

# Review of Payroll Giving

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## **Acknowledgments**

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## Executive summary

- This review was commissioned by the Institute of Fundraising to provide a “root and branch” review of Payroll Giving in the UK.
- The review is based upon a wide-ranging consultation process that included all main stakeholders in Payroll Giving. The review includes input from charities, Payroll Giving Agencies, Professional Fundraising Organisations, Employers, Payroll Givers and Government.
- The review considers the potential for the expansion of Payroll Giving, both through the expansion of the numbers of employers offering the scheme and through encouraging uptake amongst employees where the scheme is already operational.
- The following issues are identified as the key barriers to the growth of Payroll Giving:
  - Ongoing perceptions of bureaucratic and administrative inefficiency.
  - An inherent inertia within the Payroll Giving system that leads to slow processing of donations and data.
  - A lack of universality of Payroll Giving schemes with less than half of employees working in organisations with operational schemes.
  - Difficulties for charities in reaching, and marketing to, employees covered by schemes.
  - A lack of portability that means a high level of attrition as donors move jobs.
  - A lack of systematic audit trails and audit procedures, including PGAs’ distribution of donations that have not been clearly allocated by donors.
  - A perception that building long-term relationships with payroll donors is less effective than with donors reached through other forms of fundraising.
- Throughout the review these barriers were often used to unfavourably compare Payroll Giving to other fundraising mechanisms, particularly other forms of tax-efficient giving. In addition there was a perception that if payroll donors did not give via their payroll they would be reached by other mechanisms.
- The review counters these perceptions and provides evidence that payroll givers differ in some way to people who give through other forms of fundraising. A new analysis of survey research suggests that:

- The gender differential apparent in all other forms of charitable giving is reversed in Payroll Giving, with men more likely to donate through this mechanism than women.
- 51% of people who donate via Payroll Giving are aged between 31 and 45.
- There is little difference between occupational groups in the proportion of people donating through Payroll Giving unlike other forms of fundraising.
- 40% of Payroll donors do not donate through any other mechanism.
- The review also provides evidence that Payroll Giving has the potential to deliver a high quality donor relationship and experience.
- The review identifies key recommendations required for Payroll Giving to be expanded. These include:
  - Steps towards achieving a universal Payroll Giving system that use a 'half way' approach that make the scheme compulsory in certain circumstances.
  - Finding an interim solution to support the easy transfer of payroll donors as they move jobs between employers.
  - The introduction of robust audit and accountability systems across all Payroll Giving transactions.
  - Reviewing the statutory framework within which PGAs operate.
  - The introduction of common service standards for all PGAs and an external system to monitor and report on their performance.
  - A systematic mapping of Payroll Giving to provide robust data to support policy.
  - A review of the role and management of PGAs.
  - Continued promotion of Payroll Giving and support for incentive schemes.
- The review concludes that for Payroll Giving to achieve its real potential it will require, in addition to the above 'fixes', a whole hearted commitment to it from the third sector. In many ways this is the most crucial change to be achieved.

## 1. Introduction

Payroll Giving was launched in 1987 as a tax-efficient way for people to donate money to charities.

For the year ending March 2007 Payroll Giving raised £89 million for charities. This figure was topped up with an additional £10 million from employers matching their employees' contributions. The latest year on year figures suggest that by the end of March 2008 this figure will have increased by 28% over the previous twelve months, breaking the £100 million barrier for the first time.

This figure of almost a £100 million pounds represents a significant sum for the approximate 13,000 charities that are beneficiaries of Payroll Giving. The latest annual estimate of total UK giving is £9.5 billion<sup>1</sup>. Of this, just over £3.75<sup>2</sup> billion was given via Gift Aid, the main tax-efficient giving mechanism. Payroll Giving, therefore, accounts for under 1% of all charitable donations in the UK and less than 3% of all tax-efficient donations.

During the year 2006-2007 there were around 644,000 payroll donors<sup>3</sup>. This is expected to rise by 31% in the year ending March 2008<sup>4</sup>.

There are approximately 24 million employees paid through PAYE in the UK. Only 10.5 million (44%) of these are employed by organisations with Payroll Giving schemes in place. In 2006/07, of these 10.5 million employees only about 6% gave through Payroll Giving. The average donation made through Payroll Giving is between £7 and £10 per month<sup>5</sup>.

Despite the successes of 2007/08 the full potential of Payroll Giving to raise money for charities, appears largely unrealised. Less than half the workforce is covered by Payroll Giving schemes. In organisations where Payroll Giving schemes are in place there is wide variation in take up amongst employees. Over a quarter of Royal Mail employees give via Payroll Giving suggesting that the average of 7% take up amongst employees of organisations operating a scheme could be substantially increased.

Furthermore, Payroll Giving continues to be constrained by a number of problems within the system. These challenges include:

- A lack of portability for payroll donors moving jobs or exiting the labour market
- Ongoing perceptions of bureaucracy and administrative inefficiency.

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<sup>1</sup> UK Giving 2007, NCVO/CAF

<sup>2</sup> HMRC statistics 2007

<sup>3</sup> Payroll Giving Centre

<sup>4</sup> Institute of Fundraising, unpublished

<sup>5</sup> Payroll Giving Centre

- A lack of systematic audit trails and audit procedures leading to lack of confidence in, and accountability of, organisations involved in payroll giving administration.
- Perceptions within the third sector that payroll donors are harder to build ongoing relationships with.

This review was commissioned to report on the successes and failures of Payroll Giving 20 years after it was launched. It follows a major review of Payroll Giving carried out in 1995. Many of the issues considered in that review are raised again in spite of a number of recommendations being taken forward. We, therefore, sought to build in the lessons learned from this experience into the final recommendations contained in this report.

## **Aims**

This review provides a context and background to identify what works in Payroll Giving schemes and what needs to be changed.

In the review we identify:

- The potential for expanding Payroll Giving in the UK.
- The most effective ways through which the challenges of Payroll Giving can be managed.
- The most effective ways to promote the expansion of Payroll Giving.

## **What the review involved**

The review has taken into account the views of interested organisations and individuals. This included: Payroll Giving Agencies (PGAs); Professional Fundraising Organisations (PFOs); relevant Government departments; third sector bodies (voluntary sector organisations/charities); Umbrella/representative bodies and employers

A list of those organisations that contributed to the review and who were willing to be named is the Appendix.

## **The review process**

There were four main elements to the review:

1. An online consultation that provided an opportunity for a broad cross section of interested individuals and organisations to feed into the review. The online consultation received over 90 detailed and comprehensive responses from all stakeholder groups and individuals.

2. 45 one-to-one interviews with representatives from charities, PGAs, PFOs, Government, employers and employees to discuss issues identified from the online consultation in more detail.
3. A series of focus groups with representatives from charities to generate ideas for change.
4. A review of existing literature and research on charitable and Payroll Giving.

## The issues

“Our upgrade campaigns for payroll givers include trying to get them to switch to direct debit.” (Payroll Giving Manager, large charity)

“If I had the choice between a payroll giver or a direct debit donor, I would take the direct debit any day” (Fundraising Director, large charity)

Interest in Payroll Giving has focused on the potential size of the untapped market. Over half of employees do not have access to Payroll Giving schemes. Where they are in place, take up is typically very low amongst employees. Typically, access to schemes is seen as the responsibility of Government, while take up amongst employees is seen as the responsibility of other stakeholders, particularly charities.

Depending on the industry in which payroll givers are working, there are also significant issues around staff turnover. Many regular payroll givers are lost when they change jobs and begin working for an employer without a Payroll Giving scheme in place.

This review highlights these alongside other, sometimes less obvious reasons for a preference amongst third sector organisations for other methods of fundraising.

This review looks at **both how** the market can be expanded, either through:

- i. Increasing the number of employers with Payroll Giving schemes in place, and/or:
- ii. Increasing the number of employees donating in companies with existing schemes in place,

**And**, shows that existing and potential Payroll Giving donors:

- a. Differ from other donors and, therefore, add new donors, increasing the overall number of givers in the UK.
- b. Can only be contacted (or are only willing to give) through Payroll Giving.
- c. Are a better quality of donor (reachable at a lower cost, make higher donations and have better retention rates).



- d. Prefer to give through Payroll Giving.
- e. That Payroll Giving provides a better way to build a long-term relationship for these donors than other forms of giving.

## **2. Background**

### **What is Payroll Giving?**

Payroll Giving was introduced in 1987, based on a similar scheme operating in the USA, called United Way. Prior to its introduction, most giving, in the workplace was via post tax deduction schemes, where donations were made to a single charity, often chosen by the employer<sup>6</sup>.

Payroll Giving allows employees to donate to charities from their pre-taxed income. The giver gets immediate tax relief at their entire marginal rate on an unlimited donation as it is deducted. In the 2007/08 tax year this meant that the chosen charity receives £10 at a cost to the donor of only £7.80 (basic rate tax payers) or £6.00 (higher rate tax payers). In 2008/09 the cost of a £10 donation to the donor on basic rate tax will be £8.00.

Approximately 10% of funding received by charities through Payroll Giving in 2006/7 came from "matched" donations made by the employers. Employers also receive a tax incentive for matching employees' contributions.

### **What does Payroll Giving involve?**

1. Employers have to be signed up with a Payroll Giving Agency (PGA).
2. The PGA then informs HMRC.
3. The employer then promotes the scheme and lets its employees know that it is available. This is often done through a Professional Fundraising Organisation (PFO) who market Payroll Giving to employees.
4. The employee completes a single Payroll Giving form authorising their employer to deduct what they chose and specifying the charity or charities they want to donate to.

The employee can keep their gift anonymous from both the charity and their employer, if they choose to.

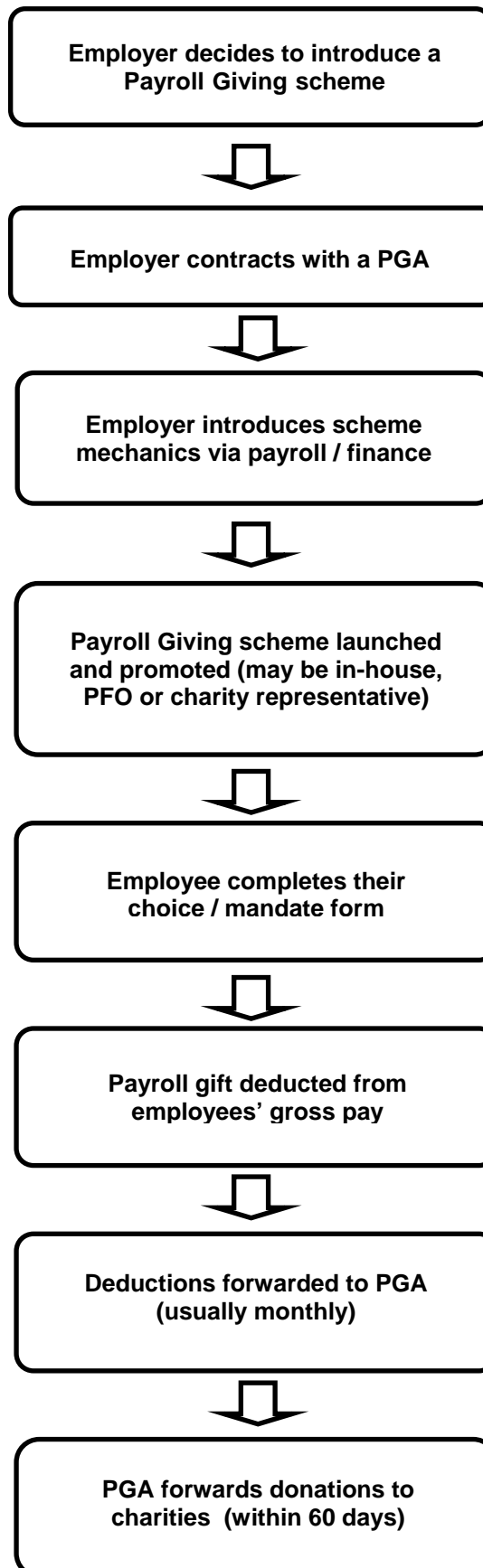
These forms are forwarded to the PGA.

