Institute for Public Policy Research

THE FAIR PAY REPORT

HOW PAY TRANSPARENCY CAN HELP TACKLE INEQUALITIES

WOMEN AND THE ECONOMY

Joe Dromey and
Lesley Rankin
November 2018

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SUMMARY

60-SECOND SUMMARY

The gender pay gap measures the difference in average earnings between men and women. Across the economy, average pay for women is one-fifth lower than for men. The gender pay gap in the UK is high compared to most countries, and progress in narrowing it has stalled.

In 2016, the government introduced compulsory gender pay reporting in order to promote transparency and encourage employers to take action to narrow the pay gap. While the regulations are in their infancy, early evidence suggests they have been successful. Compliance with the regulations has been high, they have pushed the gender pay gap up the agenda, and they seem to be stimulating employer action.

Building on this success, gender pay reporting should be expanded to medium-sized organisations, and employers should be required to provide a narrative report alongside their pay gap. To tackle wider pay inequalities, organisations should be required to produce a fair pay report, covering gender, ethnicity and disability pay gaps, as well as internal pay ratios, and the proportion of workers earning below the real living wage.

However, while reporting can help, transparency alone will not close pay gaps. Alongside transparency, government and employers will have to address the structural drivers of inequalities.

KEY FINDINGS

Progress in tackling the gender pay gap has been too slow

- The gender pay gap in 2018 stood at **17.9 per cent**, meaning women earn nearly one-fifth less per hour than men on average. The gender pay gap in the UK is higher than most advanced economies.
- The government have set out an ambition of closing the gender pay gap within a generation. But progress in narrowing the gap has stalled; **at the current rate, the gender pay gap would not close until 2072**.
- In addition to the gender pay gap, there are significant pay gaps for other protected characteristics, particularly relating to **ethnicity and disability**. In addition to pay gaps, there are high levels of pay inequality in the UK, and nearly one in four employees earn below the real living wage.

Compulsory gender pay reporting has been effective in focusing attention on the pay gap and stimulating action

- The government introduced compulsory gender pay reporting in 2017, requiring all employers with 250 or more employees to report on their gender pay gap. The aim was to “cast sunlight on the discrepancies and create the pressure we need for change, driving women’s wages up”.
- While it would be premature to expect to see any impact on the gender pay gap at the national level, there is evidence to suggest the regulations have had a positive impact.
  - **Compliance** has been high, with 100 per cent of employers within scope – over 10,000 in total – reporting within 10 weeks of the deadline.
  - The regulations have **raised the profile of the gender pay gap**, prompting a lively debate, greater attention from policy-makers, and a greater focus at senior levels within organisations on gender equality.

    - The regulations have encouraged employers to **investigate and understand their gender pay gap**, and many have **engaged with their workforce** on the issue.
    - Most importantly, the regulations appear to have driven employers to **take further actions** towards tackling the gender pay gap. Four in five have considered or taken further action to narrow their pay gap in response to the regulations.

We should build on the success of gender pay reporting by introducing wider pay transparency

- While the gender pay reporting regulations appear to have had a positive impact, they could be improved and extended. Employers should be required to produce a **narrative report** setting out their understanding of their gender pay gap, and what they plan to do to close it. The regulations should be **extended to medium-sized employers** (50–249 employees) with a simplified methodology and a requirement to report only every two years.
- Given the early signs of success, we should extend pay transparency to tackle wider inequalities. All employers with 50 or more employees should be required to produce a **fair pay report**, including:
    - their **gender pay gap**
    - their **ethnicity pay gap** (requirement for employers with 250 or more employees)
    - their **disability pay gap (**requirement for employers with 250 or more employees)
    - the **pay ratio** between their CEO and the median employee
    - the proportion of their workforce earning below the **living wage**
    - a **fair pay narrative**, setting out their understanding of their pay gaps, and their plans to ensure fair pay.
- This would represent a minimal additional requirement on large employers, as they will already be recording pay data to comply with gender pay reporting. For medium-sized firms, this would represent a moderate additional requirement, and so they should be given a significant transition period and they should be required to report less frequently.
- To help tackle illegal unequal pay – where workers are paid less than others for like work or work of the same value – large employers should be required to publish pay ranges internally to their employees. Employees should have a right to request comparison data of pay levels for those doing similar work and a right to request an independent pay audit.
- The Equality and Human Rights Commission should produce an annual fair pay review, based on the data produced by individual employers. This should include analysis of trends in the data and recommendations both for employers and government.

Transparency alone will not tackle pay gaps – government and employers must address the structural drivers of these inequalities

- While gender pay reporting is helping drive action to tackle the gender pay gap, transparency alone will not eliminate pay gaps.
- In addition, government and employers need to do more to tackle the structural drivers of pay inequalities, including through tackling occupational segregation, supporting a more equal distribution of caring responsibilities, and promoting high-quality flexible working opportunities.

INTRODUCTION

There is a significant and persistent gender pay gap in the UK. Average hourly pay for women remains nearly one-fifth lower than for men. While the gap has been closing, progress has slowed (Office for National Statistics ONS 2018a).

To stimulate further action to narrow the gender pay gap, in 2016 the government introduced a requirement for large employers to publish data on the gender pay gap within their organisation. The deadline for publishing the first wave of data was April 2018.[1]

The regulations – and the data they have generated – have prompted a lively debate on the gender pay gap and the role of transparency in tackling pay inequalities. There have been calls for the government to strengthen the regulations (Women and Equalities Committee 2016; BEIS 2018) and to expand pay transparency to other protected characteristics (McGregor-Smith 2017; Adams et al 2018). In their manifesto at the last election, the Conservative Party pledged to ask large employers to publish information on their ethnicity pay gap and the government has recently set out a consultation to extend mandatory reporting to the ethnicity pay (Conservative Party 2017; Prime Minister's Office et al 2018). The government has also set out plans to require large publicly listed companies to publish their pay ratios (BEIS et al 2018).

This report examines the impact of the gender pay reporting regulations. We assess employer perceptions of the regulations and how they have responded. Based on the findings, we set out proposals for improving gender pay reporting, and we set out recommendations for broader pay transparency to tackle wider pay inequalities.

The report is based on:

- a literature review
- interviews with eight employers affected by the regulations and three stakeholder organisations
- a survey of 32 large employers affected by the regulations
- a focus group with 17 employers affected by the regulations.

1 IPPR conducted in-depth analysis of the first wave of reported data to understand what it told us about the gender pay gap at a firm level (Colebrook et al 2018).

1.
PROGRESS IN TACKLING THE GENDER PAY GAP HAS BEEN TOO SLOW

THE GENDER PAY GAP IN THE UK

The gender pay gap is a measure of the difference between men's and women's average earnings. This can be measured across an organisation, or across the economy as a whole. The gap is most commonly calculated as the difference between men's and women's median gross hourly earnings, expressed as a percentage of men's median gross hourly earnings.

There is a significant gender pay gap across the UK. When all workers, full and part-time, are included, the gender pay gap was 17.9 per cent in 2018 for median earnings (ONS 2018a).

The pay gap is partially explained by the fact that women make up three-quarters of part-time workers, and part-time work tends to have a lower hourly rate of pay. However, there is still a significant pay gap between men and women working full time. For full-time workers, the UK has a median gender pay gap of 8.6 per cent (with the mean at 14.1 per cent) (ibid).

Most large employers have a gender pay gap. Following the first year of compulsory reporting, 77.1 per cent of the 10,527 employers within the scope of the regulations had higher median pay for men, 14.1 per cent had higher median pay for women, and 8.9 per cent had no pay gap by gender (IPPR analysis of Government Equalities Office 2018).

