House of Commons

Business, Energy and Industrial Strategy Committee

Gender pay gap reporting

Thirteenth Report of Session 2017–19

HC 928

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Business, Energy and Industrial Strategy Committee

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Contents

Summary

The gender pay gap measures the difference in hourly earnings of men and women. At an aggregate level, the existence of a considerable gap has been well established: the median across the economy is 18% in favour of men. At an organisational level, the new figures reveal some alarming truths: gender pay gaps of over 40% are not uncommon in some sectors; 78% of organisations reporting have gender pay gaps in favour in men. We found that 1,377 employers (13% of the total), including many household names, have gender pay gaps of over 30%.

The UK has one of the highest gender pay gaps in Europe. This must be closed, not only in the interests of fairness and promoting diversity at the highest levels of our business community, but in order to improve the country's economic performance. The penalties of working part-time, both financial and in terms of career progression, are a major contributory factor to the continuing failure to fully utilise the talents of women.

The new figures expose, business by business, how men dominate both the highest paid sectors of the economy and the highest paid occupations within each sector. This is part of the explanation for the size of the gender pay gap, but not the whole story. Some of the causes are rooted in the education system and out of date attitudes on the role of women in society. These must be addressed on a coherent cross-departmental basis that fosters cultural change and the elimination of all forms of conscious and unconscious bias. But businesses must also take responsibility for the impact of their own policies, practices and culture. We believe that they have an obligation, not just to reflect change, but to drive it.

We highlight a range of initiatives that have been used, with differing levels of success, to enable women to make the fullest possible contribution in the workplace and to be rewarded accordingly. It is up to individual companies to diagnose the causes of the gender pay gap in their own organisations and apply the best possible remedies. But all will need to demonstrate leadership and commitment at the highest level that has not been sufficiently evident up to now. Where leaders are not showing the necessary degree of effectiveness, they should be held to account.

The requirement for all organisations of over 250 employees to report their own gender pay gaps in 2018 is a welcome initiative, but we call on Government to be more ambitious. We recommend that organisations should be required to publish, alongside the bald figures, an explanation of any gender pay gap and, most importantly, an action plan for closing the gap, against which they must report progress each year, as part of normal reporting requirements.

We also call on the Government to alter the reporting requirements and improve the quality of the guidance on how to calculate the figures. This would avoid the situation in which some of our leading providers of professional services could exclude their highest earners (ie partners) from the statistics, thereby producing figures that underestimated the size of still substantial gender pay gaps. In the light of evidence that the pay gap is higher in smaller businesses, we also recommend that the Government widens the net of organisations required to publish gender pay gap data to those with over 50 employees.

In spite of some teething problems around the clarity of reporting requirements and the accuracy and timeliness of the data provided, we conclude that overall, compliance was very good. This was partly owing to effective enforcement by the Equalities and Human Rights Commission (EHRC). Nonetheless, we find that the Government was remiss in failing to clarify the legal sanctions available to the EHRC to purse those failing to comply and we recommend that the Government rectifies this error at the next opportunity.

Increased transparency should, over time, improve fairness. And a more equal role for women in the workplace will contribute to economic growth. We will monitor the role of Government and businesses in translating this new transparency into a marked acceleration in the pace of change.

1 Introduction

Gender pay gap reporting

1. The existence of a substantial disparity in the average pay of women and men is well established and stubbornly resistant to efforts to reduce it. The introduction of gender pay gap reporting is the latest such attempt. The publication of gender pay gap statistics on an organisational level shines the spotlight, for the first time, on individual organisations. They will now be subject to public scrutiny and will have to justify themselves when the figures do not look good. Increased transparency and accountability are essential tools in tackling an issue which for too long has remained in the shadows of public consciousness and the "too difficult" pile of too many businesses and organisations.

2. Across the UK economy, the median level of hourly pay is 18.4% higher for men than women. This difference does not sit comfortably with the Government's aim of securing an "economy that works for everyone", and has rightly been described by the Prime Minister as a "burning injustice".[1] Addressing the gender pay gap is not only necessary in the interests of fairness, it is essential to improving our economic performance. It serves the interests of individual companies and the economy as a whole. Influential studies have demonstrated a high economic cost to failing to secure and reward the contribution of women in the workforce.[2] The country is simply wasting productive talents, as women work fewer hours than men and in less productive parts of the economy. It has been estimated that if the UK gender gap were to be closed, this could generate an additional £150 billion to Gross Domestic Product (GDP) up to 2025 and add 840,000 women to the UK workforce.[3] Only if businesses are prepared to utilise to the full and promote the talents of women as well as men can our economy realise its true potential.

3. Social attitudes have changed enormously since the passing of the Equal Pay Act in 1970, and are still changing. But fifty years on, the role of women in the workforce is still very different to that of men and is reflected starkly in the gender pay gap. The causes of this gap can be found in the legacy of historic cultural attitudes to the role of women in society. The results are there to see in most occupations and most workplaces, with men dominating the upper levels occupations that are high paid, and women more prevalent in low paid sectors and in the lower paid roles in most sectors. Part-time jobs, which tend to be relatively low paid and apparently held not to be conducive to senior roles, are far more likely to be occupied by women.[4] The full gamut of these causes was explored in detail by the Women and Equalities Committee in its report on the Gender Pay Gap in 2016.[5]

4. The gender pay gap statistics refer to the difference in the average hourly wage of all men and women across the organisation. It is important to note that gender pay is not

1 Evening Standard, Gender pay gap: Theresa May vows to tackle "burning injustice" as firms race to report figures by midnight, 4 April 2018
2 McKinsey Global Institute study; How advancing women's equality can add $12 trillion to global growth, September 2015; OECD Social, Employment and Migration Working Papers, Effects of reducing gender pay gaps in education and labour force participation on economic growth in the OECD, December 2012. EY, Women Fast forward, 2015. See also Business benefits of flexible working, Department for Business, Innovation and Skills and Jenny Willott, 2014
3 McKinsey & Company, The power of parity: advancing women's equality in the UK, September 2016, See also, Why diversity matters, January 2015, Delivering through diversity, January 2018
4 The Fawcett Society (GPC0010): 42% of women work part-time compared to 14% of men.
5 Women and Equalities Committee, Second Report of Session 2015–16, The Gender Pay Gap, HC 584.

the same as equal pay: the two are often conflated in media coverage of these issues. The gender pay gap indicates the difference between average pay between all men and women in a defined workforce at a point in time, regardless of the nature of the work; equal pay addresses the differences in rewards between men and women carrying out the same jobs or doing work of equal value. The latter is illegal and very rare; the former is not and very prevalent.

Our inquiry

5. In this inquiry, we focus on the adequacy and effectiveness of the requirements introduced by the Government for companies to report their gender pay gaps from April 2018, and on the measures that businesses need to take in order to reduce and eliminate this gap. This is more than a question of transparency; it is a challenge of corporate governance and of business leadership—the way companies choose to run their businesses in order to meet the legitimate expectations, not just of their shareholders, but of their employees and society in general. Businesses not only need to reflect the changing values and attitudes in society; they are also in a position to drive such change. They should grasp the opportunity to do so. Whilst our focus has been on business, in line with our remit, the reporting requirement apply to public and voluntary sector organisations too; many of our conclusions in this report apply equally to them.

6. This report is the first output of our inquiry into *Corporate Governance: Delivering on fair pay*, which we launched in March 2018. We invited evidence on the adequacy of the information required to be reported; the effectiveness of the sanctions for non-compliance; and on proposals for any additional requirements. As part of this inquiry, we received 22 submissions of written evidence from a range of interested parties and held two oral evidence sessions with some of them, and from selected companies. We are grateful to all those who submitted written evidence or who have otherwise contributed to this inquiry. This inquiry follows up some aspects of the previous Committee's inquiry into Corporate Governance, which reported shortly before the 2017 election.[6] We will continue with the second strand of this inquiry, examining progress of reforms relating to executive pay levels and structure, in the autumn of 2018.

6 Business, Energy and Industrial Strategy Committee, Third Report of Session 2016–17, Corporate Governance, HC 702

2 Lessons learnt from the introduction of new reporting requirements

The Regulations

7. The gender pay gap reporting requirements were introduced by two sets of regulations under the Equality Act 2010 (hereafter "the Regulations").[7][8] Under these Regulations all public and private sector organisations with more than 250 employees must report their gender pay gap statistics on an annual basis. The date on which they were first required to report was 4 April 2018 in respect of private and voluntary sectors companies and 30 March 2018 for public sector employers; the date to which figures refer (the "snapshot date") are the equivalent dates in 2017. Organisations are required to publish their statistics and upload them on to a dedicated and searchable Government website.[9]

Clarity of requirements and accuracy of the data

8. Whilst the Regulations themselves include a good degree of detail on how the required statistics for mean, median and bonus pay gaps are to be calculated, the consensus in the evidence we received was that some aspects of the regulations remain unclear.[10] Witnesses told us that some businesses found the task of producing the figures very difficult and required help from professional organisations such as the Chartered Institute of Personnel Development (CIPD).[11] Some ambiguities arise from the sheer variety and complexity of the way in which organisations remunerate their staff; others are simply not explained in the regulations or accompanying Government guidance.[12] For example, the difference between a bonus and an allowance is not always straightforward and there are different ways in which childcare vouchers can be counted.[13] Witnesses pointed out potential inaccuracies arising from different interpretations of who to include in the workforce[14] and the requirement for companies to report at a group level.[15] Others pointed to unclear guidance on when to use alternative methods of calculations for those working variable hours.[16] Analysis by both the Financial Times and the Guardian found evidence of a minority of companies publishing highly improbable, inaccurate or questionable data.[17] Examples include a gender gap in bonus earnings of -1123.60%, both mean and median

7 The Equality Act 2010 (Gender Pay Information) Regulations 2017 came into force on 6 April 2017 and cover private and voluntary sectors. Regulations came into force on 31 March 2017 and make similar provision in relation to public sector bodies.
8 See website for text of regulations.
9 Government Gender pay gap service website
10 Eg Q 212
11 Q212 [Seamus Nevin]; CIPD (CPG0030)
12 For example, Government Equalities Office guidance for employers was published in December 2017.
13 Ms Sheila Wild (CGP003)
14 CIPD (CPG0018)
15 Linklaters (CPG0020)
16 EEF (CGP0001)
17 Financial Times, Cluster of UK companies reports highly improbable gender pay gap 7 December 2017; The Guardian, Gender pay gap: multiple firms submit questionable data, 29 March 2018

pay gaps of 0% and exactly the same number of men and women in each of the four pay quartiles.[18] This has led some experts to suggest that not too much weight should be placed upon this first set of figures.[19]

9. We recognise that there remains cause for confusion in applying the Regulations and agree that more detailed guidance on a number of issues is needed before next year. We also have sympathy with those smaller businesses that suggested aligning the reporting date with other annual reporting requirements, rather than the tax year, in order to reduce the administrative burden on them.[20] There was a strong rationale for a "big bang" approach to introducing the new reporting requirements in order to maximise impact and facilitate comparisons, but once these statistics become established there is less of a need for a single reporting deadline and companies can include statistics in their annual reports. **In this first year of reporting, it is clear that many organisations had difficulty in producing the figures required, or were reluctant to devote the resources to doing so. The resulting set of figures published initially was therefore inaccurate, although to an unknown degree.** ***We recommend that the Government works with the Equalities and Human Rights Commission, business groups and other stakeholders to clarify outstanding areas of ambiguity and to publish revised guidance accordingly. We also recommend that the Government reviews the gender pay gap reporting requirements with a view to aligning them with other business reporting requirements from next year.***

Reporting more than statistics

10. Some organisations went above and beyond the requirements and published alongside their figures comprehensive action plans for addressing the pay gap. Others did the bare minimum, reporting the figures without any word of explanation, indicating a commitment to complying with the letter of the law but not necessarily the spirit of its objectives. Many may have deliberately published late, simultaneously with most other organisations, to minimise the risk of adverse publicity. The Regulations do not require organisations to publish any accompanying explanation with the bare statistics, nor action plan for addressing the pay gap. Advice published by the Government Equalities Office (GEO), the Chartered Institute of Personnel Development (CIPD) and the Advisory, Conciliation and Arbitration Service (ACAS) recommends this course of action, but it remains entirely optional.[21] Such an explanation might provide useful contextual information about the gender make-up of the sector or company, an explanation of the way in which the figures were calculated, and any comparison with previous years. Most importantly, an action plan would set out the measures being taken to address the gender pay gap, including any targets set. Stakeholders argued in favour of mandatory narrative reporting during the consultation that preceded introduction and some made the same point in evidence to us.[22] The production of a plan would force organisations to address the issue head on and enable management to be held to account for implementation. Without a published plan to address the gap, the impact of the published pay gap figures is circumscribed, and, as many witnesses argued, may well fade over time, when the novelty has paled.