5. All of the deductions made by the employer are forwarded to the PGA, with the name and amount of all of the individuals from whom deductions have been taken.
6. The PGA then makes payments to the relevant charities. The payment has to be made within 60 days.

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<sup>6</sup> A number of these schemes are still in operation, providing significant revenue to charities. For example, it is estimated that two thirds of Barnado's income raised via payroll comes through post not pre tax schemes.

## Payroll Giving – the process



## The history of Payroll Giving

### Reviews

*Institute of Charity Fundraising Managers Review 1995 (forerunner to Institute of Fundraising)*

The first major review was carried in 1994 - 95. The review found that,

“Tax-free Payroll Giving, introduced by the government in 1987, has certainly not been a failure. Nor, however, has it been the great success that was forecast at the time of the launch. As a small number of charities are justifiably pleased with the results of their efforts to promote Payroll Giving: A small number of companies have shown that very significant numbers of employees will choose to support charity in this way if the proposition is presented well. Income to charities from this source has grown steadily and will continue to do so. Charities are receiving over £18 million per annum from tax-free Payroll Giving which they might not have otherwise. Some employers may well have decided that Payroll Giving is not a form of charitable giving that they wish to promote. Yet the review body firmly believes that tax-free Payroll Giving has far greater potential to be fulfilled and that there are some annoying faults in the system that should be corrected.”

The main review recommendations were:

- That a new national publicity campaign should be launched.
- That Business in the Community, CBI and TUC take a leading role in promoting Payroll Giving.
- PGAs and the ICFM should set up a joint forum.
- PGAs should be required to provide standardised information for charities.
- ICFM issue a model contract for charities to use with PFOs.
- The ceiling for tax-free donations be raised or removed.
- Employers further promote Payroll Giving.
- Charities should be able to buy more information from PGAs and further promote Payroll Giving.
- PGAs make information available to charities and use 60 days as a target for disbursement.

Many of the issues raised in the first review remain unresolved and have formed a large component of this review. This is in spite of many of the recommendations being acted upon. The outcomes of the review included:

- A £2 million marketing campaign in 2000.

- A 10% Government match for payroll giving run from 2000 to 2004.
- A PGA – IOF joint forum.
- The removal of the ceiling for donation.
- The 90 days time limit for PGAs to disburse funds was reduced to 60 days.

Where possible our review learns from the 1995 and has also considered how effective the recommendations and their delivery have been.

#### *Other studies*

There have been other reviews of Payroll Giving, most of which remain unpublished. Some of these have been made available to this review and have been drawn on through out this review.

There are two further published studies that we refer to in this report that arose from the recommendations of the SME grants programme.

*A report to support the proposal for portability of Payroll Giving (Institute of Fundraising, 2007 unpublished)*

The report found that:

- In the past eight years a potential £71 million has been lost through attrition due to lack of portability between employers or to pension providers
- At least 66% of lapsed donors would have been happy to continue giving if there had been portability systems in place.
- An estimated, two thirds of payroll givers moving employers could potentially be transferred, retaining between £6-7 million in year one alone.

The report recommends that a process for instituting portability is developed to ensure donors are retained.

*Pension giving (Institute of Fundraising, 2007)*

The report found that:

- The growth of the 65 age band provides significant opportunity for expanding Payroll Giving.
- The focus of any work should be initially on final salary occupational and public sector pension schemes.

## Initiatives

### *The 10% supplement*

Towards the end of 1999 HMRC looked at how Payroll Giving could continue to show the increases generated by The Children's Promise<sup>7</sup>. As a result of that review the 10% supplement was introduced in April 2000 for a period of three years. This meant that any pre-tax Payroll Giving donation would attract a 10% uplift for the whole of the three years<sup>8</sup>.

PGAs administered the distribution of the supplement. One of the reasons behind the additional funding was to encourage charities to invest in the development of Payroll Giving fundraising within their organisations. There is no evidence, however, that this investment took place.

In 1999/2000 £37 million in Payroll Giving was distributed and in the last year of the supplement (2003/04) £85 million was circulated, representing a significant rise in Payroll Giving donations. However, there was no equivalent increase in the number of people giving by the end of the supplement, unfortunately PGA reporting makes it difficult to provide accurate figures.

### *Lift on restriction*

In 2000 the maximum pre-tax donation limit of £1200 per donor was removed. From this point there has been no limit on the tax relief on donations made through Payroll Giving.

### *Awareness campaign*

In addition to the supplement and the removal of giving limits there was an extensive promotional awareness campaign put in place by HMRC with a PR Agency. It targeted all the non-contracted employers in the UK with more than 100 employees. The campaign included a public awareness element to encourage individuals to find out more about Payroll Giving. There is no evidence that this campaign had any impact on the number of new contracts signed up during the four-year period.

### *SME Grants Programme*

Announced in the March 2004 budget, this scheme was intended to encourage take up of Payroll Giving by the 1,222,000 SME (those with 1-499 staff) employers in the UK. The programme included:

- A one off grant of up to £500 depending on the number of employees.

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<sup>7</sup> Led by Marks & Spencer, employers were encouraged to set up schemes and those with existing schemes to promote the opportunity for people to donate their last hour's pay in the previous millennium to benefit several children's charities. This was done on the premise that in the new millennium we promised all children a better life.

<sup>8</sup> The period was subsequently extended for a further year ending in March 2004.

- A matched amount of up to £10 per donation for the first six months of the donation.
- The introduction of an awards scheme recognising and rewarding employers who have Payroll Giving.

This Programme was designed to incentivise the 1.2 million small and medium sized employers into putting Payroll Giving schemes in place and to increase the participation level by employees by making a matched donation available of £10 per donor per month for the first six months of their gifts.

58% of the Grants distributed by the PGAs were received by charities.

#### *Payroll Giving Quality Mark and Awards Scheme*

These were launched as part of the SME programme. The Payroll Giving Quality Mark includes a logo and award level information for all employers signing up to Payroll Giving. There are three levels of award depending on percentage of employees signed up. The Quality Mark scheme is still running and anecdotal feedback within this review suggests many people see it as a welcome promotional and marketing tool.

### 3. **The review**

“I believe it is a miracle that we are where we are today. The Payroll Giving scheme is sound, tax-efficient, and continues to develop and grow. Yes, there will always be room for improvement, but how else could you have raised approaching £90million a year from workers pay?” (Director, PGA)

“It is the most complicated method of fundraising, with the least opportunity for growth as there are so many different organisations involved.” (Fundraising Manager, medium sized charity)

“It is right that individuals can choose which charity to support. It is not right that their money can get lost and/or whittled away within an unnecessarily complicated system that does not protect the two groups it should help, i.e. donors and charities.” (Fundraising Director, large charity)

“I have just received a “new” donor who was recruited in November 2005. X PGA sent 18 donations at once. This is not unique ... our Northern Ireland consortium has donors giving that had a second account invented for them, we did not know where the money was coming from. Other donors are still in suspense ... it is only by mentioning specifics that we can bring these problems to light. Small charities may not even know what they are missing as they may not have the resources to track these things. Sadly, what has happened in the past when specifics are mentioned is that X PGA will say they are isolated cases, but they are not.” (Fundraising Manager, large charity)

This chapter outlines the main feedback given throughout the review consultation.

#### **The benefits of Payroll Giving**

“There is a huge potential to push Payroll Giving forward.” (Director, PFO)

The following section highlights the main benefits of Payroll Giving as seen by those who participated in all areas of the review.

There was considerable overall support for Payroll Giving from all organisations included within the review, with most seeing it as having a real value in the overall funding mix for charities, providing a regular, reliable tax efficient means of giving.

#### **Benefits of Payroll Giving for charities**

##### *A regular income stream*

Primarily, the key strength of Payroll Giving as seen by charities is its reliability for providing a regular income stream. Many respondents expanded on this area in detail, either comparing Payroll Giving with other forms of funding and fundraised income, or, through explaining what this type of income allows their organisation to do.

Payroll Giving was seen by many as safe, reliable and “solid”, a good return for very little investment in many cases.



### *Tax efficient giving*

Most people identified the tax benefit and the way the gift was taken at source before taxation as key strengths. The “gross” nature of the donation was seen as protecting against future fluctuations in donation levels that might occur with tax changes. Charities know that what they get from a donor will not be affected by changes in the rates of income tax.

A number of respondents felt that there was less room for error in tax relief with no need for complex audit trails within individual charities (this was often used as a comparison and contrast with Gift Aid).

When the money is received by the charity it is immediately classed as unrestricted income or funds. This was again seen as a strong benefit with many respondents seeing this as one of the main strengths.

Payroll Giving is seen as particularly effective and attractive for higher rate tax payers. It provides them with a simple process to make a donation with all of the tax relief remaining with the donor with no need for it to be claimed back as a separate process as with Gift Aid.

### *Cost efficiency*

Payroll Giving was also identified by many people as having relatively low administration costs (again this was often cited in comparison with other forms of face-to-face fundraising).

The figure used most consistently for return on investment (ROI) was £7 being received in donation for every £1 spent. The average longevity of donation is between five and eight years.

Many respondents also saw Payroll Giving as having a low attrition rate, with payroll donors tending not to cancel or change payroll-giving gifts. The attrition rate for Payroll Giving is between 15% and 20% compared to over 30% for face-to-face fundraising more widely.

It should be noted, however, that there is large sectoral variance in longevity of donation, which should be borne in mind in the context of the very real issues around portability identified later. Similarly, representatives of smaller charities in particular, saw Payroll Giving as an expensive form of fundraising and requiring a level of investment that they were unable to make.

### *Potential for strategic relationships*

Payroll Giving schemes were identified as a useful way of developing long-term relationships with employers.

Some charities thought that Payroll Giving could (or should) provide them with the opportunity to revisit and target specific companies to increase take up and build further relationships with them and their employees. This was seen

of strategic importance when there was a link with the company and the charities work. An example of this is pharmaceutical companies and health charities.

### *Potential for matched funding*

“Yes you can compare Payroll Giving with DD and say it is not as valuable to your charity, that maybe you are only getting £10 and if it was a direct debit it would be £12, but take into account an employer matching a donation, and I’ll say thank you very much.” (Fundraising Manager, large charity)

Employers’ matched funding schemes, as they stand, add around 10% to the value of Payroll Giving. Unsurprisingly these were very popular and seen as a major strength of Payroll Giving and identified as something that could potentially be expanded.

### *Collective third sector benefits*

Payroll Giving was identified as having collective benefits that extend beyond, but sometimes conflict with, benefits to individual recipient charities.

Similarly, with employer-matching schemes the diversity of charities supported was seen as a benefit to the sector as a whole. This was because, without the scheme in place, even if the money were to go to charity through other mechanisms, it would be much more likely to go to one charity, rather than the diverse number chosen to benefit by employees.

### *Workplace contact and culture*

“For some donors this is an attractive way of being contacted. It’s low key. It’s more sensitive, it feels less salesy.” (Director, specialist agency providing services to charities)

For some charities, donors and PFOs being able to make contact in the workplace was seen as an important alternative option. It was seen as less personal and invasive than other forms of fundraising, particularly face to face street fundraising.

“There is a link with employee culture... Payroll Giving is something you do if you join this organisation.” (Director, PGA).

“The thing is, we all got behind the project ... the company matched our donations and it was a case of seeing how much we could raise for this charity.” (Payroll Giver)

Potentially it allows a large number of potential donors to be reached in one go. Additionally, the social dynamics of the workplace allow innovative forms of communication and marketing which take into account the social context of many workplaces.

As suggested by research presented later in this report, it seems likely that the social context of workplace based giving may be an effective mechanism

for reaching new and different types of donors, motivated to give by different issues.

## **Benefits for employers**

### *Corporate social responsibility*

Employers who were interested and enthusiastic about Payroll Giving mainly cited the benefits as being a fit with a wider corporate social responsibility agenda and company community activity. This was seen as having real benefits for both staff and for the company.