The gender pay gap is not the same thing as 'unequal pay'. Unequal pay refers to women and men receiving different levels of pay for the same work, or for work of equal value. It has been illegal since the Equal Pay Act 1970. The gender pay gap refers to differences in the average earnings of men and women in an organisation or across the economy, irrespective of their occupation. While unequal pay can contribute to a gender pay gap within an organisation, and while unequal pay in some organisations does contribute to the gender pay gap across the economy as a whole, having a gender pay gap in itself is not illegal, and it does not necessarily mean that the employer is guilty of unequal pay. There are many other factors that can account for the gender pay gap, including occupational segregation, the lower level of women in more senior roles, and the motherhood pay penalty (Colebrook et al 2018).

THE GENDER PAY GAP IN INTERNATIONAL CONTEXT

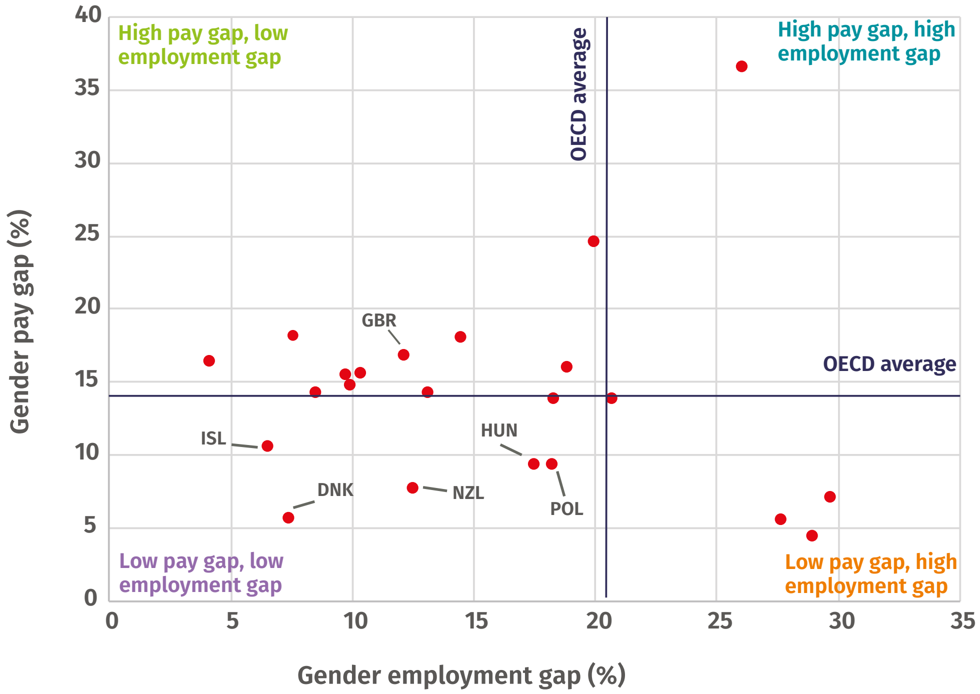
The UK's gender pay gap is large relative to advanced economies. In 2017, the OECD average gender pay gap was 13.9 per cent, compared to 16.8 per cent in the UK.[2]

2 There are differences between the methodologies used by OECD and ONS. The OECD methodology, for example, includes self-employed workers, who are excluded from the ONS methodology. This accounts for slightly different figures. In 2017, the OECD measure of the gender pay gap in the UK was 16.8 per cent, compared to the ONS measure of 18.4 per cent.

It is important to note that the pay gap is just one measure of gender equality. There are other important factors, including the female employment rate. As figure 1.1 shows, while the UK has a slightly higher gender pay gap than comparable countries, the gender employment gap is comparatively low.

FIGURE 1.1: THE UK HAS A LARGE GENDER PAY GAP BUT A SMALL GENDER EMPLOYMENT GAP

The gender pay gap and gender employment gap among selected OECD members states (2016)



Source: IPPR calculations based on OECD 2018a and OECD 2018b[3]

PROGRESS TO CLOSE THE UK'S GENDER PAY GAP HAS STALLED

Nearly five decades on from the Equal Pay Act, there remains a significant gender pay gap. In 2015, prime minister David Cameron set the goal of ending the gender pay gap in a generation (BEIS et al 2015).

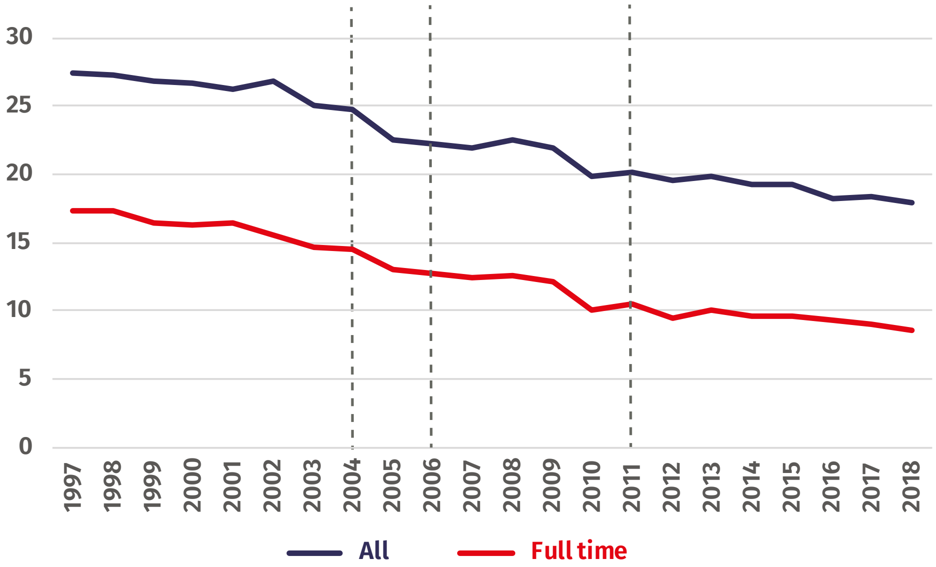
However, while the gender pay gap narrowed significantly between 1997 and 2011, progress has stalled in recent years. Since 2011, the gender pay gap for all workers has fallen by just 2.3 percentage points. If this rate of progress continues, the gender pay gap would not close until 2072 – over a century after the introduction of the Equal Pay Act (IPPR analysis of ONS 2018a).[4]

3 The gender employment gap is calculated in the same way as the gender pay gap; that is the gap in the employment rate between women and men, expressed as a percentage of the employment rate for men. All OECD member states are displayed where data is available for 2016.

4 Here we refer to the gender pay gap for all workers, which stood at 18.4 per cent in 2017. If the average rate of change between 2011 and 2017 (0.3 percentage points per annum) continued, it would take another 61 years for the gap to close.

FIGURE 1.2: PROGRESS TOWARDS CLOSING THE GENDER PAY GAP HAS STALLED IN RECENT YEARS

Gender pay gap for all workers and full-time workers in the UK (1997 to 2018)



Source: ONS 2018a

Note: The vertical lines represent discontinuities in the 2004, 2006 and 2011 ASHE estimates.

WHY THE GENDER PAY GAP MATTERS

First and foremost, with women paid on average one-fifth less than men per hour, and with three in four employers paying women less on average, narrowing the gender pay gap is vital to delivering economic justice.

If the gender pay gap was a reflection purely of differences in the freely-made choices between men and women, it would be less unjust. However, there is extensive evidence that the gender pay gap is related to a number of structural inequalities, including the following.

- **Occupational and sectoral segregation**: women tend to be over-represented in low-paying sectors and occupations – including social care, childcare and retail – and under-represented in higher paying sectors and occupations. Occupational segregation explains 23.0 per cent of the gender pay gap (ONS 2018b).
- **The motherhood pay penalty**: due to the uneven distribution of caring responsibilities, women spend a greater amount of time out of work and in part-time work, with a lasting impact on income (Trades Union Congress 2016).
- **Disparity between hourly pay for part-time and full-time roles**: part-time jobs tend to be lower paid per hour, and women make up three in four part time workers. This can explain 9.1 per cent of the gender pay gap (ONS 2018b).
- **The glass ceiling**: women are less likely to progress to a senior position than men. Male managers are 40 per cent more likely than female managers to be promoted into higher roles (Purcell et al 2006; Chartered Management Institute 2017).