18 Close the Gap (CPG0015), Financial Times, Cluster of UK companies reports highly improbable gender pay gap 7 December 2017
19 Ms Sheila Wild (CGP003); Q45 [Brenda Trenowden]; CIPD (CPG0018)
20 ICSA The Government Institute (CGP007)
21 The Fawcett Society (GPC0010)
22 Eg TUC (CGP008)

11. Initial analysis suggests that fewer than one third of organisations have published a narrative this year, and we heard that the quality of these is "very variable".[23] Less than one fifth have set out actions to be taken and only 5% have set targets for reducing the gap.[24] Much of the evidence we received called for narrative reporting to be made compulsory,[25] although some thought that it was too early to change the requirements now.[26] The reasons behind the pay gap statistics will inevitably vary from company to company, and sector to sector, as will the measures that are required to address the gap, which we discuss in Chapter 4.

12. To avoid misinterpretation of the figures, and to incentivise both thoughtful debate and effective action, we believe that it is in the interests of the public and companies for narrative reporting to be made mandatory. If pay gap reporting is wrapped up with the reporting cycle, as we recommend above, there is value in this narrative being included in companies' remuneration report. Smaller companies in particular would benefit from some support on this new requirement, in terms of guidance on what a narrative and action plan might include. Professional representative organisations may be able to advise on this, although we would not want to see the proliferation of template or "boiler plate" wording that is mechanically reproduced each year. Narrative reporting should not seek to excuse or defend the pay gap statistics, as some now do, but should set out the steps being taken to reduce the gap. ***We recommend that organisations are required to provide some narrative reporting alongside their gender pay statistics and an action plan setting out how pay gaps are being and will be addressed, including objectives and targets. Subsequent report should report progress against this action plan, including targets set. The Equalities and Human Rights Commission and Government Equalities Office should work with stakeholders on developing suitable guidance as to content.***

Compliance and enforcement

Public awareness

13. The Regulations were introduced by the Government Equalities Office (GEO) and enforced by the Equalities and Human Rights Commission (EHRC), an independent non-departmental public body. Both took active steps to publicise the reporting requirements in advance of the reporting deadline including social media campaigns and television advertising.[27] There was substantial press coverage of the issue as the deadline approached, although critics claimed that the penalties for non-compliance were not spelt out from the outset.[28] Several witnesses argued that businesses were not made aware early enough of the new requirements and the need to comply and contrasted the publicity around the reporting requirements with those of General Data Protection Regulations (GDPR).[29]

14. The Regulations came into force in April 2017, but the ECHR only started to highlight its enforcement powers at the start of 2018 and did not publish guidance relating to the

23 Q45 [Alice Hood]
24 Close the Gap (CPG0015)
25 ICSA The Governance Institute (CGP007), Mr John Nichols (CGP002), Ms Sheila Wild (CGP003), TUC [Q2]
26 CIPD (CGP0018)
27 Letter from Chair of EHRC to Women and Equalities Committee, 13 July 2018
28 CIPD (CPG0018). Sanctions and enforcement are covered at paragraph 18.
29 Q15 [Brenda Trenowden]

sanctions for non-compliance, until 23 March.[30] This may have influenced the degree of importance which some businesses attached to timely compliance. Evidence suggests that some organisations did not report on time because they failed to appreciate the requirements in time, or failed to devote sufficient resources to the task.[31] Some businesses with complex pay systems or group structures reported that they required more guidance as the deadline approached on how to account for some of their employees.[32] Others submitted revised figures after reviewing initial erroneous submissions. **We see no excuse for businesses of any size to have failed to engage with these well-publicised new requirements in good time. Whilst it should not require the threat of legal action to ensure compliance, the EHRC should have been much clearer and a much earlier stage about its intended use of sanctions against those who failed to comply.**

Levels of compliance

15. In spite of the publicity surrounding the imminent reporting deadline, most companies left it to the last minute to publish their gender pay gap data. Shortly before the deadline, it was widely estimated that around 9,000 organisations were due to report. By 20 February, six weeks before the deadline, only 7% of the UK's 500 listed companies had done so[33] and only 1,691 companies had reported by the start of March.[34] Consequently, in the early part of 2018, there were fears that large numbers of organisations would be in breach of the new requirements. In fact, by 4 April, 9,718 employers had submitted their statistics.[35] The EHRC still estimated that 1,456 employers had failed to do so on time.[36] On April 9, the EHRC wrote to them to confirm they were in scope of the requirements and asking them to comply. Some organisations did then submit late, and others established that they were in fact outside the scope of the reporting requirements. In the end, 10,528 employers reported for 2017–18.[37] The EHRC has now reported that all employers believed to be in scope of the regulations have published their gender pay gap figures.[38]

16. Given the initial pace of reporting, and the lack of clarity of the Regulations, the eventual compliance rate appears to have been very good. Sam Smethers, Chief Executive of the Fawcett Society told us that she was "quite pleased that we got as many as we did."[39] However, it is impossible to be definitive about the extent of compliance: the actual number of qualifying organisations is ever-changing as numbers of employees fluctuate and companies start up and fail; and because there is no established list of the companies that are subject to the new regulations.[40] The Government's original estimate of 8,000 qualifying organisations proved to be a considerable underestimate. We understand that this was based largely on the Business Population Estimate, a Government database which counts businesses in a different way to that set out in the Regulations.[41]

30 ECHR, Closing the gap: enforcing the gender pay gap regulations, 23 March 2018; CIPD (CPG0018)
31 Ms Sheila Wild (GPC0003)
32 EEF (CGP0001)
33 Figures from Gender Pay Gap Service website, reported on Corporate Citizenship blog, 22 February 2018
34 Ben Worthy (CPG0017)
35 Letter from Chair of EHRC to Women and Equalities Committee, 13 July 2018
36 Letter from Chair of EHRC to Women and Equalities Committee, 13 July 2018
37 Government Gender pay gap service website
38 Letter from Chair of EHRC to Women and Equalities Committee, 13 July 2018
39 Q15
40 Qs 10 & 15 [Sam Smethers];
41 For example, it does not count some companies listed in the UK but based overseas and counts entities in a group structure as one rather than as separate entities, as required by the Regulations. Financial Times, Employers free to exploit gender data reporting flaws, 24 February 2018

17. It is impossible to enforce any law without accurate information on those that are subject to it. In order to safeguard the integrity of the new reporting requirements and to facilitate effective scrutiny of compliance, we agree with witnesses who suggested that there should be a public register of organisations falling within the scope of the regulations.[42] Now that an initial list exists, this should not be too difficult to maintain. **We welcome that full compliance has apparently been achieved, after effective dispute resolution by the EHRC. However, we need to be confident that full compliance can be achieved each year; and this can only be guaranteed if all qualifying organisations are known, and that the list is kept up to date.** ***We recommend that the Government publish and maintain a definitive list of all organisations that fall within the scope of the Gender Pay Gap Regulations.***

Powers of Enforcement

18. The other potentially significant factor that could undermine the new reporting regime is the potential lack of effective sanctions by those who do not comply or provide inaccurate figures. The Regulations do not explicitly make provision for enforcement and sanctions, although the parent Act provided that such sanctions may be included. Instead, reliance is *placed* on the enforcement powers contained in the Equality Act 2006, under which the ECHR may seek a court order to enforce compliance against those committing unlawful acts under that Act and impose unlimited fines.[43] The absence of explicit sanctions in the Regulations have given rise to doubts about whether breaches of the Regulations could be enforced using the powers under the 2006 Act.[44]

19. In its response to the original consultation on the Regulations, the EHRC asserted that it did not have enforcement powers under the 2006 Act and advised that these should be inserted into the draft regulations.[45] The Government disagreed. In March 2018, the ECHR published guidance which set out its intention to promote compliance through education and monitoring, but, in an apparent change of view, outlined a willingness to take enforcement action, where necessary, including under the 2006 Act.[46] The enforcement action set out, as required under existing legislation, involves a lengthy process of agreeing terms of reference for an investigation in the alleged breach, specified time periods for the collation of evidence and consideration of a report and opportunities to make representations on that report.[47] The whole process could take many months.[48] Only after this lengthy process can legal action follow in the event of continued non-compliance. Until any enforcement actions are tested in the courts, the legal position remains uncertain.

20. **Given the unwieldiness of its enforcement mechanisms, we support the EHRC's focus on securing compliance by education and engagement. We welcome its success in securing full compliance relatively quickly after the deadline and without recourse to its investigatory powers. Nonetheless, the threat of legal action must be both clearly available and seen to be useable. The investigatory and enforcement mechanisms available to the EHRC are not suited to the relatively straightforward task of securing**

42 Ms Sheila Wild (GPC0003) and Q210
43 Close the Gap (GPC0015)
44 Financial Times; Doubts raised on whether UK gender pay sanctions are enforceable, 2 January 2018
45 EHRC; Consultation Response on mandatory gender pay gap reporting, March 2016
46 ECHR, Closing the gap: enforcing the gender pay gap regulations, March 2018
47 See EHRC guidance, as above.
48 Q6 [Sam Smethers]

the submission of specified data by a required date. The then Government was remiss in failing to provide legal certainty as to the available enforcement mechanisms and sanctions for breaches of the Regulations.

21. The inclusion of an explicit power to fine in the Regulations would have been a straightforward remedy. Witnesses questioned the actual consequences of non-compliance and called for greater clarity on how figures would be checked, by the EHRC or elsewhere.[49] Notwithstanding the apparently high initial rate of compliance, without the certainty of effective enforcement, there is a risk that there will be a small minority of companies that do not take the reporting requirements seriously and file inaccurate figures. **Next year, there should be no excuse for failure to submit accurate figures by the deadline and organisations should expect to receive a fine for not doing so.** ***We recommend that the Government, at the next available opportunity, ends the legal uncertainty surrounding the ECHR's enforcement powers by providing for specified fines for non-compliance.***

49 Q208 [Sheila Wild]; Close the Gap (CGP0015)

3 Gender pay gap: what the figures show

Explanation of the figures used

22. There are different ways of defining and measuring the gender pay gap. For the purposes of the Regulations, the gender pay gap statistics refer to the difference in the average hourly wage of all men and women across the organisation. All organisations with more than 250 employees are required to report on their gender pay gaps. These reporting organisations together employ around 16.45 million people, representing 56% of all employee jobs in the UK.[50] Under the Regulations, qualifying organisations are required to provide statistics on:

- Their mean gender pay gap
- Their median gender pay gap
- Their mean bonus gender pay gap
- Their median bonus gender pay gap
- The proportion of men and women in the organisation receiving a bonus payment
- The proportion of men and women in each quartile pay band.[51]

23. The Office for National Statistics (ONS) also produces figures for the gender pay gap. This is based on the Annual Survey of Hours and Earnings it carries out across the workforce as a whole, not just those working in organisations of over 250 employees.[52] It uses median hourly earnings but excludes overtime, on the basis that men work relatively more overtime than women and this may have an impact on the figures.[53] Although it is based on sample data, the ONS figures provide the most reliable assessment of the gender pay gap across the economy. The new data provided by organisations provides a more comprehensive and detailed picture of the pay gap at the organisational level, although only those with 250 or more employees. The two sets of data are both useful, but should be used with care when making comparisons. The median figure, rather than the mean, is the one most widely used, as it avoids the potentially distorting effects of a small number of extremely high rates of pay.

