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Treasury Committee

Women in finance: Government Response to the Committee's Fifteenth Report

Sixth Special Report of Session 2017–19

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The Treasury Committee

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Committee staff

The current staff of the Committee are Sarah Rees (Clerk), Peter Stam (Second Clerk), Gavin Thompson, Marcus Wilton and Dan Lee (Senior Economists), Adam Wales (Chief Policy Adviser), Sarah Crandell (Senior Committee Assistant), Nick Berry (Committee Support Assistant), Matt Panteli (Senior Media and Policy Officer), Anne Stark (on secondment from HM Revenue & Customs), Tom Ludlow (on secondment from the Bank of England), Carolyn Draper (on secondment from the Financial Conduct Authority), and Mei Jie Wang (on secondment from the Prudential Regulation Authority).

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Sixth Special Report

On 13 June the Treasury Committee published its Fifteenth Report of Session 2017–19, *Women in finance* (HC 477). The Government's response was received on 10 August 2018.

Government Response

I would like to take this opportunity to thank the Treasury Committee, and you personally as Chair, for the inquiry and report into Women in Finance. As your Committee clearly identified, we have a problem when it comes to the representation of senior women in the financial services sector. A combination of non-inclusive cultural, recruitment and remuneration practices have resulted in a woefully low number of women in leadership levels, and this is both morally wrong and damaging to the sector's productivity. Both Victoria and myself were delighted to have the opportunity to provide evidence to your inquiry. I hope we made it clear that Government believes a balanced workforce is good for business, for customers, for profitability and for workplace culture. The moral and economic case for gender balance is evident, and that is fundamental to Government initiatives on this agenda, particularly gender pay gap reporting and the Women in Finance Charter.

Barriers to gender diversity

I welcome entirely your Committee's analysis and recommendations to the sector set out in the report (Paragraphs 22–25, 43–47 and 72–78). There is no doubt that workplace culture is a vital part of solving this puzzle. The culture of a firm or sector can have a significant impact on the progression of women, and this can be one of the toughest issues to address. However, I am encouraged by the specific actions that firms who have signed the Women in Finance Charter are taking to create genuine cultural change in their organisation. Many of our signatory firms are improving their approach to flexible working by making agile working more accessible, acceptable and visible. This includes introducing policies such as job-sharing and compressed hours. Another way in which firms can change the culture of their organisation is by equipping senior leaders with the practical tools and techniques to 'call out' non-inclusive behaviour and language.

The issue of unconscious bias is important and we are encouraged that firms who have signed

the Charter are increasingly helping staff understand and identify their potential for bias. A number of the signatories featured in the first Annual Review are providing workshops to give senior managers and the wider workforce the tools and strategies to eliminate bias in hiring and performance management. Firms showing willlingness to tack le unconscious bias can only be a good thing in the pursuit of gender diversity.

Government responses

On the subject of the Treasury's Women in Finance Charter, I welcome your Committee's recognition of the impact of the Charter in raising awareness on gender diversity and intiating change in the financial services sector (Paragraph 115). Your support for the

Charter and the work you have done to encourage firms to sign-up has been very effective. You may have seen that a further 68 firms signed the Charter between March and June this year, including JP Morgan, BNP Paribas Personal Finance, BUPA, Coventry Building Society, PIMCO and Vanguard Asset Management—all of whom were firms you wrote to in February asking why they had not signed the Charter. I'd like to thank you for your personal commitment to this initiative.

I also agree with the report's conclusion that, despite the Charter's success, there is still a long way to go to make the financial services sector more diverse. This includes encouraging gender balance at all levels of seniority (Paragraph 116) and focusing on other forms of diversity in finance (Paragraphs 136–138). We are encouraged by signatories' application of the Women in Finance Charter framework to address other types of diversity in their organisations. Nearly half of signatories have used the Charter framework to set voluntary diversity targets for other under-represented groups such as BAME individuals. If we are to meet the economic and political challenges ahead, we need a meritocracy which promotes diversity across all areas, including race, LGBT, disability, class, and geography.