Whilst very few companies we spoke to directly promoted the fact they had Payroll Giving schemes in place externally, many of them felt they did enhance their company's image. This was seen as particularly the case in internal staff communications.

More widely, the scheme was generally seen as being low cost and very little effort to establish. Where there was less direct enthusiasm from employers, it was seen almost as something that "we may as well have in place".

There was also a level of enthusiasm for award schemes, which were seen to provide an external recognition for an employer's commitment and enthusiasms for the scheme, as well as something that could help unite staff.

### *Tax-efficient*

Employers receive tax benefits for the costs of establishing and running Payroll Giving schemes. If they run a donation matching system it may also be eligible for corporate Gift Aid.

## **Benefits for donors**

"I just saw that I could give via my payroll, it looked easy and so I signed up." (Civil servant Payroll Giving donor)

"You know exactly how much is coming out each month, and it's deducted before you even notice." (Financial services Payroll Giving donor)

"I was asked to give when I started to work here, and I just thought it was what we did in this organisation" (Office worker, Payroll Giving donor)

Most of those who took part in this review who gave via their payroll said they did so simply because they were asked to and it was available to them. Generally Payroll Giving was seen as something that was very easy to do, and that required little thought or action beyond the initial commitment.

People also cited the tax benefits to Payroll Giving as being an advantage. The immediate nature of the tax relief and it's extremely tax efficient nature, (especially for higher rate tax payers) were seen as benefits by some. However, it did not appear to be a motivating factor for everyone.

For some, giving through their work and being contacted via work rather than at home was also a benefit. There are two interpretations of this. Some donors seem to like the less personal nature of giving in this way. For others, it formed part of a wider workplace “giving culture”, particularly where there was additional activity beyond merely joining a Payroll Giving scheme.

Some employees also said that they felt secure making their donations through Payroll Giving as payments automatically stopped if they lost their jobs.

## **The issues and challenges**

The following section outlines the challenges and less positive issues relating to Payroll Giving that were raised during the review.

### **Administrative issues**

#### **Overall process**

“The ask with Payroll Giving stumbles at every block.” (Payroll Giving Manager, large charity)

“There are just too many organisations involved in one donation.” (Fundraising Manager, small charity)

Contributions received throughout the review suggested that the overall process was bureaucratic, and that improvements needed to be made. The number of organisations and the processes involved with Payroll Giving were seen as central to many of the challenges and issues outlined throughout this section.

The following issues were raised repeatedly.

- There is a general lack of transparency. It is difficult to explain how Payroll Giving processes work and why it is an efficient way to give.
- Even when Payroll Giving is understood, it is still difficult for anyone not in a workplace to tell potential donors what to do.
- Charities particularly talked about the inbuilt slowness of the system. The complexity of processes means that there are built in time lags between sign up and actual payments to the end charity. Payroll Giving was often compared unfavourably with direct debit on this specific issue (with the comparative timescale given being one month to nine months).
- While many respondents felt the Payroll Giving actually represented good value for money and provided a relatively low cost form of fundraising, some respondents felt that paying both PGAs and PFOs seemed like “we are paying twice” for the donation.

- For many charities Payroll Giving was seen as distancing their relationship with donors.
- There was some concern that it was difficult to be open about the costs involved in Payroll Giving.
- A number of organisations that responded focused on the difficulties posed for charities who have not already been involved in Payroll Giving (particularly smaller ones) to enter the market. Some respondents saw it as being the preserve of the household name and not a new fundraising option for most charities.

Most contributions from the charitable sector mentioned administration and bureaucratic issues. There were a number of examples provided that repeatedly mentioned issues such as:

- Delays in charities receiving donations from PGAs.
- Payments being made to the wrong charities.
- Donors being misidentified as 'dormant' when they had been making regular payments.
- PGAs having to allocate funding when it was unclear who donations were intended for (because of unclear forms etc).
- Charities receiving incomplete or incorrect data about donors.
- Inconsistent data being collected by all of the different agencies involved.

### **What impact do these have?**

"Donors want something to happen as a result of their action, with Payroll Giving it is just so slow." (Fundraising Director, large charity)

"The time lag on receiving donations makes it difficult for us to get a speedy acknowledgement out to the donor ... it can take months for us to thank them for their money." (Payroll Giving officer, medium sized charity)

There seemed to be a general view that the system is very susceptible to things going wrong. This undermines the credibility of Payroll Giving as a method of fundraising able to support a high quality donor relationship.

#### *Openness and transparency*

The lack of transparency and openness identified in the process was seen as failing to support charities' attempts to be open about their fundraising costs.

There was some specific concerns raised about the lack of transparency involved in a number of PGA transactions. PGAs are able to decide where funding is to be allocated in those cases where they have no information from

the donor to enable distribution to take place and are unable to track the donor to establish their wishes. In these cases, there is no laid down prescribed period in which that money should be forwarded, nor any requirement for information to be information made available to show what has happened to these donations. This is particularly relevant when an employee has chosen to accumulate funding in a charity account and then changed both address and employer without allocating those funds.

Feedback from the review suggests that the voucher scheme operated by some PGAs is susceptible to donors not clearly specifying their chosen recipient using the vouchers, and this provides a good example of the need for allocation timescales and transparency in PGAs' distribution of unallocated money.

Overall there was a strong concern about the lack of comprehensive, systematic and independent audit processes.

### *Inertia*

“The thing is, each organisation that handles the donation has an inbuilt incentive to keep it in their own bank account for as long as possible.” (Fundraising Manager, medium sized charity)

Some respondents suggested there was an in-built inertia in the system, with little incentive for cash to be moved (whether from employers or from PGAs). The time lag in donations reaching charities' own bank accounts was raised repeatedly. Our feedback suggested that the average time of charities receiving the first payment from a Payroll Giving donor was nine months.

### *Marketing challenges*

“What are we asking them to do? Go to their payroll department and see if they have a scheme in place, come to us to for us to investigate? If they have a scheme in place it is often unclear how you actually sign up, and if not, well we don't stand a hope. This is just not how people give...” (Fundraising Manager, medium sized charity)

The processes involved were highlighted frequently as the main reason that Payroll Giving was difficult for charities themselves to market. Charities that relied solely on PFOs, and/or who did not undertake any direct workplace promotions, stressed the difficulty of explaining to potential donors what to do. In contrast, charities where fundraising staff were directly involved in workplace promotion and had direct access to employees did not feel this was an issue. PFOs also felt it was easy to explain with direct access.

### *Access to information on donors*

“I don't care why it happens. I can understand the system and recognise there will be mistakes, but it is very embarrassing having to explain to a donor why we have not had their gift for six months. It just does not happen like this with direct debit.” (Fundraising Manager, large charity)

“On many occasions it has taken so long for money to get through to us from donors that we have contacted them as dormant donors. This has not gone down well with them. It makes us and the whole sector look inefficient.” (Fundraising Manager, medium sized charity)

Similarly, there was real frustration about the quality of information available to charities about their donors. This was seen as impeding most areas of their donor relations, and impacting on upgrade and reactivation campaigns particularly. We had a number of examples shared with us of payroll givers coming through as lapsed donors in charities payment systems, and therefore going into lapse campaigns. When contacted the donors were not lapsed and had been making payments all the time.

## **Relationships**

### **PGAs and charities**

There was a perception amongst charities that individual PGAs offer different levels of service. Whilst some received commendations there was a general feeling amongst charities that there were serious structural and quality issues that needed to be addressed. Many of these stem from the original purpose of PGAs, which was to provide an administrative service to employers. Their primary purpose was not to support other stakeholders.

#### *Power imbalance*

“PGAs do not view charities as their clients, it is not surprising we get such a poor service from them, we have absolutely no way to hold them to account.” (Fundraising Director, medium sized charity)

“PGAs have hidden their incompetence behind the fact that charities do not want to rock the boat because of the risk to their reputations.” (Fundraising Director, large charity)

Many of the issues raised throughout the consultation process appear to stem from an unequal relationship between PGAs and charities. The lack of a clear contractual relationship between individual charities and PGAs was identified as central to this.

The issues raised by third sector organisations included PGAs:

- Failing to make payments within the 60-day time limit.
- Not chasing employers for lost or delayed payments
- Holding onto payments if they were unsure where they were supposed to go, rather than chasing up paper work from either PFOs or employers
- Not providing timely, adequate information to charities about payments.

- Providing generally low levels of customer care.

### **What impact does this have?**

“If an employee gives via their payroll I am sure they think of themselves as having a relationship with the charity they are donating to. The reality is we are at the end of the line, the main relationship is the PGA and their employer, we don’t figure in it as anyone’s priority.” (Fundraising Manager, medium sized charity).

There is frustration amongst charities at what they see as the mixed quality of service provided by PGAs. This manifests itself in the perception of poor levels of service in many areas.

What comes though strongly is a feeling that there is little or no real accountability of PGAs.

Examples given include:

- The difficulty in objectively comparing the performance of different PGAs.
- The lack of externally verified and accountable performance measures.
- The lack of “audit trails” or analysis of their work.
- The inability to apply sanctions or penalties for payment delays and for when PGAs fail to meet the 60 day payment requirement.

### **PGAs and employers**

“PGAs feel no obligation to either the donor or the charity, only to employers.”  
(Director, specialist agency providing services to charities)

The relationship between PGAs and employers also poses challenges. The PGA has a contractual relationship with the employer and provides Payroll Giving services to them. This presents sensitivities should anything go wrong. For example, several PGAs spoke of the difficulties of chasing late payments or donor information when they felt they were there on the basis of an employer’s good will.

The potential for this conflict of interests is exacerbated when the PGA is also providing other services to the employer, and Payroll Giving giving constitutes only a small proportion of the business relationship.

### **PFOs**

“The thing we know is that people only give if they are asked to. We also know PFOs are good at getting to them and asking them. A system where individual charities went into every workplace would simply be unworkable, for employers, for staff, for charities and the reputational risks would be vast.” (Fundraising Manager, large charity)



There was mixed feedback on the role that PFOs play in the Payroll Giving process. Most contributions emphasised the central and professional role they played and stressed individual charities would be unable to undertake the promotional work they do within the workplace.

### *Quality issues*

Many people attributed PFOs effectiveness and impact on the direct link of their revenues with their performance in donor recruitment. Negative feedback on PFOs focused on the mixed quality of data they provide. Lack of donor data appeared to be a particular issue, with a number of charities feeling they were not provided with same level of data on payroll givers as other donors.

The different pricing structures of PFOs were also mentioned. This created some difficulty in easily explaining the costs of fundraising to donors. The powerful position of PFOs in Payroll Giving meant that some respondents felt that they had too much discretion over charging. This was raised particularly by smaller charities who saw large charities' willingness and ability to pay as effectively excluding them from the market.

Concerns were also raised about PFOs' role in the stewardship of donations and the lack of clear audit trails. An example of this is situations in which PFOs decide which charities should receive donations where donors have only specified a cause rather than a specific charity

### *Impact*

“PFOs have phenomenal control over the future of Payroll Giving.” (Director, specialist agency providing services to charities)

There were a number of concerns about the role and impact of PFOs. A number of respondents flagged the significant impact their actions had in many areas, along with their lack of accountability.

This perceived “monopoly” over access to workplace fundraising was raised a number of times. Some charities perceived PFOs as ‘gatekeepers’ who determined who could gain access to employers. PFOs operate with ‘baskets’ of charities that they present to employees and are also central to determining which workplaces are targeted.

At best this was seen as “getting in the way” and preventing charities from getting access to workplaces directly.

A number of charities also mentioned that PFOs were unhappy with them going into workplaces in which they operated, and that they felt they had received less positive treatment as a result of this.

### *Closed baskets*

“PFOs are the gatekeepers to this whole thing. We cannot get into a basket and so it is just not something we can break into.” (Fundraising Manager, small charity)

Importantly however, many of the charities that responded did not have a relationship with a PFO. They tended to be more critical of the role they played and the influence they had. The perception, real or otherwise, among many charities who are not existing clients of PFOs,<sup>9</sup> is that PFOs have “closed their lists” and will not take on new clients. Even though PFOs have to process payroll givers that choose to donate to charities not on their list, these only constitute between 10% and 15% of the total of donors they recruit. This was seen as a central issue to the expansion of Payroll Giving.