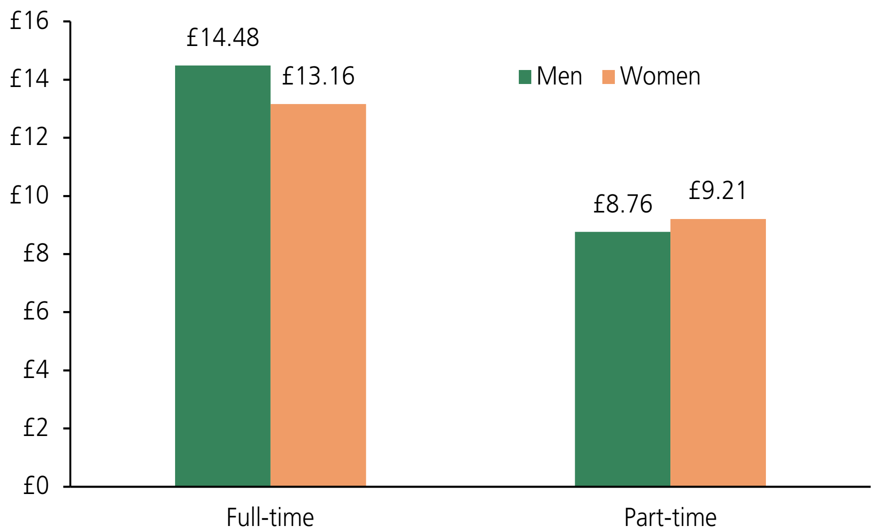
Overall picture

24. The gender pay gap in favour of men is both widespread and often substantial. According to the ONS, the median gender pay gap for all employees was 18.4% at April 2017 in favour of men. This figure continues the very gradual downward trend since 1997, when the gap was around 27% (see chart 2 below). The new figures reported by April 2018,

50 House of Commons Library, Briefing paper, The Gender Pay Gap, 6 April 2018
51 Ref to Govt website. In calculating these figures they are required to exclude overtime payments and to use different methods of calculation for those working variable hours.
52 ONS website
53 ONS website, Library briefing House of Commons Library, Briefing paper, The Gender Pay Gap, 6 April 2018

but relating to April 2017, indicate a 12% gap based on *median* hourly pay in favour of men and a 14.5% gap based on *mean* hourly pay. The difference between the ONS and the reported figures arises from the difference in the workforces measured, as set out above. Statistics published by the ONS, broken down by business size, show that the gender pay gap is slightly higher amongst business with between 10–250 employees than those with over 250, although significantly lower in the very small businesses.[54]

Chart 1: Median hourly pay excluding overtime, April 2017

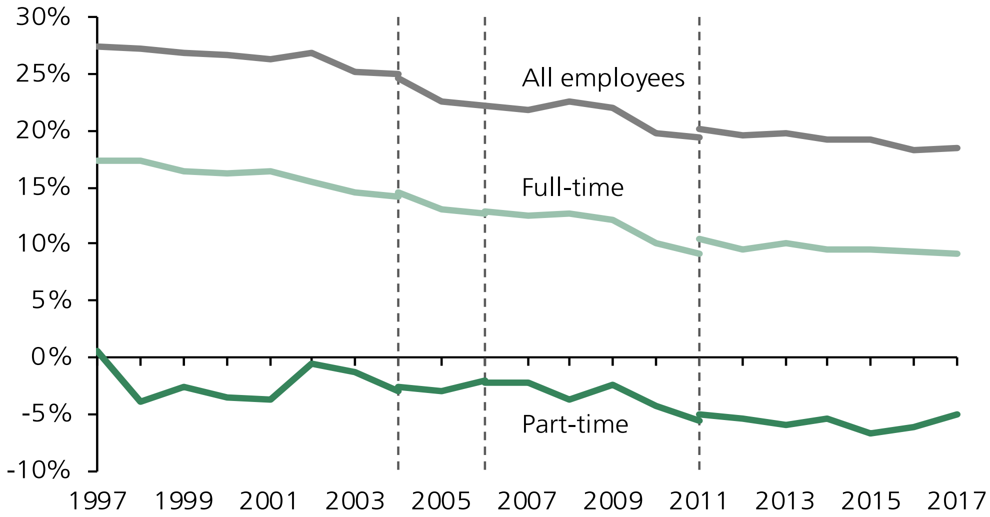


Source: House of Commons Library

25. The reported figures reveal for the first time how widespread the pay gap is across the whole economy. Some 78% of employers reporting had a pay gap in favour of men; 8% reported no pay gap at all; and 14% reported a pay gap in favour of women.[55] For over a quarter of reporting employers (27%), median hourly pay for men was at least 20% higher than for women. Existing statistics indicate that there is a pay gap for full time workers in favour of men in every region of the country except Northern Ireland, where the preponderance of women in better paid, public sector jobs is a major driver. The gender pay gap is most pronounced in London and the South East, and the East Midlands.[56]

54 ONS, Gender pay gap by business size, 5 March 2018
55 House of Commons Library, Briefing paper, The Gender Pay Gap, 6 April 2018
56 House of Commons Library, Briefing paper, The Gender Pay Gap, 6 April 2018

Chart 2: Trends in gender pay gap, 1997-2017



Dashed lines indicate breaks in the series in 2004, 2006 and 2011

Source: House of Commons Library Briefing Paper, The Gender Pay Gap, April 2018

26. The Institute of Directors asserts that Britain has made "great strides" in tackling the gender pay gap in recent decades and has one of the lowest 'explained' gender pay gaps in the world, according to studies by the International Labour Organisation.[57] However, this 2014 study in fact indicates that the UK has the joint highest average pay gap in Europe, alongside Ireland and Estonia (29%). Other, more recent research indicates that in 2016 the average pay gap in the UK (calculated on a different basis) was the fourth highest in the EU, behind Estonia, Denmark and Germany.[58] Figures released by the European Commission in 2017 show that in 2015 the UK had the biggest increase in the gender pay gap across the EU, in spite of an overall gradual downward trend.[59] There is certainly no cause at all for complacency amongst business representative bodies; quite the reverse: the UK has some way to go before reaching even the EU average of 16%.

27. Existing figures show that certain trends are now well established. The pay gap for full-time workers is relatively small until women reach their 30s and 40s, when many return to work part-time or otherwise prioritise caring responsibilities. The gap widens from the age of 40 onwards, reaching its peak between ages 50 to 59.[60] The type of jobs women do and the roles they play within organisations, are other well established factors.[61] However, most studies agree that a significant proportion of the gender pay gap, the ONS suggests as much as two thirds, cannot be explained by the impact of these causes.[62] There are other forces at play, including the impact on promotion prospects of lost working experience due to childcare in organisations that may value experience more than talent,

57 Institute of Directors (CGP0011) quoting ILO website: 'Gender pay gap widens for higher earning women' 'Explained' gender gap refers to the proportion of the gap that can be attributed to identifiable causes, such as differences in sectors and occupations.

58 Eurostat, Gender pay gap statistics, data from March 2018

59 Financial Times, Britain records biggest rise in EU gender gap, 30 October 2017

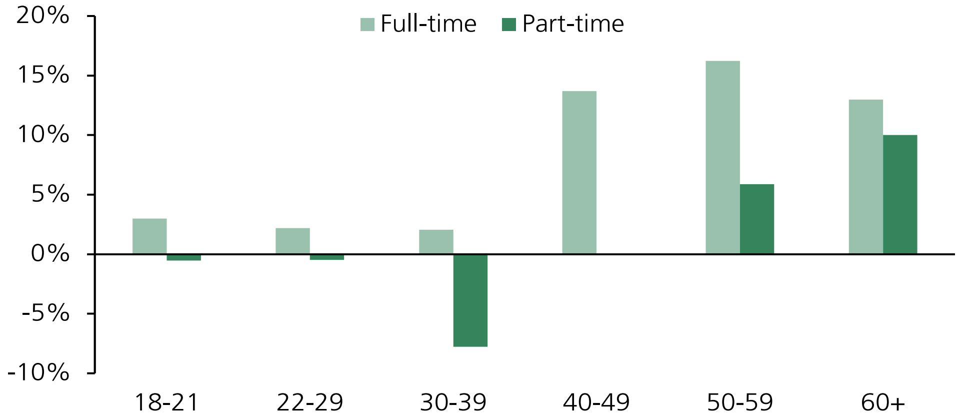
60 ONS, Understanding the gender pay gap in the UK, 17 January 2018; Institute for Fiscal Studies, The gender pay gap, August 2016.

61 Eg McKinsey & Company, The power of parity: advancing women's equality in the UK, September 2016

62 ONS, Understanding the gender pay gap in the UK, 17 January 2018

as well as differences in levels of educational attainment amongst older employees.[63] Other factors, such as unconscious bias, and both direct and indirect discrimination, are also likely to play a part, albeit an unmeasurable one. All these issues need to be addressed both at an organisational level and, more broadly, at a societal level, and we return to them in Chapter 4.

Chart 3: Gender pay gap by age, April 2017



Source: House of Commons Library Briefing Paper, The Gender Pay Gap, April 2018

Sectoral differences

28. The reported statistics show that all sectors of the economy have a gender pay gap, but the size of the gap varies significantly between them. Average pay gaps for companies are largest in the male dominated sectors of construction and finance/insurance (23% and 22% respectively).[64] The average gap is smallest—under 5%—in predominantly low paid sectors, such as retail, where the majority of employees are women, but the senior positions are dominated by men. We heard that 84% of people working as care workers and home carers are women; and in contrast 74% of those working as actuaries, economists and statisticians are men.[65] In insurance, only one in five of the most senior roles are occupied by women.[66] Witnesses from the construction sector told us that 92% of UK engineers in the workforce are men;[67] and some 94% of pilots at BA are male.[68]

29. Whilst some occupations are heavily gendered, there is no automaticity about the link between high proportions of men in a sector and the existence of a pay gap. There are wide variations within sectors. For example, amongst the different airlines, the figures vary substantially, from 70% at Ryanair, 45% at Easyjet, to 10% at British Airways.[69] This indicates that there are steps that can be taken to reduce the gap, even in male-

63 ONS, Understanding the gender pay gap in the UK, published 17 January 2018. The gap in educational attainment has now been closed and, by most measures, reversed.

64 Financial Times, Gender pay gap: how women are short-changed in the UK, 5 April 2018

65 Institute of Directors (CGP0011); See Bloomberg website for detailed breakdown including companies in each sector.

66 ABI (CPG0014)

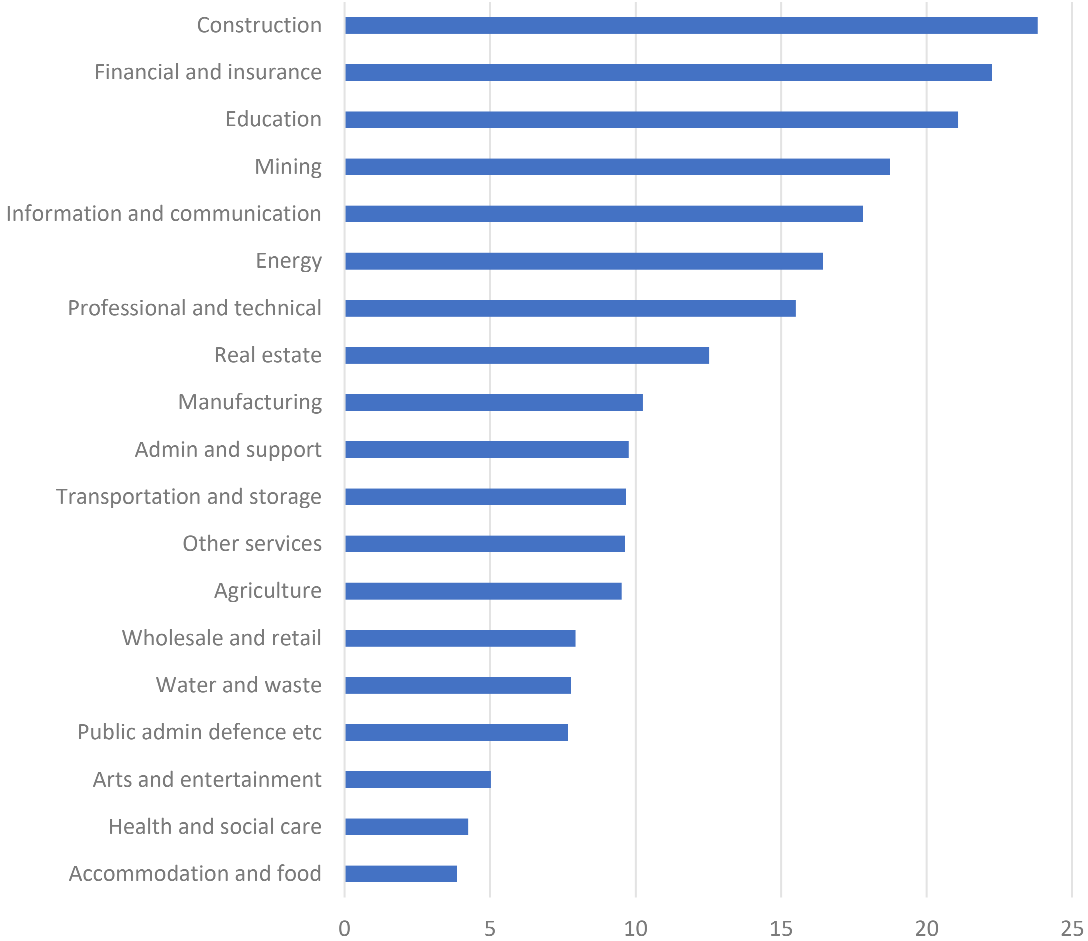
67 Balfour Beatty (CPG0022) An analysis of the gender pay gap for Scottish employers indicates that the gaps are highest in traditionally male dominated sectors such as construction, finance, and oil and gas (as reported by Close the Gap).

