

# Ethnicity Pay Reporting: UK Government (BEIS) Consultation

**Closing date: 11 January 2019**

Consultation document:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/747546/ethnicity-pay-reporting-consultation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/747546/ethnicity-pay-reporting-consultation.pdf)

Respond online at: <https://beisgovuk.citizenspace.com/lm/ethnicity-pay-reporting> or email to: [ethnicitypayreporting@beis.gov.uk](mailto:ethnicitypayreporting@beis.gov.uk)

## **Chapter 2: Ethnicity pay reporting**

### **1. What are the main benefits for employers in reporting their ethnicity pay information?**

SSE supports enhanced reporting and greater levels of transparent disclosure from organisations. Following on from its voluntary enhanced disclosure around a wide range of issues, SSE has shown it understands that public disclosure of information can be an effective catalyst for improving transparency and accelerating positive change within organisations, particularly if that information presents uncomfortable findings. Shining a spotlight on ethnicity pay information has the potential to generate progress within organisations on a quicker timescale than may have otherwise happened without the additional focus on this area.

As noted within the consultation document, ethnicity pay reporting can provide a starting point from which progress can be made and monitored. It can help with understanding which actions result in positive outcomes, and which are less effective. However, for the success of ethnicity pay gap reporting it is essential that (1) companies have the motivation and ability to gather a meaningful level of voluntarily disclosed employee ethnicity information, (2) this information is kept confidential and does not undermine the privacy of individuals, and (3) there is a consistent methodology in place for calculating the gap.

SSE also recognises there are a wide number of business and economic benefits from greater diversity and inclusion across its organisation. Real inclusion and true diversity is about valuing all types of difference – whether that's backgrounds, ways of thinking and working, abilities, religion, age, sexual orientation, gender or ethnicity. It is the multiplicity of differences – at all levels and in all these different ways – that has been proven to make organisations more successful.

Research carried out by SSE in 2017 with inclusion experts Equal Approach found there was a potential £15 return for every £1 invested in inclusion initiatives across the organisation. As a result of this analysis, SSE established a new Inclusion Strategy for 2017-2020. More information can be found in SSE's *Valuing Difference* report which was published in September 2017 and is available at [sse.com/beingresponsible](http://sse.com/beingresponsible). Publication of meaningful ethnicity pay information could potentially prove instructive and help drive targeted positive action, similar to the impact of the Government's Gender pay gap reporting regulations. SSE has been supportive of the new requirements in this area and was the first FTSE company to publish its gender pay gap.

## **2. What type of ethnicity pay information should be reported that would not place undue burdens on business but allow for meaningful action to be taken?**

### **a) One pay gap figure comparing average hourly earnings of ethnic minority employees as a percentage of white employees**

Organisations should provide this as the headline figure (see below).

### **b) Several pay gap figures for different ethnic groups, using standardised ethnicity classifications**

'Ethnic minority' or 'non-white' are not homogenous groups. As noted within the consultation document, in the UK certain ethnic groups are more likely to be in low-skilled, low-paid jobs compared to white people, whereas other ethnic groups are more likely to be in the highest skilled occupations compared to white people.

SSE therefore believes that, whilst the headline figure should be to compare the average pay of white employees with the average pay of ethnic minority employees (ie mirroring the gender pay gap reporting and enabling clear communication of the overall picture), it is important that a breakdown of different types of ethnicity are provided by organisations. A consistent definition of different ethnicities across all organisations will therefore be essential.

To prevent against the risk of identifying individuals by providing this more granular breakdown of pay by different ethnic group, there could be several additional measures in place. For example, reporting at this level could only apply to larger businesses, or could require a minimum number of people of proportion of total employees within each ethnicity group. If certain groups did not meet this threshold, they could then be grouped into wider groups. For example, Indian, Bangladeshi and Pakistani could be grouped together into 'Asian'. If 'Asian' didn't reach the threshold, this could then again be combined with another group, such as 'Other'. Again, this approach would need to be clearly defined and organisations would need to implement it consistently.

