

The price of purpose?
Pay gaps in the
charity sector

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Summary

As the cost of living crisis deepens, every employer in the country is having to review what they are paying their employees. In the charity sector, that debate is particularly complex. There is a moral dimension: it is fundamental that money donated for charitable purposes is used in the most effective manner possible, and the public has concerns that is not being achieved when pay is perceived as excessive. There is also a purely financial dimension: when funds are in short supply and there is huge need in the country, prioritisation is a challenge charity leaders must constantly wrestle with. And there is an economic dimension: as an employer, the charity sector does not sit in isolation, and it has to compete with the rest of the economy for staff.

In the wake of a pandemic in which one in four charities experienced a decline in income of 40% or more, the sector is now anticipating a recession which will increase demand for charitable services, campaigning and community support. Money is undeniably tight and staff costs are a major line of the sector's expenditure, accounting for around 40p in every £1 of spend.

Yet there is already a large gap between pay in the sector and the rest of the economy. This new research demonstrates the scale of that pay gap by making use of the largest household survey in the UK.

After accounting for differences in personal (e.g. age and qualifications) and job (e.g. industry and occupation) characteristics between those working in the charity sector and the rest of the economy, we find the hourly wage gap to be 7.0%

The pay gap widens as people progress through their careers, peaking at 9.4% for those aged 46 to 50. People with higher levels of qualifications experience a bigger difference in their pay than those with lower levels of qualifications, earning an average £40,000 less over their working lifetimes than their similarly qualified peers in the rest of the economy.

Meanwhile, men working in the charity sector record a larger pay gap relative to non-charity counterparts than is the case for women, coming in at 12.3% and 4.7% respectively. Nevertheless, the charity sector continues to endure a gender pay gap of 4.1%.

This affects charity workers as individuals, but it also has multiple impacts on the sector more broadly – affecting how it is valued, its competitiveness as an employer, and its effectiveness at meeting its goals.

Collectively, charity sector employees were paid an estimated £1.47 billion less than their counterparts in the rest of the economy in 2019, assuming that people worked the average number of hours estimated in the Labour Force Survey.



These comparatively lower wages affect the sector's valuation because employee compensation is a key component of how Gross Valued Added (GVA – a key measure of sector productivity) is calculated. If employees are being paid comparatively less for undertaking the same type of work in the charity sector as roles in the rest of the economy, then their work in the charity sector is being undervalued.

In terms of the impact on what the charity sector achieves, the UK needs charities to fulfil their vital role as effectively as possible; supporting people, campaigning for change and building communities. That need could not be clearer than it is at this moment.

As such, it is important to consider how low pay might have weakened the charity sector as an employer and how it might threaten its sustainability into the future. Comparably lower wages mean that charities have a more limited pool of people willing or able to contribute their skills by working within it. That limited pool is also less diverse, with lower pay likely to be making it more difficult for people from less advantaged backgrounds to take up opportunities in the sector – a long-standing problem that diminishes charities' effectiveness, acting as a drag on their ability to support the people who need it.

Already there are clear indications that the cost of living crisis is causing this pay gap to grow: Bank of England survey data suggests businesses grew their average wage costs by 5.6% in the year to May 2022, compared with 3.8% among charities. At a time when four in five charities report that they are struggling to recruit, it is vital to ask whether the charity sector can afford that widening of the pay gap. Funders, policymakers and charity leaders must take pay seriously if the sector is to recruit and retain a good quality and diverse workforce that enables it to achieve its full potential.



Introduction

From its leaders to its fundraisers, its IT officers to its service delivery professionals, its employees to its volunteers, the charity sector's greatest asset is its people.

Staffing accounts for a large proportion of many organisations' costs. But whereas wages and associated costs comprise 30p of every £1 spent by firms across the economy,¹ they amount to 40p in every £1 in the charity sector.² Thus, the charity sector is heavily reliant upon its workforce, and getting the greatest value possible from that investment in people is essential.

For some time, there has been a perception that many senior leaders in the charity sector are paid too much. Indeed, in 2014, 42% of the general public thought that charities spent too much money on executive salaries.³ As a response to this, the Charity Commission began to collect data on high earners employed by charities. However, this data, supported by other research, revealed that – while there may be exceptions – the charity sector overall does not have a high pay problem. Rather, there is growing evidence of a low pay problem.