68 British Airways (CPG0021)

69 Q82 [Sophie Dekkers]. The latter figure is a result in part of the different employment models used around ground staff: BA employ them directly; other airlines contract out for this service.

dominated sectors. Addressing the imbalances in the numbers of men and women going into particular occupations is part of the solution to remedying the gender pay gap, but it is only a part. ONS analysis indicates that this occupational segregation accounts for around 23% of the gender pay gap. We discuss in Chapter 4 how these different sectors can go about reducing the gaps.

Chart 4: Average median hourly pay gap, by sector (%)



Source: House of Commons Scrutiny Unit, based on reported data, not ONS figures.

Breakdown by pay quartiles

30. The requirement for a breakdown of gender gap statistics into salary quartiles provides companies and the public with a more nuanced analysis of the nature of their own pay gaps. Whilst there has not yet been a comprehensive analysis of pay patterns on the basis of these quartiles, a sample of companies quickly reveals a predictable pattern. There is generally a higher proportion of men in the top quartiles and a higher proportion of women in the bottom quartiles. This reflects the fact that the most senior and highly paid positions are dominated by men and that women are found in lower paid occupations or roles. Existing data indicates that around 28% of all female employees are found in

occupations with median pay below £8.95 an hour, compared to 13% of men. Some 30% of men work in occupations with median pay above £18.81 an hour, compared to 19% of women.[70]

31. These figures also reflect the conclusion, highlighted by much of the evidence we received and academic studies, that within organisations, it is harder for women than men to progress up the ladder. The roles that men tend to perform are more highly paid than those roles occupied by women: the concentration of women in administrative and HR roles within organisations are well-worn but still valid examples.[71] Consideration of how we have come to value and reward different occupations and roles within society is outside the scope of this inquiry, but we consider measures to address the gap in Chapter 4.

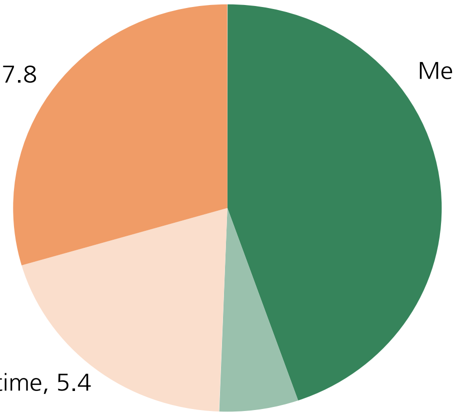
32. Whilst some witnesses welcomed the granularity provided by the breakdown into quartiles,[72] others suggested that a breakdown into deciles would provide a more useful basis on which companies and others can track trends and monitor the gaps across the organisation.[73] It would also provide a better indication of signs that the illegal practice of unequal pay might be an issue.[74] We agree that additional granularity in the figures would be helpful and we believe would not require significant additional work, although it may be necessary to exempt organisations with very low numbers of employees from this requirement for data protection reasons. ***We recommend that when the Regulations are amended, the requirement for information on salary quartiles is changed to deciles.***

Impact of part-time working

33. The impact of part-time working on levels of pay, for both men and women, is well established. In 2017, the median hourly pay for full-time work was 65.4% higher than for part-time work for men, and for women it was 42.8% higher.[75] The information required by the Regulations make no requirement for separate figures to be provided for full-time and part-time pay gaps, to enable women's average part-time hourly pay to be compared with men's full time hourly pay rates. The prevalence of women in part-time roles, which tend to be lower paid, has been established as one of the principal explanations of the gender pay gap.[76] For example, in the retail sector, there is no significant pay gap amongst part-time workers, who are predominantly women, but there is a pay gap of 7% in full-time roles, which tend to be more senior and are filled by men.[77] Studies have also indicated that wage growth for part-time workers is relatively slow and have identified the existence of a "motherhood penalty", where women returning to the workforce after childbirth on a part-time basis experience negligible progression in pay[78] and those returning on a full-time basis experience a negative 7% gap compared to those without children.[79]

70 Figures from ONS, quoted in House of Commons Library, Briefing paper, The Gender Pay Gap, 6 April 2018
71 McKinsey & Company, The power of parity: advancing women's equality in the UK, September 2016
72 Close the Gap (CGP0015)
73 Fawcett Society (CPG0010)
74 Q21 [Sam Smethers]
75 ONS; Understanding the gender pay gap in the UK, 17 January 2018
76 See, for example, Women and Equalities Committee's report on the Gender Pay Gap, March 2016
77 British Retail Consortium (CGP0012)
78 Institute for Fiscal Studies, Briefing note BN223, Wage progression and the gender wage gap: the causal impact of hours of work, 2018
79 TUC, The Motherhood Pay Penalty, March 2016

Chart 5: Employees by gender and working pattern, Q2 2017

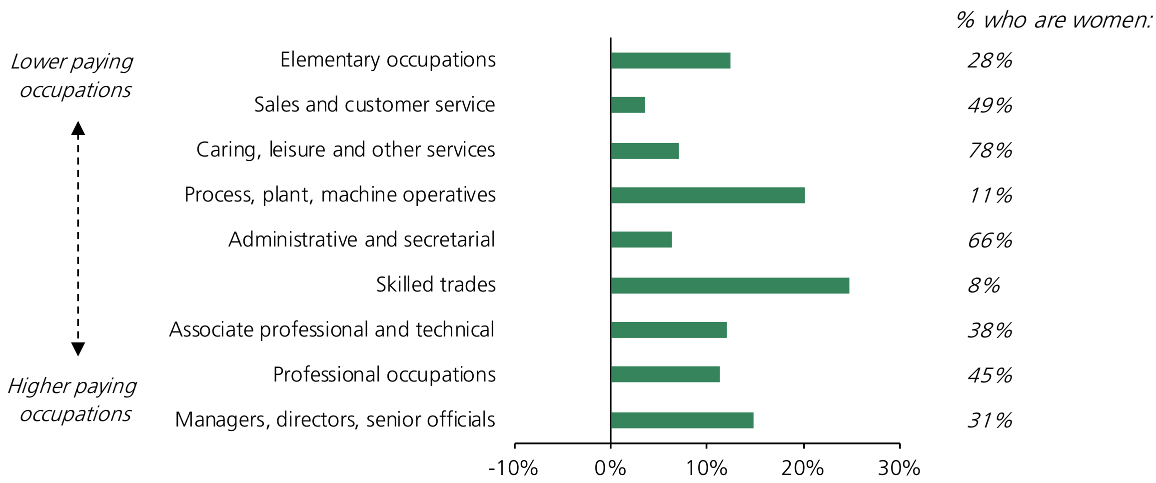


Source: ONS Labour Market Statistics, October 2017, Table EMP01

34. Whilst the national picture is clear, organisations are not required to reveal their own contribution to this "motherhood" or "part-time penalty" effect. Overall, we know that nearly two-fifths of women in employment are part-time compared to just 13% of men.[80] Between the ages of 30–49 over 90% of men's jobs are full-time; the equivalent figure is around 60% for women's jobs.[81] ONS statistics also indicate that the gender pay gap between part-time employees is very small or negative, except for the higher skilled categories of professional occupations and managers, directors and senior officials. But we do not know the extent to which individual organisations are contributing to the gap between part-time and full-time pay which disproportionately affects women. It is essential to challenge—through publication of data—any prevailing culture within organisations that regards part-time work as less important than full-time work, or a sign of less commitment. Without the data, even companies seeking to treat these categories equally may not be aware of the cumulative and unintended effect of their pay policies, or any unconscious bias or false assumptions surrounding those working part-time. We have considered in previous inquiries the changing working habits and the growing number of people seeking flexible employment but having little choice but to accept low-paid, precarious, part-time work.[82] **Businesses need to adapt to the growing prevalence of flexible working, more evenly shared caring responsibilities and multi-job careers by demonstrating that part-time workers can expect to be fairly rewarded and also can reach the top. Senior positions should not be the exclusive preserve of those that are prepared to work full time or, as is often the case, far more than full time. By publishing pay gap statistics for part-time and full-time employees, organisations would have to explain any substantial discrepancies, and begin to address them.** ***We recommend that when the Regulations are amended that both part-time and full-time gender pay gap statistics are required to be published.***

80 ONS data, quoted in House of Commons Library, Briefing paper, The Gender Pay Gap, 6 April 2018
81 ONS; Understanding the gender pay gap in the UK, 17 January 2018
82 First Joint Report of Session 2017–19, A framework for modern employment. HC 352

Chart 6: Full-time gender pay gap by occupational group, April 2017



Source: House of Commons Library

Bonus figures

35. The discretionary elements of pay are most susceptible to bias, and most difficult to scrutinise. The publication of figures on the proportion of men and women receiving a bonus, as well as the gender pay gap for bonuses, is therefore a very welcome step forward. Overall, the proportion of male employees receiving bonuses was 35.9%, compared to 34.3% for women. We are not aware of any attempt at a comprehensive analysis of the average bonus gap across the economy: and it is in any case a comparator that is most effectively used at an organisational level. Nonetheless, a selective interrogation of the data indicates that whilst many organisations pay bonuses to similar proportions of men and women, the amount of these bonuses is generally higher for men, reflecting the predominance of men in senior positions where bonuses are likely to be higher. But there is no reason why the proportion of men receiving bonuses should be higher than that of women. **The publication of bonus figures by gender will force organisations to look carefully at their policies on bonuses: they must check that their policies are not, however inadvertently, perpetuating inequality and unfairness.**

36. There is one technical issue arising from the publication of bonus statistics that needs addressing.[83] Under the regulations, bonus figures must be calculated based on actual amounts paid, rather than on a full-time equivalent basis.[84] For example, a bonus of £10,000 for two people, one part-time, one full-time, would be reflected in the figures as indicating no pay gap. As proportionately more women than men work on a part-time basis, the bonus pay gap under current reporting provisions is liable to be a limited figure that does not properly take account of the link between bonuses and hours worked. ***We recommend that when the Regulations are amended, the way in which bonus calculations are made is altered so that it is on a pro-rata basis and that this change is accompanied by the publication of clear guidance on the method of calculation.***

83 British Airways (CPG0021); British Retail Consortium (CPG0012); EEF (CGP0001)
84 Q4 [Sam Smethers]

Widening reporting requirements

37. When the Government consulted on the introduction of the Regulations in 2016 it estimated that 8,000 employers and 11 million employees would be covered if the qualifying threshold for companies were set at 250 employees. Combined with other public sector reporting requirements, it envisaged that just over half the workforce would be subject to the new reporting regime. In response to arguments advanced by a number of consultees that the threshold should be lower, or at least reduce over time, the Government argued that small and medium sized employers may find it difficult to comply owing to "system constraints and data protection".[85] We recognise this concern but are aware that there are commercially available software tools available to small businesses to help them calculate the figures.[86]

38. Only around half the members of the UK workforce are expected to be covered by the present reporting requirements.[87] Some of the witnesses to our inquiry called for the threshold to be lowered, to organisations of either 100 or 50 employees,[88] to emulate other European countries and in line with the threshold recommended by the European Commission.[89] It would help analysis and policy development if the database were to include a greater proportion of the workforce. We have referred to ONS statistics that show that the pay gap amongst businesses of between 10–249 employees is slightly higher than for those above 250. Because the figures are obtained on a different basis, it is difficult to make reliable comparisons, but the nature of the difference between the sets of figures supports the existing evidence that the gender pay gap is greater in these smaller companies. A requirement for these companies to collect data will enable them to identify the causes of their own gaps and then address them. However, we believe a little more time should be given to smaller organisations to enable them to prepare. ***We recommend that the qualifying threshold remains at 250 employees next year, but the following year be reduced to organisations of 50 employees or more. We further recommend that the Government provides the necessary support, particularly in terms of guidance, to smooth this transition.***