### **d) Ethnicity pay information by pay quartile**

SSE believes the most straightforward way of introducing ethnicity pay gap reporting requirements is to mirror the existing UK Government Gender pay gap reporting regulations as closely as possible. This would mean reporting the mean and median average hourly pay gap and bonus pay gap, along with showing the proportion of employees from different ethnic groups by pay quartiles. As well as reducing the reporting burden, this would enable companies to understand the way ethnicity and gender intersect when it comes to levels of pay in their organisation.

As well as the benefits noted above, SSE believes that reporting by pay quartile rather than by £20,000 pay band has several other benefits:

- £20,000 is a static number – over time, it may need adjusted to reflect real term changes in the value of money and ensure that its purpose in this context isn't impacted due to inflation/deflation. Pay quartiles are not affected by these changes.
- Reporting in £20,000 bands would require some organisations to report breakdowns for 10s of pay bands – as well as being onerous, this likely wouldn't actually provide a useful "at-a-glance" view of ethnic minority representation, due to there being too much information provided. Pay quartiles mean there will always be a maximum of four pay bands.
- There may only be a small number of employees reported in certain £20,000 pay bands, which could make them identifiable within the organisation. This would not be possible if reporting was done by pay quartile.

## **f) Other**

One of the most important aspects of ethnicity pay reporting will also be ensuring there is an appropriate ethnicity self-reporting rate by employees, and that this rate is clearly communicated by organisations. If organisations report their ethnicity pay gap using a low self-reporting rate, the reported figures may not be representative and consequently would not provide meaningful information. This factor has the potential to undermine how impactful ethnicity pay gap reporting is and how seriously it is taken compared to other reporting regulations such as the gender pay gap.

It would also be useful to understand the ethnicity pay gap of a whole company, or a Group, rather than just legal entities, to understand the overall picture of how it's performing. This is why SSE publishes data for SSE plc as well as for all its legal entities with over 250 employees for its gender pay gap reporting.

### **3. What supporting or contextual data (if any) should be disclosed to help ensure ethnicity reporting provides a true and fair picture?**

Most importantly, companies should be required to report on the proportion of employees covered by the disclosure: the number of employees who (1) have chosen to self-report their ethnicity (2) have actively selected not to self-report, and (3) have not engaged with the self-reporting process.

SSE believes that further contextual data should be voluntarily provided by organisations if they view it as relevant to the understanding and reporting of their ethnicity pay gap, and useful for demonstrating the motivation for their action plans, should they choose to implement one. Mandating contextual information will be burdensome and, in some cases, not useful.

However, it would be useful for Government to provide examples and ideas of what contextual information may be relevant in terms of internal information and provide sources for where reliable external contextual information could be found.

Internal context examples:

- Gender split in each ethnic group
- Average age of each ethnic group
- New recruits reported by ethnic group
- Leavers reported by different ethnic group
- Percentage of total recorded training hours by ethnic group
- Performance review outcomes reported by ethnic group
- Formal grievances raised (and outcomes) by ethnic group

As noted in the consultation, wider external context on ethnicity breakdowns across geographies, age, genders, and things like education and industry too, are very important for organisations and the public to properly understand ethnicity representation. It could therefore be worthwhile delaying requirements coming into play until after the results of the 2021 census are published, so that a company's ethnicity data can be understood alongside robust contextual information for both local and national populations. This would also provide a more accurate baseline in future years compared to companies relying on 2011 census data.

**4. Should an employer that identifies disparities in their ethnicity pay in their workforce be required to publish an action plan for addressing these disparities?**

In line with the gender pay gap reporting regulations, companies should have the opportunity to publish an action plan on closing their ethnicity pay gap without it being a formal requirement. As noted, it is believed that the publication of the data itself should provide scrutiny and drive change, and that this can already be observed with gender pay gap reporting. If this does not happen with ethnicity pay gap reporting, or indeed it transpires to not be working with gender pay gap reporting, the Government could consider introducing action plans as a formal requirement at a later date.