CEO pay is far lower in the charity sector than in others,⁴ and a lower proportion of staff in the charity sector are paid high salaries.⁵ Indeed, at the lower-paid end of the scale, 17% of workers in the third sector⁶ earn less than the Living Wage.⁷ While this compares favourably with the private sector where 26% of workers earn less than the Living Wage, it is far higher than in the public sector (6%).

Building on this previous research, the new analysis presented in this paper compares wages between the charity sector and the rest of the economy, and so sheds fresh light on this contentious issue.

¹ [ONS, Input-output supply and use tables](#)

² [NCVO Almanac, 2021](#)

³ [NPC, Mind the gap: what the public thinks about charities](#)

⁴ [Third Sector, Charity pay study 2021: The biggest earners](#)

⁵ [Mohan and McKay, The Prevalence and Distribution of High Salaries in English and Welsh Charities](#)

⁶ The third sector in this context includes: charities, universities, community interest groups, social enterprises and pressure groups. Our definition of the charity sector has only sought to include those working in the charity sector as we exclude those working in trade unions and private schools who were originally included in the charity sector variable found in the LFS.

⁷ [Living Wage Foundation, Low Pay in the Third Sector](#)

Box 1. How did we calculate the pay gap?

This analysis used the Labour Force Survey, which is the largest household survey of employment in the UK and provides the official measures of employment and unemployment. Taking this survey, we estimated the 'raw' hourly wage gap between people working the charity sector and elsewhere in the economy to be 2.3%, without taking into consideration any of the characteristics of workers which may affect their pay.

Next, we introduced personal characteristics such as ethnicity, education, and age. Controlling for differences in these characteristics, the hourly wage gap was 9.3%.

We then added job characteristics, such as whether someone works in a part-time position, whether they manage staff, whether the position is permanent, the size of their employer and whether they work in London. Controlling for both personal and job characteristics, the hourly wage gap was 7.1%.

Finally, we added occupational and sector characteristics, such as the ONS's standard occupational classifications and whether they work in a typically low paid sector. Controlling for personal, job and sector characteristics, the final hourly wage gap estimate was 7.0%.

All of the analysis reported in this paper draws from this final set of estimates – controlling for a wide range of characteristics which could influence pay. This enables us to be more confident that we are estimating differences in wages that arise from working in the charity sector rather than those due to differences in other personal characteristics between those working in different sectors.

A more detailed discussion of the data, the methods and its limitations of this work can be found in the appendix.

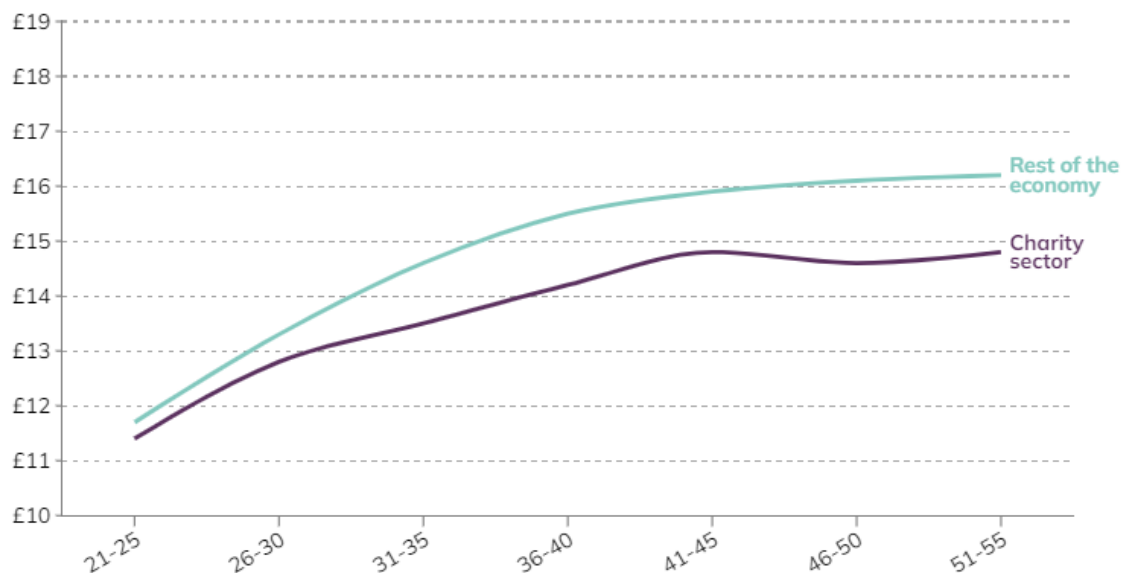
The wage penalty is substantial

This analysis shows that, across their working lives, people employed in the charity sector are paid on average 7% less per hour than similar people working elsewhere in the economy.