Treatment of partner pay

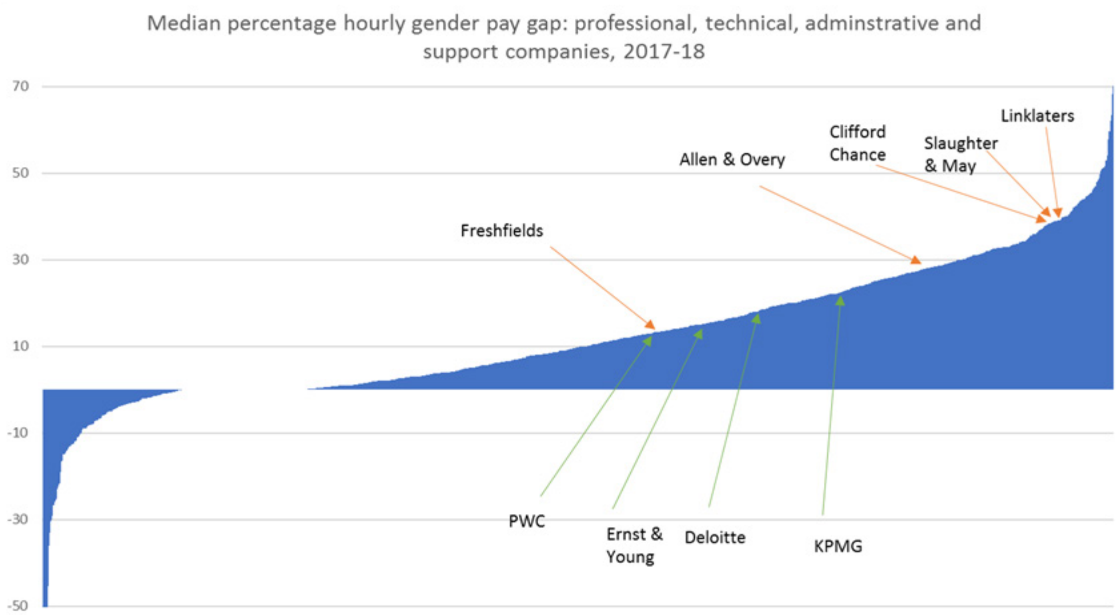
39. One issue that need to be clarified before next year is the way in which the remuneration of equity partners is included in the gender pay figures. The guidance published alongside the Regulations did not require the pay of equity partners in limited liability partnerships (LLPs) to be included in the calculations, as they are not employees and receive a share of the profits made, potentially based in part on length of tenure as a partner. However, as partners receive the highest pay in these companies, their exclusion gives a totally misleading impression of the size of the pay gap. For example, the mean pay gap figure for PwC was 12% without the inclusion of partners, and 33% with them included.[90]

40. Initially, the major audit and legal firms submitted figures that did not include equity partners. However, following criticism in the press, the Big Four audit companies chose to

85 Government Equalities Office, Mandatory Gender Pay Gap Reporting: Government response to the consultation on the draft regulations, December 2016
86 Q46 [Sam Smethers]
87 Q2; Fawcett Society CGP0010); the figure of one third relates to private companies only.
88 Eg Fawcett Society, TUC, Q2,
89 Gender Pay Gap Report, Women and Equalities Committee, para 292.
90 Q179

do so.[91] PwC told us that they did not do so initially because this requirement was not in the Regulations and highlighted the problems of comparing partner with employee pay.[92] Laura Hinton, Chief People Officer at PwC, told us that as soon as the debate around trying to hide the figures became public, they opted to publish: "With hindsight, we should have published the data on partners at the time".[93] Another factor in the original decision may have been the knowledge that 81% of partners are male and to include partners in the figures would have a big impact on the size of the pay gap. Laura Hinton acknowledged that the size of the cap "was a surprise" for a lot of people; she said that "it is not acceptable" and emphasised the focus on reducing it.[94]

Chart 4: Gender pay gap for selected audit and legal firms (excluding partners)



Source: House of Commons Scrutiny Unit. The figures for Deloitte and PwC are taken from the company data, rather than the partnership.

41. Most of the major legal firms took a different view from the Big Four audit companies and opted not to publish figures including partners. The HR Director at Slaughter and May, Louise Meikle, tried to justify this to the Committee by saying that because they published diversity statistics the data would not reveal anything new and that they required clearer guidance from the Government about how to calculate the figures.[95] Their median gender pay gap, including partners, turned out to be 41.6% in 2017. We subsequently wrote to the six "Magic Circle" law firms asking for their gender pay gap figures, including partners' remuneration. All did so, with the exception of Allen & Overy, who said that they would publish these figures in September 2018.[96] We are disappointed that these firms were so reluctant to include partners in their gender pay gap figures: the gaps for median pay, excluding partners, ranged from 13% to 39%; with partners, the figures were in every case significantly higher, although different methods of calculation inhibit accurate comparison.

91 Financial Times, Law firms resist pressure on gender pay gap reporting, 19 March 2018
92 Q179 [Laura Hinton]
93 Q180
94 Q184
95 Q150
96 Letter from Allen & Overy to Committee, 8 June 2018

42. These figures reveal very publicly just how male-dominated the upper echelons of all our most prestigious legal firms currently are. Whilst at junior associate and associate levels, the proportion of women is, respectively, just under and just over 50%, at the level of partner, this figure drops to between 20–24%.[97] Whilst they pay lip service to their commitment to improving the representation of women, and some have introduced measures aimed at doing so, progress remains painfully slow. For example, in pursuit of a time-unlimited target of 30% women partners, Clifford Chance has seen an increase from 16.5% to only 21% since 2009.[98] It is clear for legal firms, including those claiming that gender diversity had been a strategic priority for many years, it will take many years at the present rate of progress before they begin to look anything like gender-balanced at the senior, rather than more junior levels. We urge them to examine carefully the reasons why the rate of promotion of women to partner level remains generally slow and to redouble efforts to speed things up.

43. Some companies sensibly realised that to exclude this data would give a misleading impression and included it anyway; others, such as the Big Four audit firms, saw sense when the publicity surrounding a failure to disclose outweighed the advantages of reporting the lower, incomplete figure. We recognise that there are different ways of calculating figures for partners, but this is no excuse for failing to publish any figures at all. We found it particularly surprising that one legal firm—Allen & Overy—appeared unable to find a sensible way to publish, whilst others managed to do so, when we prompted them. **The exclusion of the highest paid people in organisations makes a nonsense of efforts to understand the scale of, and reasons behind, the gender pay gap. The Government was wrong to omit the remuneration of partners from the figures required in the Regulations. It is disappointing that some of our leading providers of professional services initially sought to avoid revealing the true extent of the gender imbalance at the top of their companies and more disappointing that one—Allen & Overy—continues to delay publication. We agree with witnesses that the initial lack of clarity was unhelpful** ***and we recommend that the Government uses the guidance to clarify how data on partner pay should be calculated and included in time for the publication of data next year.***

Data on ethnicity and disability

44. Whilst this inquiry has focussed on the gender pay gap reporting requirements, some witnesses advocated the collection of data on other characteristics, such as ethnicity or disability, either on a mandatory or voluntary basis.[99] The argument was advanced that research indicates that "women with multiple protected characteristics tend to experience greater gender pay gaps."[100] The extent to which this is the case at an organisational level can only be established if the relevant data are collated and published. We believe that this opportunity should be taken for organisations to gather data on wider pay gaps between different sections of their workforces, on the basis that greater transparency will lead to greater fairness. ***We recommend that the Government consults upon introducing***

97 BEIS Committee website, letters from "Magic Circle" law companies.
98 Letter from Clifford Chance to Committee, 8 June 2018
99 TUC (CGP008); The Fawcett Society (GPC0010); Hermes Investment Management (CPG0006)
100 The Fawcett Society (GPC0010)

requirements to collect and report pay gap data in respect of disability and ethnicity and, subject to this consultation, introduces this requirement in time for publication in 2020.

Towards better statistics

45. The introduction of the reporting requirements has been successful in focussing attention at a very granular level on a glaring injustice that is usually understood at a less tangible, societal level. We heard that organisations themselves had been shocked by their own figures and, for the first time in some cases, forced them to focus on addressing the issue.[101] Compliance with the new reporting requirements has, in the end, been very good. The published information, though flawed, has proved very useful in highlighting the extent of the pay gap and then forcing individual organisations to examine them and explain themselves. However, there is a consensus that the omissions from the data and potential inaccuracies may make the initial set of data inadequate for the purposes of reliable analysis. Further clarity and granularity is required to deliver the full benefits of the new requirements. Next year companies and organisations must engage early enough to comply fully with both the letter and the spirit of their new obligations.

46. In considering the right pace for introducing changes, we have considered the benefits of maintaining a coherent and consistent data set for the purposes of comparison and the need to improve the quality and usefulness of the information at the earliest possible stage. Our preference is for the necessary amendments to made in one go, before the publication of the next round of statistics next year. The only exceptions are the lowering of the threshold to organisations with 50 employees and the data on ethnicity and disability, which need more time to implement. Whilst this approach might limit comparability with the first year of data and require some swift consultation, there is benefit in establishing reliable figures which can hopefully form a consistent database for years to come. ***We recommend that the Government works with relevant stakeholders and seeks to amend the information required by the Regulations in the way we have recommended, so that it can better help to underpin the main purpose of the policy: incentivising businesses and other organisations to address their gender pay gaps.***

101 Q221 [Sheila Wild]

4 Tackling the gender pay gap

47. The new transparency and accompanying public scrutiny will, in itself, help to tackle the unacceptably wide gender pay gaps in so many organisations. Evidence suggests that the reputational damage wrought by the publication of these figures is likely to be the most effective spur to action, and that businesses are under no illusions about this.[102] The introduction of gender pay gap reporting has consequently already had an impact on changing behaviour in many organisations. Several companies have re-examined the statistics they initially published because of the public reaction. But the initial flurry of attention associated with the revelation of the size of the organisations' gaps is likely to fade in a year or two. **We do not believe that this public naming and shaming on an annual basis will be enough, by itself, to remedy the situation in the long term.**

Understanding the causes

48. We refer in Chapter 3 to some of the causes of the gender pay gap at a societal level and that those already identified do not explain the size of the gap. The explanation for at least a proportion of the gap is likely to be found in the practices, policies and cultures of our businesses and organisations. It is up to them, in concert with sector representative bodies and others, to use the figures they have reported to interrogate the causes of their pay gaps. We have referred to evidence indicating that, in general, women start on an equal footing but then do not progress up the promotion ladder as fast or as often as male counterparts. Research suggests that they are less likely to be promoted than men after starting a family.[103] We have also mentioned the maternity penalty and the part-time penalty. In addition, there are also behavioural issues, which may vary in impact from one sector to another. For example, some research indicates that men are far more likely to apply for promotion without the full range of skills required.[104] Laura Hinton from PwC explained that their work had established that women there were as ambitious as men but it took them longer to achieve promotion.[105] They may not be encouraged to push for promotion when they have young children or are reluctant to do so. The Chief Operating of FDM Group, Sheila Flavell, told us that "Women lack confidence, and that is a fact … the main problem we have with returners is that they are not confident; they do not feel they are good enough … With women, you have to push them. You have to push them and you have to pull them. You have to continuously instil confidence in them, in my experience."[106] Businesses and organisations need to be conscious of these factors, particularly when determining support provided for returners and promotion policies.

49. Other evidence suggests that women are less aggressive than men in negotiating their pay—there may be other factors that tend to be more important to women, such as flexible working—and that they are more resistant to moving, so potentially less

102 Close the Gap report that a survey in 2017 found that 84% of businesses believed that the gender pay gap would damage the reputation of organisations (CPG0015)

103 City a.m. Women are less likely to be promoted after starting a family, 30 October 2017; see also Business Insider article, 1 October 2015.

104 Q142 [Sophie Dekkers], see Harvard Business Review articles, February 2017 and August 2014

105 Q178

106 Q126

inclined to walk away in pay negotiations.[107] If this is right, the determination of pay via individual negotiations rather than by collective pay bargaining is likely to be pushing the pay gap wider rather than closing it. The disclosure of huge differences in the levels of pay between male and female senior executives and those working for the BBC was a catalyst for that organisation to address the unfairness inherent in its own practices. Without this transparency—which the BBC resisted—there would have been no change. It is up to organisations to identify for themselves the reasons behind their own gender pay gaps, but greater transparency in their policies is likely to help address the issue and foster greater confidence in and outside those organisations of their commitment to securing the unquestionable equal treatment of women and men. **Increased transparency may be uncomfortable for some individuals, and needs to be handled with care for data protection reasons, but a cultural shift towards greater transparency on pay is a necessary part of long term efforts to remove the gender pay gap and should be encouraged.**

What works?

