National Governance Association

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Academy trusts

Executive pay: considerations for trust boards

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National Governance Association

The expert organisation for school governors, trustees and governance professionals

The National Governance Association (NGA) is the membership organisation for governors, trustees and governance professionals of state schools in England.

We are an independent, not-for-profit charity that aims to improve the educational standards and wellbeing of young people by increasing the effectiveness of governing boards and promoting high standards. We are expert leaders in school and trust governance, providing information, advice and guidance, professional development and e-learning.

We represent the views of governors, trustees and governance professionals at a national level and work closely with, and lobby, UK government and educational bodies.

Contents

Introduction

This guidance outlines key considerations for academy trust boards setting executive pay. It seeks to:

- outline why getting executive pay right is important and the intricacies involved
- interpret official guidance on setting executive pay
- lead trust boards through each major consideration which will lead to executive pay being set at an appropriate and justifiable level

Setting the framework for the pay of the senior executive leader and the leadership team in an academy trust is a key responsibility of the trust board. They must retain control and oversight of this critical function. They must also ensure that the pay and leadership structure is in keeping with the Nolan principles, is both affordable and sustainable in the long term, and is appropriate for the level of responsibility undertaken.

Before pay decisions can be made, it's important for trust boards to first think about the sector overall, and the position of academy trusts as charities. While trusts need to reward leaders properly, this guidance starts from the premise that trustees must remain conscious that salaries are paid from public money. Given the charitable nature of an academy trust, the pay package will rarely be as high as what is given in the corporate for-profit sector. This guidance does draw some parallels with other sectors, in terms of practice used to arrive at pay decisions, but the sector is in many ways unique, and so such comparisons need to be handled with care.

The vast majority of academy trusts have set executive pay within reasonable and justifiable parameters, and this guidance outlines the key considerations for reaching this point. None of the points should be used in isolation; the answers to each should form the basis for your decision.

1 What does the Education and Skills Funding Agency say?

The ESFA's guidance on the process trusts should adopt in setting executive pay leads with the need for trusts to comply with the guidance in the Academy Trust Handbook (ATH). Broadly speaking, the ATH requires boards to "ensure its decisions about levels of executive pay (including salary and any other benefits) follow a robust evidence-based process and are a reasonable and defensible reflection of the individual's role and responsibilities". It also specifies that the executive in question cannot be involved in deciding his or her remuneration.

Section 2.31 of the ATH guidance makes clear that the board must discharge its responsibilities effectively, ensuring its approach to pay is transparent, proportionate and justifiable, including:

- process – that the procedure for determining executive pay and benefits, and keeping them proportionate, is agreed by the board in advance and documented
- independence – decisions about executive pay reflect independent and objective scrutiny by the board and conflicts of interest are avoided
- robust decision-making – factors in determining pay and benefits are clear, including whether educational and financial performance considerations, and the degree of challenge in the role, have been taken into account
- proportionality – pay and benefits represent good value for money and are defensible relative to the public sector market
- commercial interests – ensuring the board is sighted on broader business interests held by senior executives, and is satisfied that any payments made by the trust to executives in relation to such interests do not undermine the transparency requirements for disclosing pay in accordance with the Academies Accounts Direction
- documentation – the rationale behind the decision-making process, including whether the level of pay reflects value for money, is recorded and retained
- a basic presumption that non-teaching pay should not increase at a faster rate than that of teachers in individual years and over the longer term
- understanding that inappropriate pay can be challenged by the ESFA, particularly in any instance of poor financial management of the trust

2 What trust boards should consider

Roles and responsibilities – the leadership team

The first stage of setting pay is ensuring that there are job descriptions and person specifications for the posts in question.

Considering appropriate remuneration is dependent on having a clear idea of what it is the role holder is expected to do.

If the trust is likely to grow, then trustees also need to ensure that they have allowed for this in the pay range and that they have a process in place to periodically review and revise the pay range where rapid growth warrants this.

Remuneration and affordability

As reflected in the ESFA guidance, remuneration should be thought of as a package and not simply in terms of pay.

This is because remuneration includes pension costs and often other benefits, plus of course the 'on-costs' of national insurance and employer pension contributions. In addition, if other benefits are being offered, it must be clear what is being offered and the rationale that underpins them. For example, are they justifiable and fair and what will be the impact on staff who are not offered these?

In order to act in the best interests of the charity, trustees must also consider sustainability. Remuneration packages must be affordable in the medium to long-term, not just in the current year. It is important to know what the salary bill will look like in three to five years' time when the executive team pay may have risen.

