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 the need for charitable services, campaigning and community support. Money is undeniably tight and staff costs are a major line of expenditure by the sector, accounting for around 40p in every £1 of spend.

Yet there is already a large gap between pay in charities 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 women do, coming in at 12.3% and 4.7% respectively. Nevertheless, the charity sector continues to endure a gender pay gap between men and women of 4.1%.

This pay gap 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 how the sector is valued as part of the economy and by the government, 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. Some charity employees, particularly those who move into the sector later in life as part of quasi-retirement, may not feel that they need pay comparable to what they could earn elsewhere. Many charity sector workers are not primarily motivated by pay but by purpose. However, offering comparably lower wages means that charities have a more limited pool of people willing or able to contribute their skills by working within that sector. 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 sector[6] 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.

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[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.

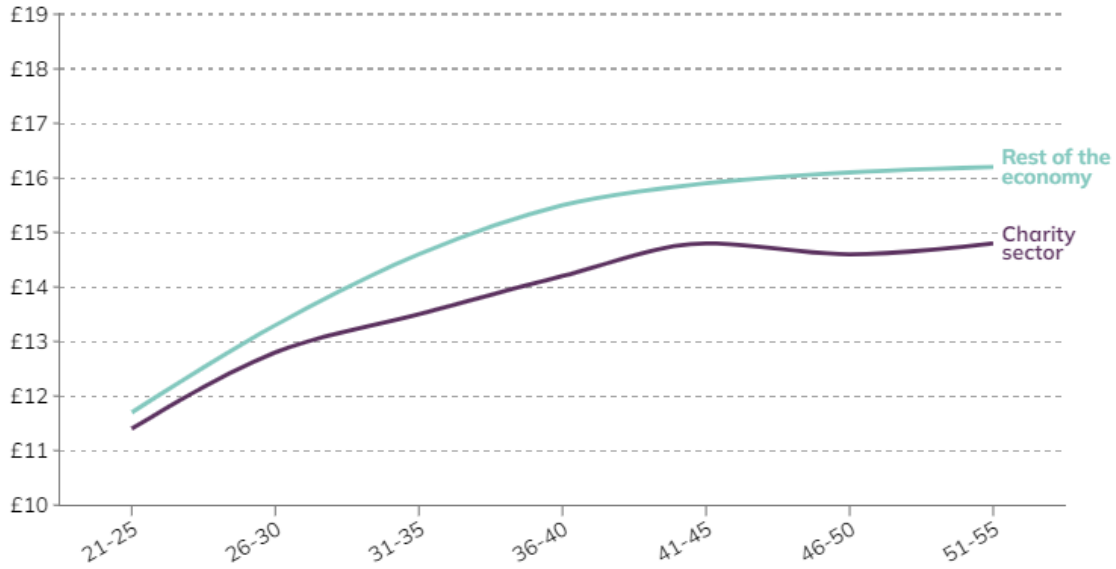
The wage penalty is substantial

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% - far faster than the rest of the economy. This means that an increasingly large section of the UK's workforce is earning less than they could if they worked in other sectors.

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]

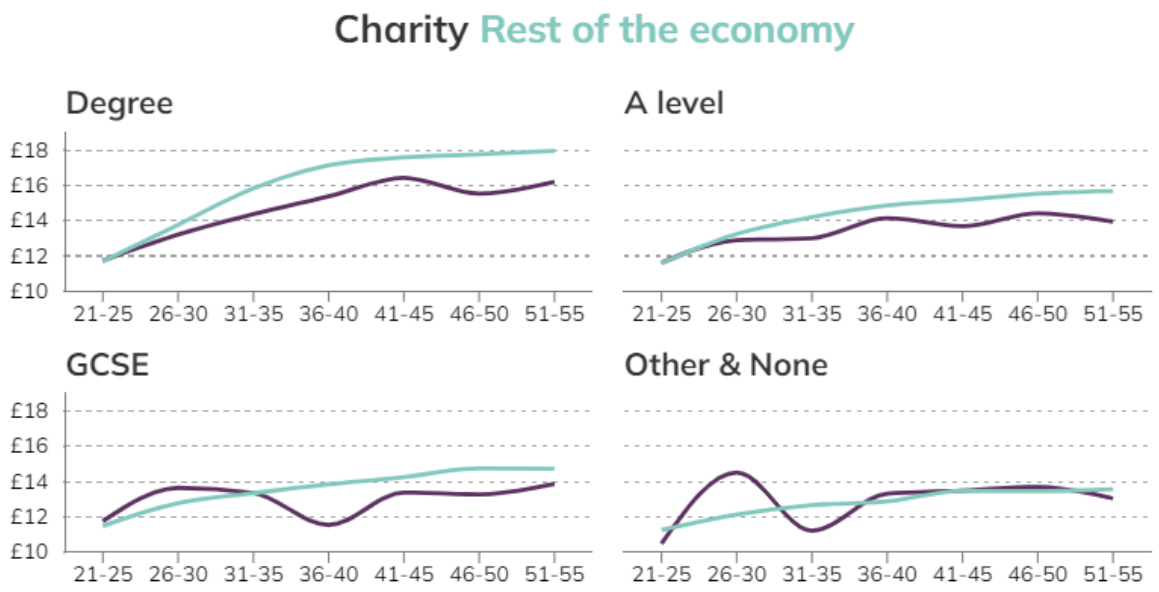
Those with higher qualifications experience a larger pay gap