- **Unequal pay**: unequal pay at some employers contributes to the gender pay gap across the economy. Last year, 11 per cent of all employment tribunal complaints related to equal pay, totalling 22,531 (HM Courts and Tribunals Service and Employment Tribunal 2018). Many more cases of unequal pay go unchallenged.

In addition to the economic justice case, there are potential benefits for employers and for the economy of tackling gender inequalities. There is evidence that employers with more gender diverse senior leadership and with stronger talent management practices have higher growth in employee productivity (MSCI 2018). For the wider economy, analysis by PwC has shown that closing the gender pay gap could increase female earnings by £90 billion a year, equivalent to £6,300 per woman employee (PwC 2018).

PAY GAPS ACROSS OTHER PROTECTED CHARACTERISTICS

In addition to the gender pay gap, there is strong evidence of pay and employment gaps by ethnicity and disability. Importantly, there is evidence that pay gaps can intersect.

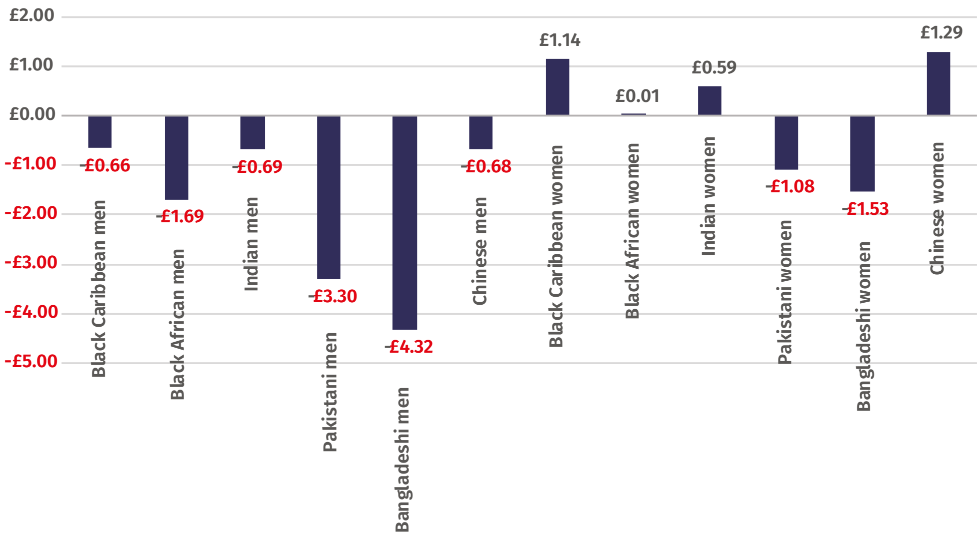
Ethnicity

There is evidence of an ethnicity pay gap in the UK, with people from ethnic minorities earning less on average than white people (Brynin and Güveli 2012; Longhi and Brynin 2017).

Measuring the ethnicity pay gap is more complex than the gender pay gap, as there are multiple ethnic groups with different gaps, and many people with mixed ethnicity. As figure 1.3 shows, between 2007 and 2014, there were statistically significant ethnicity pay gaps between white men and all other ethnicities. White women earn less than Black Caribbean, Indian and Chinese women, but more than Pakistani women and Bangladeshi women (Longhi and Brynin 2017).

FIGURE 1.3: THERE IS A LARGE ETHNICITY PAY GAP BUT IT VARIES BY GENDER AND ETHNICITY

Mean pay gaps of ethnic minority men and women relative to white British men and women (£ per hour, 2007–2014)



Source: Longhi and Brynin 2017

Some of the ethnicity pay gaps are due to different personal characteristics, including age, qualification level, region, whether someone was born in the UK or the length of time since they left education. However, even when controlling for these factors, there is still a significant 'pay penalty', with employees from ethnic minorities earning less than white employees with similar characteristics (Henehan and Rose 2018).

Analysis by Brynin and Güveli shows that the gap derives largely from occupational segregation – with ethnic minority workers being over-represented in low paid occupations; however, there is a smaller pay gap *within* occupations (2012). BAME people are under-represented in senior roles; they make up one in eight of the working age population, but only 10 per cent of the workforce and 6 per cent of senior management roles (McGregor-Smith 2017).

In addition to the ethnicity pay gap, there is also an ethnicity employment gap. The employment rate for white people aged 16–64 is 76.5 per cent, compared to 64.8 per cent for ethnic minority adults. This is driven by higher unemployment rates among ethnic minority adults and higher levels of inactivity, particularly among ethnic minority women (IPPR analysis of ONS 2018c).

The gender and ethnicity employment gaps intersect. As set out above, *pay* gaps between white men and BAME men are larger. However, the *employment* gap between white and BAME women is far larger than that between white and ethnic minority men: 16.0 per cent and 6.9 per cent respectively (IPPR analysis of ONS 2018c).

As with gender equality, tackling racial inequality is not just important for economic justice – there are potential benefits for both employers and the economy too. The McGregor-Smith Review found that tackling the gaps across the economy in terms of participation and progression would bring a £24-billion-a-year boost to the economy, equivalent to 1.3 per cent of GDP (McGregor-Smith 2017).

Following the McGregor-Smith review, the government recently announced a consultation on compulsory ethnicity pay gap reporting (Prime Minister's Office et al 2018). The consultation will explore what information should be disclosed, and how to avoid undue burdens on businesses (ibid).

Disability

There is also a disability pay gap in the UK. Over the period 1997–2014, the disability pay gap was 13 per cent for men and 7 per cent for women (Longhi 2017). The size of the gap varies depending on the nature of the disability, with larger pay gaps for people with neurological disorders, mental illness and learning difficulties or disabilities (ibid).

In addition to the pay gap, there is a significant disability employment gap; half (50.8 per cent) of disabled adults are in employment, compared to 80.5 per cent of adults without a disability (IPPR analysis of ONS 2018c). The government has set a target of supporting an additional one million people into employment over the next 10 years (Department for Work and Pensions and Department for Health 2017).

Again, narrowing the disability pay and employment gaps could benefit the economy. If an additional 1 per cent of eligible Employment and Support Allowance claimants in 2018/19 were in work, this would save £240 million, and provide a boost to the economy of £260 million (DWP and DH 2017).

There is a risk that reducing the disability employment gap and reducing the disability pay gap could be in tension. Increasing the disability employment rate would involve supporting people who may have more work-limiting disabilities into work. If this work was low paid, then it could lead to an increase in the disability pay gap. However, with the right support and reasonable adaptation, there is no reason that disabled employees would be less productive, or lower paid.

Other protected characteristics

Research has been conducted into potential pay gaps for people with other protected characteristics under the Equality Act 2010, such as age, religion, 'gender reassignment',[5] and sexual orientation. The evidence for pay gaps and employment gaps among these groups is weaker than for gender, ethnicity and disability. Further research is needed into these possible pay gaps, how they interact with each other, their causes, and measures to tackle them.

5 This is the terminology in the Act to describe transgender identity.

2. COMPULSORY GENDER PAY REPORTING HAS BEEN EFFECTIVE IN FOCUSING ATTENTION ON THE PAY GAP AND STIMULATING ACTION

Having examined the gender pay gap and the ethnicity and disability pay gaps, in this chapter we look at the impact of the recently introduced gender pay reporting regulations.

THE GENDER PAY REPORTING REGULATIONS

In their 2015 manifesto, the Conservative Party stated its commitment to "full, genuine gender equality", and its intention to push business to reduce the gender pay gap. This included a commitment to require large companies to publish the difference between average pay for their male and female employees (Conservative Party 2015).