However, the size of this gap grows as people age. As demonstrated in Figure 1, for those in their early 20s, the gap is 2.7%. By the time charity sector employees are aged between 36 and 40, the gap has increased to 8.4% and grows to 9.4% for those between 46 and 50.

Figure 1 : The wage gap is small for those in their 20s but as its largest for those who are 46 to 50.

Average hourly wage by sector and age band



Note: This graph provides the estimates for the hourly wage for those working in the charity sector vs those in the rest of the economy if all other observable characteristics were the same (all else being equal). We control for personal characteristics, job characteristics and occupational and sector characteristics.

The charity sector is a significant employer. At 930,000, its workforce is comparable in size to the financial services sector.⁸ Job growth in the sector has been substantial, from 2010 to 2019 the workforce of the sector rose 20% - the fastest growth of any sector. This means that an increasingly large section of the UK's workforce is earning less than they could if they worked in other parts of the economy.

On the face of things, an hourly pay gap of 7% does not seem drastic. However, in order for those working in the sector to be paid at an equivalent hourly rate to those in the rest of the economy it would cost the sector £1.47 billion a year, a 6.3% increase in the total staff salaries of the sector.⁹

⁸ DCMS Sectors Economic Estimates: Workforce, January to December 2021 (Financial services minus insurance)

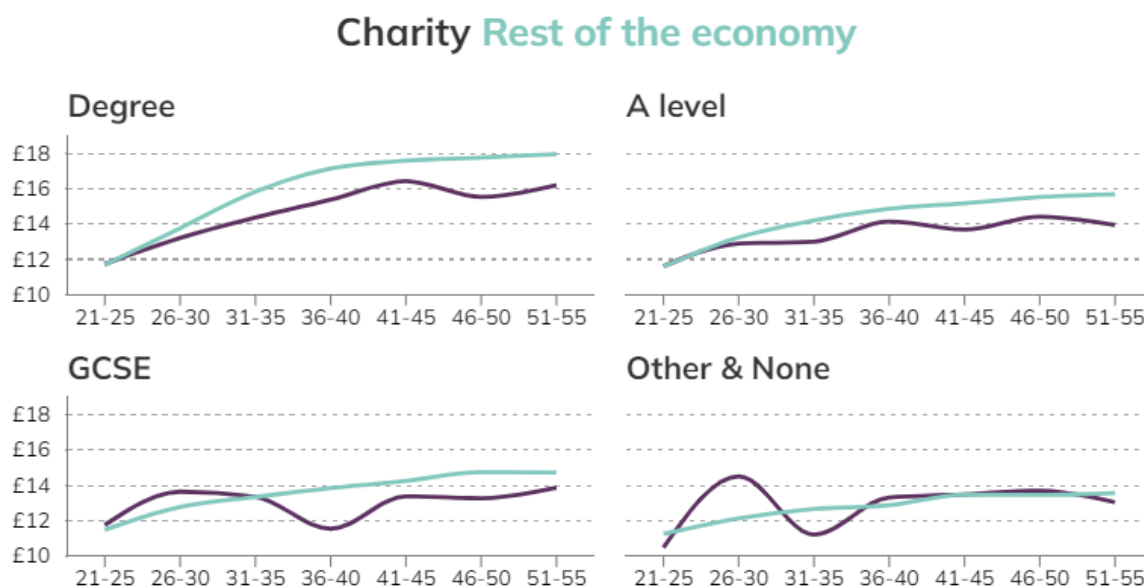
⁹ Based on hourly wage calculations, total hours worked and DCMS estimates on the number of people working in the sector. See table 10 in the appendix.

Those with higher qualifications experience a larger pay gap

The charity sector workforce is a highly educated one. Over half of those working in it have a degree (56%), compared with 39% of the rest of the workforce. As there is a strong relationship between level of education and earnings,¹⁰ it follows therefore that charity sector employees with higher qualifications would earn more than those with no or lower qualifications – and indeed they do.