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.

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

Figure 2. The wage gap is largest for those with degrees, but 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 to 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.

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 55[11] 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

[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

their time through formal and informal volunteering.[13] Yet they are under-represented at more senior levels[14] 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.

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 to the rest of the economy. We find that the average hourly pay gap increases for both men and women as they age, though hourly wages for men increase at a faster rate than those

[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

for women. However, the wages for men in the charity sector cannot keep up with the rest pf the economy: 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.

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.

[18] See Appendix table 10 for the calculation.

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", while 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 business[21] 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 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

[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
[24] Pro Bono Economics, Inequality in civil society: the data
[25] Network for Business Sustainability, How Diversity Increases Productivity

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.

[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

We would like to thank all the people who took the time to share their insights as we developed this report.

We would particularly like to thank Josh Martin (Bank of England and Economic Statistics Centre of Excellence) for help with the analysis and ideas for measuring the pay gap.

[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

TECHNICAL ANNEX

Data

The Labour Force Survey (LFS) is the largest household survey of the UK, with a sample of approximately 40,000 households and 100,000 individuals each quarter and is used for official employment figures. It contains an array of data relating to earnings and other important aspects of a person's labour market experience. This rich data set allows us to dig deep into the wages of those in the charity sector compared with the rest of the economy and enables us to quantify the wage gap.

The LFS has been conducted quarterly in its current form from 1992, we have chosen to use data from 2014 to 2019. We have not included the pandemic years as they may not paint a realistic picture of both wages and hours worked.

Though the LFS is a well-respected survey and used for official statistics in the UK, we still need to do some data cleaning to ensure it's a true representation of both earnings and hours worked, thus, we drop outliers that might be driving and distorting results.

We exclude people from our analysis who do not work or people who state that they have an hourly pay rate of over £1,000 per hour. This is because individuals earning more than £1,000 per hour suggests a periodicity error (e.g. annual pay recorded as weekly pay).

There are also some charity sector specific challenges that we have to overcome. We wished to remove any potential bias driven by internships provided by the sector or people joining the sector prior to their retirement as to 'give something back' which may drive down the average salaries in the charity sector and may not be a 'fair' representation of charity sector pay. We do this by restricting the sample to look at those above the ages of 21 and below the ages of 55.[30]

We use a rich set of covariates to control for other factors that may explain the differences in wages between the charity sector and the rest of the economy. These include age and its square, highest educational level, a binary variable indicating whether people work full-time or part time, health status, whether they work in London, whether they are permanent or part-time staff, organisation size, sector characteristics and occupational codes. These are similar type of controls as used in previous gender pay gap work such as Dias et al 2020, Nightingale 2019 & Jewel et al 2019. A more detailed discussion on the controls used in each regression is found in the method section.

Methods

We wish to investigate whether there are differences in wages between those working in the charity sector and those working in the wider economy. To our knowledge this has not been attempted before. We take inspiration from the work seeking to measure the gender pay gap which is abundant, see Bishu & Alkadry , 2017 for a recent review.

To measure the gap in wages between the charity sector and the rest of the economy, we run an OLS regression between wages and working in the charity sector. It is

[30] We later relax this assumption and include people from 18-64 and that the estimates are similar and our conclusions do not change.

important to note that we only include income and hours worked from each individual's main job and disregard income from any other employment.