Following the election, the government introduced The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. The regulations obliged all employers with 250 or more employees to publish data on the following:

- mean and median gender pay gap in hourly pay
- mean and median gender bonus pay gap
- proportion of males and females receiving a bonus
- proportion of males and females in each pay quartile.[6]

Employers were required to produce a snapshot of their data on 5 April 2017, and to publish it within a year. The data was also published for all employers on the Government Equalities Office (GEO) portal.[7] The regulations require annual reporting on an ongoing basis.

ARGUMENTS FOR GENDER PAY TRANSPARENCY

The gender pay reporting regulations were intended to accelerate progress in tackling the gender pay gap. In announcing the measures, the then prime minister, David Cameron, argued that more action was necessary in order to deliver on their goal of closing the gap within a generation, and that the requirement to publish would "cast sunlight on [the gender pay gap] and create the pressure we need for change, driving women's wages up" (BIS et al 2015).

The government set out a number of assumptions in justifying this measure.

6 The regulations do not define the terms 'male' and 'female'. Acas guidance recommends that employers base gender pay reporting on self-identification.

7 See: https://gender-pay-gap.service.gov.uk/

- **Focusing attention**: the government asserted that the requirement to publish would increase attention on the gender pay gap (GEO 2015).
- **Encouraging employer action**: the government hoped that this greater attention would spur employers to take further actions to narrow pay inequalities, with the then minister for women and equalities, Nicky Morgan MP, arguing: "transparency will encourage employers and employees to consider what more can be done to close any pay gaps" (GEO 2015).
- **Attracting and retaining 'talent'**: the government hoped that pay transparency would promote healthy competition between employers, with those performing well benefiting from the ability to attract and retain 'talent' (GEO 2015).
- **Encouraging confidence in pay**: the government hoped that pay transparency would ultimately "increase employee confidence in the remuneration process" (GEO 2016).
- **Building an evidence base**: ensuring transparency around gender pay at the firm-level, it was argued, would provide evidence of the impact of workplace policies and practices (GEO 2015).
- **The limits of voluntarism**: finally, the government opted for compulsory reporting following the failure of a voluntarist approach. The Think, Act, Report initiative sought to encourage employers voluntarily to report on pay gaps. While nearly 300 employers signed up, only seven published their pay gap (GEO 2016).

Ultimately, in addition to addressing the inequity of the gender pay gap, the government argued that closing the gap could deliver significant economic benefits. They claimed that equalising women's participation rates and productivity could add £600 billion to the economy (GEO 2015).

The government's arguments around pay transparency are supported by the European Commission, which has found that "pay transparency is important in order to promote gender-neutral wage-setting structures" (European Commission 2017). As of April 2017, there are variants of gender pay reporting requirements in five other European countries[8] with similar schemes being planned or rolled-out in other countries (European Commission 2017).

THE IMPACT OF THE GENDER PAY REPORTING REGULATIONS

In order to assess the early impact of the gender pay reporting regulations, we conducted interviews with eight employers affected by the regulations, as well as with three key stakeholders, we conducted an online survey of 32 employers affected by the regulations, and we held a focus group with 17 employers.

As the regulations are in their infancy, it would be premature to expect to see an impact on the gender pay gap itself; either at a firm level or an economy-wide level. However, our study provides early evidence that suggests the regulations are having a significant impact.

High levels of compliance

First, the gender pay reporting regulations have been successful in terms of high levels of compliance.

By the deadline in April 2018, a total of 9,718 employers reported, representing 92 per cent of all employers within scope (Isaac 2018). EHRC later announced that, following further contact with employers who missed the deadline, they had reached full compliance, with all 10,528 employers reporting by 13 July 2018 (ibid).

8 Austria, Belgium, Denmark, France, and Italy.

The Confederation of British Industry (CBI) argued that these levels of compliance were rare for new regulations, and that they demonstrated the willingness of employers to comply. Levels of compliance in the UK also seem to be higher than in other countries with similar reporting requirements (European Commission 2017).

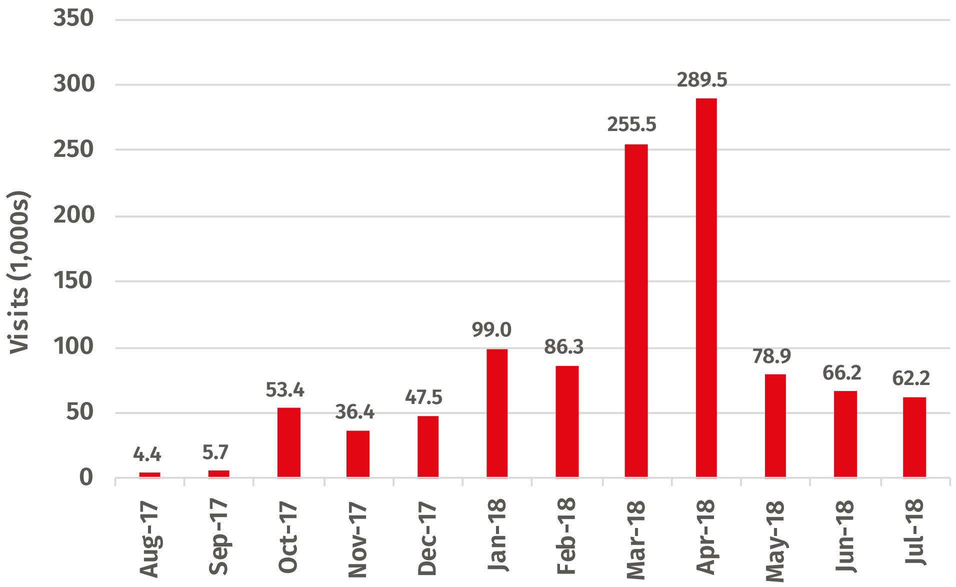
Raising the profile of the gender pay gap

The gender pay reporting regulations have served to increase the profile of the gender pay gap in the UK, and the attention the issue receives from the public, from policy-makers, the media, from employers and employees.

The data produced has been widely accessed and extensively used. As figure 2.1 shows, the Government Equalities Office (GEO) website saw over half a million views in March and April 2018.

FIGURE 2.1: THE GENDER PAY REPORTING WEBSITE RECEIVED OVER HALF A MILLION VIEWS IN MARCH AND APRIL 2018

Users per month of the Gender Pay Gap Service website, August 2017 – July 2018



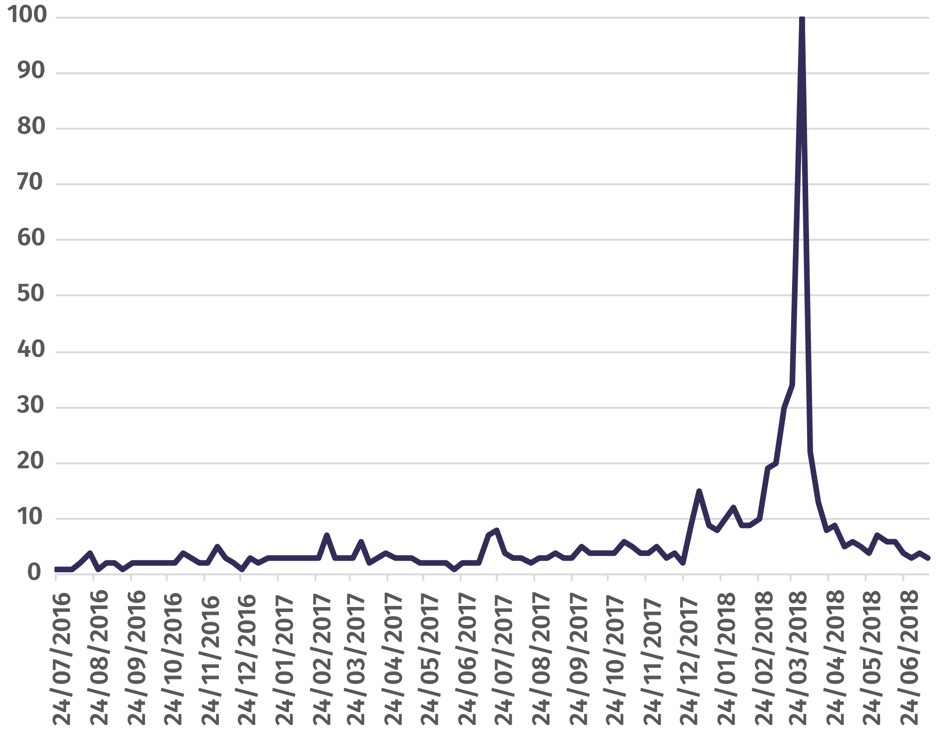
Source: Data provided by the Government Equalities Office