See the table on page 5 for the ESFA's guidance on what should be considered.

Ethics

The Nolan Principles and Framework for Ethical Leadership in Education

All those involved in the public sector are subject to The Seven Principles of Public Life, often referred to as the Nolan principles. This includes academy trust trustees and their work which includes setting executive pay.

Most codes of conduct reference the principles and any induction should cover them so that they are known to all those governing and the executive team.

The Academy Trust Handbook contains a requirement for a trust to "publish on its website in a readily accessible form the number of employees whose benefits exceeded £100k [per year], in £10k bandings, for the previous year ended 31 August".

Benefits should include salary, employers' pension contributions, other taxable benefits and termination payments.

NGA is also a signatory to the Framework for Ethical Leadership in Education which translates the Nolan principles into an educational context. The Framework can be used as a means to consider whether your decisions are justifiable.

Equalities and pay gaps

All pay decisions must be made in line with the trust's policies and must be based on objective criteria so that there is no discriminatory effect on any teacher or group of teachers with a particular protected characteristic under the Equality Act 2010. It is important that all decisions and reasons for them are documented at every stage so that there is evidence in case of challenge.

The reporting of salaries over certain amounts reveals that female CEOs are being paid less than male CEOs, even when leading similar sized trusts. It may be that there are other pay gaps, and it is also clear that in some trusts, pay ratios (the gap between the lowest and highest paid members of staff) are very wide.

When considering their trust's salary structure and pay ranges, trustees should reflect on their organisation's stated values and ethos and ensure that these drive pay policies and pay decisions.

This is potentially a legal issue as well as an ethical and reputational one. Trusts with 250 or more employees are now required to publish gender pay gaps. If the trust is not paying equally then aside from the obvious ethical implication, there is also the possibility of a legal challenge.

The ESFA guidance lists some core areas for consideration for trust boards when setting pay levels, summarised below:	
Academic performance – consider pupil outcomes across the trust and the level of improvement needed. What is the level of progress being made and how does performance compare nationally and locally?	Benchmarking – consider the individual trust perspective, rather than just focusing on how statistically similar you are to another trust. Where results show that the trust is at the high end of the benchmarking scale, you should ensure that you have clear reasoning and rationale as to why this is the case.
Educational challenge – set pay against the context of the trust's individual mission. The trust board should look at the trust's own context and circumstances, whether levels of challenge are high and the required expertise level.	Characteristics of the trust – remain mindful of size, both in terms of number of schools and pupils, the range of provision and school types, questioning if these elements bring additional challenge that could impact pay levels.
Financial performance – take account of the trust's financial position and projections, exploring flexibility in employment contracts to make downward adjustments if required in the future.	Location – be aware location may have some impact on salary level. Trust boards should look at whether location alters requirements, considering where the executive is based, and if there are cheaper alternatives to increasing actual salary, such as subsidising transport.
Additional challenges – reflect on additional challenges and responsibilities that go beyond the norm for such a role, such as major public facing and community engagement issues, trust expansion challenges or sector wide leadership roles.	Ratios – do not look at executive pay in isolation; the salaries offered to staff across the trust should be considered. Look at the percentage difference between highest and lowest paid staff, seek external independent advice to help you arrive at a sensible and fair ratio.
Experience of the individual – determine the level of expertise actually required, the value of this expertise to the trust and the pay levels required as a result.	Gender pay gap – ensure salary ranges are communicated, as trusts with 250 employees must publish gender pay gaps and maintain a focus on reducing the pay gap and a commitment to transparency.
Remuneration package – look beyond basic salary; consider the cost of the package – pensions, leave entitlement, performance related pay and bonuses, and other benefits and cost commitments.	Pensions – ascertain whether the executive is on the correct pension package, that it reflects best value for money and be clear on the financial implications for the trust.
Fixed-term appointments – do not assume a one size fits all approach to contractual agreements. A fixed term contract which may include higher pay may suit some trusts looking to solve a particular issue or achieve a specific aim.	Succession planning – be proactive in thinking about the CEO recruitment process and succession planning. Trust boards should be mindful of how long it takes to recruit and not automatically place individuals on the same level of pay as their predecessor.
Performance management – pay increases should not be awarded automatically. Decisions to award pay progression must be related to the individual's performance, as assessed through the trust's appraisal arrangements.	Public scrutiny – be mindful that executive pay must be defensible to the public and reflect value for money. If an individual is pushing for a higher salary, do they have the right interests, how does it fit with both the national and local economy?