We control for a number of personal and sector characteristics that may explain differences in wages. We use robust standard errors and income weights throughout.

Model 1 constitutes our main specification:

$$ln(Wages_i) = \beta_1 \boldsymbol{year_t} + \beta_2 \boldsymbol{sector_i} + \beta_3 \boldsymbol{job_i} + \beta_4 \boldsymbol{person_i} + \beta_5 \boldsymbol{Low\text{-}Pay\ \&\ Occupation_i} + \boldsymbol{\varepsilon_i} \quad (1)$$

Where, $\boldsymbol{Wages_i}$ is gross weekly earnings, divided by hours worked for individual $\boldsymbol{i}$. In this analysis we include both paid and unpaid overtime in the calculation of hourly wage. Previous studies investigating gender pay gaps have included unpaid overtime in their calculations.[31]

Thus, we construct our hourly wage variable to include, basic hours, paid overtime, and unpaid overtime. This was constructed using the following variables found in the LFS.

$$Wage_i = \frac{grsswk_i}{ttushrr_i}$$

Where $\boldsymbol{grsswk_i}$, is gross weekly pay, $\boldsymbol{ttushrr_i}$, is the total number of usual hours. As a robustness test, we have also calculated the wage gap using the hourly wage variable already constructed in the LFS (hourpay which does not include unpaid overtime in its calculation. The results are similar and can be found in table 2.

We wish to interpret our estimates as the marginal percentage change in the outcome i.e. the percentage difference in wages between those working in the charity sector vs rest of the economy. To achieve this, we apply a logarithmic transformation of wages and then calculate the marginal percentage difference in the wages variable as $\%\Delta\, Wages = 100 \times (e^B - 1)$.

In the models we control for a number of characteristics that may explain differences in wages between the rest of the economy and the charity sector.

$\boldsymbol{year}$ is a vector of year dummies which controls for time trends in wages.

$\boldsymbol{sector_i}$ is a dummy variable indicating if the person works in the charity sector or not. We base our definition of those working in the charity sector on the "sectro03" variable. This variable includes people working in charities, private schools and those in trade unions. The NCVO does not include private schools or trade unions from their definition of charities.[32]

To remove these individuals from our charity definition we use UK Standard Industrial Classification of Economic Activities (SIC) provided in the LFS. We define all teachers ranging from pre-primary to higher education to be in the rest of the economy (SIC codes: 85.10 – 85.42), we then define all those working in a trade union to be in the rest of the economy (SIC code 94.20). We are now left with a definition of charities that include charities, voluntary organisations, and trusts.

[31] Dias et al 2020, Vecchio et al 2013
[32] Definitions used in the UK Civil Society Almanac 2021

$\boldsymbol{job}$ is a vector of variables controlling for job characteristics such as whether the job is full-time or part-time, whether they have managerial responsibilities, whether they have a permanent contract and whether they work in an organisation with fewer than 50 employees.

$\boldsymbol{Low{-}Pay}$ & $\boldsymbol{Occupation_i}$ is a vector of variables controlling for whether their sector is a low-paying one[33] and includes major standard occupational code (variable SC10MMJ).

$\boldsymbol{person}$ is a vector of variables relating to their personal characteristics. Here we control for education, age and its square, health status, whether they work in London and their ethnicity.

For education we construct a variable indicating the highest qualification gained by individual $\boldsymbol{i}$. It has four levels; gained GSCE's, A-levels or higher education, degree and other or no qualifications.

Supplementary analysis

We conduct several supplementary analyses to investigate if the gap in wages observed is heterogeneous, meaning does the size of the gap differ for different people such as by sex or highest level of education achieved.

To achieve this, we adapt our primary specification by constructing age bands, $\boldsymbol{age\ band_i}$, which is a vector of variables dividing the sample into age bands of five-year increments.

We then interact our age band variables ($\boldsymbol{age\ band_i}$) with the charity dummy ($\boldsymbol{sector_i}$). This allows us to investigate if the wage gap differs between the charity and the rest of the economy by age. This can be seen in Model 2.

$$\ln(Wages_i) = \beta_1 \boldsymbol{year_t} + \beta_2 \boldsymbol{sector_i} + \beta_3 \boldsymbol{sector_i} \times \boldsymbol{Age\ Band_i} + \beta_4 \boldsymbol{Age\ Band_i} + \beta_5 \boldsymbol{job_i} + \beta_6 \boldsymbol{person_i} + \beta_6 \boldsymbol{Low{-}Pay} \,\&\, \boldsymbol{Occupation_i} + \boldsymbol{\varepsilon_i} \quad (2)$$

We then further extend this model by including additional interaction terms between $\boldsymbol{sector_i} \times \boldsymbol{Age\ Band_i}$ to determine if the wage gap differs by age and sex or by age and education.

