPs' salaries' (16 July 2013). **14.** Pay level in 2013. See House of Commons Library Research Paper 13/33, 'Members' pay and expenses - current rates from 1 April 2013' (31 May 2013). **15.** NHS Careers, 'Pay for Doctors'. <http://www.nhscareers.nhs.uk/explore-by-career/doctors/pay-for-doctors/>. [Accessed on 10 December 2013]. **16.** NHS Careers, 'Pay for Doctors'. **17.** NHS Careers, 'Agenda for Change – Pay Rates'. <http://www.nhscareers.nhs.uk/working-in-the-nhs/pay-and-benefits/agenda-for-change-pay-rates/>. [Accessed 10 December 2013]. **18.** Police Oracle, 'Police Pay Scales'. [http://www.policeoracle.com/pay\\_and\\_conditions/police\\_pay\\_scales.html](http://www.policeoracle.com/pay_and_conditions/police_pay_scales.html). [Accessed 10 December 2013]. **19.** Grant Thornton, 'Survey of Vice-Chancellors' Remuneration 2011-12 for Times Higher Education' (March 2013). <http://www.timeshighereducation.co.uk/download?ac=8048> [Accessed 10 December 2013].

- NHS Foundation Trust CEO – mean £164,000 <sup>20</sup>
- Local Government CEO – basic salary between £114,000 and £194,798 <sup>21</sup>

The idea behind listing these comparators is not to make specific comparisons across professions, but to give a sense of the breadth of understanding that any trustee requires if they are to embed the principle of proportionality within their organisation.

While trustees may benefit from external advice – for example from recruitment consultants- it is up to each group of trustees to develop their own sense of the proportionality principle, relative to their organisation’s values and ethos.

## CASE STUDY 2:

### CAFOD – keeping organisation pay ratios in the open

CAFOD, an international development agency and member of the Disasters Emergency Committee (DEC), has a well-publicised policy that its organisational pay ratio should not exceed 4:1. This imposes limits at the top and bottom end of their pay scale, that are regularly examined by an independent committee.

In fact, their highest-paid employee – the Chief Executive – receives £90,464. So their actual ratio of highest- to lowest-paid employee is slightly below the self-imposed limit.

This exact pay ratio will not be appropriate for every single charity, but the general principle of publishing an organisational pay ratio and being transparent about it is advisable. Provided that an organisation’s pay ratio is judged by all stakeholders to be appropriate, and to provide value for money, we would suggest it is working well.<sup>22</sup>

**20.** Laura Donnelly and Steven Swinford, *Pay rises for NHS chiefs ‘will risk care’* (4 November 2013). <http://www.telegraph.co.uk/health/nhs/10426422/Pay-rises-for-NHS-chiefs-will-risk-care.html> [Accessed 10 December 2013]. **21.** Taxpayers’ Alliance, *‘Town Hall Rich List 2013’* (10 May 2013). <http://www.taxpayersalliance.com/thrl2013.pdf> [Accessed 10 December 2013]. **22.** CAFOD, *Written evidence to the Public Administration Select Committee* (December 2013). <http://data.parliament.uk/writtenevidence/WrittenEvidence.svc/EvidencePdf/3993> [Accessed 12 December 2013].

# Principle 3: Performance

In the voluntary sector, rewards for performance cannot include, for example, share options as in the private sector. The 2013/14 ACEVO Pay Survey reports that 82.8% of Chief Executives in the sector are on defined contribution or money purchase pension schemes, rather than the more generous final salary or defined benefit schemes still prevalent in other sectors.

Trustees will take their own view on the levels of pay that are appropriate to the targets they require. This section focusses therefore on how to measure and appraise the performance of senior executives.

## The Mechanics of Performance

The Code of Good Governance for the Voluntary Sector recommends 'proper and formal arrangements for the chief executive's appointment, supervision, support, appraisal and remuneration.'<sup>23</sup> ACEVO strongly recommends that Chief Executives take part in regular formal appraisal procedures, carried out by the Chair and Trustees.<sup>24</sup>

This principle remains far from universal within the sector. At present, more than a quarter of charity Chief Executives do not receive a formal appraisal.<sup>25</sup>

