

Ethnicity pay gap reporting: A guide for parliamentarians

September 2023

Introduction

In 2018 the government [acknowledged](#) that “it is time to move to mandatory ethnicity pay reporting” for organisations with over 250 employees, after a consultation launched by the Department for Business, Energy and Industrial Strategy.

In April 2023, however, the government shifted its position and instead published the first ever [voluntary guidance](#) to help employers measure ethnicity pay gaps in the workforce.

Publishing an Ethnicity Pay Gap (EPG) report is a vital first step in identifying and measuring the scale of racial disparities and tackling institutional racism in any organisation. Mandatory reporting is a robust and rigorous way of driving accountability, transparency and action. It enables trade unions, employers and companies to acquire necessary data to assess the effectiveness of their diversity, equity and inclusion strategies.

It is time for the government to honour its original commitment and require mandatory ethnicity pay gap reporting for companies with over 250 employees.

ShareAction and the Runnymede Trust [produced an investor toolkit](#) to help investors understand why the ethnicity pay gap matters, and what they can do to encourage companies to report it. Companies that report their EPG told us the process of reporting drove positive actions to tackle inequality and promote culture change. Those not yet reporting were eager for further government guidance and support, to assist them on their EPG reporting journey.

This policy briefing sets out recommendations to the Government to meaningfully roll out mandatory EPG reporting, and addresses key concerns that are acting as a barrier. Specifically, we want the Government to:

1. **Legislate for mandatory ethnicity pay gap reporting for employers with 250+ employees**
 2. **New legislation should also require employers to publish a supporting narrative and**
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action plan to address any disparities

3. Provide additional guidance on the data disaggregation targets and, [as recommended](#) by the Women and Equalities Committee, release guidance explaining:
 - a. Data protection practices to reassure employers on how to capture, retain and report data
 - b. Methods for capturing, analysing and reporting data
 - c. The powers of the enforcement body responsible for monitoring EPG reporting
4. Conduct a 2-year on review to assess progress made by employers

Context: Black and minority ethnic communities and long-standing income inequalities

UK [poverty statistics](#) show the stark and entrenched income inequalities faced by Black and ethnic minority communities across the country, with many struggling to make ends meet during the current cost-of-living crisis. Long-term trends in poverty and inequality among these communities are being driven by persistent labour market inequalities, including low wages, insecure work, and discrimination.

1 in 5 people, or 20% of the UK population, live below the poverty line. Black and minority ethnic people are [much more likely](#) to be in deep poverty than White people. Given this underlying inequality, minority ethnic workers are now disproportionately affected by the current cost-of-living crisis.

Mandatory ethnicity pay gap reporting is a crucial step among a set of wider policy measures necessary to address persistent labour market inequalities, and promote greater fairness in the workplace. There is also a strong business case for mandatory reporting; Baroness McGregor-Smith's [review](#) found that racial equality in the workplace could potentially boost the UK economy by £24bn annually or 1.3% of GDP.

Overcoming key barriers

Our [toolkit](#) demonstrates that the perceived barriers to mandatory Ethnicity Pay Gap reporting can be overcome.

Self-disclosure and education:

Our research found that low rates of ethnicity disclosure by employees (self-disclosure) is a key barrier to EPG reporting for companies. Accurate calculations are vital to profile the workforce and to address any ethnicity pay gaps accurately, and for producing effective action plans.

However we also found that this should not hold companies back from getting started on their reporting journey. We identified a number of solutions to drive up disclosure rates. Companies should effectively communicate any changes to take employees along on the journey so that they understand why data is being collected and what it will be used for, as well as the wider contextual importance of EPG reporting. Educating and engaging all staff members in a transparent and open manner is important. Senior leadership must take responsibility for setting the tone and direction to lead the change. Alongside other DE&I interventions, this buy-in by leadership drives self-disclosure rates.

High self-disclosure threshold:

Many companies felt they could only commit to publishing their EPG report once they had achieved at least an 80% disclosure rate. However, based on good practice by other companies in our research, we found that waiting for a prescribed threshold over 80% is unnecessary. Reporting companies found the disclosure rate improved once they started reporting, as staff progressively feel encouraged to self-disclose their ethnicity data.

Data collection and methodology:

A common concern amongst policymakers is the complexity of choosing the number of ethnicity categories to report against. The ultimate goal would be for employers to disaggregate the data according to the 18 Office of National Statistics (ONS) [ethnicity categories](#), as recommended by the Chartered Institute for Personnel & Development (CIPD). This would allow for deeper and more meaningful insights, which may be masked by the use of broader ethnicity categories.