There was a surge of media and public interest in the gender pay gap in 2018 as employers reported their data in the run-up to the first deadline in April. Figure 2.2 shows data for the relative interest in the term 'gender pay gap', as demonstrated by Google searches. It shows a significant peak coinciding with the first reporting deadline, but high levels of interest throughout the first half of 2018.

Similarly, as figure 2.3 shows, there has been a significant and sustained increase in mentions of the gender pay gap in Parliament in recent years. In the seven months between January and July 2018, there were more mentions of the gender pay gap in parliament than in the five years of January 2010 – December 2014.

FIGURE 2.2: GOOGLE FOR 'GENDER PAY GAP' INCREASED SIGNIFICANTLY AND PEAKED WITH THE 2017 REPORTING DEADLINE

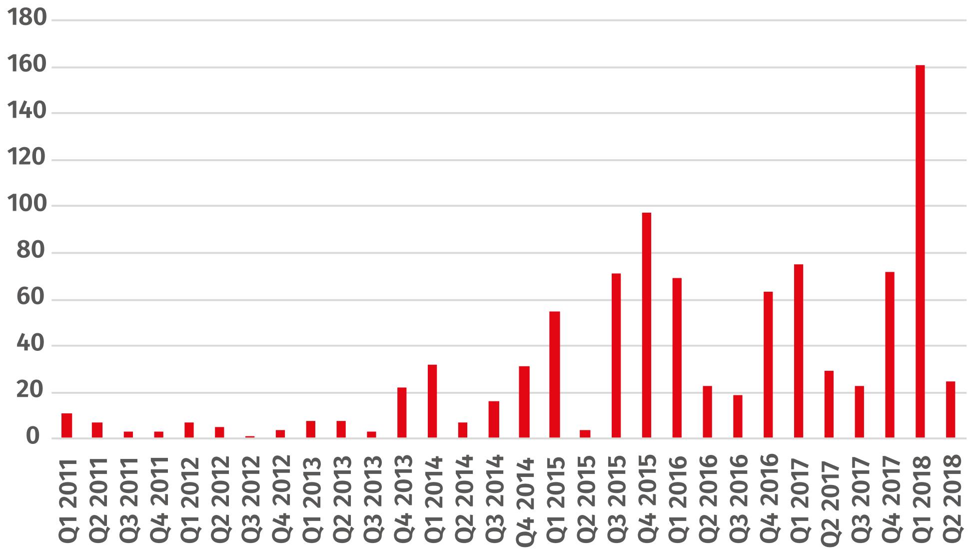
Google searches for 'gender pay gap' from 2016–2018 (100 = peak popularity of the term)



Data: IPPR analysis of Google Trends, 2018

FIGURE 2.3: THERE HAS BEEN A SIGNIFICANT AND SUSTAINED INCREASE IN MENTIONS OF THE GENDER PAY GAP IN PARLIAMENT

Mentions of 'gender pay gap' in both houses of parliament, 2011–2018



Source: IPPR analysis of Hansard

Most importantly, the regulations and the requirement to report have raised the profile of the gender pay gap within organisations. We identified many examples of an increased focus on the gender pay gap – and on the measures that could help close it – at senior levels within the organisations.

> ***"The one key thing it has spurred is increased conversation and focus across the organisation and across all levels… It's improved the quality of conversations around key points in an employee's life-cycle. It's front and centre of many of our senior leadership meetings now; people wanting regular updates on the initiatives and actions in place to drive this forward and improve our position. I don't think that was happening to the same degree previously."***
> **Edleen John, KPMG**

> ***"We've had quite a few people who have been working in diversity and inclusion or HR for twenty, thirty years, who have said that this is the first time they've had a discussion about the gender pay gap at the board level… CEOs are really sitting up and taking notice. It's opened the boardroom door."***
> **Gillian Unsworth, GEO**

Supporting understanding of the gender pay gap

In addition to raising the profile, the regulations have led many organisations to investigate their pay gap and its causes.

The regulations have led to many employers calculating their pay gap for the very first time. In our employer survey, three-quarters (75 per cent) of employers calculated their gender pay gap for the first time in response to the regulations.

In addition to calculating the raw data, most of the employers we spoke to had gone beyond the minimum reporting requirements and conducted more detailed analysis of the gender pay gap, including looking at pay gaps within teams or identifying the drivers of their gender pay gaps.

While the regulations have prompted employers to investigate and understand their pay gap, there appears to be a significant degree of misunderstanding about what the gender pay gap is, particularly in how it relates to unequal pay. Several employers have found that employees had misunderstood their reported gender pay gap as representing unequal pay. In response to these concerns, many employers have undertaken equal pay audits alongside their gender pay gap analysis to ensure that unequal pay was not contributing towards the gender pay gap, and to provide reassurance to employees.

Driving employer action

In addition to encouraging employers to better understand their gender pay gap, there are some early signs that the regulations are having the desired effect by encouraging employers to take further actions to narrow it.

Many of the employers who took part in the research highlighted additional measures they had taken – or were planning to take – to tackle the gender pay gap in response to the reporting regulations.

Ahead of the introduction of the regulations, 82 per cent of employers and business organisations responding the government's consultation agreed that the publication of gender pay information would encourage employers to take action to close the gender pay gap (GEO 2016). Our employer survey found a remarkably similar result after the first year of reporting: four in five employers (80.6 per cent) have considered or taken further measures to narrow gender pay inequalities as a result of the regulations, and a similar number (81.3 per cent) agree that gender pay reporting will incentivise employer action to reduce the gender pay gap. This view was reflected by one of our interviewees:

> *"I think it will incentivise employers to really focus on this. The fact that it is in the public domain, and competitors, clients, employees and potential employees are all having access to the information means that for organisations there is really a pressure and an impetus to focus on this and get it right. And in getting it right, you are going to reap the benefits of diversity."*
> **Edleen John, KPMG**

Changes to recruitment practices were the most commonly highlighted measures taken to address the gender pay gap in our employer survey. Nearly half (46.2 per cent) of those who had taken action in response to the regulations had adjusted their recruitment practices, including ensuring gender-balanced shortlists and changing the wording in adverts, job descriptions and person specifications. One in three (33.3 per cent) respondents mentioned measures to ensure better gender diversity at senior levels, including support to develop and promote women within the organisation. One in five (20.1 per cent) highlighted flexible working, with 16.7 per cent pointing to measures around maternity and paternity. Several employers highlighted women's networks and employee-to-employee mentoring and support. Finally, some employers highlighted sector-wide initiatives including to support women to enter and progress in their industry.

Case study: Fujitsu

Fujitsu is a global information and communication technology company. Their median gender pay gap is 17.9 per cent, below the UK average (18.4 per cent) and the tech sector average (25 per cent) (Fujitsu 2018).