Gender pay gap

As your report recognises, one of the key ways in which Government is seeking to address the gender pay gap in all sectors is through mandatory gender pay gap reporting. Following legislation introduced in 2017, all large organisations have to publish specific data on their gender pay gap annually. Reporting is an important first step towards eliminating the gap entirely. The requirement will help increase transparency of all the factors underlying the differences in pay between men and women. We have been delighted to see the impact that the new requirements have had in just their first year, capturing the public interest and driving the agenda into the boardrooms of every business. The nature of annual reporting means that organisations will be under both internal and external pressure to make progress on closing their gaps as we enter successive reporting years.

The Government is already working to draw together the evidence on the most effective strategies to improve gender diversity (paragraph 117). An exciting partnership between the Government Equalities Office (GEO) and the Behavi1oural Insights Team is currently improving the evidence base, and drawing useful conclusions, on what can work to close the gender pay gap. The GEO will be using the outcomes of this partnership, to communicate to employers what interventions are the most effective, and are likely to deliver the most positive results. We expect that organisations in the financia l services sector will look to evaluate their current strategies in light of these findings.

With regard to your recommendation concerning gender pay gap reporting and sectoral information, (paragraph 118) we recognise that this detail is vital in order to draw out industry trends. As you are aware, the sectors assigned to organisations are based on their Standard Industrial Classification codes, which are determined by the organisation themselves. It is the responsibility of every business to ensure that their Companies House records, from which the gender pay gap portal draws its classification, is accurate. Nevertheless, the GEO will continue to stress the importance of accurate classifications in future reporting years.

We wholeheartedly agree with the Committee's assessment that those organisations seeking to circumvent the regulations would not be acting in the spirit of the legislation.

We have been impressed with how organisations in financial services have embraced the reporting requirements, and are satisfied that none would seek to compromise the transparency they afford. We are yet to see any evidence of orgnaisations seeking to evade their responsibilities under the regulations. The public nature of the information reported means that it would become obvious if recognisable names weren't meeting this duty, damaging the reputation of the businesses in question.

The Committee made several suggestions for amending and extending the gender pay gap reporting regulations (paragraphs 119, 121 and 122). It is important to recognise that the regulations are still in their infancy, with organisations having only just completed the first year of reporting. The legislation itself is groundbreaking, with no other country asking for this level of transparency, although we will review it in five years. The government believes that this is an adequate timeframe after which we will be able to properply evaluate the regulations and their impact.

With regard to your specific recommendations regarding reporting of partners data (paragraph 119) and reporting by organisations with fewer than 250 employees (paragraph 121) we are pleased to see employers already taking the initiative. As you are aware, many organisations within the financial services sector chose to report data that included partners in addition to their mandatory publication. The number within the sector opting to do this voluntarily put pressure on other firms to follow their lead. There were also a number who, while employing less than 250 people, still opted to publish public figures. We welcome this development, and are pleased to see financial organisations truly embracing the spirit of the legislation in their commitment to enhanced transparency.

I can assure you that all Treasury Ministers, including the Chancellor, are fully supportive of the requirements for employers to publish their gender pay gaps, and believe it is extremely important that the published data is accurate (paragraph 120). The Government Equalities Office is providing ongoing support to organisations with their gender pay gap reporting, and is also helping them to understand their data and how they can put positive plans in place to reduce their gender pay gap.

Diversity at HM Treasury

Turning now to HM Treasury's own diversity policies (paragraph 138), the Treasury collects diversity data for all its employees across a range of characteristics and refreshes these regularly to ensure we understand the makeup of the department. We look at the diversity impact of recruitment, talent management and performance appraisal to understand how these processes have an impact on employees from diverse backgrounds. We also encourage and support a wide range of diverse staff networks whose members can also provide insights into how working at the Treasury can affect different groups.