Figure 2 – The wage gap is largest for those with degrees, but there is also present for those with A levels as their highest academic achievement.

Average hourly wage by sector and highest academic qualification



Note: This graph provides the estimates for the hourly wage for those working in the charity sector vs those in the rest of the economy if all other characteristics controlled for were the same (all else being equal). We control for personal characteristics, job characteristics and occupational and sector characteristics.

However, charity sector employees with higher levels of qualifications also experience the greatest reduction in pay as a result of working in the charity sector, particularly as they progress in their careers.

As Figure 2 shows, for employees aged 21-25, there is no pay gap for those with degrees working in the charity sector compared to those working elsewhere. The pay gap only emerges later in their 20s and grows to 13.3% by the time they are aged between 46 and 50. For people with A-levels or higher education below a full degree as their highest qualification, the pay gap per hour starts at close to zero and grows to 11.7% when they are aged between 51 and 55.

¹⁰ [Government Office for Science, Economic Returns to Education in the United Kingdom](#)

By contrast, employees with GCSEs and equivalent as their highest education, other qualifications or without qualifications do not face a consistent pay gap when compared with their peers in other sectors.

In financial terms, these results suggest that graduates would earn approximately £40,000 less in today's money if they worked from 21 to 55¹¹ in the charity sector, while those with A levels would earn £29,000 less.

Two kinds of gender pay gap

Women make up a substantial majority of the charity workforce, accounting for over 60% of those employed in the charity sector.¹² They are also more likely to contribute their time through formal and informal volunteering.¹³

Yet they are under-represented at more senior levels¹⁴ and this is reflected in their pay: women in the charity sector are paid 4.1% less per hour than men after controlling for personal, job and occupational and sector characteristics.¹⁵

Figure 3 shows the gender pay gap within the charity sector, contrasted with the gender pay gap within the rest of the economy that is estimated from this data set.¹⁶ It shows how these two pay gaps change as people age. The gender pay gap in the charity sector is absent or small until people are aged about 35. After this, the gap widens. From 36 to 40, the gender pay gap stands at 8.4%.

Previous research has found differential impacts on having children on men's and women's wages.¹⁷ After becoming parents, men's wages continue to grow, and they tend to still work full time and to progress in their careers. By contrast, many women end up working part time, experience their wages stagnate and their career progression slow or stop. This is what we largely observe happening in both the charity sector and the rest of the economy.

¹¹ Assuming that a person works in the charity sector from 21 to 55 and works the average number of hours by age band. The calculations can be seen in table 11 in the appendix.

¹² [DCMS, DCMS sector economic estimates 2021: employment 2019 to June 2021](#)

¹³ [DCMS, Community Life Survey, 2020/21 – Volunteering and Charitable Giving](#)

¹⁴ [Fawcett Society, Sex and Power 2020](#)

¹⁵ Statistics published by DCMS find the gender pay gap in the charity sector is 20.8%, which is significantly greater than our 4.1% estimate. The DCMS analysis looks at median wages for men and women in the sector using a difference dataset and do not control for any personal, job characteristics or occupational and sector characteristics that may affect wages and the size of the apparent gender pay gap.

¹⁶ We estimate the gender pay gap in the rest of the economy to be 12%, using a different data set [the ONS](#) estimate the pay gap to be 9% in April 2019.

¹⁷ [IFS, The gender pay gap in the UK: children and experience in work](#)

Figure 3 –The gender pay gap is smaller in the charity sector than in the rest of the economy, but a gap is still present.

Average hourly wages by sector and sex



Note: This graph provides the estimates for the average hourly wage by sector and sex if all other characteristics controlled for were the same (all else being equal). We control for personal characteristics, job characteristics and occupational and sector characteristics.

Figure 4 compares the pay of men and women working in the charity sector compared to the rest of the economy. We find that the average hourly pay increases for both men and women as they age. Though, that hourly wages for men increase at a faster rate than for women, with the wage rate for men in the rest of the economy growing fastest.

The wages for men in the charity sector cannot keep up leading the wage gap between the charity sector and the rest of the economy is greater for men than for women, at 12.3% and 4.7% respectively.

Figure 4 – The gap in hourly wages between the rest of the economy and the charity sector is larger for men than women

Average hourly wages by sex and sector



Note: This graph provides the estimates for the hourly wage by sex and sector if all other characteristics controlled for were the same (all else being equal). We control for personal characteristics, job characteristics and occupational and sector characteristics.