However we recognise that providing this level of granular data will not always be possible, especially to begin with. Therefore companies should start reporting their ethnicity pay gap by breaking down the data into the six broader ONS categories of White British, White Other, Mixed, Asian, Black and Other. If that is not possible, we recommend they begin with a single binary figure of White and ethnic minority. In subsequent years, we would expect companies to break this down to the six categories.

Reputational risks:

Instead of damaging a company's reputation, which some fear, we found that for the companies we consulted, publishing EPG data and an accompanying action plan demonstrated a meaningful commitment to address racism and racial disparities, DE&I issues, and increasing transparency. In combination, the process can therefore improve confidence and trust, and accordingly talent retention.

Misleading figures:

We found concerns amongst some companies that final figures may appear to show a positive ethnicity pay gap when, as they look around their businesses, those figures do not represent what they see. Those companies who were ahead in their EPG reporting practices urged others who are adopting EPG reporting not to fixate on the final figures, and instead drive action to increase representation of Black and minority ethnic workers in their workforce. They advised to offer an account for the final figure in the accompanying narrative analysis each year, which is often more helpful than a single set of figures. Representation at all levels should be at the front and centre.

Recommendations to policymakers

While it is down to employers to practically implement change, the government needs to support employers and set the tone from the top to bring about the necessary legislative and cultural change.

1. Government must legislate for mandatory ethnicity pay gap reporting for employers with 250+ employees

The UK government needs to legislate to ensure that employers report on employees' ethnicity pay gap, broken down into the most appropriate categories and quartile pay bands, in addition to the overall pay gap. EPG reporting should become a key part of a company's DE&I culture.

2. The new legislation should require employers to publish a supporting narrative and action plan to combat any disparities

Simply publishing an EPG report is not enough. Rather than focusing on a single set of final figures, our findings emphasise the importance of producing a supporting narrative explaining the context as well as an action plan. The action plan should set out how to tackle any identified gaps, as is [recommended](#) by the Chartered Institute of Personnel & Development (CIPD).

The government guidelines only state that companies should 'consider' publishing a narrative and action plan. We argue that a supporting narrative and action plan are essential requirements and support employers to contextualise their data. Our research showed that these steps are as important as the figures that are revealed, and that companies welcomed the opportunity to explain what might otherwise present as problematic figures, and to develop a wider explanation for their remedial actions.

3. The government should provide additional guidance on the data disaggregation targets and, [as recommended](#) by the Women and Equalities Committee, release guidance explaining:

- a. Data protection practices to reassure employers on how to capture, retain and report data
 - b. Methods for capturing, analysing and reporting data
 - c. The powers of the enforcement body responsible for monitoring EPG reporting
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Alongside legislation, the government should provide an expanded package of support for companies, such as employer case studies to demonstrate best practice and factsheets developed by relevant bodies, such as the Government Equalities Office. Learnings could be adopted from the rollout of gender pay gap reporting.

Reporting on ethnicity pay gaps is not a simple cut and paste exercise, therefore guardrails ought to be put in place on how to implement it. Government should provide the tools and support necessary to enable companies at different stages of data integrity to be able to collect and disaggregate data to the best of their ability. This also supports some element of standardisation across sectors so that we can move towards some level of comparability.

Additionally, taking the workforce along on the journey will be crucial to ensure high self disclosure rates and therefore meaningful reporting. Guidance will be necessary to support effective communication to allay any fears or misconceptions.

4. The government should conduct a 2-year on progress review

To ensure EPG reporting is impactful, the government should commission a review of how organisations are progressing after two years.

Conclusion

The UK's leading publicly listed companies should be doing more to address racial inequalities in the labour market. [Business in the Community \(BITC\)](#) has been calling on companies to report their EPG since 2018 and to date, only 18 FTSE100 companies do so. Voluntary guidance is clearly not enough to drive the change needed. Businesses are ready for ministers to bring forward legislation, as is [argued](#) by the Women and Equalities Select Committee. We need the government to take leadership and responsibility in this space; we want EPG reporting to be mandated through legislation and supported through resources for employers as they make the transition to implementation. The appetite is there and we need the government to catch-up with the conversation.

ShareAction»

ShareAction is a registered charity working globally to define the highest standards for responsible investment and to drive change until these standards are adopted worldwide. Our vision is a world where the financial system serves our planet and its people.

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The Runnymede Trust is the UK's leading independent race equality think tank. We produce research to challenge race inequality in Britain, which we use to lead debate and influence policy. For more than 50 years, we have worked tirelessly to build a Britain in which we all belong.

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