50. Many companies will have been surprised to find they had a gender pay gap at all, and no doubt many would have no idea how such gaps emerged; still less, how to close them. We have argued that it is up to each organisation to look hard at its own policies, practices and working culture to establish what action needs to be taken. Each organisation is different and will have different issues to address. For example, we heard reports of a bank that found women scored higher on appraisals but men had higher bonuses.[108] There may be a whole host of unconscious biases and assumptions in play which contribute to the overall pay gap. These need to be investigated, tested and rooted out, company by company.

51. Whilst it is up to businesses to address their own pay gaps, they can expect to have access to advice and support from experts, and to build upon the growing body of best practice evidence. This should be disseminated by sector bodies and business organisations and campaign groups such as the 30% Club, or the Hampton-Alexander Review into board diversity.[109] There are 1,377 employers (13% of the total) with reported gender pay gaps in excess of 30%.[110] There is undoubtedly a long way to go for many, but success is achievable. For example, Unilever has pursued a swathe of policies which has resulted in half of all management positions being taken by women and a pay gap of 2% in favour of women.[111] Different solutions will be required for different companies and there may be sectoral factors at work that require a sector-based approach. For example, retail is heavily reliant on part-time, predominantly female staff, which may affect the fairness of

107 Q42; A Workforce Mindset Study in 2015 by AON found that men allocate more value to pay than women and women allocate more value to paid leave and work/life balance than men. Studies have found that women are less likely to negotiate their salaries than men, e.g.:Why women don't negotiate their job offers, Harvard Business Review, June 2014.

108 Q43 [Brenda Trenowden]

109 See paragraphs 63–4 for further discussion of the Hampton-Alexander Review.

110 For example, Phase Eight reports a 54.5% median pay gap in favour of men, and has a reported 97.5% female workforce. Figure based on analysis of reported data for 2017–18.

111 Unilever, Gender Pay Gap Report 2017. At Unilever, the proportion of women in management positions improved from 42% in 2010 to 51% in 2017.

commission-based rewards if not carefully designed.[112] We heard the case for simplicity, as well as transparency: the founder of the Equal Pay Portal, Sheila Wild, told us that "As a rule of thumb, the simpler the pay system, the less likely you are to get a gender pay gap."[113]

52. The evidence we have received has identified a range of initiatives, practices and policies that have been used to address the gender pay gap. We list some of these below:

- Encouraging flexible working throughout the organisation, including at senior levels;[114]
- Providing the same paternity leave as maternity leave.[115]
- Providing training on unconscious bias and addressing assumptions around women's preferences in allocating work, which can lead to management deliberately not allocating high profile work involving unsocial hours to women with children.[116]
- Enhanced benefits for family leave and parental leave policies, including specific programmes for those returning;[117]
- Establishing women's networks and informal discussion groups;[118]
- Improving outreach work: engagement using "female-friendly branding" with universities and local schools by companies in traditionally male sectors to address cultural perceptions;[119]
- Initiating targeted and comprehensive recruitment campaigns, including careful use of language, targeted at recruiting more female STEM, technology and computer science school leavers, apprentices and graduates; use of gender-neutral application forms and short-lists;
- Focussing support on promoting women into lower tiers of management early, as well as developing the pipeline of talent in more senior management roles;[120]
- Supporting women through the provision of individual mentoring, coaching and sponsorship to help women navigate the career ladder;[121]
- Reverse mentoring, to enable senior executives to better understand the career experiences of junior women in the organisation;
- Championing women in industry, with networking activities and sponsored awards events;[122]

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112 Hugo Boss (CPG0019)
113 Q218
114 PwC told us that 24% of female partners and 9% of male partners worked on flexible contracts [Q178]; Q20 [Alice Hood]; Easyjet have pilots working half-time and promote part-time working Q81 [Sophie Dekkers]
115 Q31, provided by Aviva, for example.
116 Q176 [Laura Hinton]
117 Eg at Slaughter and May; Q171 [Louise Meikle] and Vodaphone, Q61 [Brenda Trenowden]
118 Q97 [Kevin Goodman], set up by Easyjet and Babcock for example
119 Q100 [Kevin Goodman]; Q122 [Sheila Flavell]
120 Q17 [Alice Hood]
121 Q81 [Sophie Dekkers] and Q176 [Laura Hinton]
122 Q119 [Sheila Flavell]

- Reviewing mechanisms for allocating work, to check they are not subject to biased assumptions;

- Setting targets: for the recruitment of women,[123] or for achieving a gender balance in specific parts of the business, including at senior levels;

- Addressing complex pay systems, including strong elements of discretionary pay, such as bonuses, which are vulnerable to conscious and unconscious bias and policies on allowances and incentives that increase the pay gap;[124]

- Undertaking equal pay audits: organisations examining the extent and causes of their pay gaps, and checking that they are providing equal pay for work of equal value. Are pay rates between different functions are warranted? For example, should traditionally "male" roles in more physical roles be paid more highly than more "female" roles in administrative support and human resources? Are any such gaps justified and to what extent do these contribute to the pay gap?

53. There are a vast number of ways in which organisations can tackle their gender pay gaps. We do not believe that there is a one-size-fits-all set of measures that each should adopt. It is not for Government to prescribe the precise measures to be adopted, although it has a role in setting the policy landscape, as discussed below. **Organisations cannot rely on excuses about societal attitudes and trends to avoid examining their own contribution, conscious or otherwise, to their gender pay gaps and the effectiveness of their measures to address them. They must take responsibility for closing these gaps by taking effective action. We conclude that it is up to organisations themselves to identify which measures are most likely to work for them and, as indicated, earlier, to report on these steps in an action plan to be included as part of reporting on their own gender pay gaps. Businesses should recognise the business case for maximising the contribution that women can make and reform policies and practices, notably around rewards for part-time work and promotion, that contribute to perpetuating the gender pay gap. If organisations fail to act effectively, more intervention may be required.**

Setting targets

54. The setting of targets has been a driver of achieving greater representation of women at senior levels in organisations and improving diversity more generally. We discuss below the impact of setting targets on improving board diversity, for example. Organisations should be ambitious and set stretching targets that are right for their circumstances. Targets may potentially relate to recruitment or proportion of women at different levels of seniority rather than the gender pay gap itself. The potential pace of reducing the gender pay gap figures is affected by the existing workforce structure and can always be affected by major events such as mergers and acquisitions. We have argued that it is right that companies take responsibility for examining their own circumstances, diagnosing the causes of their own pay gap and setting their own ambitious but realistic targets. We heard that PwC had tangible targets for senior managers across all of its 40 separate business units.[125] These may be for the near or longer term: companies with a high gender pay gap may reasonably expect the reduction and eradication of their pay gap to take longer. For

123 Q87 [Sophie Dekkers], for example 20% by 2020 for Easyjet
124 Q218 [Sheila Wild]
125 Q174 [Laura Hinton]

example, Linklaters set itself a target of doubling the number of women on its governance and management boards, albeit to a still-low 30%.[126] Witnesses argued that it may in fact be unrealistic to pursue a pay gap of exactly zero due to the effects of routine changes in personnel, but a range of plus or minus 3% would be indicative of a properly gender balanced workforce that companies could be expected to maintain.[127] We agree. A step by step by step approach with tiered targets over time may be a sensible way forward.

55. In setting targets, organisations should balance the pressure for securing visible signs of progress in the short term with the need to secure long term sustainable solutions. For example, if a company, in an effort to make long-term improvements in the pipeline of senior women, recruits a higher proportion of women at the start of their career, their pay gap may actually increase for a few years, before these women rise through the ranks.[128] This underlines the need for a narrative to accompany the bald figures. The wide variations in the size of the gaps between different sectors can be explained in part by employment patterns which may take some time to shift. Some elements of solutions, such as careers advice/skills, are best progressed at a sectoral level, and responsibility must be accepted by the relevant trade bodies and representative groups. A blanket target across the economy would be a blunt and inappropriate tool with which to tackle the problem. However, there are wide variations in the gender pay gaps of companies within the same sector, reflecting the different approaches used by companies and also, no doubt, different degrees of commitment to reducing the gaps. ***We recommend that sector representative bodies work with their members and other stakeholders, such as the Chartered Institute of Professional Development and the trade unions, to develop and publicise ambitious and stretching long term targets for reducing gender pay gaps. They should also develop practical guidance on what measures have been found to work most effectively in their sectors and encourage best practice in implementing such measures. If such stretching targets are not established, the Government should be prepared to step in and set mandatory targets on a sector by sector basis.***

Driving Change

Role for boards

56. No matter how many eye-catching schemes and initiatives a company introduces, without visible and convincing leadership and commitment from the board, they are liable to fail. Analysis suggests that 93% of men work for a company that pays them equally or better than women.[129] The width of the gender pay gaps at many of these companies indicates that far too few have been taking effective steps to ensure acceptable levels of gender diversity across all levels of the workforce. Close the Gap reported on their research about Scotland which showed that while almost all companies had an equal pay policy in place, less than a third had undertaken a gender pay review and only 3% had taken any action to address pay gaps.[130] Research by the Government Equalities Office indicates that the vast majority of employers surveyed had no pay reviews planned because they considered they already provided equal pay.[131] This points to a lack of recognition or

126 Linklaters, (CPG0020)
127 Association of Accounting Technicians (CPG0005); Q32 [Brenda Trenowden]
128 Association of Accounting Technicians (CGP0005)
129 Financial Times, Gender pay gap: how women are short-changed in the UK, 5 April 2018
130 Close the Gap (CGP0015)
131 As above

understanding of the difference between equal pay and the gender pay gap. There may be practices in place that are not directly discriminatory (and therefore illegal) but, perhaps unknowingly, nonetheless contribute to perpetuating the gender pay gap.

57. Even those companies genuinely committed to reducing the gap have to work extremely hard to accurately identify and address the causes of their pay gaps. We heard from PwC that they had concluded that their programmes and support mechanisms were "not moving the dial";[132] too much focus had been on women to change, rather than a focus on changing the culture of the organisation.[133] Cultural change needs to come from the top, and a diverse board will help in this process. According to the Financial Times, companies with female chief executives have an average median gender pay gap of 11 per cent, compared with 17.4 per cent at companies where the chief executive is a man.[134] This argument stands on top of the existing weight of evidence on the positive impact of board diversity on company performance.[135]

58. The campaigning group, the 30% Club, told us that if an issue is not one of the leadership's top five priorities, "nothing is going to happen".[136] Sheila Flavell, CEO of FDM Group, explained why the median gender pay gap is non-existent at her company: "It is a commitment from the top. It is just embedded in the culture of FDM".[137] Laura Hinton from PwC agreed that it was about leadership and "tone from the top". This is borne out by statistics showing that women CEOs have more than twice the number of women on their executive committees than male CEOs.[138] Addressing the gender pay gap should be made a priority and be reflected in reward structures. If a proportion of the Chief Executive's bonus was dependent on reducing the gender pay gap over time, progress might be quicker, and there are established means of holding the CEO to account. In companies that have significant pay gaps, relevant board members, including CEOs, should have appropriate objectives and Key Performance Indicators.[139] We heard from the 30% Club that 36 CEOs in the FTSE 100 had signed up to targets for 2020.[140] We trust that this figure will rise significantly by the time of next year's annual reporting cycle. Companies at which there is a demonstrable commitment to promoting gender equality at the highest level are also more likely to attract more women in the first place. ***We recommend that company boards introduce Key Performance Indicators for reducing and eliminating their pay gaps and that Remuneration Committees, in reporting on pay policy, should explain how this commitment to reducing the pay gap is being reflected in their decisions.***

Role for Government

59. Whilst businesses need to take action to address their own pay gaps, it is up to Government to set the agenda and drive the pace of change, using all the policy tools it has at its disposal. The Government's approach must be joined up; many different