Characteristics of good performance appraisal <sup>26</sup>

- Confidential
- Objective and impartial, with assessment made against clear, measurable and agreed objectives based on the previous appraisal
- Conclusions, future targets and any other findings to be recorded in writing
- Proportionate to the size, resources and aims of organisation
- Based on a pre-agreed and understood structure and format which is consistent from year to year, enabling comparison over time
- Plenty of notice given for preparation in advance
- Includes an element of self-appraisal to increase CEO input into the process and enable them to air any concerns
- Includes an opportunity for board members to input their opinions and experiences
- Takes place on a regular and predictable basis (usually annually)

**23.** *Good Governance: A Code for the Voluntary and Community Sector*, <http://www.governancecode.org/> [Accessed 10 December 2013]. **24.** ACEVO, *Realising the Potential of Governance: the report of the ACEVO Governance Commission* (September 2013), p4. **25.** ACEVO, *ACEVO Pay Survey 2013/14* (November 2013), p26. *In answer to the question 'Do you receive a regular appraisal of your performance objectives?'*. **26.** ACEVO, *Realising the Potential of Governance* (October 2013).



By clearly linking remuneration to progress against agreed performance targets and objectives, as well as the organisation's business plan and interdepartmental objectives, boards can ensure that pay levels are proportionate to a staff member's value to the organisation. In the next section we also refer to the idea of linking appraisal to an organisation's values.

### **CASE STUDY 3:** **Victim Support CEO appraisal<sup>27</sup>**

Victim Support is a national charity supporting witnesses and victims of crime across the whole of England and Wales. It turns over £43 million and has around 1,500 staff. It has a board of 12 trustees.

The annual CEO appraisal process begins with a self-appraisal element: the CEO produces a report on the past year's operations and progress towards agreed targets. This report is then reviewed by the chair, the deputy chair and the Treasurer, before all trustees receive and discuss the report. Questions are put to the CEO in a dedicated session with the chair, deputy chair and treasurer. The chair, deputy chair and treasurer then produce a second report which is presented to the board, who then set objectives and performance targets for the following year.

In addition, the board meets five or six times a year and gets an update from the CEO, discussing milestones, targets and the strategic plan. The chair of the board has an annual review conducted by their deputy, supported by the rest of the board. Victim Support has also implemented a new system of accountability. Local and divisional advocates are elected to represent the views of the organisation's 6,000 volunteers, with national advocates meeting with the CEO and the chair at least twice a year. Volunteers are not formally part of the governing structure, but they have the chance to feed into it.

This process helps keep the CEO to account, allows the charity to keep track of progress, and helps keep the organisation close to its beneficiaries.

**27.** This case study first appeared in ACEVO, *Realising the Potential of Governance*, October 2013.



# Principle 4: Recruitment & Retention

The most authoritative set of statistics on recruiting and retaining top executives in the charity sector comes from the ACEVO Pay Survey. The 2013/14 edition reports that:

- 10.1% of charity Chief Executives are new in post this year. (This compared to 9.9% in 2012 and 13.7% in 2011)
- 52.9% have been in post for more than five years.<sup>28</sup>

The Booz & Co. 2012 Chief Executive Study – the industry-standard study of the world’s 2,500 largest companies – suggests that this level of turnover is comparable to the private sector with 14.7% of Chief Executives (in Western Europe’s largest private companies) leaving office in 2012.<sup>29</sup>

Nevertheless, it is important to consider the imperative to retain valued staff within a mission-driven organisation. The process of recruiting new executives costs considerable time and money, and worse, it can divert focus from the organisation’s core aims. Executive staff turnover can affect the front line due to a loss of institutional memory and disruption of working arrangements.

## The Mechanics of Recruitment & Retention

The voluntary sector offers a unique proposition for senior staff based on its values. The ability to recruit and retain staff will not be based purely upon pay rewards but upon the values of the individual and how closely they correlate with the organisation’s values. In a sector where comparable salaries are often lower than in other sectors, values are a trump card. They should be part of the pitch to recruit and retain at every stage.

This makes it advisable to:

- Explore a person’s values at the interview stage,
- Communicate the organisation’s shared values day-to-day,
- Use values as well as targets to manage performance, and,
- Train people to develop those values in others as well as keep them on task.

**28.** ACEVO, *ACEVO Pay Survey 2013/14* (November 2013), p. 22. **29.** Booz & Co., *The 2012 Chief Executive Study* (March 2013), <http://www.booz.com/global/home/what-we-think/chief-executive-study> [Accessed 10 December 2013].