Results

Descriptive statistics

Table 1 shows the descriptive statistics for the outcomes and characteristics of those in the charity sector and the rest of the economy. On average those working in the charity sector get 79p an hour less than those in the rest of the economy.

We see that the make-up of the charity workforce is very different to that of the rest of the economy. 67% of the charity sector are women compared to 49% in the rest of the economy.[34]

[33] This is defined using ASHE tables of hourly wages by industry. We create a dummy variable indicating if individual $_i$, works in an industry in the bottom 20% of median pay.
[34] DCMS estimate in 2019 that 67% of civil society is female.

We also find that a higher proportion of people in the charity sector are in part-time work, as there are 9 percentage points fewer people who are full time in the charity sector compared to the rest of the economy. We find people in the charity sector to be better educated with 55% having a degree in the charity sector vs 38% of those in the rest of the economy. This is similar to findings by DCMS. This highlights that those working in the charity sector have different characteristics to those working in the rest of the economy.

Table 1. Descriptive Statistics – average 2014-2019

	Rest of Economy		Charity	
	Mean	SD	Mean	SD
Outcome variables				
Hourly wage (including unpaid overtime)	14.85	9.32	14.06	7.30
Gross weekly earnings	580.40	413.41	494.33	310.62
Total usual weekly hours	38.02	11.73	34.50	11.10
Personal Characteristics				
Age of respondent	38.05	9.96	39.61	9.98
Work in London	0.12	0.33	0.18	0.39
Female	0.49	0.50	0.67	0.47
Highest level of education				
Degree	0.38	0.49	0.55	0.50
A Level & Higher Education	0.31	0.46	0.29	0.45
GCSE	0.19	0.39	0.12	0.33
Other & None	0.12	0.32	0.05	0.21
Ethnicity				
White	0.88	0.33	0.90	0.30
Mixed	0.01	0.09	0.01	0.10
Asian	0.07	0.25	0.04	0.20
Black	0.03	0.18	0.04	0.20
Other	0.02	0.13	0.01	0.09
Health problems				
No health problems	0.76	0.43	0.70	0.46
One Health problem	0.16	0.37	0.19	0.39
Two Health problems	0.05	0.21	0.06	0.24
Three or more health problems	0.04	0.18	0.06	0.23
Work Characteristics				
Work in low paid sector	0.27	0.44	0.45	0.50
Permanent	0.04	0.21	0.09	0.29
Full-time	0.79	0.41	0.69	0.46
Work in small organisation	0.43	0.50	0.60	0.49
Managerial status				
Not Manager	0.61	0.49	0.52	0.50
Supervisor	0.27	0.44	0.38	0.49
Manager	0.12	0.33	0.10	0.30
Occupational codes				
Managers, Directors and Senior Officials	0.10	0.30	0.16	0.37
Professional Occupations	0.23	0.42	0.20	0.40
Associate Professional and Technical	0.15	0.36	0.25	0.43
Administrative And Secretarial Occupation	0.11	0.31	0.14	0.34
Skilled Trades Occupations	0.08	0.27	0.03	0.16
Caring, Leisure and Other Service Occupation	0.09	0.29	0.17	0.37
Sales And Customer Service Occupation	0.08	0.27	0.03	0.17
Process, Plant and Machine Operatives	0.06	0.24	0.01	0.08
Elementary Occupations	0.10	0.30	0.03	0.18
N	191991		5394	
Weighted Sample	503600000		13906549	

Wage gap estimates

The headline results are discussed within the main paper. Here we provide more detail and set out the results of the robustness tests. Table 2 shows the association between working in the charity sector and hourly wages. The dependent variable is the natural logarithm of hourly wages so they can be interpreted in percentage difference.

We estimate four models, with each one increasing the number of control variable used. Model 1 only includes the year dummy variables as control variable, Model 2 introduces personal characteristics such as ethnicity, education and age. Model 3 includes personal characteristics and job characteristics such whether it is a part-time position, whether they manage staff, whether the position is permanent and whether their employer has fewer than 50 employees. Model 4 includes personal characteristics, job characteristics and occupational codes and whether the sector they work in is typically low paid as defined by the ASHE tables.