132 Q175
133 Q204 [Laura Hinton]
134 Financial Times, Progress on gender diversity stall at UK's biggest companies, 16 July 2018
135 Q17 [Sam Smethers]; research by McKinsey & Company, Delivering through diversity, January 2018, indicated that for every 10 percent increase in gender diversity at a senior level in major UK companies, EBIT rose by 3.5 %. See also MSCI blog, The tipping point: women on boards and financial performance; The Pipeline, Women Count 2018, July 2018
136 Q20, [Brenda Trenowden]
137 Q120
138 The Pipeline, Women Count 2018, July 2018
139 Q176
140 Q35 [Brenda Trenowden]

departments have a role to play. From the very start, education policies need to avoid gender stereotyping; the pay gap will only diminish in the long term when more equal numbers to go into both the high and lower paid sectors and roles. We have referred to the motherhood penalty; the Government should work with businesses to devise policies that provide support for those returning to the workforce after breaks for family or caring leave. Both Government and businesses should address the stereotypes that see mothers bearing the larger share of caring responsibilities and seek to ensure that pay policies do not inadvertently reinforce them, for example in granting caring leave.[141] There are strong arguments that the cost of childcare, which are relatively high in this country compared to many in mainland Europe and increasing much faster than wages,[142] needs to be brought down, in order to make a return to work more financially attractive. **We are not persuaded that all parts of Government are sufficiently joined up on this issue to ensure that policy decisions in different departments consciously are supportive of addressing the gender pay gap.** ***We recommend that the Government Equalities Offices makes clear in its annual report the steps it is taking to co-ordinate government policy on this issue.***

60. The Government should also lead by example. At the moment, it is failing to do so. All but three Government departments have a gender pay gap in favour of men, with the only the Department of Health and Social Care seeing women being paid, on average, more than men. The Department for Transport has the highest median gender pay gap, of 22.6%.[143] We have already drawn attention to the lack of women appointed to executive roles in partner organisations to the Department for Business, Energy and Industrial Strategy: seven out of 47 Chief Executives and only four Chairs are women.[144] The Department itself has a pay gap of 15%, well above the average of all departments of around 10%. Parliament itself also has work to do. Whilst the median gender pay gap in the House of Commons is less than 2%, the top pay quartile is predominantly men and the median bonus gap is 43% in favour of men.[145] ***We recommend that Government departments with significant gender pay gaps set ambitious targets for reducing such gaps and report on progress each year.***

Long term

61. It is important that the Government works on a cross-party basis to establish and pursue policies that will need to extend beyond one or two Parliaments. We are in no doubt that the elimination of the gender pay gap will take time; the Prime Minister has spoken about closing the gap for good within a generation.[146] Those sectors that rely heavily on STEM graduates may have to work particularly hard to effect change. Some 15% of engineering graduates in 2017 were female.[147] Construction companies told us that even if there were a significant increase in the numbers of women starting next year, it would take "more than a decade" for these women to begin to have an impact on the

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141 Q31 [Brenda Trenowden]
142 Q31 [Alice Hood and Sam Smethers]
143 Financial Times, Government departments reveal gender pay gap, 18 December 2018
144 Letter from BEIS Permanent Secretary to Committee, 18 April 2018. The figure for Chairs includes the Pubs Code Adjudicator and the Groceries Code Adjudicator.
145 House of Commons, Gender pay gap report 2017–18
146 Evening Standard, Gender pay gap: Theresa May vows to tackle "burning injustice" as firms race to report figures by midnight, 4 April 2018
147 Balfour Beatty (CPG022)

pay gap figures[148] and in the short term the figures may get worse as they recruit at lower levels.[149] In the technology sector, witnesses thought that the gender pay gap might be closed in ten years.[150] Witnesses from airlines and the engineering sectors stressed that, given current low levels of women in the sectors, it would take time for current efforts on recruitment to filter through to improved figures and were not prepared to venture a time scale.[151] In law firms and audit companies operating as partnerships, partners tend to remain for a long while,[152] so quick solutions are difficult. **We recognise that solutions are complex and involve, to some degree, cultural change which takes time. However, the fact that the road may be long must not stop companies starting down it at pace; the overall rate of change in society depends upon the ambition and commitment of the companies and organisations forming the backbone of the economy.**

Role for businesses in procuring services

62. Businesses themselves have a role to play in promoting diversity when securing services from other businesses. When providing teams of consultants or bidding for work, companies are increasingly being asked to demonstrate their commitment to diversity by delivering their services with gender balanced teams.[153] But this is far from universal practice at present. Peer to peer business pressure has a crucial role to play in changing the expectations and norms around best business practice. This is an opportunity for businesses to drive change. ***We recommend that businesses and organisations in the public and voluntary sectors should make it standard practice to include a tangible commitment to diversity in any tendering exercise or other provision of services.***

Role for investors

63. Similarly, shareholders should be demanding greater diversity, and challenging boards to demonstrate that they are taking action to address gender pay gaps. Following the Hampton-Alexander Review, established by the Government in 2016, there is a target of one third of executive positions in FTSE 350 companies being held by women by 2020. There has been good progress towards this target: the latest figure is 28%. The number of all male boards on the FTSE 350 has fallen from 152 in 2011 to ten this year, although it is still depressing that there can be any all-male boards still left.

64. Unfortunately, it is clear that some old-fashioned attitudes to the role of women in the workplace still linger in some of the boardrooms of our biggest companies. Comments from Chairs and CEOs of FTSE 350 companies explaining why they had not appointed more women to the board were recently published by the Hampton-Alexander Review. They make astonishing reading:

- 'I don't think women fit comfortably into the board environment';
- 'There aren't that many women with the right credentials and depth of experience to sit on the board—the issues covered are extremely complex';

148 Balfour Beatty (CPG0022)
149 Q95 [Jo Volk]; CIPD (CPG0018)
150 Q141 [Sheila Flavell]
151 Qs 142–3 [Sophie Dekkers and Jo Volk]
152 Q227 [Louise Meikle]
153 Q131 [Sheila Flavell]

- ‘Most women don’t want the hassle or pressure of sitting on a board’;
- ‘We have one woman already on the board, so we are done—it is someone else’s turn’.[154]

Comments such as these serve to explain why the numbers of women appointed to boards in executive roles have been so small. Whilst women now account for 28% of directors in the FTSE, there are still only 24 female executive directors in the FTSE 100 and only 61 in the FTSE 350.[155] There are still only 19 women Chairs in the FTSE 350.[156] Nearly a quarter of FTSE 350 companies have no women on their executive committees and the proportion of women making up executive committees has remained at only 16% for the last two years.[157] This imbalance does not chime readily with the messages we get from business leaders about the importance of supporting and promoting women to fulfil their potential. There is clearly a long way to go before women are universally accepted as capable of running large companies and contributing fully to their management. The low numbers of women in executive positions can only hinder progress: gender pay gaps are highest in sectors with some of the lowest numbers of women executives[158] and the five companies in the FTSE 100 with all-male executive boards, and that are required to report, all have gender pay gaps well above average, including one with a gender pay gap of 46%.[159]

65. We were encouraged to hear that investors, through the 30% Club, are now collaborating more on exerting influence, on a cross sector basis.[160] Major institutional investors are in a position to drive change and some of them are now doing so. The Director of Corporate Governance at Legal & General Investment Management, Sacha Sadam, recently asserted that they “see diversity as a key business issue” and have been voting against all male boards since 2015.[161] We see no reason why any investors are still voting for all male boards. The major investors should be setting an example in responsible stewardship and asserting themselves to ensure that diversity is reflected more visibly, at board level. Shareholders should be holding to account those executives who do not meet their objectives and fail to take sufficient action to address their gender pay gaps. At present, there is no mention at all of diversity in the Stewardship Code,[162] which provides guidance, on a comply or explain basis, to institutional investors in UK listed companies. Similarly, there is no encouragement or guidance for investors to apply pressure to companies to meet their obligations under the Corporate Governance Code (see below). The Stewardship Code is due to be reviewed later this year. ***We recommend that the Financial Reporting Council’s proposals for a revised Stewardship Code include reference to ensuring that gender diversity is properly reflected throughout the company, notably at board level.***

154 BEIS, News story, 31 May 2018
155 Q135 [Sheila Flavell]
156 The Pipeline, Women Count 2018, July 2018
157 The Pipeline, Women Count 2018, July 2018
158 The Pipeline, Women Count 2018, July 2018
159 Hampton-Alexander Review, FTSE Women Leaders, November 2017. The five companies are Barclays PLC (14%), BP PLC (19%), Provident Financial PLC (31%), Smurfit Kappa Group PLC (15%) and St James Place PLC (46%).
160 Qs 35 & 65 [Brenda Trenowden]
161 Quoted in BEIS, News story, 31 May 2018
162 FRC, The UK Stewardship Code, published in September 2012

Role for the regulators

66. Reducing the gender pay gap goes hand in hand with efforts to address the lack of diversity in too many boardrooms: there are still around 100 FTSE 350 companies with one woman or none on their boards. The links between diverse boards and better decision making are well established.[163] This is about improving performance as well as fairness. The drive to improving diversity should therefore be fully reflected in the regulatory landscape. The Financial Reporting Council's (FRC) revised Corporate Governance Code, published on 16 July 2018 makes more explicit reference to diversity than its predecessor. It advises that appointments are made on merit against objective criteria, and that companies, in making appointments, should promote "diversity of gender, social and ethnic backgrounds, cognitive and personal strengths." It also requires them to report on how they are improving the diversity of the senior staff pipeline and to explain how the implementation of its policy on diversity and inclusion have been implemented and how they serve strategic objectives.[164] It also stipulates that the remuneration committee, in reporting on pay policy, should seek to justify executive pay with reference to measures including pay ratios and gender pay gaps.[165]

67. Whilst these revisions are an improvement, we still do not believe they go far enough in directing companies to take specific steps to address any gender pay gaps that they may have. We have called for a commentary on the gender pay gap figures and action plan to address it to be included in remuneration reports, as part of the reporting cycle. **We support the provisions in the new Corporate Governance Code to improve reporting obligations on actions taken to increase diversity in the management pipeline and the broadening of its interpretation of diversity. But the revision could go further. We regret that the Financial Reporting Council has not included specific provision for reporting requirements to include measures to be taken to address any gender pay gap.** ***We urge the Financial Reporting Council to monitor the quality of reporting on gender diversity and the pay gap in annual reports and to press for improvements where necessary.***

163 Eg EY, Women: Fast Forward, 2015; The Pipeline, Women Count 2018, July 2018
164 FRC, Proposed Revisions to the UK Corporate Governance Code, December 2017.
165 FRC, The UK Corporate Governance Code, July 2018

5 Conclusion

68. No competitive economy can afford to underuse the productive capabilities of half the population in the way the UK manages to do at the moment. The gender pay gap reporting requirements have demonstrated the unacceptable degree to which women are paid less than men. The requirements to publish data represent a small but welcome step towards ensuring that women can make their fullest possible contribution in the workplace and to the economy. Whilst there have been teething problems around the detail of the new requirements, the early signs are that most organisations have engaged with the process constructively and compliance has been very good. Some companies have been forced to face up to uncomfortable truths about the extent of their gender pay gaps and will now need to demonstrate that rhetoric around a commitment to diversity will be turned into concrete performance indicators for chief executives and new policies around recruitment, development and promotion. We regret that a small number of companies are still in denial or seeking to avoid acknowledging a share of responsibility.

69. The new reporting regime is a step forward, but its full potential has not yet been realised. We are calling for the Government to be more ambitious, by requiring more detailed statistics to be provided to aid analysis and, crucially, by requiring organisations to explain what they are doing to tackle their gender pay gaps. Leadership from the very top is essential to delivering the change of mindset needed in so many businesses and it is primarily up to shareholders to hold them to account for their performance. An improved set of reporting requirements should act as a catalyst to steepening sharply the current gentle trajectory in reducing the gender pay gap. Cultural change is needed to ensure that genuinely gender-neutral policies and practices become part of the DNA of every organisation at every level. We recognise that this will take longer in some sectors than others, but some companies have proved that strong leadership and commitment can achieve success in a relatively short period.

70. Long term success in achieving pay parity will depend upon a combination of the re-orientating of reward structures to meet our evolving working practices and preferences; eliminating conscious and unconscious bias and any residual discrimination; encouraging women to choose careers where the rewards are higher and have been traditionally dominated by men; and supporting women within the workplace to tackle the motherhood and part-time penalties that are the remnants of outdated attitudes towards the place of women in the workplace.

71. We welcome the focus provided by the gender pay gap reporting regulations and will be monitoring the implementation of the changes we have recommended to improve their effectiveness, and contribute to the delivery of a society in which women can expect to achieve similar financial rewards to men.