The organisation

Multi academy trusts (MATs) bring together several schools as a single organisation. This is a far more complex and challenging organisation than a single school and when considering pay, trustees should consider:

- the number of pupils their trust is educating and their characteristics
- how many sites they are operating across and their condition
- the number of staff employed by the trust and the number of senior executives the CEO is managing
- the context of their schools and how many are challenging
- the extent of the trust's income and reserves
- recruitment and retention issues

Trusts may wish to consider setting up a remuneration committee which has delegated responsibility for setting and monitoring the pay and reward policy for executive teams and the wider workforce.

School Teachers' Pay and Conditions Document (STPCD)

While no academy trust is automatically subject to the STPCD (the national framework document for teachers' pay and conditions), many have chosen to be and it can be a useful starting point for determining the pay for those leading more than one school.

The STPCD's leadership scale works by allocating a point score for every pupil based on age, with some additional points for pupils with SEND. This total point score then translates to one of eight school group sizes with a pay range for each group. To meet the criteria for the top group (group 8), the school is required to have in the region of 2,500 primary pupils or 1,700 11-16-year old pupils.

The group 8 pay range extends from £86,040 – £123,057 (£94,415 – £131,353 in inner London). The STPCD then allows some limited, discretional additions to the pay range in certain circumstances, to enable the headteacher's responsibilities to be recognised.

Upper ceiling for pay

In recent years, the Department for Education and the ESFA have written to trusts paying their senior executive leader over £150,000 and have reported that this led to salary reductions in around 25% of trusts.

The £150,000 figure is based on the Prime Minister's salary and there is debate if this is a helpful comparison. It has been suggested that the Prime Minister's role cannot be meaningfully compared to any other. However, if all the discretions available in the STPCD are applied then this would take executive leader salaries above the £150,000 benchmark.

A view from NGA

Some have argued if educational performance is consistently good and financial management is sound then high salaries are justifiable. However, it ought to be a basic expectation that all schools, be they in a trust or not, provide a good standard of education. Challenges will remain, especially for trusts that take on schools with a long history of under-performance.

Performance awards can recognise when there is a significant contribution from executive leaders and equally, when a trust grows significantly, salary ranges should be reviewed. Such reviews should take place separately from any discussion with the current post holder about their pay increase.

NGA does not recommend a specified upper limit for trusts to stick to. All trusts face different challenges and circumstances and will have different requirements of their executive leader; NGA believes that to set a figure would be arbitrary and without strong rationale.

However, all boards should set pay ranges with a minimum and maximum, have a justification for their pay structure and understand how performance will be rewarded. Any amendments should only be made following a thorough review which includes independent expert advice.

3 Recruitment and retention

NGA recognises the recruitment and retention challenges across the schools sector and that this has in some instances had a direct impact on rates of executive pay. However, trustees should seek to understand the particular recruitment and retention challenges that apply to their context; wider sector challenges do not justify a blanket approach to setting high rates of pay.

When seeking to recruit, trusts should consider:

- If similar trusts have found it difficult to recruit new senior executive leaders or members of the senior leadership team. Although there is evidence that schools can find it difficult to recruit headteachers, this is not necessarily true for trust CEOs. Recruitment premiums should only be paid if it can be shown that it is necessary in order to attract a good candidate, or if the location of the trust makes recruitment an issue.
- As regards retention payments; what is the justification for these? The assumption that recruitment nationally is more difficult is not necessarily valid, neither is the assumption that senior executive leaders leaving is always a bad thing as change can bring fresh perspectives and renewed energy.
- Affordability and long term sustainability, especially when an executive leader has reached the top of their salary range.

  Pay ranges are set for a reason and should only be reviewed and extended when this can be justified.

CEO job description template

Our CEO job description is based on the work of Michael Pain, Forum Strategy and the 'Being the CEO' framework and informed by NGA research.

It is based around six key areas.

The CEO of a multi academy trust:

1. Develops a leadership narrative that articulates the board's vision and values in practice and shapes the organisation's ongoing development.
2. Builds an open, transparent and effective relationship with the governing board and its committees.
3. Ensures that the organisation is an 'employer of choice' and is staffed by talented and skilled individuals at all levels.
4. Enables improvement and disciplined innovation as an organisational habit.
5. Secures organisational sustainability and compliance.
6. Builds external relationships: fostering social and professional capital.

4 Benchmarking

Benchmarking is a useful tool but should not be the only information on which decisions are made; this has been acknowledged as an issue in other sectors.