As noted above, SSE believes that self-reporting rates in organisations should be mandatory rather than within the narrative or context provided by an employer.

**Chapter 3: Ethnicity data and classifications**

**5. Do you currently collect data on ethnicity at your workplace? If yes, do you use standard ethnicity classifications for reporting? If so, which ones?**

Yes, all SSE employees have the option to provide this information voluntarily – as at 31 March 2018, only around 14% of employees had chosen to provide this information.

*If yes, please choose from the list below and state the reasons for your answer (see Annex A for more information).*

**d) 2001 census: 16 standardised ONS ethnic classifications**

**6. What do you think are the most effective approaches for employers to improve employee self-reporting or declaration rates?**

The examples of different approaches outlined within the consultation document show effective actions which could be adopted by more organisations. Essentially, successful self-reporting rates are the result of establishing trust and transparency by employees around why the information is being collected. An external motivation, such as a Government regulation around ethnicity pay gap reporting, would provide clear reasoning for employees on why their employer requires this information.

Case studies, such as the one within the consultation document from Nationwide Building Society, where organisations have substantially improved their self-reporting rates are an effective tool for encouraging other employers to take similar action.

**7. How should self-reporting or non-disclosure rates be reflected in the information reported by employers?**

As noted above, SSE believes that self-reporting and non-disclosure rates in organisations should be part of the mandatory reporting in future ethnicity pay gap requirements – this will enable the Government and wider stakeholders to immediately see how representative the reported ethnicity pay gap figures are. SSE believes this approach will be more effective compared to setting a

minimum level of ethnicity self-reporting (such as a percentage of the overall employee population – which could result in companies not disclosing ethnicity pay gap information) for the same reason it believes ethnicity pay gap reporting overall will be effective: it brings greater transparency, and enhanced scrutiny will motivate improvements where changes are required.

**8. For a consistent approach to ethnicity pay reporting across companies, should a standardised approach to classifications of ethnicity be used? What would be the costs to your organisation?**

Yes – a standardised approach to classifications of ethnicity will be essential to enable comparisons to be made across different organisations. SSE believes that ethnicity pay gap reporting classifications of ethnicity should be in line with the 2021 census definitions. There would be no cost implication to updating the ethnicity classifications.

**9. Please outline steps that should be taken to preserve confidentiality of individuals.**

Confidentiality of individuals is of the utmost importance and must be protected – reporting which undermines individual privacy should not happen. Please see reasoning provided for 2b, which provides a suggestion for grouping different ethnic groups to protect confidentiality. In general though, data should be securely stored and handled only by experts who understand the importance of the information remaining confidential.

**Chapter 4: Next steps and government support for employers**

**10. What size of employer (or employee threshold) should be within scope for mandatory ethnicity pay reporting?**

SSE believes the size of employer within scope should be in line with the gender pay gap reporting regulations, ie they should apply to organisations with over 250 employees. However, this view is conditional on privacy of individuals being protected, and the requirements also being in line with the gender pay gap reporting requirements – employers are already collecting similar information, so in terms of clarity and having a robust understanding of pay differences, and generating real change in both these areas across the UK labour force, bundling them together would be the most efficient and meaningful approach.

**11. What support measures do you think would be useful for employers?**

The resources provided in advance of the gender pay gap reporting requirements being introduced were useful for employers, and the support for employers outlined within the consultation document would likewise be useful for ethnicity pay gap reporting.

In the case of gender pay gap reporting, SSE found that the early release of the draft requirements was useful – it enabled the business to carry out similar calculations well in advance of the final requirements coming into play. This enabled the company to review whether it needed to make adjustments to its data systems, as well as spend a longer period analysing the data.