Regarding the report's recommendation that the Treasury should discuss gender diversity and gender pay gap as frequently as other priorities (Paragraph 127) I can reassure the Committee that this is a very high priority both for myself and the Permanent Secretary. The Treasury is committed to minimising the gender pay gap within the organisation. We have already made improvements to our pay system to shorten pay ranges and thereby improve internal equity. We have also set out an ambitious target of achieving representation of 50% women at every grade in the organisation as part of our Diversity and Inclusion action plan. A particular emphasis has been placed on increasing the representation of women in senior level positions. However, we have also launched several initiatives, including improving our diversity of graduate recruitment and ensuring greater representation of women in our talent programmes, to help achieve this. Over the last two years, we have already seen the number of women increase at Senior Civil Service (SCS) level by 3.2%. At 31st March 2017 50% of our Directors and Director Generals were women and Treasury's executive board has been gender balanced since April 2018.

STEM and childcare

On the matter of encouraging young women into careers in financial services (paragraphs 123 and 124), the Government is already taking forward considerable work in this area. We have invested in programmes to encourage take up in STEM-related subjects and courses, including announcing substantial spending commitments in the Autumn Budget 2017 on maths, digital and technical education.

We are also taking focused action to address existing gender imbalances in the pipeline by improving guidance for STEM careers, including those in financial services. The careers strategy aims to raise awareness of the range of careers that STEM qualifications offer. As part of this the Careers and Enterprise Company has already funded over 170,000 encounters between young people and STEM employers since it was established.

With regard to shared parental leave (paragraph 125), information provided by employers to HM Revenue and Customs suggests that actual take-up is broadly in line with government forecasts. Following the joint £1.Sm promotion campaign, we are evaluating the Shared Parental Leave and Pay schemes, looking at the take-up, barriers to take-up and how the schemes are being used in practice.

Appointments to regulators

Whilst all appointments to the regulators must be made solely on the basis of merit, the Treasury is committed to diversity and encouraging the broadest range of candidates (paragraph 127). The Treasury makes its commitment to diversity and equality of opportunity clear when advertising appointments . It casts the net widely to attract the widest possible pool of candidates irrespective of their background, gender, race, sexual orientation, religion or age, providing they meet the required criteria. As evidence of progress, five out of seven new appointments to the Bank of England since October 2017 have been women.

However, the Treasury recognises that there is more to do, and the Department is proactively working with the public and private sectors to ensure that there is a pipeline of diverse candidates for roles in the future. As the Permanent Secretary has recently outlined in a letter to the Chair of the Committee, this work incorporates a number of actions:

- Sharing best practice across the teams who lead on appointments to regulatory bodies, working closely with the Department's central Public Appointments team and ensuring we consider the latest thinking from the Commissioner for Public Appointments and the recruitment sector more widely;

- Learning from each round of recruitment, reviewing what went well and taking on board feedback from both successful and unsuccessful candidates;
- Understanding and seeking to overcome barriers to attracting a diverse range of candidates, for example through working with specialist headhunters, and seeking to "genderproof" the application process; and
- Carefully considering the composition of recruitment panels and eliminating the scope for unconscious bias. These workstreams will complement the Department's longer-term work to help ensure the finance and economics professions are representative of society as a whole, through initiatives such as the Women in Finance Charter.

Conclusion

HM Treasury is encouraged by the extent to which the issues raised in the report have sparked a national debate and are being taken seriously by lots of firms within industry. Financial services contribute a great deal to the British economy and that is why it is so important the sector reflects wider society. Not only is achieving greater diversity the right thing to do it is also the smart thing to do because it will make the sector more competitive and productive, benefitting everyone. I feel we are making real progress and look forward to continuing to work with the sector to keep up the momentum.

I thank the Committee for its role in furthering this agenda and welcome the helpful conclusions and recommendations in the report. Government is committed to building a country that works for everyone and ensuring greater diversity in financial services is a key part of achieving that ambition.

John Glen	Victoria Atkins
Economic Secretary to the Treasury	Minister for Women