### **What impact does this have?**

#### *Control of market*

“This is not a market place we can influence.” (Fundraising Director, large charity)

“Even on the rare occasions we get into workplaces, we have no guarantee that all of our efforts will bring donors for xx charity. I understand why we have to allow payroll givers to choose any charity, but it costs me money to go in. It is better for us to leave it to PFOs.” (Fundraising Manager, large charity)

The central role of PFOs in accessing workplaces and expanding payroll donations means that some of the most significant factors influencing growth of Payroll Giving sit largely outside both the public and third sectors.

The pricing structures operated by PFOs and their payment for individual donors signed up builds in an incentive for them to focus on larger workplaces. This is of significance given that half of paid employees work in SMEs.

#### *Impact on charities*

The dominant role of PFOs was sometimes mentioned as a barrier to entry, particularly by those not registered with a PFO.

Paradoxically, some charities that benefit from high yields from Payroll Giving (and are perhaps registered with a number of PFOs) often see PFOs as allowing them to completely outsource. This was seen as contributing to Payroll Giving receiving little priority within their internal fundraising strategies and marketing budgets.

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<sup>9</sup> Most PFOs said they continually reviewed their baskets and would consider taking on any charities.

## **Employers**

### *Access to workplaces*

“There is no reason for employers to do anything about it, why should they introduce Payroll Giving schemes, what is in it for them?” (Fundraising Manager, large charity)

“Companies just cannot be bothered.” (Fundraising Manager, large charity)

“Fundraising took to the streets because we couldn’t get through the factory gates.” (Fundraising Director, large charity)

Most people saw the voluntary nature of Payroll Giving schemes as the major constraint to it growing to its full potential. Nearly all contributions stressed that there was little or no real incentive for employers to introduce new schemes or to promote existing schemes. It was also seen as the one hardest to address and one that had been consistently ignored by promotion campaigns.

“I think some of the campaigns and incentives have been good, and even had an impact in some places, but we wouldn’t have to bother with them if every employer had a scheme in place.” (Fundraising Manager, medium sized charity)

### *Perceptions of bureaucracy*

“We know it is a simple process and that it only takes a minimum amount of time, but lots of employers just do not believe us.” (Payroll Giving Administrator, large charity)

The difficulty of engaging employers with Payroll Giving was stressed repeatedly. Charities, PFOs and PGAs all mentioned reluctance by employers to introduce schemes. Where schemes were already in place many employers were said to be reluctant to allow charities into their workplace to recruit and promote directly.

This was often the case even where charities had strong relationships with their corporate partners.

Access was identified as a major barrier to charities developing their Payroll Giving income. Whilst many understood why companies could not allow them all access, it was still identified as a real challenge to directly expanding Payroll Giving.

### **What impact does this have?**

“What is the point for us? I have no control over trying to recruit payroll givers. I can’t get into workplaces to see people face to face.” (Fundraising Director, large charity)

“Until we get better access to workplaces, our campaigns only reach 1% of the population.” (Fundraising Director, large charity)

The voluntary nature of Payroll Giving schemes was seen as limiting the real potential for growth in Payroll Giving, both for new companies launching schemes and increasing numbers of donors.

## **Portability and retention**

### *Turnover and churn*

“I am getting 70 new sign-ups a month and am losing 50 ...” (Fundraising Manager, medium sized charity)

Lack of portability mechanisms to support continuity of donation as employees move jobs is a major factor in attrition rates of donors. This was a reoccurring theme throughout the consultation. Estimates suggest that 12% of payroll givers move jobs within each year and a further 6% leave the workforce altogether. 60%-70% of these lost donors say they would be happy to continue to donate via Payroll Giving if it were available to them. The loss to the sector due to the lack of portability is estimated at £6-£7 million pounds a year<sup>10</sup>.

Whilst there are differences across industries and workplaces, retention of payroll givers was identified as a challenge by nearly all respondents. There was a general view that payroll givers were needlessly lost when they changed jobs and that few donors made a conscious decision to stop giving. Anecdotal evidence from reactivation campaigns and other research supports this view.

### **What impact does this have?**

The constant churn caused by lack of portability within the system carries a number of implications. It undermines Payroll Giving as an income stream that can be easily grown. Whilst all forms of giving are subject to attrition of donors the perception in Payroll Giving is that it is needless attrition rather than a conscious decision of the donor.

Charities' perception is that they “are paying twice” in order to recruit the same donor if they move workplace and are re-recruited by a PFO.

### **Third sector priorities**

“We cannot use payroll givers as we can other donors. It is much more difficult to apply highly effective techniques as they are just so much harder to reach.” (Fundraising Manager, large charity)

“We do not get direct access to payroll givers.” (Fundraising Manager, large charity)

“We still do not know where to put Payroll Giving. Is it individual or corporate?” (Fundraising Officer, large charity)

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<sup>10</sup> Report to support the proposal for portability of Payroll Giving (Christine Jenkins, IOF, June 2007)

“Our corporate fundraisers never, never, never mention Payroll Giving. It is driving me wild.” (Payroll Giving Officer, large charity)

### *Priority*

“There are too many problems with it as it stands so we do not prioritise, but if we gave it more priority we might be able to improve it.” (Fundraising Manager, large charity)

“The only people who have influence are senior but most people involved are very junior.” (Fundraising Manager, large charity)

“There is very little investment in charities in Payroll Giving. It is not seen as strategic or long-term.” (Director, PGA)

A number of contributions mentioned that one of the main challenges for Payroll Giving was the lack of priority given to it by the third sector itself. A large number of reasons that contribute to this have already been outlined. Broadly Payroll Giving was seen as being influenced by too many factors beyond an individual charity’s control. Many of the charities that took part in the consultation simply felt there were more effective ways that they could raise funding over which they had more influence and control.

We also received a number of contributions that flagged internal, organisational issues around Payroll Giving. These mentioned the status of the staff, suggesting that in many cases it was seen as largely administrative and an entry-level post. In turn this was seen as contributing to a general low level of awareness and interest in Payroll Giving.

### *Strategic fit*

Others (mainly larger charities) also mentioned the challenge of finding the “right place” to put Payroll Giving. This is largely a discussion around whether it should be seen as giving by an individual or seen as fitting more comfortably in corporate giving. Where this was raised it was often linked to statements about missing opportunities and not being seen as part of the overall giving mix.

We also received feedback that criticised charities as employers because of the low numbers who operate Payroll Giving schemes themselves. This was seen as illustrative of low levels of awareness and interest in supporting Payroll Giving.

There were of course exceptions to this, and a number of the charities who took part in our research appeared to give Payroll Giving real priority and saw it as having significant potential for growth.

### **What impact does this have?**

The low priority accorded to Payroll Giving within the sector has led to an inertia in which many of the issues that could be tackled appear to be ignored.

As a consequence of low priority and the multiple perceived challenges of Payroll Giving it only receives a small slice of fundraising budgets and focus.

### *Awareness*

“No one knows what it is or how it works. Sometimes it feels just too complicated to explain.” (Fundraising Officer, medium sized charity)

“Most of our communications and marketing work starts from an assumption that people have a basic level of general knowledge about what we are saying. With Payroll Giving we just can’t make this assumption.” (Fundraising Manager, large charity)

There was a general perception that Payroll Giving has not been effectively promoted and supported by the third sector. Again this is another vicious circle that is seen as contributing to low levels of general awareness of the scheme.

### *Umbrella bodies*

Several respondents felt that the low profile of Payroll Giving in the third sector was replicated by a low profile and priority within their umbrella bodies. This was perceived to be true especially of their external representative work. Two things stem from this. Firstly, a failure to get any changes to the system that might improve the overall process. Secondly, a very low level of research and evidence base about Payroll Giving. This, in turn, made campaigning for change, sharing best practice or even information campaigns difficult to deliver effectively.

### **In summary**

“Payroll Giving is a fantastic fundraising tool but an enormous amount needs to change for charities to really push it.” (Fundraising Manager, medium sized charity)

The consultation element of the review has highlighted a number of substantial benefits of Payroll Giving. However, it also raised many significant challenges that impact on the expansion of Payroll Giving. Many of these are linked and difficult to separate from each other. They include:

- Lack of universality
- Lack of portability
- Access to employers
- Complexity of system
- Low priority within the third sector
- Power imbalances between all parties involved

Taken together, these challenges:

- i. Provide a context and help us to understand some of the reasons why Payroll Giving has not been as successful or expanded as quickly as might have been expected;
- ii. Are central to identifying the areas of weakness in the system and the changes needed to provide the environment and framework for Payroll Giving to meet its full potential.

#### 4. **Why Payroll Giving is worth fixing**

“The majority of people want to give in different ways.” (Director, PGA)

“There is a danger in comparing forms of fundraising.” (Director, PGA)

“Direct debit is not intrinsically better or in competition with Payroll Giving. There are a number of advantages to each for the charity and the donor.” (Fundraising Director, medium sized charity)

This review has illustrated that Payroll Giving has many enthusiasts and committed supporters. It provides a valuable income stream for many charities and is extremely tax-efficient, particularly for higher rate tax payers.

However, the review has also identified serious issues that prevent Payroll Giving from achieving its full potential. For Payroll Giving to expand this, issues will need to be addressed and in places this will require radical change. For this change to occur there needs to be commitment from the third sector and government, underpinned by a belief that Payroll Giving has unique qualities and benefits that make it worth fixing.

In this chapter we explore the distinctive contribution that Payroll Giving brings, or could bring, to charitable funding. Payroll Giving has the potential to expand greatly. Firstly, by bringing the availability of the scheme to the 60% of workers who currently have no access to it. Secondly, by increasing take up rates for those with access to a scheme.

Whilst the theoretical potential for expansion is great, this chapter examines the evidence for whether it is worth investing in the change required.

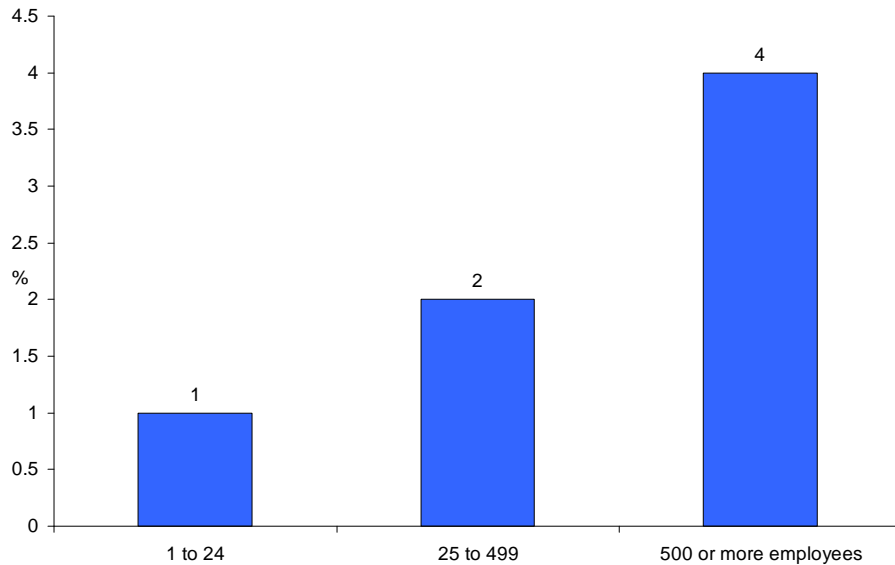
##### *Availability of Payroll Giving schemes to employees*

Less than half of the UK workforce has direct access to Payroll Giving schemes. These are concentrated in larger organisations.

Chart 1 illustrates the differences in the percentage that donate through Payroll Giving dependent upon the number of employees in their workplace.



