

# PUBLIC ADMINISTRATION SELECT COMMITTEE INQUIRY ON CHARITY CHIEF EXECUTIVE PAY— WRITTEN EVIDENCE FROM NPC

## Executive Summary

NPC's submission is focussed on a belief that charities should be judged on the impact they create:

- Skilled and experience leadership is needed to make the most of charities' resources—and this needs to be paid for;
- The chief executive role is a demanding and often complex one, comparable to leadership roles in other sectors, and thus they need to be paid competitive salaries;
- Charities need to invest in their running costs, including chief executive pay, to ensure that their organisations operate effectively;
- The focus should be on impact—the overall difference achieved by a charity—and the role of the chief executive in ensuring this;
- Chief executive pay should not be seen in isolation from the overall pay structure of a charity;
- Remuneration is an important governance issue and should be treated as such; and
- Regulating chief executive salaries would not help charities achieve greater impact, and might in fact distract from this goal.

## Submission by New Philanthropy Capital (NPC)

1. **NPC is a charity think tank and consultancy** dedicated to helping funders and charities achieve a greater impact. We provide independent research and advice for funders and charities and, as the leading think tank for the not for profit sector, we encourage debate about what makes a charity effective and build knowledge and tools to support effectiveness. We are an independent—rather than a membership—organisation and have no members to defend. Instead, we are driven by our concern that charities and their funders achieve the best outcomes for the people they serve or the cause they seek to address.
2. **In making this submission, we have focussed on lessons learnt from analysing and working with hundreds of charities** since we were established in 2002. Our points are based on our belief that charities should be judged first and foremost by the impact that they create.
3. **Skilled, experienced leadership is needed to ensure that charities make the most of their resources:** charities exist to provide public benefit and they need to manage their financial and human resources in order to achieve this. Even unpaid volunteers—a major resource for many charities—require training, support and management by paid workers. If chief executives in particular, and staff in general, did not receive salaries in return for their time, experience and skills, it is unlikely that such a strong sector would exist, or that it would achieve what it does.

4. **The chief executive role is demanding and complex:** leading a charity is a challenging job that requires a high level of skills and considerable experience and, in most cases, long hours and dedication. It can be an extremely complex role which involves managing a wide range of stakeholders, fast-changing information technology, complicated political or legal contexts, and difficult finances. For example, the current CEO of a large development charity is responsible for a £360m budget, 700 shops in the UK, 5,000 employees and 20,000 volunteers who work in over 90 countries across the world—many operating in risky places. He is paid £120,000. In comparison, the CEO of high street retailer chain, Next, also runs 700 shops but no humanitarian aid and is paid nearly £1.5m. Many charity chief executives take significant pay cuts if they join the sector from the public or private sector. Furthermore, charity chief executives rarely benefit from the substantial bonuses, leave and pension arrangements that their counterparts receive in the public and private sectors.
5. **Charities often spend too little, rather than too much on overheads:** in general, NPC has found that running costs, including what a chief executive is paid, are rarely a predictor of what a charity achieves. It is important that a charity manages its finances prudently and sometimes this means investing in staffing or infrastructure to ensure their organisation is run as professionally and effectively as possible. Sometimes offering a higher salary for a chief executive role could attract a more skilled or experienced candidate and they in turn could help an organisation to create a greater impact.
6. **The focus should be on the impact achieved by a charity:** what is important is the overall difference made by a charity and by those that lead them. NPC believes that performance in this area is one of the key factors that charity chief executives should be judged on. Indeed, we believe that when boards set a chief executive's salary they should assess the impact he or her has made, alongside factors such as their ability to bring in income, the nature of the role and how it is benchmarked against similar organisations.
7. **The pay structure of all staff should be considered:** while the focus has been on the salaries of chief executives, these should not be considered in isolation from the pay structure of other senior staff, such as finance directors, and the ratio of highest to lowest paid worker should also be taken into account.
8. **Remuneration is a key governance issue:** a charity's budget, including a chief executive's pay, is set by its board of trustees. It is therefore for trustees to explain and, if necessary, to justify their decision rather than chief executives themselves. NPC would like to see more boards talking publically about the principles on which they base their remuneration decisions.
9. **In conclusion:** salary levels of chief executives are necessarily as varied as the organisations themselves and efforts to standardise or regulate these would not help them to create a bigger impact, but may in fact distract us from this goal. Charities, and the chief executives that lead them, make a valuable contribution to our society. Their salaries should reflect the benefit they bring to us all.