Table 2 provides the estimates cited in the main paper, while Table 3 uses a definition of hourly wage that does not include unpaid overtime. Model 4 is our preferred estimate of the charity sector wage gap, which we estimate to be 7.0%.

Table 2. Regressions of logarithm of wages (including unpaid overtime)

	Model 1	Model2	Model 3	Model 4
Charity Sector	-0.022***	-0.097***	-0.074***	-0.072***
	(0.00)	(0.00)	(0.00)	(0.00)
Personal Characteristics		x	x	x
Job Characteristics			x	x
Sector & Occupational Codes				x
N	197385	197385	197385	197385
Weighted Sample Size	517461993	517461993	517461993	517461993
adj R-Sq	0.000	0.288	0.362	0.433

Note: * p<0.05 ** p<0.01 *** p<0.001 Standard errors (in parenthesis) are robust, the reference category is the rest of the economy.

Table 3 shows the same results but with this time using an hourly wage definition that does not include unpaid overtime. Here we find the wage gap to be 7.4%, which similar to our preferred specification. Thus, our results are consistent irrespective of our definition of hourly wage.

Table 3. Regressions of logarithm of wages (excluding unpaid overtime)

	Model 1	Model2	Model 3	Model 4
Charity Sector	-0.015***	-0.104***	-0.083***	-0.077***
	(0.00)	(0.00)	(0.00)	(0.00)
Personal Characteristics		x	x	x
Job Characteristics			x	x
Sector & Occupational Codes				x
N	197385	197385	197385	197385
Weighted Sample Size	517461993	517461993	517461993	517461993
adj R-Sq	0.000	0.313	0.399	0.477

Note: * p<0.05 ** p<0.01 *** p<0.001 Standard errors (in parenthesis) are robust, the reference category is the rest of the economy.

Table 4 and Table 5 show the results for those between the ages of 18 to 64 rather than restricting the sample to 21 to 55 (with Table 4 including unpaid overtime and Table 5 excluding it). We still find a significant wage gap of 6.9%-7.2%. which is of comparable size to the main estimates provided in the paper. This indicates that our choice to narrow down the age bands in our main specification is not driving the results.

Table 4. Regressions of logarithm of wages (including unpaid overtime), 18 to 64

	Model 1	Model2	Model 3	Model 4
Charity Sector	-0.012***	-0.096***	-0.074***	-0.072***
	(0.00)	(0.00)	(0.00)	(0.00)
Personal Characteristics		x	x	x
Job Characteristics			x	x
Sector & Occupational Codes				x
N	240938	240938	240938	240938
Weighted Sample Size	621726708	621726708	621726708	621726708
adj R-Sq	0.000	0.307	0.375	0.441

Note: * p<0.05 ** p<0.01 *** p<0.001 Standard errors (in parenthesis) are robust, the reference category is the rest of the economy.

Table 5. Regressions of logarithm of wages (excluding unpaid overtime), 18 to 64

	Model 1	Model2	Model 3	Model 4
Charity Sector	-0.003***	-0.100***	-0.080***	-0.075***
	(0.00)	(0.00)	(0.00)	(0.00)
Personal Characteristics		x	x	x
Job Characteristics			x	x
Sector & Occupational Codes				x
N	240938	240938	240938	240938
Weighted Sample Size	621726708	621726708	621726708	621726708
adj R-Sq	0.000	0.331	0.410	0.482

Note: * p<0.05 ** p<0.01 *** p<0.001 Standard errors (in parenthesis) are robust, the reference category is the rest of the economy.

Differences in wages across age groups

Table 6 provides the estimates of the wages by age band for those working in the rest of the economy vs those working the charity sector.