In addition, the availability of opportunities for training, professional development and career progression can have a sizeable influence on staff retention rates. A global survey of over 100,000 employees, undertaken in 2013, found that 60% of workers are either considering or actively seeking further training and development.<sup>30</sup> The prospect of acquiring new skills and relevant qualifications is attractive to employees.

Employers should consider this part of their ‘offer’ to staff, as much as salary or other benefits. Good training and development should:

- Be tailored to the needs of the organisation as well as the clearly defined development goals of the individual employee,
- Be aligned with the organisation’s charitable purposes,
- Be evaluated regularly to ensure ongoing relevance and value money,
- Be presented as a positive developmental opportunity rather than a remedial measure, and,
- Provide opportunities for employees to have input into their own training and development pathway.

### **CASE STUDY 4a: NSPCC – Pay and Benefits<sup>31</sup>**

The NSPCC’s pay system is designed to attract and retain talented and committed employees who can help realise its objective of ending cruelty to children in the UK. To achieve this, salaries in the new pay system reflect market rates of pay for comparable jobs in relevant job markets and are reviewed annually to ensure staff rewards remain appropriate. An employee who demonstrates all the required skills, knowledge and competencies to perform their role in full, will be rewarded in line with their performance.

A money purchase pension scheme is available to all NSPCC employees engaged on contracts of 13 weeks or more. If an employee contributes 3 per cent, or more, of their basic salary the NSPCC will contribute 6.7 per cent – more than double the employee contribution. The employer contributions will rise further in relation to length of service and percentage contributed by the employee.

**CONT.** ►

**30.** [http://www.kellyocg.com/Knowledge/Kelly\\_Global\\_Workforce\\_Index/Career\\_Development\\_and\\_Upskilling/](http://www.kellyocg.com/Knowledge/Kelly_Global_Workforce_Index/Career_Development_and_Upskilling/) [Accessed 10 December 2013]. **31.** [http://www.nspcc.org.uk/what-we-do/working-with-us/what-you-can-expect-from-us/recognising-your-contribution/recognising-your-contribution\\_wda72709.html](http://www.nspcc.org.uk/what-we-do/working-with-us/what-you-can-expect-from-us/recognising-your-contribution/recognising-your-contribution_wda72709.html) [Accessed 10 December 2013].



A series of allowances are available depending on the location and conditions of the position, including:

- A relocation allowance may be paid for some jobs if employees have to move home for them.
- Essential car user allowance of £1,200 per annum, plus 40p per mile if employees have to use a car extensively for work purposes.
- A home-based working allowance is paid where there is a requirement to work from home.

The primary attraction of working at the NSPCC for many will be its mission. But this comprehensive package of employee benefits, some of which improve with time served, undoubtedly strengthens their recruitment and retention processes.

## **CASE STUDY 4b: British Society for Rheumatology – addressing high staff turnover**<sup>32</sup>

Over a ten year period, the British Society for Rheumatology (BSR) more than doubled its staff. It had previously experienced very high turnover rates: as high as 27% in 2005. This proved highly disruptive to the organisation's work as institutional knowledge was often lost. In order to address this, BSR drew up a recruitment, retention and remuneration strategy to highlight the above issues and gave potential solutions to take forward. *These included:*

- A review of staff benefits
- A review of current salary bandings & job evaluation of all posts
- A review of training

A new recruitment model was proposed whereby people were to be recruited for their attitude as well as their skills, with the potential for training afterwards to close any gaps in skill. BSR still uses job descriptions and person specifications but now attitude is used to differentiate between candidates. BSR also decided to invest more in training for staff and to continue to use a nationalised pay scale for staff to help keep salaries in line with national averages, as well as reviewing benefits. BSR also focused on training and investing in staff, from individual to whole-team. The pay reviews and benefits together have been seen very positively by staff and have helped reduce staff turnover.

**32.** KnowHow Nonprofit, 'Case study from the British Society for Rheumatology', [http://knowhownonprofit.org/people/staff/copy\\_of\\_a-case-study-from-the-british-society-for-rheumatology](http://knowhownonprofit.org/people/staff/copy_of_a-case-study-from-the-british-society-for-rheumatology) [Accessed 10 December 2013].

# Principle 5: Process



Process undergirds all effective decisions on the setting of pay.