Low pay in charities has consequences which cannot be ignored

This analysis clearly demonstrates that there is systemically lower pay in the charity sector. People working in the charity sector are being paid significantly less than their peers in the rest of the economy, and this is true for both men and women and for employees of different ages. Collectively, the charity sector would need to spend an extra £1.47 billion on wages in a year (based on 2019 number of employees) to ensure their staff are paid equally to the rest of the economy.¹⁸

The systemic wage gap for charity workers is likely to be linked to three inter-related challenges facing the sector: attractiveness, diversity and morale.

¹⁸ See Appendix table 10 for the calculation.

Attractiveness

It is imperative that the charity sector is an attractive place to work, not just for the organisations within it but for the UK's economy and the communities that rely on these organisations. The success of the services, relationships and campaigns that charities deliver, and which play a vital role in the lives of millions of people across the country, rely on the sector's 930,000-strong paid workforce in addition to its volunteers.

In order to recruit and retain an effective paid workforce, charities must be competitive employers. The sector has had a distinctive pitch to offer here, particularly its purpose – with non-profits coming second only to education as the sector the UK population would be most proud to work in.¹⁹ The flexibility much of the sector offers its workers has also long been a core differentiator. In March 2021, 23.4% of all adverts in the charity sector included the term “homeworking”, whilst only 8% of total adverts in the economy mentioned “homeworking”.

However, low levels of comparable pay undoubtedly act as a drag on the sector's competitiveness as an employer. According to the Employer Skills Survey in 2015, 29% of charity employers with hard-to-fill vacancies said that the low pay they were offering was a factor, though only 6% increased salaries to solve the problem.²⁰

The rise of purpose-driven business²¹ and the post-Covid private sector offering far more flexibility than before (with a quarter of businesses saying they will increase homeworking going forward)²² may mean that the features charities traditionally relied on to counter low pay are becoming less distinctive. The pay sacrifice employees are willing to make to gain flexibility and purpose at work is likely to shrink as the options to achieve those elsewhere increase.

Diversity

Low pay is likely to place limits on the types of people who feel that they are able to work for charities, particularly people from less advantaged backgrounds.

This is already a serious concern. Ethnic minority representation in the civil society workforce is a decade behind the economy as a whole, and even fell slightly in 2021.²³ Meanwhile, socio-economic background plays a bigger role in the charity sector than elsewhere in determining someone's chances of both getting into the workforce and progressing into higher paid jobs. This means that

¹⁹ [YouGov, US/GB: Which industries would the public be proudest to work in?](#)

²⁰ [UKCES Employer Skills Survey 2015](#)

²¹ [Law Family Commission on Civil Society, Purpose: On Parallel Tracks](#)

²² [ONS, Business and individual attitudes towards the future of homeworking, UK: April to May 2021](#)

²³ [DCMS Sector Economic Estimates: Workforce, 2021](#)

people from more privileged backgrounds are more likely to both 'get in' and 'get on' within civil society.²⁴ Systemic low pay risks further entrenching this position.

This is an issue of fairness, equality and justice. But it is also an issue of sector effectiveness. Diverse organisations make better decisions, have better strategies and are more productive.²⁵ And there is a particular importance in charities representing the people that they are meant to serve, in order to solve problems effectively.

Morale

Pay is a motivator. It is not the only motivator: those working in the charity sector are understood to be more highly motivated by 'intrinsic' rewards such as satisfaction and pride than by 'extrinsic' rewards such as pay or recognition.²⁶ Thus, many continue to work in the sector even though they are comparably poorly paid.

But low levels of pay do suppress job satisfaction among employees and are therefore likely to impact on performance and even employee churn. And it is likely to mean that the charity sector is missing out on employees who are less willing or able to accept depressed pay but could contribute important skills.

Morale in the sector is under significant strain. The high pressure of two intense years supporting increased demand in precarious financial straits, followed by the dawning of a cost-of-living crisis means that burnout is a major worry. 75% of charity leaders surveyed in October 2021 were very or fairly concerned about paid staff suffering burnout.²⁷ Pay's role in improving morale cannot therefore be ignored.