There has long been a focus on improving equality and diversity at Fujitsu – including tackling the gender pay gap. They already had several initiatives in place, including an active Women's Business Network, a series of women in IT programmes, and the Ada Lovelace networking programme. However, as Sarah Kaiser – employee experience, diversity and inclusion lead at Fujitsu EMEIA (Europe, Middle East, India and Africa region)– acknowledged, the reporting requirement helped them recognise that they were "not doing enough" in a number of areas, including women in leadership, and it has led them to review their work and step up their efforts in the area.

For example, in a recent re-structure, they sought to ensure greater diversity in the leadership by taking a different approach to recruitment, proactively approaching talented women in the organisation and encouraging them to apply. They also sought to make the senior roles more accessible, including by offering the opportunity to work flexibly. Fujitsu has also established Perspectives – a reverse mentoring programme to help give their senior leaders an insight into the experience of others in the organisation, and to promote inclusive leadership.

In response to the regulations, Fujitsu also carried out an external equal pay audit.

Supporting employee engagement with gender equality

In addition to encouraging employers to examine the causes of their gender pay gap, and to look at what actions they could take to close the gap, the reporting requirements have encouraged a conversation on the gender pay gap within many organisations.

In our employer survey, nine in ten (90.6 per cent) employers said they had communicated their pay gap to their workforce, with many engaging in in-depth discussions with the workforce on the issue.

Pinsent Masons produced a full report on their pay gap data, their understanding of the causes, and the actions to tackle it. This was circulated to the whole firm, along with an invitation to webinars, one of which was attended by over 400 people. At Fujitsu, all employees were invited to a webcast on the day the data was published, covering the causes of the pay gap, and what Fujitsu planned to do about it. Over 500 employees took part, with 60 submitting questions.

Securing employer support

Despite some concerns expressed ahead of their introduction, the regulations also seem to have a secured a degree of consensus and even support among employers.

In our survey, eight in 10 (81.3 per cent) employers agreed that mandatory gender pay reporting should be maintained, with just one in 10 (9.4 per cent) saying they should be scrapped. By comparison, prior to their introduction, fewer than half (47 per cent) of large employers were supportive of gender pay reporting regulations (TUC 2015).

The CBI – which initially opposed the regulations – is now in favour of them. They argued that while many of their members had been concerned, most now see the value of gender pay reporting.

While the gender pay reporting regulations are in their early days, the early signs suggest they have raised the profile of the gender pay gap, encouraged employers to better understand their pay gap, and – most importantly – to take further actions to narrow the pay gap.

Building on the early success of the regulations, in the next section we consider how they could be improved in order better to drive action to tackle the gender pay gap. We also consider how transparency could be an effective tool in tackling other pay inequalities.

3.
WE SHOULD BUILD ON THE SUCCESS OF GENDER PAY REPORTING BY INTRODUCING WIDER PAY TRANSPARENCY

Having examined the initial impact of the gender pay reporting regulations, in this chapter we look at the lessons for public policy. Early signs of success indicate transparency is a powerful tool with which to tackle inequality. Given this, we argue we should build on the gender pay reporting regulations by introducing wider pay transparency. We start by considering improvements to the existing regulations and the extension of their scope, before we go on to consider the extension of pay transparency to other areas.

IMPROVING AND EXPANDING THE GENDER PAY REPORTING REGULATIONS

Improving the existing regulations

The government has signalled that given they are in their infancy, significant changes to the regulations will not be made in the short term, but that the regulations will be reviewed in five years (Glen and Atkins 2018). While the regulations seemed to have worked well in their first year, there are several areas in which they could be improved.

First, **employers should be required to produce a narrative report alongside their pay gap data**. Narrative reporting – setting out an employers' understanding of their pay gap – was considered in the consultation on the regulations, but the government opted against requiring this. CBI strongly recommend that employers publish supporting narratives, setting out how the pay gap is calculated, the main causes of pay gaps, the steps the organisations is taking to improve gender diversity, and progress in narrowing the gap (CBI and CMS 2017). Narrative reporting is also recommended by GEO, Acas and CIPD. However, in the first wave of reporting just three in 10 employers published a narrative, and the quality of these was variable (BEIS Committee 2018).

Since the first wave of reporting, reviews have called for narrative reporting to be made compulsory (BEIS Committee 2018; EHRC 2018). We found many employers recognised the importance of narrative reporting in contextualising and explaining the data:

> ***"Unless we can encourage more organisations to provide more narrative, it could just continue to be a box-ticking exercise for a lot of companies. It's not just about the number – it's about trying to understand why that number is what it is, and what are you going to do about it. That is more important than the number itself."***
> **David Buchanan, SSE**

Employers should be required to produce a narrative report at least every two years alongside the data for their gender pay gap. This should set out their understanding of the causes of their gender pay gap, the actions they have in place or plan to introduce to tackle it, and any targets for reducing it. Employers should be encouraged to consult their workforce in developing their narrative report and action plan. While requiring employers to do so would involve a small amount of additional time and effort, the requirement would encourage employers to engage with the issue in a more meaningful way, and to consider how they could narrow their gender pay gap.

Second, in addition to providing information on their gender pay gap, employers should be required to **report the gender balance of their workforce**. Currently, employers are required to provide the gender balance for employees by pay quartile, but the figure for the breakdown of the total workforce is not recorded. While it can be inferred from the average of the four quartiles, it should be reported separately for clarity. This requirement would involve no additional data collection by employers, and no burden on them. However, it could focus attention on excessive employment gaps within organisations, and on the occupational segregation which drives the pay gap across the whole economy, rather than just on gender pay gaps between men and women within organisations.

Third, **partners should be included in the gender pay reporting**. There has been some controversy over the reporting of gender pay gaps for organisations with partner structures. In many professional services firms, the highest earners are equity partners, but as they receive a share of profits, rather than pay, they are not included in the scope of the regulations. Some firms have voluntarily published their gender pay gap for partners. This has usually had the effect of increasing the pay gap, as partners in most firms are predominantly men, and tend to be higher earning. However, some others have yet to publish such data, and methodologies are not consistent.

The GEO are working with employers to seek a voluntary consensus on reporting so that it can include partner structures. Should an agreement not be possible, reporting of the gender pay gap for partners should be made mandatory, with a specific requirement to include both employees and partners in the calculation of the gender pay gap. Such a requirement would involve no additional burden on the vast majority of employers, and a limited additional requirement on those who do have partner structures.

Fourth, the regulations as they stand require employers to report on the mean and median gap in bonuses paid to men and women. Unlike with mean and median pay, which is based on an hourly figure, this bonus pay gap does not take account of part time work (GEO 2017). Many organisations pay bonuses on a pro-rata basis, with part time workers receiving a bonus in proportion to their full-time equivalent hours. **The bonus reporting requirements should be changed so that employers report on the difference between bonus payment pro rata between men and women.** This methodological change would involve no additional burden on employers.

Extending reporting to medium-sized employers

Given the success of the gender pay reporting regulations, there is a strong case for them to be extended to more employers.

First, in their current form, with the threshold set at 250, fewer than half of employees in the UK work at an organisation which is subject to the reporting regulations (GEO 2016).

Second, the gender pay gap tends to be larger at smaller organisations, which are currently excluded from the requirement to report (WEC 2016).

Third, evidence from the consultation suggested that there was little difference between the views of large employers and mid-sized employers towards the regulations. A survey at the time found that 47 per cent of large employers were open to reporting, compared to 46 per cent of medium-sized employers with 150–249 employees (TUC 2015).

Fourth, the company size threshold in the UK is high compared to other countries with otherwise similar reporting requirements (GEO 2016). Similar reporting regulations apply in Austria to employers with 150 or more employees, in Finland to employers with 30 or more employees, and in Sweden to those with 25 or more employees. The European Commission recommends a threshold of 50 employees (European Commission 2017).