Table 6. Expected Wages by Age band and Sector worked in

	Charity sector		Rest of the economy	
Age	Hourly wage	95% CI	Hourly wage	95% CI
21-25	£10.66	£10.64 - £10.67	£11.73	£11.73 - £11.73
26-30	£11.80	£11.79 - £11.81	£12.93	£12.93 - £12.93
31-35	£12.90	£12.89 - £12.91	£14.61	£14.60 - £14.61
36-40	£13.52	£13.50 - £13.53	£15.70	£15.70 - £15.70
41-45	£14.35	£14.34 - £14.36	£16.20	£16.20 - £16.20
46-50	£14.08	£14.07 - £14.09	£16.39	£16.38 - £16.39
50-55	£14.27	£14.26 - £14.28	£16.50	£16.49 - £16.50
Personal Characteristics		x		
Job Characteristics		x		
Sector & Occupational Codes		x		
N		197385		
Weighted Sample Size		517461993		
adj R-Sq		0.3595		

Note: These are values of the wages for those working in the charity sector those working in the rest of the economy by age, where the outcome is hourly wage. We also include the 95% confidence intervals for the estimates. The outcome is hourly wage as supposed to the natural logarithm of hourly wage.

Differences across level of education

Table 8 provides the estimates of the wages by level of education and age for those working in the rest of the economy vs those working the charity sector.

Table 8. Expected Wages by Age band, Sector worked in and level of education

	Charity		*Rest of the Economy*	
	Hourly Wage	95% CI	Hourly Wage	95% CI
Degree				
21-25	£13.83	£13.77 - £13.89	£13.82	£13.82 - £13.83
26-30	£14.04	£14.03 - £14.06	£13.22	£13.22 - £13.23
31-35	£12.76	£12.74 - £12.78	£18.58	£18.58 - £18.58
36-40	£13.20	£13.17 - £13.24	£15.25	£15.25 - £15.26
41-45	£11.83	£11.77 - £11.89	£14.42	£14.42 - £14.43
46-50	£14.97	£14.95 - £14.98	£13.87	£13.87 - £13.88
50-55	£13.31	£13.29 - £13.33	£18.83	£18.83 - £18.84
A Level & Higher				
21-25	£10.81	£10.79 - £10.83	£15.70	£15.70 - £15.71
26-30	£11.88	£11.85 - £11.90	£14.85	£14.84 - £14.85
31-35	£11.95	£11.90 - £12.00	£13.66	£13.66 - £13.67
36-40	£9.81	£9.73 - £9.88	£19.14	£19.14 - £19.15
41-45	£12.39	£12.38 - £12.40	£15.85	£15.85 - £15.86
46-50	£12.52	£12.50 - £12.54	£14.84	£14.84 - £14.85
50-55	£13.40	£13.36 - £13.44	£13.83	£13.82 - £13.83
GCSE				
21-25	£11.48	£11.45 - £11.52	£12.33	£16.17 - £16.17
26-30	£12.88	£12.82 - £12.93	£16.17	£14.01 - £14.01
31-35	£16.10	£16.08 - £16.11	£14.01	£13.34 - £13.35
36-40	£13.22	£13.20 - £13.24	£13.35	£12.95 - £12.96
41-45	£13.34	£13.31 - £13.37	£12.96	£17.90 - £17.90
46-50	£13.85	£13.80 - £13.89	£17.90	£14.81 - £14.82
50-55	£14.91	£14.90 - £14.92	£14.82	
Other or None				
21-25	£14.02	£14.01 - £14.04	£11.25	£11.24 - £11.25
26-30	£13.48	£13.46 - £13.51	£11.91	£11.91 - £11.91
31-35	£13.79	£13.75 - £13.83	£11.96	£11.95 - £11.96
36-40	£16.12	£16.11 - £16.14	£12.01	£12.01 - £12.02
41-45	£13.22	£13.20 - £13.23	£13.35	£13.35 - £13.35
46-50	£13.53	£13.50 - £13.55	£13.06	£13.06 - £13.06
50-55	£12.59	£12.55 - £12.62	£12.84	£12.84 - £12.85
Personal Characteristics		X		
Job Characteristics		X		
Sector & Occupational Codes		X		
N		197385		
Weighted Sample Size		517461993		
adj R-Sq		0.3597		

Note: These are predicted values of the wages for those working in the charity sector those working in the rest of the economy by age and level of education, where the outcome is hourly wage. We also include the 95% confidence intervals for the estimates.

Gender gaps

Table 9 provides the estimates of the wages by age band and sex for those working in the rest of the economy vs those working the charity sector.