²⁴ [Pro Bono Economics, Inequality in civil society: the data](#)

²⁵ [Network for Business Sustainability, How Diversity Increases Productivity](#)

²⁶ [Jobome 2007, Management Pay, Governance and Performance: The Case of Large UK Non-Profits](#), [Tippet & Kluvers, Employee Rewards and Motivation in Non-Profit Organisations: Case Study from Australia](#)

²⁷ [Commission on Civil Society, Hysteresis in the making? Pandemic scars and the charity sector](#)

Conclusion

The charity sector workforce is vital to the functioning of our economy and our society. Charities play a key role in delivering a wide range of services, supporting the most vulnerable, campaigning to improve the country, and bringing people together. It is critical that staff and volunteers are well trained, experienced, motivated and feel valued.

Yet charity employees face systemically lower pay. This is likely to be having an effect on the charity sector's attractiveness as a place to work, levels of diversity in the charity sector, and organisational morale. All of these factors are likely to be affecting recruitment and retention in the charity sector and, ultimately, reducing the sector's impact.

Concerningly, this problem of systemically lower pay in the charity sector is only likely to get worse. Levels of inflation mean that real earnings are likely to fall, as the charity sector would need to spend an additional £3.3 billion by 2024 to ensure that wages don't fall in real terms.²⁸ Further to this, there is evidence that the pay gap is likely to be growing.²⁹

Coupled with other trends in the labour market making charities less comparably attractive, and as other operating costs rise and donations fall, pressures to 'make every pound count' mean that low pay is likely to become even more of a problem for the charity sector.

Pay is not the only tool at the sector's disposal to attract and retain staff. However, the country needs the charity sector to be firing on all cylinders to meet the big challenges it faces. It must improve its diversity and treat workers fairly. To achieve all this, funders, philanthropists, and policymakers need to address pay seriously and support charities to attract and retain committed, talented, and diverse staff.

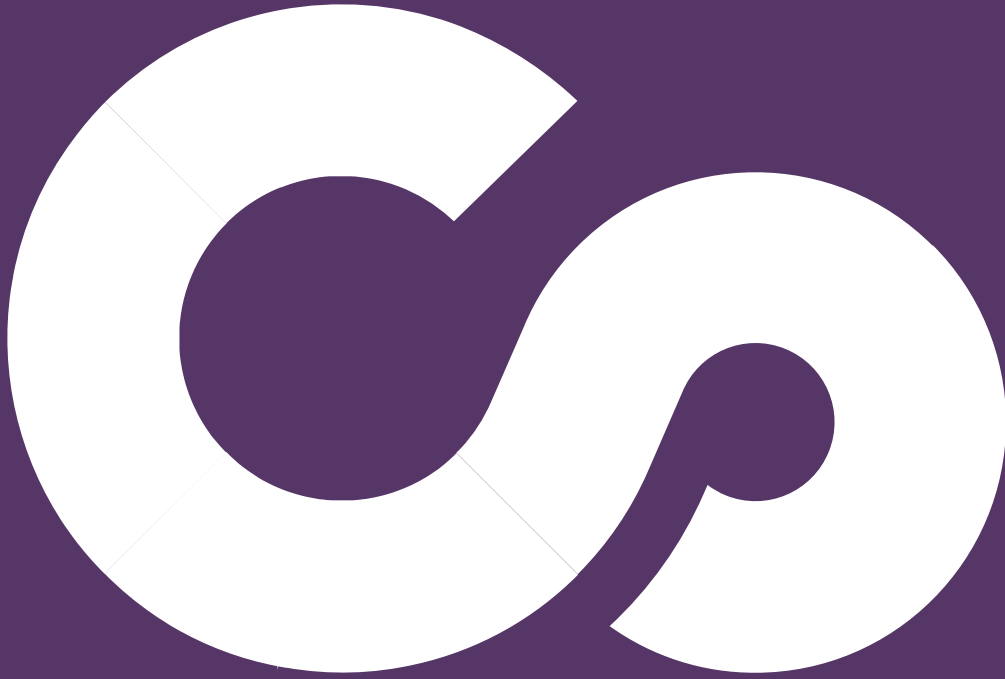
Acknowledgements

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²⁸ [Pro Bono Economics, Second Wave: Charities and the Spring Statement 2022](#)

²⁹ [Pro Bono Economics, Shared stress: uncertainty, pay and recruitment strains across the charity and private sectors](#)



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