> "It is important to avoid designing pay structures based solely on benchmarking to the market, or the advice of remuneration consultants, as there is a risk this could encourage an upward ratcheting effect on executive pay."
>
> Financial Reporting Council Guidance

This has relevance to executive pay in multi academy trusts – a specialised sector which in effect only has itself to make a direct comparison to. To avoid a 'race to the top', trusts need to ensure the benchmarking process is used appropriately and responsibly. To achieve this, it is paramount to recognise that every organisation is unique and ensure benchmarking takes account of the context of the role and the trust characteristics.

Remuneration in other public and voluntary sector organisations may provide useful guidance. In 2021, the Civil Society reported that the median salary of the chief executives at the largest 100 charities in the UK has risen slightly to £170,000. The remuneration packages for the chief executives of the NSPCC (income £122m) and Barnardo's (income £280m) are in the £170,000 – £190,000 bracket. While their roles are not directly comparable to that of a CEO of a MAT, it does provide some idea of what complex charitable organisations in the children's sector with sizeable and multiple income streams are paying.

It may also be helpful to look at pay rates for senior civil servants, and what local authorities pay their executives. For example, pay for Directors of Children Services (DCS), a role that involves being responsible for the leadership, strategy and effectiveness of a local authority children's services, ranges between £90,000 and £166,000.

However, all such comparisons come with a health warning – trust boards should understand this is far from being an accurate benchmark and provides no reference to the size and context of a trust.

PiE

Pay in Education

External support can be obtained from education reward specialists Pay in Education, (PiE) either through a subscription to their online salary benchmarking platform or through bespoke consultancy support. They offer trusts an independent view and the expertise to ensure responsible benchmarking for all MAT executive roles. NGA members can access the service at a discount. Further information is available at www.payineducation.co.uk or email subscriptions@payineducation.co.uk.

5 Pensions

Trustees also need to take into account the wider benefits that accrue to the role when considering pay. Pensions are one such benefit and pension contributions paid by the employer can add significant value to a remuneration package. Therefore, pay decisions should not be taken in isolation from a pension decision and vice versa.

Some members of the senior leadership team may be part of an employment related pension scheme, such as the Teachers' Pension Scheme (TPS) or the Local Government Pension Scheme (LGPS), which will also determine employer (and in some cases employee) contributions.

In other cases, the trustees will have to provide access to a pension scheme and determine the contribution to be made. However, it is unlikely that other schemes will have the benefits of the TPS and so trustees should be mindful about what pension contributions they will offer if the role is not within the TPS. TPS employer contributions are currently 23-24%, which is not the norm in other charitable institutions where 6-8% is the standard contribution.

However, CEOs who are not also the headteacher of a school may not qualify for the TPS. While there is no formal definition of a teacher, various regulations define 'teaching work'. It is for the trustees to determine whether a role falls within the TPS or not, but the TPS can also remove someone from the scheme if it becomes evident that they do not fulfil the criteria. There has been a temptation for some CEOs to keep the title of executive principal of a particular school, in part to maintain their link to the TPS. It is for trustees to define the role of the senior executive leader and they need to be very clear whether it will have responsibility for any individual schools.

It is particularly important for trustees to be clear about this where the trust has developed from a single school and the CEO was formerly the headteacher of that school.

6 Bonuses

Before offering bonuses, trustees must be clear what the bonus is being offered for: a financial reward for a one-off special task or performance related. Any pay policy should make clear if bonuses are awarded as a flat rate, or as a percentage of salary, that bonuses are discretionary and are not automatic, and that the policy may change in the future depending on the trust's financial position or educational performance.

Trustees should also be specific about what qualifies as a 'special task' that may warrant a bonus, as opposed to carrying out the role to the expected standard. If the bonus is performance related, it should be clear if this is in addition to, or instead of, any incremental salary increase. For those at the top of their pay range, a bonus or lump sum may be a suitable way to reward exceptional performance depending on the breadth of the range and where the maximum was pitched in relation performance and the size of the trust.

Bonuses are usually single payments and so are not consolidates and do not add to pay and pension cost pressures.

7 Pay ratios

Pay ratios refer to the ratio of the top salary in an organisation to the bottom salary or to some form of average salary. Pay ratios are used in various sectors to measure wage dispersion, looking specifically at the rate of pay given to executives in comparison to the bottom level salaries in the same organisation.