**Chart 1. Percentage who give by Payroll Giving by number of employees in workplace**



Source: Analysis of pooled data from CAF/NCVO Individual Giving Survey 2005, 2006, 2007

## Context of giving

### *Declining donor base*

"The number of people giving is down by 3% matched by the same drop in the amount donated. Fewer men, fewer 25 - 44 year olds and fewer people in routine and manual jobs are donating, leaving a target market of, yes you've guessed it, older women." (Professional Fundraising Magazine, 2008)

Fundraising continues to be a hard and competitive market. According to the UK Giving 2007 report<sup>11</sup>:

- The three groups most likely to donate to charity are; women, people aged 45-64 and managers/professionals.
- There are significantly fewer men, people in the 25 to 44 year old age group and in manual occupations donating now compared to a year ago.
- Cash donations remain the most common method of giving, whilst direct debit, cards and cheques are the methods that raise the most money.
- The larger the donation the more likely that Gift Aid will be applied.
- More than two thirds of direct debit donations are converted to Gift Aid compared to less than one third of cash donations.

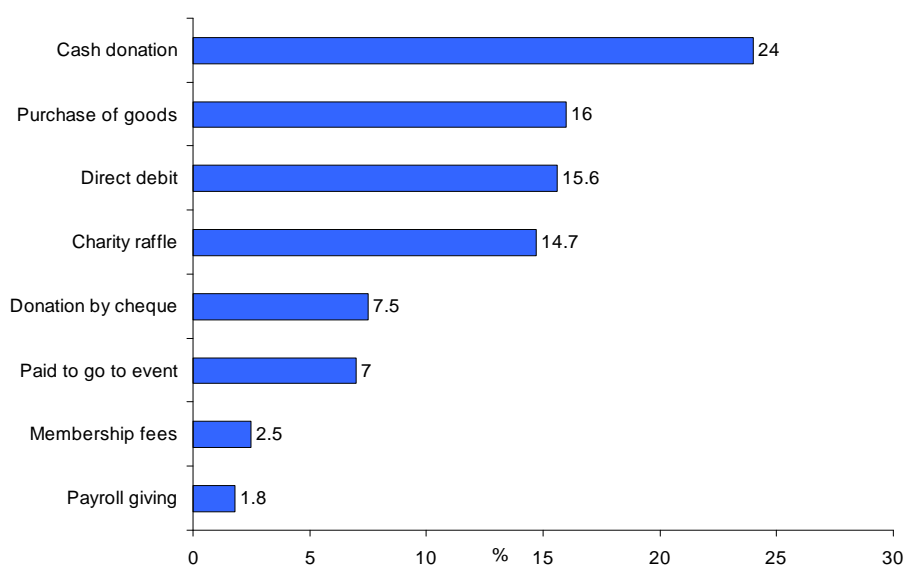
<sup>11</sup> UK Giving 2007, NCVO/CAF December 2007

This research suggests that fundraising techniques that reach groups less likely to donate; that provide regular donations; and that are tax efficient offer significant opportunities.

### *How people give?*

Currently, only a small proportion of people donate to charity through Payroll Giving schemes compared to other methods of donation (chart 2). The chart shows that out of all people aged 16 and over, fewer than 2% donate through Payroll Giving. Despite the fact that Payroll Giving is limited to tax payers (and potentially also people in permanent jobs) this still appears to be a very low percentage compared to most other forms of giving.

**Chart 2. Percentage who have given to charity by each method of donation in previous 4 weeks**



Source: Analysis of pooled data from CAF/NCVO Individual Giving Survey 2005, 2006, 2007

In summary this suggests that there is a potential market and that given the wider context of giving there is a case for exploring the expansion of Payroll Giving further. To add to the case for this, this chapter looks specifically at whether Payroll Giving:

- Attracts new and different types of donors.
- Provides a better quality donor relationship and experience.

### **Building the case for Payroll Giving?**

There is only limited survey data available on Payroll Giving<sup>12</sup>. The most comprehensive source of data is from the NCVO/CAF survey of charitable giving. This survey, carried out by the Office of National Statistics asks a

<sup>12</sup> Full information on Payroll Giving revenues and the number of donors is available at [www.hmrc.gov.uk](http://www.hmrc.gov.uk). However, this information does not provide a detailed breakdown of the type of person that gives via Payroll Giving or their motivations for doing so.

random sample of around 1250 people aged 16 and over about their charitable giving. The survey has been run three times a year since 2004. The charts shown in this section are derived from this survey data and are based on 'pooled' data from the last three years of the survey unless otherwise stated. In addition to the ONS survey data we have drawn on other market research and anecdotal evidence provided by organisations throughout the review.

### **Does Payroll Giving attract a different type of donor?**

In order to consider this we have looked for any evidence to suggest whether:

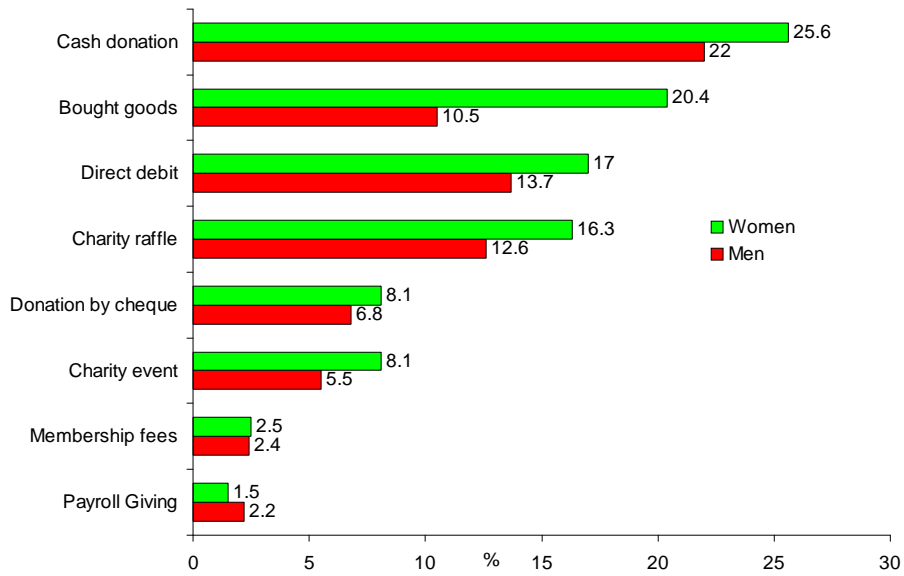
- a. Payroll givers differ in some way to people who give through other forms of fundraising, and if so, what any differences are.
- b. People who give via their payroll can only be contacted or reached in their workplace. People who give via Payroll Giving do not give in other ways.

#### *Different type of donor*

#### *Gender differences in giving*

Overall, women are more likely to make charitable donations than men as illustrated in chart 3. The only exception to this is giving via payroll, where men are substantially more likely to give than women. Whilst the actual proportion of people giving through payroll is relatively small, it should be remembered that the amounts given are higher than most other forms of giving. If the system were to be expanded to cover more workplaces and if more employees were recruited to the scheme Payroll Giving appears to provide a method of giving that could be effective in reaching men in particular.

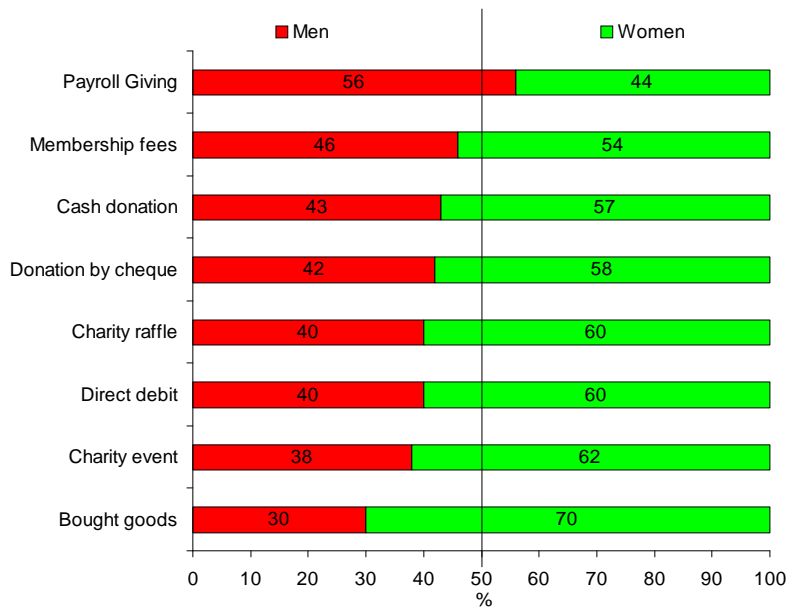
**Chart 3. Percentage of men and women that have given to charity by each method of donation in previous four weeks**



Source: Analysis of pooled data from CAF/NCVO Individual Giving Survey 2005, 2006, 2007

Chart 4 illustrates the proportion of each type of givers that are men and women. Whereas, 60% of those who give by direct debit are women, 56% of those who give by payroll are men. There may be a variety of reasons for this. It may be that more men work in organisations where there are Payroll Giving schemes in place, or that men respond to the more ‘socialised’ nature of Payroll Giving campaigns.

**Chart 4. Percentage of each type of giver that are men and women**



Source: Analysis of pooled data from CAF/NCVO Individual Giving Survey 2005, 2006, 2007

Other evidence from Cancer Research UK supports Payroll Giving as a way of reaching men who otherwise may not donate to charity. 65% of CRUK’s regular giving database is female (this is slightly higher than it has been historically due to converting race for life runners, but historically the female to male split has always been at least 60%). Approximately 70% of their cash file is female. Amongst payroll givers, however, there is 50:50 male to female split.

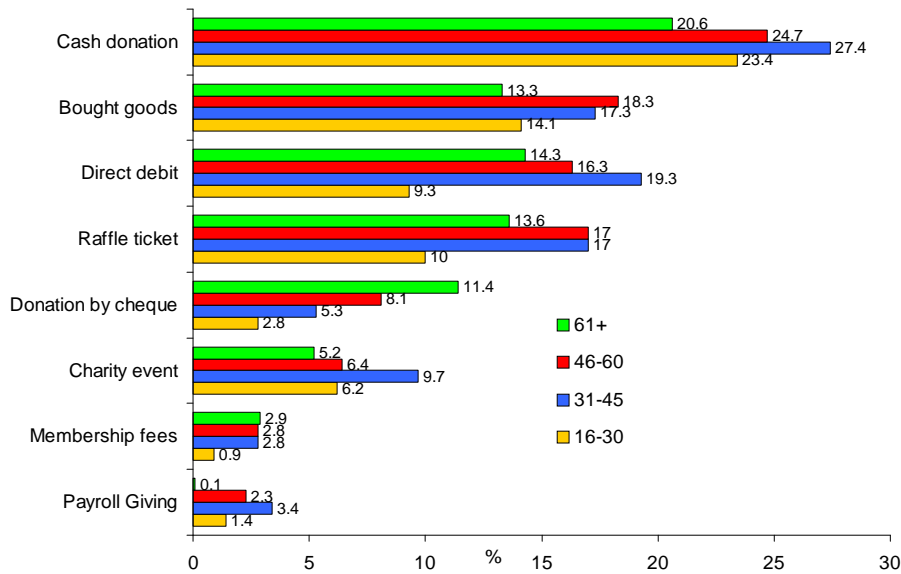
Men and women appear to differ in the causes they support.<sup>13</sup> This suggests that a further development of Payroll Giving and the recruitment of more male donors may offer some charities particular benefits.

*Age*

Donations to charity through Payroll Giving are most likely to be made by those who are aged between 31 and 45 (chart 5). As a percentage of those who donate via payroll this age group account for 51% of donors compared to 36% for direct debit (chart 6).