The requirement on the gender pay gap should extend to all organisations with 50 or more employees. This would involve an additional requirement on medium-sized employers, many of which may not have significant in-house human resources capacity. To minimise the burden, the reporting requirements should be simpler and less frequent. Employers with 50–249 employees should be required to report only every two years, and they should only be required to report on mean and median pay gaps and total workforce composition by gender. To ensure they have time to adapt, medium-sized employers should be required to report by April 2021, based on a snapshot of their gender pay gap as of April 2020.

There is a small risk that gender pay reporting for organisations of this size may generate data that could identify pay levels for individuals. To prevent this, firms which employ five or fewer men or women should be entitled to apply for a partial exemption from EHRC from gender pay reporting, leaving them only having to report workforce composition by gender.

EXTENDING PAY TRANSPARENCY: THE FAIR PAY REPORT

The gender pay reporting regulations have been a success; in raising the profile of the gender pay gap and in spurring employer action. We should build on the success by extending pay transparency to tackle other inequalities.

The government has already set out some plans in this area. Following the recommendations of the McGregor-Smith review, the prime minister recently announced a consultation on ethnicity pay gap reporting (Prime Minister's Office et al 2018). The government has also announced plans to require publicly listed companies with 250 or more employees to annually publish the pay ratio between their chief executive and the average employee at the organisation (BEIS et al 2018).

Government should build on the gender pay reporting regulations, by **requiring all employers with 50 or more employees to produce a fair pay report**. This should include the following measures.

Gender pay gap reporting

As set out above, all employers with 50 or more workers should be required to report on the gender pay gap within their organisation.

Ethnicity pay gap and employment reporting

As we set out in chapter 1, there is a significant ethnicity pay gap in the UK.

A small number of employers already publish their ethnicity pay gap on a voluntary basis. The Greater London Authority (GLA) publishes the composition of their workforce by broad ethnic group,[9] mean and median pay for each group, pay gaps for each group, bonus pay gaps, and distribution by quartile and grade for white and BAME workers (GLA 2017). KPMG publish information on the same areas as for the gender pay gap, but unlike GLA, they only do so between white and BAME employees, rather than at a more granular level (KPMG 2017).

While there are some examples of voluntary reporting, as we saw with the voluntary gender pay reporting system, the numbers remain very low. A recent EHRC survey found that just 3 per cent of large employers were analysing pay data to explore differences in ethnicity, and even fewer reported this data publicly (EHRC 2018).

While voluntary reporting remains very rare, employers seem open to a system of mandatory reporting on ethnicity pay gaps. In our employer survey, nearly half (43.8 per cent) of employers said they would support mandatory reporting on the ethnicity pay gap at large firms, with one-third (37.5 per cent) opposed.

As part of a fair pay report, **all employers with 250 or more employees should be required to report both on the proportion of their workforce from BAME backgrounds, and the ethnicity pay gap within their organisation**. As with the gender pay reporting regulations, employers should be required to report the median and mean pay gap between white employees and those from BAME backgrounds, in addition to bonus pay gaps and distribution by quartile. Given the variation in pay gaps between ethnicities, employers should be required to report on pay gaps by broad ethnicity group with the option to also report on the more granular census ethnicity categories should they wish. Given the intersection of ethnicity and gender, and the big variation in ethnicity pay gap by gender, employers should be encouraged to report voluntarily on ethnicity pay gaps broken down by gender.

Our higher proposed threshold for compulsory ethnicity pay gap reporting compared to our proposals for gender pay gap reporting reflects the lower proportion of people from a BAME background in the workforce. Women make up half of the working age population and half (49 per cent) of all employees (IPPR analysis of ONS 2018c). By comparison, adults from BAME backgrounds make up one in eight of the population, and one in 10 of the workforce (MacGregor-Smith 2017). In addition, the proportion of adults from BAME backgrounds varies more by region than the proportion by gender. In this context, a higher reporting threshold would be proportionate.

Even with a higher threshold, there would be a risk that such a reporting requirement may provide data that could identify an individual’s pay. If the organisation has a sufficiently low number of BAME or white employees to risk identifying individuals, they should be entitled to apply for a partial exemption from the requirements from EHRC, leaving them only responsible for reporting on the make-up of their workforce and not their pay gaps.

Ethnicity pay gap reporting would involve a limited additional burden on employers in the short term, but a minimal impact in the medium term. While employers already record data on gender and age, data on ethnicity is less consistently reported. A recent EHRC survey found that 60 per cent of large employers (250+ employees) record data on ethnicity of their workforce (EHRC 2018). In the short term, the regulations would require the remaining 40 per cent

9 The GLA breaks down the data into the following categories; BAME (Black, Asian, Dual, Other), Asian or Asian British, Black or Black British, Dual Heritage, Other ethnic group, White, Not known/provided.

of large employers to improve equalities monitoring practices and to record data on ethnicity. In order to allow time for employers to adapt, there should be a transition period with large employers required to report their ethnicity pay gap for 5 April 2020 by 5 April 2021. However, once employers have reliable data on their workforce by ethnicity, and systems in place to keep this data up to date, the additional burden on them would be small. The calculations on pay levels across the organisation would already be in place for gender pay gap reporting, so this would only require employers to apply a different protected characteristic to generate the ethnicity pay gap figure.

As we set out in chapter 1, in addition to the significant ethnicity pay gap, there is also a large ethnicity employment gap. Requiring employers to report both on the makeup of their workforce, and on pay gaps between white and BAME workers, would encourage employers to focus both on tackling pay gaps, and on tackling under-representation of BAME workers within the workforce. In a similar way to gender pay reporting, ethnicity pay reporting would increase transparency, and raise the profile of this injustice, encouraging both employers and government to take action to address the ethnicity pay gap, the employment gap, and the structural drivers of both.

The disability pay gap

There is a strong case for introducing disability pay reporting. As with gender and ethnicity, disability is a protected characteristic under the Equality Act, under which pay discrimination is illegal. However, as with gender and ethnicity, there is evidence both of a large disability pay gap and a large disability employment gap (Longhi 2017).

Currently, very few employers publicly report disability pay gaps (EHRC 2018). A recent EHRC survey found that just 3 per cent of employers appear to be analysing pay gaps between disabled and non-disabled staff, and far fewer still are reporting this data publicly (ibid).

Views of employers on mandatory reporting for disability pay gaps were evenly balanced. In our employer survey, one-third of employers (34.4 per cent) said they would support mandatory reporting on the disability pay gap at large firms, with another one-third (34.4 per cent) opposing the measure.

As part of a fair pay report, **all employers with 250 or more employees should be required to report on the composition of their workforce by disability as well as their disability pay gap**. Employers should be required to report on the same areas as gender pay reporting (pay gaps, bonus gaps, distribution by quartile). Employers should be required to report on composition and pay gaps for workers who identify as ‘disabled’ or ‘non-disabled’ as a minimum, with the option of reporting on more granular categories of disability on a voluntary basis.

As with the introduction of ethnicity pay reporting, mandatory disability pay reporting would involve a limited additional requirement for a minority of large employers in the short term, but very little additional burden in the medium-term. For the majority of large employers who already collect this data, the requirement would merely involve making the same calculations for gender pay reporting, for disability. For the minority of large employers who do not record such data, compulsory reporting would require them to improve equality monitoring for new starters and existing workers.