Conclusions and recommendations

Lessons learnt from the introduction of new reporting requirements

1. In this first year of reporting, it is clear that many organisations had difficulty in producing the figures required, or were reluctant to devote the resources to doing so. The resulting set of figures published initially was therefore inaccurate, although to an unknown degree. *We recommend that the Government works with the Equalities and Human Rights Commission, business groups and other stakeholders to clarify outstanding areas of ambiguity and to publish revised guidance accordingly. We also recommend that the Government reviews the gender pay gap reporting requirements with a view to aligning them with other business reporting requirements from next year.* (Paragraph 9)

2. *We recommend that organisations are required to provide some narrative reporting alongside their gender pay statistics and an action plan setting out how pay gaps are being and will be addressed, including objectives and targets. Subsequent report should report progress against this action plan, including targets set. The Equalities and Human Rights Commission and Government Equalities Office should work with stakeholders on developing suitable guidance as to content.* (Paragraph 12)

3. We see no excuse for businesses of any size to have failed to engage with these well-publicised new requirements in good time. Whilst it should not require the threat of legal action to ensure compliance, the EHRC should have been much clearer and a much earlier stage about its intended use of sanctions against those who failed to comply. (Paragraph 14)

4. We welcome that full compliance has apparently been achieved, after effective dispute resolution by the EHRC. However, we need to be confident that full compliance can be achieved each year; and this can only be guaranteed if all qualifying organisations are known, and that the list is kept up to date. *We recommend that the Government publish and maintain a definitive list of all organisations that fall within the scope of the Gender Pay Gap Regulations.* (Paragraph 17)

5. Given the unwieldiness of its enforcement mechanisms, we support the EHRC's focus on securing compliance by education and engagement. We welcome its success in securing full compliance relatively quickly after the deadline and without recourse to its investigatory powers. Nonetheless, the threat of legal action must be both clearly available and seen to be useable. The investigatory and enforcement mechanisms available to the EHRC are not suited to the relatively straightforward task of securing the submission of specified data by a required date. The then Government was remiss in failing to provide legal certainty as to the available enforcement mechanisms and sanctions for breaches of the Regulations. (Paragraph 20)

6. Next year, there should be no excuse for failure to submit accurate figures by the deadline and organisations should expect to receive a fine for not doing so. *We recommend that the Government, at the next available opportunity, ends the legal uncertainty surrounding the ECHR's enforcement powers by providing for specified fines for non-compliance.* (Paragraph 21)

Gender pay gap: what the figures show

7. *We recommend that when the Regulations are amended, the requirement for information on salary quartiles is changed to deciles.* (Paragraph 32)

8. Businesses need to adapt to the growing prevalence of flexible working, more evenly shared caring responsibilities and multi-job careers by demonstrating that part-time workers can expect to be fairly rewarded and also can reach the top. Senior positions should not be the exclusive preserve of those that are prepared to work full time or, as is often the case, far more than full time. By publishing pay gap statistics for part-time and full-time employees, organisations would have to explain any substantial discrepancies, and begin to address them. *We recommend that when the Regulations are amended that both part-time and full-time gender pay gap statistics are required to be published.* (Paragraph 34)

9. The publication of bonus figures by gender will force organisations to look carefully at their policies on bonuses: they must check that their policies are not, however inadvertently, perpetuating inequality and unfairness. (Paragraph 35)

10. *We recommend that when the Regulations are amended, the way in which bonus calculations are made is altered so that it is on a pro-rata basis and that this change is accompanied by the publication of clear guidance on the method of calculation.* (Paragraph 36)

11. *We recommend that the qualifying threshold remains at 250 employees next year, but the following year be reduced to organisations of 50 employees or more. We further recommend that the Government provides the necessary support, particularly in terms of guidance, to smooth this transition.* (Paragraph 38)

12. The exclusion of the highest paid people in organisations makes a nonsense of efforts to understand the scale of, and reasons behind, the gender pay gap. The Government was wrong to omit the remuneration of partners from the figures required in the Regulations. It is disappointing that some of our leading providers of professional services initially sought to avoid revealing the true extent of the gender imbalance at the top of their companies and more disappointing that one—Allen & Overy—continues to delay publication. We agree with witnesses that the initial lack of clarity was unhelpful and *we recommend that the Government uses the guidance to clarify how data on partner pay should be calculated and included in time for the publication of data next year.* (Paragraph 43)

13. *We recommend that the Government consults upon introducing requirements to collect and report pay gap data in respect of disability and ethnicity and, subject to this consultation, introduces this requirement in time for publication in 2020.* (Paragraph 44)

14. *We recommend that the Government works with relevant stakeholders and seeks to amend the information required by the Regulations in the way we have recommended, so that it can better help to underpin the main purpose of the policy: incentivising businesses and other organisations to address their gender pay gaps.* (Paragraph 46)

Tackling the gender pay gap

15. We do not believe that this public naming and shaming on an annual basis will be enough, by itself, to remedy the situation in the long term. (Paragraph 47)

16. Increased transparency may be uncomfortable for some individuals, and needs to be handled with care for data protection reasons, but a cultural shift towards greater transparency on pay is a necessary part of long term efforts to remove the gender pay gap and should be encouraged. (Paragraph 49)

17. Organisations cannot rely on excuses about societal attitudes and trends to avoid examining their own contribution, conscious or otherwise, to their gender pay gaps and the effectiveness of their measures to address them. They must take responsibility for closing these gaps by taking effective action. We conclude that it is up to organisations themselves to identify which measures are most likely to work for them and, as indicated, earlier, to report on these steps in an action plan to be included as part of reporting on their own gender pay gaps. Businesses should recognise the business case for maximising the contribution that women can make and reform policies and practices, notably around rewards for part-time work and promotion, that contribute to perpetuating the gender pay gap. If organisations fail to act effectively, more intervention may be required. (Paragraph 53)

18. *We recommend that sector representative bodies work with their members and other stakeholders, such as the Chartered Institute of Professional Development and the trade unions, to develop and publicise ambitious and stretching long term targets for reducing gender pay gaps. They should also develop practical guidance on what measures have been found to work most effectively in their sectors and encourage best practice in implementing such measures. If such stretching targets are not established, the Government should be prepared to step in and set mandatory targets on a sector by sector basis.* (Paragraph 55)

19. *We recommend that company boards introduce Key Performance Indicators for reducing and eliminating their pay gaps and that Remuneration Committees, in reporting on pay policy, should explain how this commitment to reducing the pay gap is being reflected in their decisions.* (Paragraph 58)

20. We are not persuaded that all parts of Government are sufficiently joined up on this issue to ensure that policy decisions in different departments consciously are supportive of addressing the gender pay gap. *We recommend that the Government Equalities Offices makes clear in its annual report the steps it is taking to co-ordinate government policy on this issue.* (Paragraph 59)

21. We recommend that Government departments with significant gender pay gaps set ambitious targets for reducing such gaps and report on progress each year. (Paragraph 60)

22. We recognise that solutions are complex and involve, to some degree, cultural change which takes time. However, the fact that the road may be long must not stop companies starting down it at pace; the overall rate of change in society depends upon the ambition and commitment of the companies and organisations forming the backbone of the economy. (Paragraph 61)

23. *We recommend that businesses and organisations in the public and voluntary sectors should make it standard practice to include a tangible commitment to diversity in any tendering exercise or other provision of services.* (Paragraph 62)

24. *We recommend that the Financial Reporting Council's proposals for a revised Stewardship Code include reference to ensuring that gender diversity is properly reflected throughout the company, notably at board level.* (Paragraph 65)

25. We support the provisions in the new Corporate Governance Code to improve reporting obligations on actions taken to increase diversity in the management pipeline and the broadening of its interpretation of diversity. But the revision could go further. We regret that the Financial Reporting Council has not included specific provision for reporting requirements to include measures to be taken to address any gender pay gap. *We urge the Financial Reporting Council to monitor the quality of reporting on gender diversity and the pay gap in annual reports and to press for improvements where necessary.* (Paragraph 67)

Formal minutes

Monday 23 July 2018

Members present:

Rachel Reeves, in the Chair

Vernon Coaker	Albert Owen
Peter Kyle	Mark Pawsey
Sir Patrick McLoughlin	Anna Turley

Draft Report (*Gender Pay Gap Reporting*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 71 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Twelfth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 12 September at 9.45 am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Tuesday 17 April 2018

Question number

Sam Smethers, Chief Executive, Fawcett Society; **Brenda Trenowden**, Global Chair, 30% Club; and **Alice Hood**, Joint Head of Equality and Strategy Department, Trades Union Congress — Q1–66

Tuesday 15 May 2018

Kevin Goodman, Group Director of Organisation and Development, Babcock; **Sophie Dekkers**, UK Director, easyJet; **Sheila Flavell**, Chief Operating Officer, FDM Group; **Jo Volk**, Director of Talent and Development, Balfour Beatty — Q67–143

Louise Meikle, Director of HR, Slaughter and May; **Laura Hinton**, Chief People Officer, PricewaterhouseCoopers; **Sheila Wild**, Founder, Equal Pay Portal; **Seamus Nevin**, Head of Policy Research, Institute of Directors — Q144–228

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

CGP numbers are generated by the evidence processing system and so may not be complete.

1 Association of Accounting Technicians (AAT) (CGP0005)

2 Association of British Insurers (ABI) (CGP0014)

3 Balfour Beatty (CGP0022)

4 BRC (CGP0012)

5 British Airways / IAG (CGP0021)

6 CHARTERED INSTITUTE OF PERSONNEL & DEVELOPMENT (CGP0018)

7 Chartered Insurance Institute (CGP0009)

8 Close the Gap (CGP0015)

9 Dr Ben Worthy (CGP0017)

10 EEF, the manfuacturers' organisation (CGP0001)

11 Fawcett Society (CGP0010)

12 Hermes Investment Management (CGP0006)

13 HUGO BOSS UK Limited (CGP0019)

14 ICSA: The Governance Institute (CGP0007)

15 Institute of Directors (CGP0011)

16 Linklaters (CGP0020)

17 Mr John Nichols (CGP0002)

18 Ms Sheila Wild (CGP0003)

19 Pinsent Masons (CGP0004)

20 TUC (CGP0008)

21 UN Women National Committee UK (CGP0013)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	A framework for modern employment	HC 352 (HC 966)
Second Report	Leaving the EU: implications for the civil nuclear sector	HC 378 (HC 881)
Third Report	The safety of Electrical Goods in the UK	HC 503 (HC 920)
Fourth Report	Pre-legislative scrutiny of the draft Domestic Gas and Electricity (Tariff Cap) Bill	HC 517 (HC 865)
Fifth Report	The impact of Brexit on the automotive sector	HC 379 (HC 1018)
Sixth Report	The impact of Brexit on the aerospace sector	HC 380 (HC 1049)
Seventh Report	The impact of Brexit on the processed food and drink sector	HC 381
Eighth Report	Pre-appointment hearing with the Government's preferred candidate for Chair of the Competition and Markets Authority	HC 985
Ninth Report	The impact of Brexit on the pharmaceutical sector	HC 382
Tenth Report	Carillion	HC 769
Eleventh Report	Pre-appointment hearing with the Government's preferred candidate for Chair of Ofgem	HC 1353
Twelfth Report	Draft National Policy Statement for Geological Disposal Infrastructure	HC 1092
First Special Report	Industrial Strategy: First Review: Government Response to the Committee's Second Report of Session 2016–17	HC 337
Second Special Report	Corporate governance: Government Response to the Committee's Third Report of Session 2016–17	HC 338
Third Special Report	Apprenticeships: Government Response to the Second Joint Report of Session 2016–17	HC 450
Fourth Special Report	Leaving the EU: negotiation priorities for energy and climate change policy: Government Response to the Committee's Fourth Report of Session 2016–17	HC 550

Fifth Special Report	Pre-legislative scrutiny of the draft Domestic Gas and Electricity (Tariff Cap) Bill: Government Response to the Committee's Fourth Report	HC 865
Sixth Special Report	Leaving the EU: implications for the civil nuclear sector: Government response to the Committee's Second Report	HC 881
Seventh Special Report	The safety of Electrical Goods in the UK Government Response to the Committee's Third Report	HC 920
Eighth Special Report	A framework for modern employment: Government response to the Second Report of the Work and Pensions Committee and First Report of the Business, Energy and Industrial Strategy Committee of Session 2017–19	HC 966
Ninth Special Report	The impact of Brexit on the automotive sector: Government Response to the Committee's Fifth Report	HC 1018
Tenth Special Report	The impact of Brexit on the aerospace sector: Government Response to the Committee's Sixth Report	HC 1049
Eleventh Special Report	The impact of Brexit on the pharmaceutical sector: Government Response to the Committee's Ninth Report	HC 1426