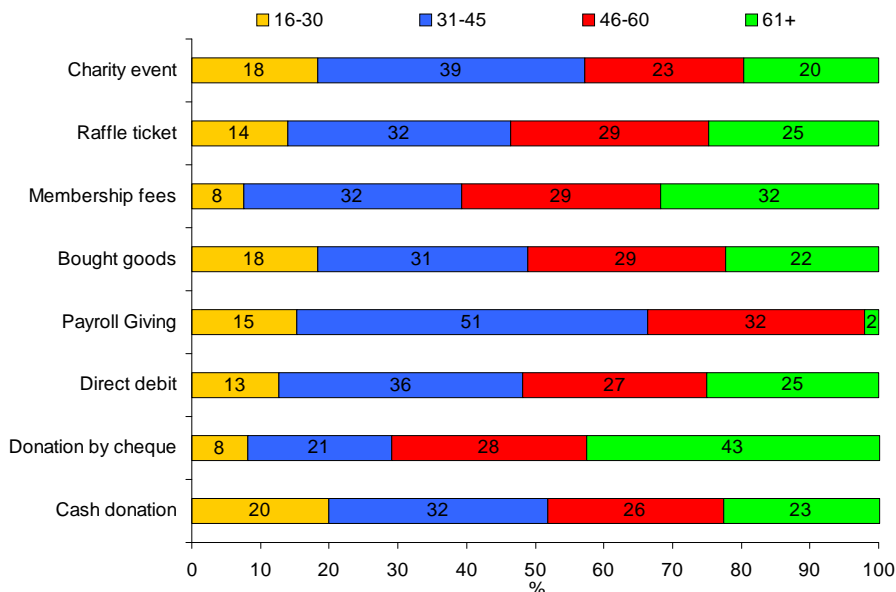
<sup>13</sup> UK Giving 2007, NCVO/CAF

**Chart 5. Percentage who have given by each method of giving in previous four weeks by age group**



Source: Analysis of pooled data from CAF/NCVO Individual Giving Survey 2005, 2006, 2007

**Chart 6. Percentage of each type of donor composed of each age group**



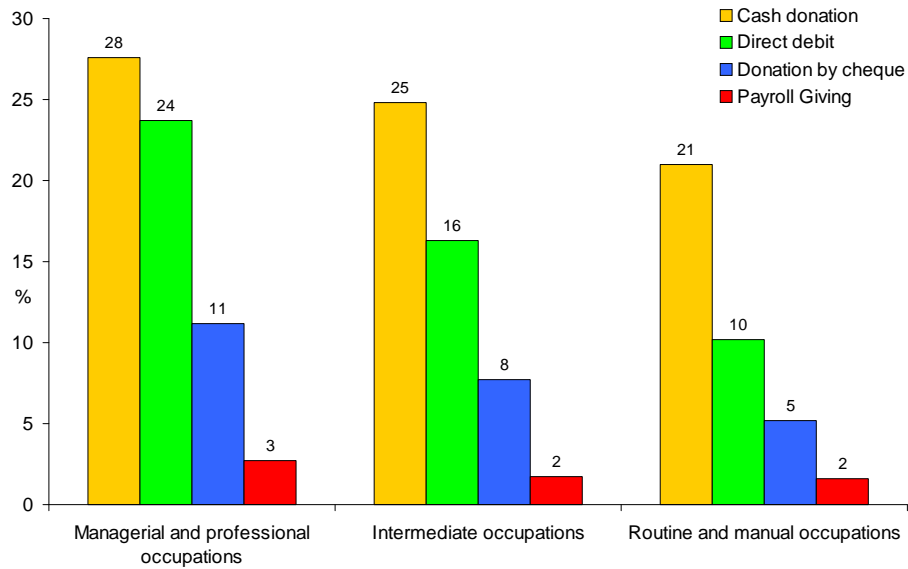
Source: Analysis of pooled data from CAF/NCVO Individual Giving Survey 2005, 2006, 2007

*Occupational class differences in giving*

There is little difference between occupational groups in their propensity to donate via Payroll Giving. Amongst other ways of giving, those in professional and managerial occupations are substantially more likely to give than those in routine and manual occupations. Although, a relatively small proportion give via Payroll Giving compared to other forms of giving, this is potentially significant.

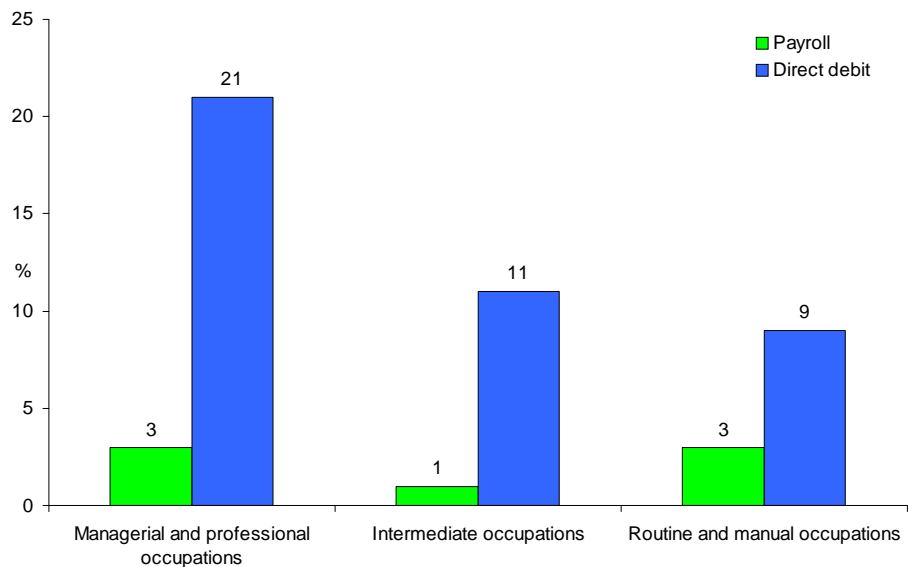
An expansion of Payroll Giving could potentially lead to a 'levelling out' of differences in charitable donation between occupational groups.

**Chart 7. Percentage who donate to charity by each form of giving by occupational category**



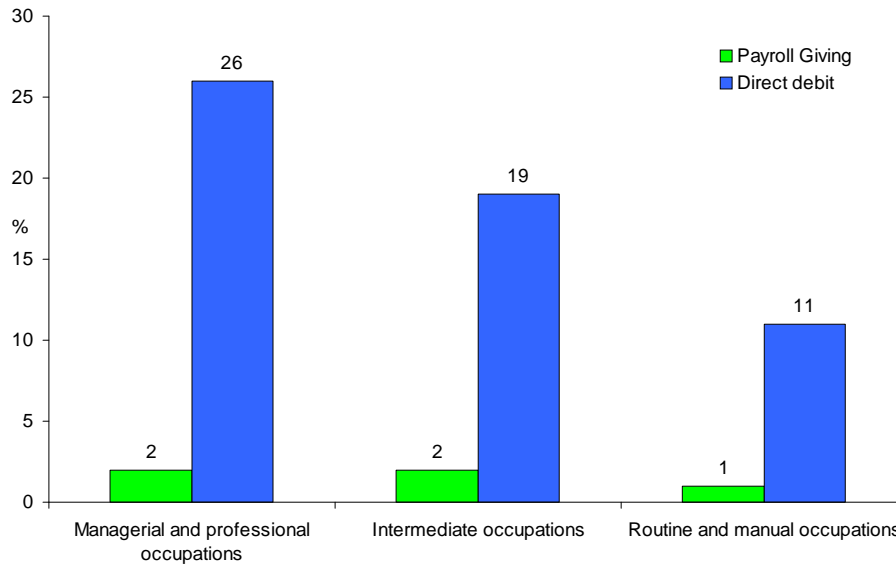
Source: Analysis of pooled data from CAF/NCVO Individual Giving Survey 2005, 2006, 2007

**Chart 8. Percentage of men who give by Payroll Giving and direct debit by occupational category**



Source: Analysis of pooled data from CAF/NCVO Individual Giving Survey 2005, 2006, 2007

**Chart 9. Percentage of women who give by Payroll Giving and direct debit by occupational category**

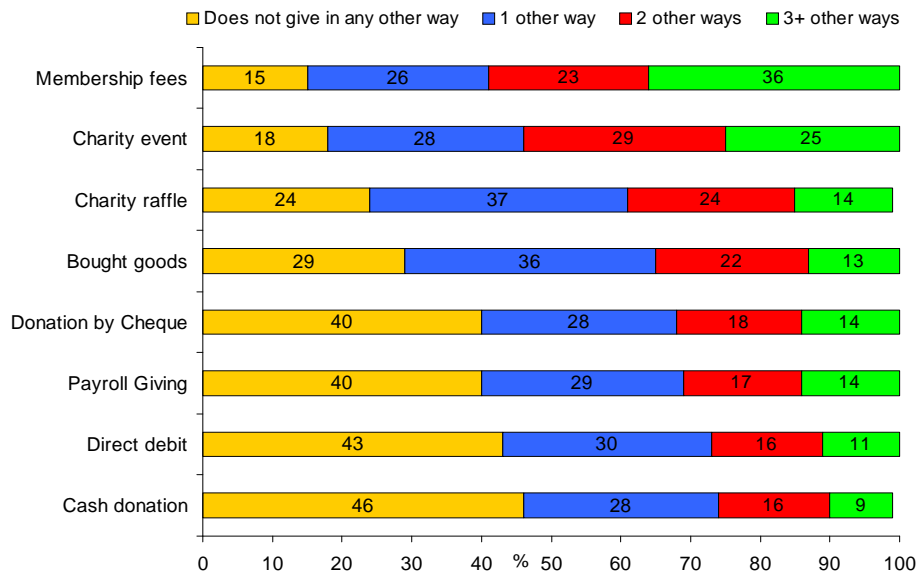


Source: Analysis of pooled data from CAF/NCVO Individual Giving Survey 2005, 2006, 2007

*Payroll Giving reaches people who otherwise do not donate to charity*

Around 40% of those who give via payroll do not give in any other way (chart 10) and 29% percent give only in one other way.

**Chart 10. Percentage of people who donate by each method of giving who also give to charity by other methods**

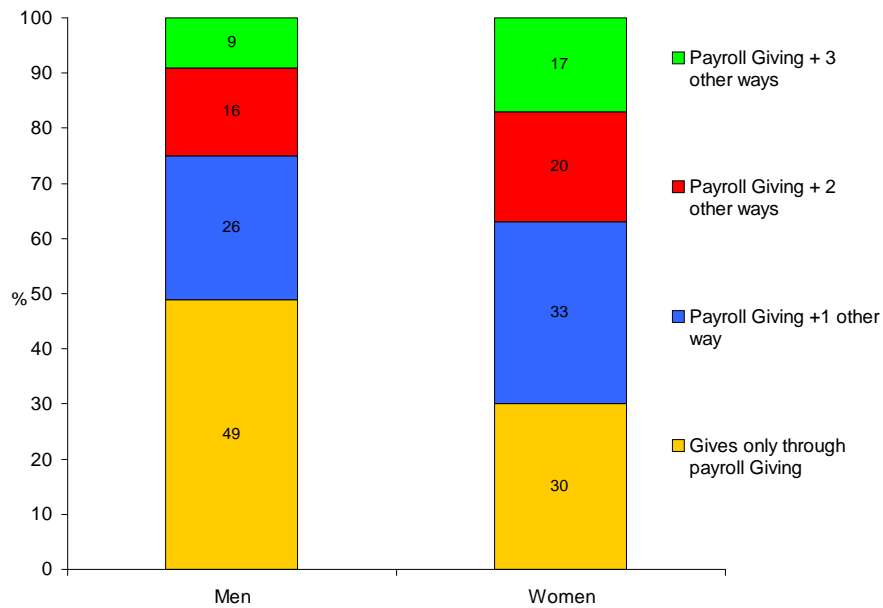


Source: Analysis of pooled data from CAF/NCVO Individual Giving Survey 2005, 2006, 2007

If gender differences are taken into account, almost half of the men who give via Payroll Giving do not give in any other way compared to 30% of women (chart 11).