A number of charities and some corporate companies use pay ratios as a formal part of their pay policy; NGA is one of them. While pay ratios are usually expressed as a multiple between the highest pay to lowest pay, there is some evidence that, instead of lowest paid, the median salary is a better indicator as it can iron out fluctuations at the top and bottom end. The ratio could be 1:4 but is more commonly 1:8 or 1:10.

The question of pay ratios has also been on the agenda in the private sector, with new regulations requiring many companies to report their executive pay ratios, and explain the reasons for that ratio. This emphasis on transparency should be a useful starting point for any trust when considering their pay ratio: can the trust justify to the rest of their community that the ratio between the pay of the senior executive leader and other staff is appropriate?

In deciding whether to adopt a policy committing to a specific pay ratio, trustees should consider how much the organisation is likely to change in the next three years and whether that will have an impact on their pay structure and ratios. There is no point in agreeing a structure based on ratios and then 'ignoring' them the next year because following considerable growth the role has become more complex and challenging.

Regardless of whether trustees formally choose to make pay ratio a part of the trust's pay policy, exploring the trust's pay ratio can help trustees understand the impact of pay decisions on all employees.

The differential between the pay of the CEO and the lower quartile, median and upper quartile tends to be smaller in the charitable sector than the private sector.

Charity income

Salary surveys from different sectors show that the greater the charity's income, the higher the pay. This is relevant to the education sector as this can be directly translated to pupil numbers since the majority of the funding is per pupil, while deprivation factors also play a part – there is often a direct correlation between senior executive pay and pupil numbers.

8 Questions for trustees to consider when setting pay

Trustees seeking to determine their senior executive leader's remuneration package should take into account the following factors:

- How many schools are in your trust?
- How many pupils?
- How many sites are involved and what is the distance between sites?
- What phases do you cater for: nursery/primary/secondary/sixth form/special?
- What is the trust's total income?
- How many staff do you employ?
- How many other members of the senior executive leadership team do you have? How many direct reports will the individual manage?
- Have you carried out a thorough assessment of the range of skills, experiences and competencies that the trust needs now and is likely to need in the future?
- Does every individual school have its own headteacher?
- Have you benchmarked pay responsibly, ensuring it takes account of the context of the role and the trust characteristics?
- Have you considered whether the STPCD can still provide a reasonable starting point for your trust?
- Have you looked at other possible pay ranges such as the NHS and similar sized charities?
- Have you thought about implementing a pay ratio between the highest paid member and lowest or median salary?
- How does the remuneration of senior executive leaders align with that of the wider workforce?
- Does your policy explain how the remuneration of senior executives aligns with ethos of the organisation and will drive its long-term strategy?
- Are there particular recruitment issues in your area that mean you have to increase salaries to make them more attractive?
- What do you know about retention? What figures do you have for staff leaving and the reasons given for departure?
- Could you justify any remuneration figures using the Framework for Ethical Leadership in Education?
- What is the top of the pay band, over which you will not pay, however good the performance of the incumbent?
- How will the pay band be amended in time if the trust grows?
- How will good performance be rewarded?

9 Further resources

Trust boards can access a range of resources and support to help them set a framework for the pay of the senior executive leader.

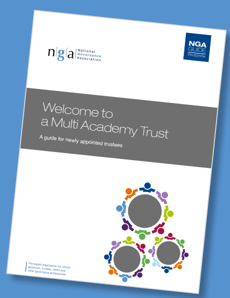
- DfE, Setting executive salaries: guidance for academy trusts
- NGA, Appraising the senior executive leader
- ASCL, Setting pay for executive heads/principals and CEOs
- NGA and ForumStrategy, CEO Template Job Description
- Research report: Closing the gender pay gap in education

How NGA supports MATs

As the MAT governance experts, NGA support trustees with an extensive collection of guidance, insight and training on their responsibilities and best practice.

All of our resources and recommendations are founded in our comprehensive evidence of what constitutes good governance in academy trusts. They include:

- **MATs network** – an active forum for MAT trustees to share governance challenges, successes, ideas and best practice
- **Welcome to a Multi Academy Trust** – an in-depth guide for new trustees and a useful reference for experienced trustees



- **NGA Learning Link** – features an interactive and practical module on MAT governance to support trustees in understanding and applying effective practice
- **MAT case studies** – which enable MATs to share and self-evaluate their governance experiences and lessons learned providing other MATs with direction and insight
- **Bespoke guidance** – for MATs drawn from NGA's own research, which provides rich knowledge and practical actions for trustees to use in their role

Join NGA as a MAT member to access all our resources and other member benefits including a weekly e-newsletter, our Governing Matters magazine and exclusive events.

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