Many processes are already well established. Charity pay at director level and above is the responsibility of the Board of Trustees, overseen by a Chair. In many charities, trustees choose to delegate control over pay to a formal Remuneration Committee, with delegated responsibility for deciding executive salaries and pension schemes. Often, the Remuneration Committee will also review the terms for setting other staff pay, responsibility for which is usually delegated to the appropriate Finance or Human Resources director.

We strongly recommend that charities use Remuneration Committees. As a rule, Remuneration Committees should have terms of reference formally approved by a vote of the trustees. Charity Commission Document CC8, section D7 briefly outlines the Commission's good practice guidance for control - by trustees - over wages and salaries.<sup>33</sup> We recommend that all trustees familiarise themselves with the best practice advice set out in the Commission's guidance.

*Remuneration Committees should:*

- Create written protocols for setting the pay of Chief Executives and other senior executives, taking into account the principles described above.
- Specify and review conditions under which the Chief Executive and Human Resources manager have delegated control of the pay of other staff, including pensions, and how they will report to the Board.
- Ensure that pay levels correspond with any other policies the charity may have, such as a risk policy.
- Consider using pay benchmarking studies such as the annual ACEVO Pay Survey, and have an independent evaluation of pay levels at least every five years so that trustees are clear what is happening to salaries in this and other sectors.
- Determine appropriate targets if the charity uses performance-related pay.
- Be aware of major changes in employee benefits, including pay, pensions and other rewards.
- Ensure by any other means necessary that the remuneration policy is appropriate.

**33.** Charity Commission, *Internal financial controls for charities (CC8)* (July 2012). <https://www.charitycommission.gov.uk/detailed-guidance/money-and-accounts/internal-financial-controls-for-charities-cc8/>. [Accessed 10 December 2013].



## CASE STUDY 5: Inland Waterways Association – terms for the remuneration committee

The Inland Waterways Association makes use of a remuneration committee consisting of the Chair of the Finance Committee, the national Chair, and two other members appointed annually by the Board of Trustees. The chief executive may attend meetings as long as her own pay package is not being considered.

The committee meets at least annually and all meetings are properly structured, recorded and minuted. It reports to the full Board of Trustees. The committee's responsibilities are:

- To review the remuneration and benefits package (hereinafter “package” or “packages”) of the chief executive in the light of her performance and the achievement of the objectives set for her and to agree her package for the next year.
- To review a paper from the chief executive reviewing the packages of her senior staff (currently just the finance manager, to consider her recommendations and to agree their packages for the next year.
- To ensure that each individual package reflects the staff member's individual performance, is in line with current market conditions for the function and motivates the member of staff for his/her future work for the Association.
- To ensure that a suitable appraisal process is in place.
- To consider the standard terms and conditions of employment for all staff and when appropriate make recommendations for changes to the Board of Trustees.

Once a Remuneration Committee is in place its work should be widely communicated. We recommend that boards produce a document (a ‘scheme of delegation’) with a summary of all committees of the trustees, including the:

- Name of the committee and its key responsibilities,
- The frequency with which it meets and its reporting requirements,
- The names of trustees on the board, and how often they attend, and
- Why committee members are appointed (their relevant experience).<sup>34</sup>

This document should be made available to all and actively disseminated where appropriate.

**34.** Grant Thornton, ‘The science of good government: towards charity best practice’ (2013). [http://www.grant-thornton.co.uk/Global/Publication\\_pdf/Charity-Governance-Review-2013.pdf](http://www.grant-thornton.co.uk/Global/Publication_pdf/Charity-Governance-Review-2013.pdf) [Accessed 12 December 2013].

# Conclusion

Given the enormous breadth and diversity of the voluntary sector, there will always be wide variation in the salary levels of its staff. Consequently, this guide has focused on the core principles that trustees should consider when considering senior staff pay. The implementation of these principles will vary depending on the size and nature of the organisation.

For the past two decades, ACEVO has published The ACEVO Pay Survey, collecting comprehensive statistics on charity remuneration in order to shine a light on the sector's pay practices. It is now the market-leading benchmark of pay for chief executives in the sector. The ACEVO Good Pay Guide for Charities aims to do something different: to give practical, easy to follow guidance on the decisions that charity trustees take when setting pay levels.

Being at the forefront of this issue matters for charities and social enterprises everywhere. The sector's most valuable asset is its combination of mission-driven staff and highly professional leadership. Deciding how to reward the value they bring can be a complex decision and a challenging responsibility. We believe that reflecting upon and implementing the five principles outlined here will put any chair or trustee on the right track.