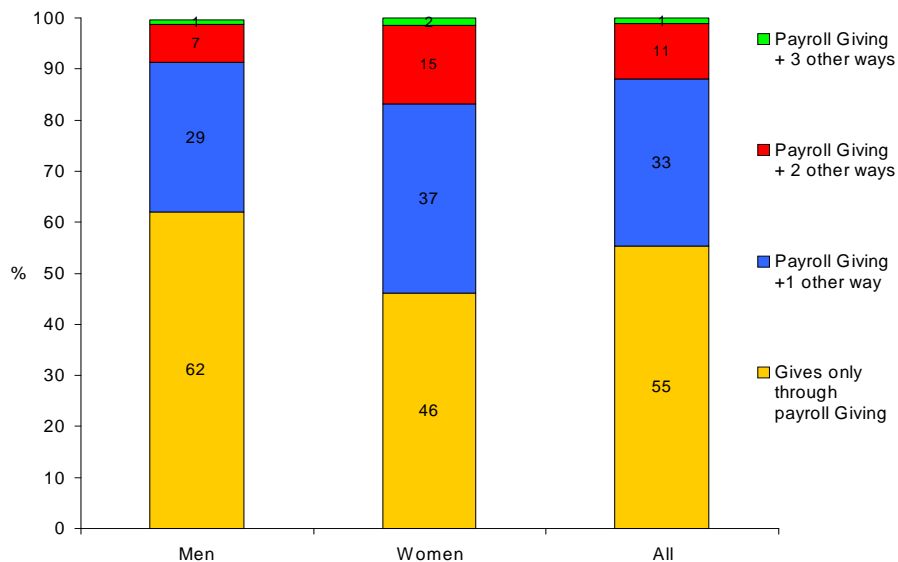
**Chart 11. Percentage of Payroll Givers who donate in other ways**



Source: Analysis of pooled data from CAF/NCVO Individual Giving Survey 2005, 2006, 2007

If 'soft' forms of giving such as charity raffles, buying goods from charities, and membership fees are excluded, the percentage of payroll givers who do not donate to charity in any other way increases further. Chart 12 shows that 62% of men and 46% of women who give via payroll do not make other 'hard' financial donations by cash, cheque or direct debit.

**Chart 12. Percentage that donate through Payroll Giving who give money to charity in other ways excluding raffles, buying goods, events, and membership fees**



Source: Analysis of pooled data from CAF/NCVO Individual Giving Survey 2005, 2006, 2007

## Conclusion

The data presented does suggest that Payroll Giving, as it stands, attracts donors who otherwise would not contribute to charity. Although, as a proportion of all donors, payroll givers are relatively few, the data also suggests that were the system to expand it would bring in proportionally more men than women and redress the charitable giving gender imbalance. Payroll Giving also attracts younger people (up to 45 years) and again, has the potential to tap into this market.

### **Does Payroll Giving deliver a better quality donor relationship and experience?**

In order to consider this we have looked for evidence to suggest that:

- a. Payroll givers are reached at a lower cost, that they give more, that retention rates are better, that they upgrade well etc.
- b. Those who give (or will give in the future) through Payroll Giving do so because they prefer to be reached and give in this way.
- c. That Payroll Giving can provide an effective way to build a long-term relationship between donors and the charities they donate to.

### *Quality of donor*

#### *Income*

The average payroll donor gives £8 a month and gives for 5-8 years. This results in a £7 return for every £1 spent on donor recruitment. The overall attrition rates for Payroll Giving are between 15-20% a year. It has been difficult to find comparative attrition statistics for other forms of fundraising. Anecdotally, however, we received feedback that attrition rates of face-to-face street fundraising were between 30% and 40%.

Even as it stands, Payroll Giving is a competitive and effective form of fundraising.

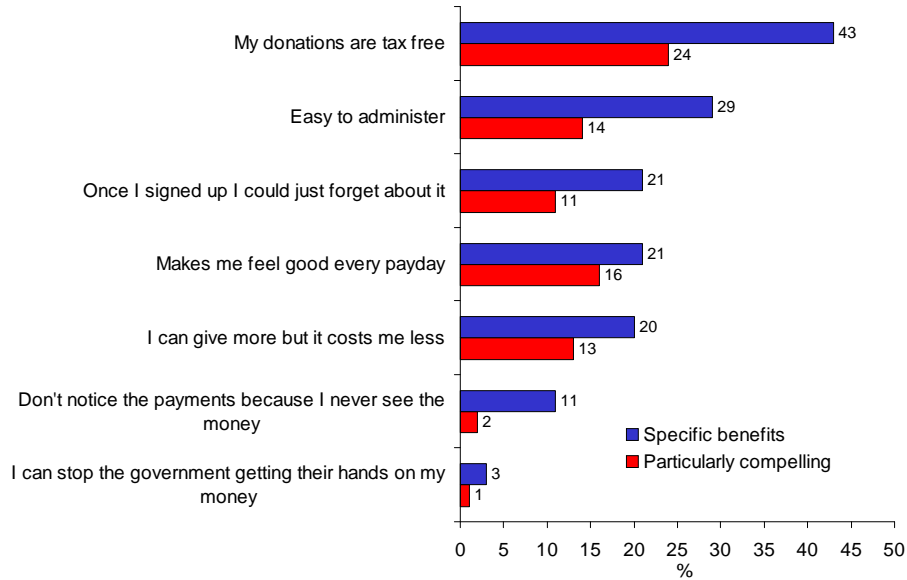
The potential to improve cost effectiveness is extensive, particularly if issues around portability and universality of the scheme are addressed. The tax efficient nature of Payroll Giving for higher rate taxpayers was also seen as largely unexploited.

### *Donor choice*

This review demonstrated that for some people that giving via their payroll was a conscious choice and preferable to other forms of giving. This is supported by the consultation on Gift Aid carried out by HMT/HMRC and other research shared with us as part of the review.

Survey research carried out on behalf of Oxfam in 2006<sup>14</sup> provides further insight into issues of donor choice.

**Chart 13. Tax free donations and ease of administration lie at heart of payroll giving benefits**

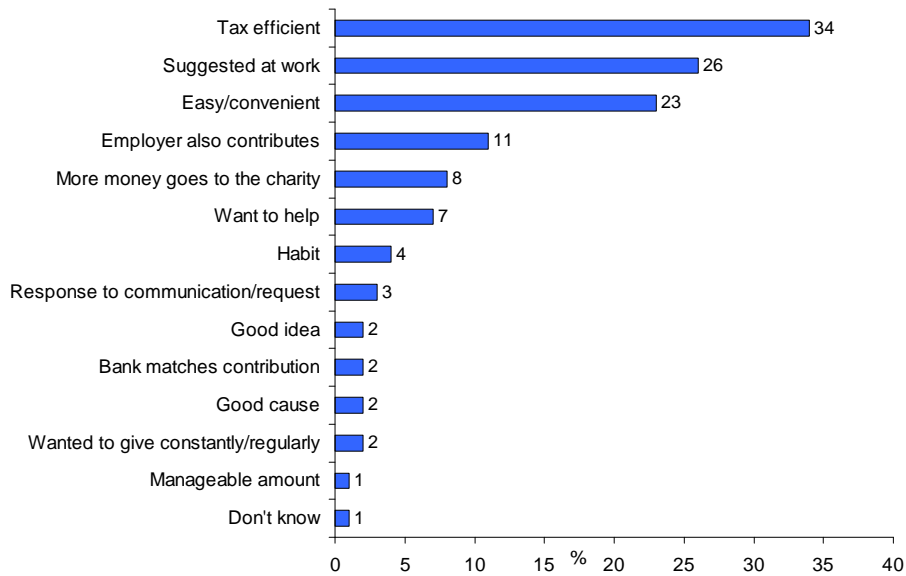


Tax efficiency appeared to be a motivation for giving amongst more affluent donors who already give through Payroll Giving. This survey research carried out on behalf of Oxfam in 2006<sup>15</sup> targeting this group found the most commonly cited reason for starting Payroll Giving was tax efficiency (34%). This was followed by “because it was suggested at work” (26%) and then “easy and convenient” (23%).

<sup>14</sup> The Oxfam Payroll Giving Survey, 2006, Research Insight

<sup>15</sup> The Oxfam Payroll Giving Survey, 2006, Research Insight

**Chart 14. “Tax efficiency” and “Work influence” appear the two main reasons for starting to donate to charity via payroll**



Oxfam Payroll Giving Survey 2006

### *Relationships*

There clearly are issues in Payroll Giving around relationship building but these could be improved if issues of transparency, data capture and data protection are addressed.

There is also significant potential for Payroll Giving to be recognised further as a strategic communication and campaigning tool. This may be through building more effective links with workplace communities and CSR, or through campaigning and policy links with organisations with employees who are likely to have a potential interest in a charity’s work (because of the nature of their employment).

## 5. **Recommendations**

“Until Payroll Giving is mandatory we will always have problems.” (Fundraising Director, large charity)

“The mark of success for Payroll Giving is not the number of employers who have schemes in place it’s the numbers who give.” (Director, PGA)

“There is huge potential to push Payroll Giving forward.” (Director, PFO)

“It’s people who make Payroll Giving work.” (Director, PFO)

“We need to raise Payroll Giving from pending file to the in-tray.” (Director, PGA)

“The charity sector needs to be able to promote Payroll Giving and sign up people in the same way it does regular givers by direct debit. At the moment the processing side represents a huge barrier to us. Payroll departments do not care about promoting Payroll Giving (why should they?) and the agencies are not good at marketing. If charity fundraisers were able to do more to promote Payroll Giving, they would, and the take up of Payroll Giving would increase.” (Fundraising Manager, medium sized charity)

The previous chapter has illustrated that Payroll Giving has yet to reach its full potential. It can open up new markets for new donors, and it can also bring in a new and different type of donor. It is worth trying to fix and can and should be opening up new potential donors to many third sector organisations.

This chapter considers a number of ways in which Payroll Giving might be changed to address the issues and concerns raised. It looks predominantly at correcting the main challenges raised, and, therefore, how:

- Take up of Payroll Giving can be increased among employees working in organisations with existing schemes.
- The number of employers with Payroll Giving schemes in place can be increased.

The fixes also try to take into consideration a number of the other issues raised about profile, process and understanding of Payroll Giving.

### 1. **Expansion – towards a universal system**

Amongst those who contributed to the review there was widespread agreement that growth of Payroll Giving relies upon a wider, preferably universal, uptake of Payroll Giving schemes amongst employers. This is because:

- This will expand the potential pool of employees who have access to Payroll Giving schemes.
- It will address issues around the churn of employees as they switch to jobs in organisations not covered by Payroll Giving schemes.

- It will allow charities to mainstream Payroll Giving as part of their fundraising and marketing work.

There are several potential approaches to encouraging an expansion of Payroll Giving amongst employers.

#### *A mandatory scheme?*

There was strong support, particularly from the third sector, for Payroll Giving to become a mandatory responsibility for employers.

Arguments used to support this were that without legislation leading to mandatory schemes there would never be full coverage, especially amongst small employers. Proponents of the mandatory scheme suggest that the systems and processes required for Payroll Giving are simple and easy to introduce in electronic payroll systems and would not lead to significant added burden for employers.

Despite the apparent simplicity of mandatory scheme there are pragmatic drawbacks to its introduction.

A mandatory scheme is unlikely to get Government support. Payroll Giving is low on the political agenda and no government is likely to want to be perceived to be adding 'red tape' to business.

Business itself is likely to resist the introduction of a mandatory scheme. Even if a mandatory scheme were introduced, it would be difficult to police and without whole-hearted support from employers would be unlikely to be effective.

#### *A "half way" approach*

There are several options that do not go as far as making Payroll Giving universally mandatory but would make it compulsory under certain circumstances. This could include, for example, workplaces in which an employee had asked for Payroll Giving provision to be made available or employers over a certain size.

**We recommend that the 'half way' option is developed with a minimum aim of ensuring that if an employee wishes to donate by Payroll Giving an employer has to introduce it.**

## **2. Improving portability**

Reducing attrition rates of payroll givers was identified as central to building and expanding Payroll Giving. There are clear differences in attrition rates between sectors and types of workplace, but this issue was raised constantly across the review. There is an obvious link between portability (transferability) and how widespread Payroll Giving schemes become. If for

example, a mandatory system were to be introduced, the need for additional mechanisms to support portability would become redundant.

Until Payroll Giving has become far more widespread, however, the need to provide mechanisms to support the transfer of payroll donors between employers through an innovative interim solution will remain.