Table 9. Expected Wages by age band, sector worked in and sex

	Charity		Rest of the Economy	
	Hourly Wage	95% CI	Hourly Wage	95% CI
Male				
21-25	£13.76	£13.74 - £13.78	£12.06	£12.06 - £12.06
26-30	£17.64	£17.63 - £17.64	£10.32	£10.31 - £10.34
31-35	£14.86	£14.84 - £14.88	£13.70	£13.70 - £13.71
36-40	£17.75	£17.75 - £17.76	£11.74	£11.72 - £11.75
41-45	£14.60	£14.58 - £14.62	£15.58	£15.58 - £15.58
46-50	£17.98	£17.97 - £17.98	£12.07	£12.06 - £12.09
50-55	£14.75	£14.74 - £14.77	£16.83	£16.83 - £16.83
Female				
21-25	£10.58	£11.38 - £11.38	£11.38	£12.78 - £12.80
26-30	£11.25	£10.57 - £10.60	£12.16	£14.71 - £14.72
31-35	£12.72	£12.15 - £12.16	£13.61	£13.51 - £13.54
36-40	£12.79	£11.23 - £11.26	£14.52	£14.99 - £14.99
41-45	£13.53	£13.61 - £13.61	£14.71	£13.25 - £13.27
46-50	£13.26	£12.71 - £12.73	£14.99	£14.99 - £14.99
50-55	£13.48	£14.52 - £14.52	£14.99	£13.47 - £13.49
Personal Characteristics		X		
Job Characteristics		X		
Sector & Occupational Codes		X		
N		197385		
Weighted Sample Size		517461993		
adj R-Sq		0.3613		

Note: These are predicted values of the wages for those working in the charity sector those working in the rest of the economy by age and by sex, where the outcome is hourly wage. We also include the 95% confidence intervals for the estimates.

Estimates of forgone wages

Table 10. Total wages forgone

Age Band	Difference in hourly pay	Average number of hours worked	Number of employees	Total difference
21-25	£0.31	34.7	51575	£28,768,681
26-30	£0.53	35.2	118668	£115,516,276
31-35	£1.19	34.4	118167	£250,420,023
36-40	£1.25	33.7	116159	£253,563,276
41-45	£1.03	33.6	117117	£211,533,427
46-50	£1.44	35.3	120947	£319,788,137
50-55	£1.37	34.5	117612	£289,395,303
Total				£1,468,985,123

Note: Difference in pay and hours worked estimated using the LFS, the number employees comes from DCMS's Sector Economic Estimates.

Table 11. Total wages forgone - Graduates

Age Band	Difference in pay	Averaged Hours worked	Total difference (Discounted)
21-25	-£0.04	35.75	-£368
26-30	£0.55	36.13	£5,155
31-35	£1.47	35.53	£13,540
36-40	£1.76	34.07	£15,540
41-45	£1.16	34.24	£10,317
46-50	£2.21	36.62	£21,079
50-55	£1.76	36.66	£16,736
Total			£40,144

Note: Difference in pay and hours worked estimated using the LFS, total differences in wages have been discounted by 3.5%.

Table 12. Total wages forgone – A Level or Equivalent

Age Band	Difference in pay	Averaged Hours worked	Total difference (Discounted)
21-25	-£0.02	35.75	-£192
26-30	£0.36	36.13	£3,396
31-35	£1.20	35.53	£11,069
36-40	£0.71	34.07	£6314
41-45	£1.49	34.24	£13,271
46-50	£1.11	36.62	£10,528
50-55	£1.73	36.66	£16,532
Total			£29,250

Note: Difference in pay and hours worked estimated using the LFS, total differences in wages have been discounted by 3.5%.

Limitations

This work does have its limitations. Though we are using a detailed and representative survey it may not be able to fully capture the nuances of the charity sector.

Like all surveys we are reliant upon individuals self-reporting both their income and the type of work they do correctly. Further to this, we only explore the gross weekly pay variable. Though this variable does include bonuses it is still likely an underestimate and will exclude other benefits for workers that may not be financial such as access to a company car, gym membership and health insurance.

This means that we are reasonably confident that this estimate is a lower bound in terms of magnitude. Thus, if we were to include total benefits the earnings gap is likely to be more substantial.

We also may struggle to perfectly identify those working in the charity sector. The main definition provided by the LFS also includes those working in private schools and trade unions. To alleviate this, we remove people who self-declare to be teacher or work in a trade union. This leaves us with people who declare to be working in a in a charity, a voluntary organisation, or a trust.

This is no means a perfect definition of the charity sector though we feel this is the best definition of charity sector works we can use with this data set.

Lastly, we can only control for observable characteristics that are included in the survey. Though we use a rich set of covariates there are likely many unobservable characteristics that may explain differences in wages.

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