This issue has been the subject of a separate Institute of Fundraising report.

### *Beyond the workplace*

Another key issue raised around expansion of Payroll Giving was extending access to Payroll Giving to those on pensions and no longer in employment. Again, a full report dedicated to this issue was produced in 2007 and so we do not go into great detail here.

However, we believe a focus on extending Payroll Giving to those with company pension schemes and in the public sector would provide a partial solution to donor churn. This will require pension providers to be willing to introduce Payroll Giving for their pensioners. This provides an opportunity for charities to initiate action, as PFOs are unlikely to want to lead on this.

**We recommend that an interim solution to support the transfer of payroll donors between workplaces is actively pursued.**

**We also recommend that Payroll Giving schemes are made available to people in occupational pension schemes.**

### **3. Better accountability**

“The problems with Payroll Giving are problems with administration, not with Payroll Giving itself.” (Director, PGA)

#### *Creating robust systems of audit*

Many of the issues raised during the review were linked to the process and organisation of Payroll Giving. At the heart of many of these are real concerns about the lack of transparency and robust audit systems that undermine confidence and credibility in many areas of the process.

#### *Rebalancing the relationship between charities and PGAs*

Consistent themes from charities concerned poor levels of service from PGAs (manifested for example in slow payments, failure to chase lost payments, reluctance to provide information on donors etc). The lack of contractual relations with charities was often cited as being a cause for this.

#### *Review of the statutory framework for PGAs*

Individual contracts with charities would clearly be unwieldy and in reality unlikely to be viable to implement. The large number of charities involved and their huge diversity means this option is not viable, and therefore not expanded upon.

There is a need for robust enforcement and accountability of PGAs' performance and delivery. PGAs, as registered charities, are already regulated by the Charity Commission. However, none of the issues raised in this review concerned wider charity regulation but rather focused on their role and performance as disbursement agencies for Payroll Giving schemes.

HMRC should review how effective current systems are for holding PGAs to account and if necessary change the statutory instruments under which they operate. It may be relevant for the Charity Commission to be involved in this. Priority should be given to ensuring that the significant public benefit given through the tax system to Payroll Giving are properly audited and accounted for as public expenditure.

**We recommend that HMRC review current accountability processes and systems.**

#### *Transparency of PGAs' distribution of unallocated donations*

PGAs should have to make their distribution process transparent in respect of funding allocation when that decision has not been clearly made by a donor. This should also include the timeframe within which this allocation takes place.

**We recommend that this should be included in a review of the requirements currently included in the legislation, or alternatively made a mandatory feature of the Reports and Accounts produced by PGAs.**

#### *Common service standards for PGAs*

There is also a strong need for the introduction and adoption of consistent PGA service standards which explicitly outline the standards of service they offer to the third sector and to donors and against which they are required to report.

We also recommend that an external system be introduced to monitor PGAs performance against these service standards. There should be an external system that is responsible for monitoring PGAs performance and for hearing complaints.

**We recommend the introduction of consistent service standards for PGAs and an external system for monitoring and reporting on their performance.**

#### *Consistency of data collection*



Through out the review we received strong feedback about the desirability of consistent forms and data collection across PGAs and PFOs. We recognise that individual organisations will want to use forms to carry their own branding and fundraising messages. There is clearly a case for increased consistency in this area.

**We recommend the development of consistent fields of data collection across all forms of data collection by PGAs, PFOs the third sector and charities. Similar principles of consistency and compatibility should also cover electronic processes.**

#### *Data protection*

Data protection was raised consistently as a barrier to charities receiving the information they needed to develop strong and effective relationships with their payroll donors. The Institute of Fundraising now has a single data protection statement.

**We recommend that this common data protection statement is introduced as soon as possible with an effective review point.**

#### **4. Building the evidence base**

It was recognised that for the third sector to fully commit to investing in Payroll Giving there is the need for a strong evidence base. This review has begun to address the evidence base and challenge the perception that all Payroll Giving is doing is shifting the same pool of donors between giving mechanisms, and “robbing Peter to pay Paul.”

In this review we have considered the available data and research into giving, and specifically Payroll Giving. In chapter four, evidence was presented that suggests Payroll Giving is a viable and attractive fundraising option for the third sector. However, this drew on unpublished data, anecdotal evidence, and small-scale research findings. The most robust data available remains the tri-yearly ONS survey data on charitable giving. This is a relatively small-scale survey in which Payroll donors only make up a small number of respondents and which contains only a few variables focusing on Payroll Giving.

There is a need for well-planned, systematic, large-scale data collection to comprehensively map Payroll Giving. There are two clear data requirements in order to build the case for significant investment in Payroll Giving. These are:

- Detailed data on employers offering payroll-giving schemes. This should include sector level information, size of enterprise, geographic location, and levels of staff take up.
- Detailed data on donor behaviour and individual giving, including information on individual characteristics and motivations.

**We recommend that existing data sources are reviewed and that all stakeholders with an interest in this research pool resources to address the data gaps.**

## **5. Reviewing the role and management of PGAs**

Many of the more critical areas of feedback received, particularly from the third sector were around the role of PGAs. Whilst sometimes these were process issues, they did include many questions about overall need for PGAs and the value they added to the process.

We recognise that in the future there may be further developments in technology that mean the role of PGAs becomes less critical to operating Payroll Giving. However, the large number of employers, the voluntary nature of the scheme and the large number of charities who receive payments means that PGAs currently play a central role in Payroll Giving administration. Importantly, this is a role that it is difficult to envisage being taken out of the process in the short term.

There are, however, some issues around PGAs that need review:

*Are there too many PGAs?*

A number of contributions we received questioned the number of PGAs, and indeed the need for competition in this area. Some respondents felt there was a compelling case for creating a new, single PGA (possibly linked in with other forms of tax efficient giving). It was felt that a single PGA would allow easier management of many of the issues around accountability, allow a single set of service standards and simplify many of the issues faced by employers.

However, for many the advantages of this were offset by the potential for even poorer service because of lack of competition.

There are some compelling arguments to support a single, publicly accountable PGA, possibly created as a non-departmental public body. Having one PGA could resolve many issues around clarity, audit and access to Payroll Giving. It could also become a more attractive option the more universal the scheme becomes. However, there are potential risks and as such we do not feel able to recommend this option based on the existing level of evidence.

**We recommend that there is a detailed review that looks specifically at the viability of creating one PGA as a non-departmental public body. Specifically this should consider the role that competition plays in this market. If, the review finds a strong case for maintaining competition in the system we recommend that that current legislation be examined to identify ways in which the market could be opened further to introduce more effective competition. The more the Payroll Giving expands the more a review of the role of PGAs will become.**

*A change in payment systems?*

Almost uniquely, PGAs get paid for their work in advance of delivery of their services. This has the effect of removing an important sanction that charities can apply if service standards are not met, and places them at a disadvantage in the business relationship. Many charities felt that a system whereby the whole of the donation is sent to them, and PGAs then invoice post receipt for their commission would redress this. The viability of this proposal is unclear, however, due to the large numbers of very small donations distributed.

**We recommend that payment mechanisms are considered specifically within review of audit and accountability processes of PGAs.**

## **6. The role of PFOs**

Much of the feedback received on PFOs was structural rather than focused on specific issues relating to their individual service. As such it is difficult to identify specific fixes relating to the concerns raised, although they remain very important. Two specific issues are:

- Access for smaller charities to potential payroll donors and workplaces.
- Running and promoting take up campaigns in smaller employers

A higher internal priority of Payroll Giving among more third sector organisations along with some of the campaign fixes outlined below will begin to address these issues.

**The main additional recommendation we suggest is further research into whether smaller charities and those who are entering Payroll Giving later on are excluded due to the dominance of PFOs.**

## 7. Effective promotion of Payroll Giving

The limited success of previous promotional schemes shows that there is little point initiating any new promotional campaigns unless the major challenges that currently exist within the payroll giving system are dealt with.

However, if these challenges are successfully met there is an opportunity to effectively raise the profile of Payroll Giving further. This will require commitment from all stakeholders.

**We would recommend that future campaigns:**

- **Are evidence based using relevant messages for different audiences as appropriate.**
- **Include detailed case studies and sharing of best practice.**
- **Use high profile champions from all stakeholder groups.**
- **Build on better understood forms of fundraising such as Gift Aid using similar and consistent messages where possible.**
- **Are properly evaluated in terms of their effectiveness.**

*Other incentives*

*Quality Mark and Awards Schemes*

Anecdotally these are popular and seen as a way of having an impact in take up levels.

**We recommend that Government and HMRC continue to promote these schemes. The potential of creating a higher award level should be investigated.**

*Financial incentives (such as the Government match scheme).*

There was enthusiasm for further financial incentives. However, without adequate evidence of their efficacy because of lack of robust evaluation of previous schemes it is difficult to suggest how such a programme could be structured. The limited evidence from previous schemes does suggest, however, that any future schemes will need to run for more than two years in order to have any significant impact.

*Third sector promotion*

At the heart of any expansion of Payroll Giving lies the requirement for third sector organisations to put their considerable communications and marketing resources into promoting Payroll Giving.

**We recommend that:**

- **The Institute of Fundraising continues to encourage its membership to include information about Payroll Giving alongside other fundraising work.**
- **Further support be given to developing the skills needed to promote and manage Payroll Giving.**
- **The considerable potential for small charities to develop consortia approaches and to target small, local employers directly should be promoted and communicated.**

It was also noted by a number of contributors that third sector organisations make up a large percentage of SME employers, and have a very poor record at offering Payroll Giving to their employees.

**We recommend continued efforts to increase the proportion of third sector employers offering Payroll Giving schemes to their employees.**

*Take up among employees*

This was seen by many as being as significant as the coverage of the payroll schemes amongst employers. There were very mixed feelings among respondents about the most effective ways of promoting Payroll Giving within the workplace (although all felt it was via face to face contact where possible). Employers should be encouraged to support access to their employees.

There was however widespread opinion that employer-matching schemes were very valuable in encouraging employees to sign up, and provided a real incentive.

**We recommend that employers are continued to be encouraged to match contributions and that the tax relief they receive for doing so is more widely promoted.**

## **Appendix**

Organisations that contributed to the review included:

### **Charities**

Alfred Dunhill Ltd  
Alzheimers Scotland  
Assisi  
Barnardos  
British Red Cross  
Business in the Community  
Campaign for the Protection of Rural England  
Cancer Research UK  
Child Concern Consortium  
Child Life  
Children with Leukaemia  
Clic Sargent  
Concern Worldwide Northern Ireland  
Grooms-Shaftebury  
Hearing Dogs for Deaf People  
Help the Hospices  
Laura Crane Trust  
Link Community Development  
Macmillan  
Magic Taxi  
Make a Wish  
Mencap  
Meningitis Trust  
National Benevolent Fund for the Aged  
NSPCC  
Oxfam  
Parkinson's Disease Society  
Rainbow Trust  
RNIB  
RNLI  
RSPB  
Samaritans  
Sense Scotland  
Safe Haven for Donkeys  
Scope  
Shelter  
The Refugee Council  
The Thistle Foundation  
UNICEF  
United Response  
Voluntary Action South Bedfordshire  
Wateraid

## **PGAs**

Ben – Motor and Allied Trades Benevolent Fund  
Charities Aid Foundation  
Charities Trust  
KKI  
Stewardship  
South West Charitable Giving

## **PFOs**

Hands on Helping  
Payroll Giving in Action  
Sharing the Caring  
Workplace Giving

## **Government**

HMRC  
HM Treasury  
Office of the Third Sector

## **Employers**

Abbott Mead Vickers  
Air Miles  
Barclays PLC  
Coors  
EU – NAB group  
Ecclesiastical Insurance  
Firth Rixson Forgings  
Francis Clark  
Weetabix Ltd

## **Other organisations**

Z/Yen Group Ltd  
CC Works  
PGMS Ltd  
Institute of Fundraising Scotland

In addition we received a number of contributions from individuals and organisations that chose not to be named. We have also not named the individuals interviewed as payroll givers.

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