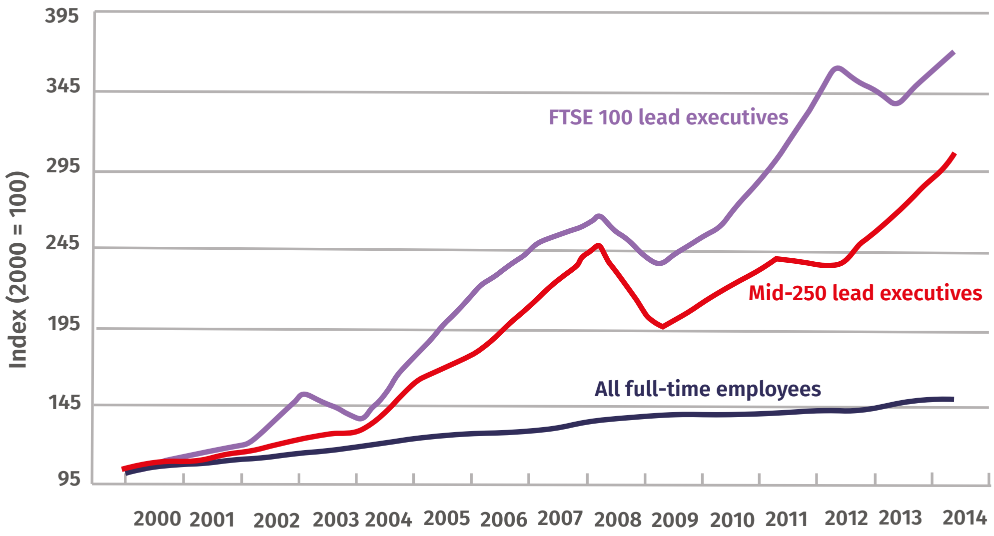
Pay ratio reporting

Income inequality increased rapidly in the UK in the last quarter of the twentieth century. The proportion of income going to the top 1 per cent of earners nearly trebled between 1979 and 2014, rising from 5.9 per cent to 13.9 per cent (Dromey 2018). The UK is now one of the most unequal countries in the OECD (ibid).

While overall income inequality has plateaued in recent years, executive pay has continued to rise exponentially. As figure 3.1 shows, the pay of lead executives in FTSE 100 companies increased at a rate five times faster than that for all employees between 2000 and 2014. The most recent data shows that the pay of FTSE 100 chief executives increased six times faster than median pay in 2017 (High Pay Centre and CIPD 2018). The rapid rises in senior pay are unrelated to firm performance; over the last 20 years, the value of the FTSE has barely risen, while executive pay has increased more than 400 per cent (Lawrence 2017).

FIGURE 3.1: THE PAY OF FTSE 100 LEAD EXECUTIVES INCREASED FIVE TIMES FASTER THAN ALL FULL-TIME EMPLOYEES BETWEEN 2000 AND 2014

Index of pay for FTSE 100 lead executives, mid-250 lead executives and all full-time employees, 2000–2014 (2000 = 100)



Source: BEIS Committee 2017

The CBI, the government and others have acknowledged that the rapid rise in executive pay has damaged public trust in British business (CBI 2017; BEIS et al 2018).

The government have announced plans to require large publicly listed employers to publish their internal pay ratio between their chief executive and the average worker (BEIS et al 2018). The intention of the measure was to promote transparency, to ensure senior pay is justified, and to rebuild public trust.

Employer views on this measure were finely balanced. Two in five (42 per cent) of respondents to our employer survey supported mandatory pay ratio reporting, with the same proportion (42 per cent) opposing them.

As part of a fair pay report, **all employers with 50 or more workers should be required to report annually the pay ratio between their chief executive (or equivalent) and the median pay for their organisation**, including a single cash figure for both which includes all forms of remuneration. This would extend the government's proposals from large publicly listed businesses to all medium-sized organisations, and it would improve transparency by requiring the reporting of a single cash figure.

In addition to mandatory pay ratio reporting, **large employers should be encouraged to provide further information on the distribution of pay within their organisation**. This could be done through reporting on the share of total remuneration going to the top 1 per cent and/or 10 per cent of employees and partners within the organisation (CIPD and HPC 2018). While the pay ratio described above refers only to an individual, reporting on the remuneration share of the highest earners would provide a better picture of how remuneration is distributed within an organisation overall.

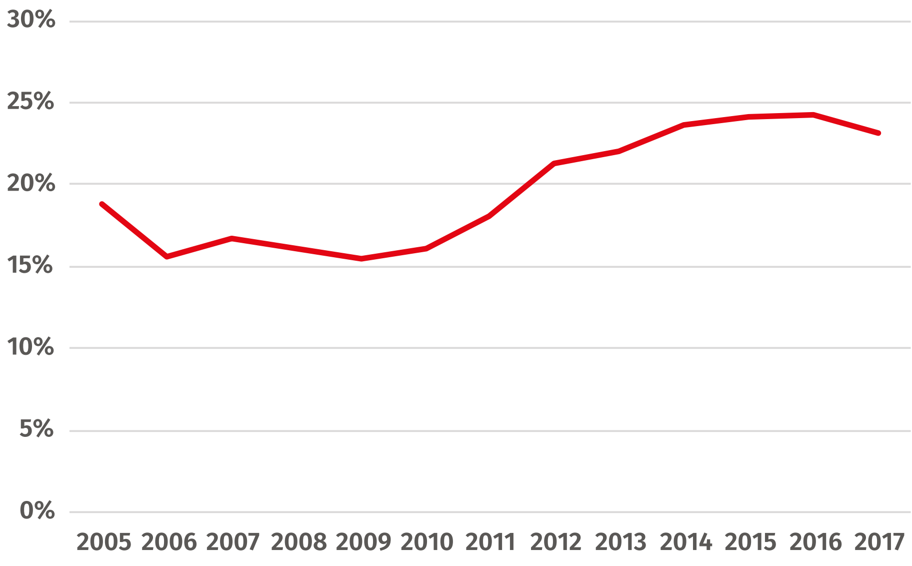
Employers should be required to justify the pay ratio as part of their fair pay narrative (see below). This additional transparency will encourage remuneration committees both to ensure pay is linked to performance, and to consider pay across the organisation in setting senior pay. It would also ensure that employers with excessive pay ratios and/or levels of pay which cannot be justified by performance will be exposed to scrutiny from their workforce and from consumers.

Living wage reporting

While the employment rate stands at a record high, the UK suffers from high levels of low pay. In 2017, 6.2 million workers across the UK earned below the real living wage.[10] The rise of low pay means that most people in poverty in the UK are now in working households (Barnard 2017).

FIGURE 3.2: NEARLY ONE IN FOUR EMPLOYEES EARNS BELOW THE LIVING WAGE

Proportion of all employees below the living wage 2005 to 2017



Source: D'Arcy 2018

IPPR have called for the national living wage to be raised to the level of the real living wage to tackle in-work poverty (IPPR Commission on Economic Justice 2018). However, in the absence of a significant increase in the wage floor, the

10 The living wage is a voluntary rate, set by the Living Wage Foundation based on the amount needed to meet the real cost of living. It is higher than the national living wage, the statutory minimum wage for adults aged 25 and over, which is set by government.

government should consider other measures to encourage employers to increase pay at the bottom.

As part of a fair pay report, **all employers with 50 or more workers should be required to report annually on the proportion of their workforce who are paid below the living wage**. This would increase transparency and add to pressure on employers to tackle low pay, from employees and trade unions, from clients and consumers, and from civil society groups such as the Living Wage Foundation. Should the government increase the wage floor to match the real living wage in the future, then employers should be required to report on the proportion of their workers who are low paid (earning below two-thirds of median hourly pay).

Such a requirement would impose a minimal administrative burden on employers. Employers would merely be required to identify the number of employees earning below the relevant hourly rate (currently £10.20 in London and £8.75 elsewhere), and to present that figure as a proportion of all employees.

The reporting methodology above would only apply to directly employed workers, rather than to outsourced workers. There is a risk that this would provide a partial picture of low pay, and that it may provide an incentive for employers to outsource lower-paid workers. As an alternative, employers could be required to include sub-contracted workers in their calculation, based on the definition used by the Living Wage Foundation.[11]

Fair pay narrative

As we have argued, while the data produced by compulsory reporting requirements is valuable, it is also important to encourage employers both to investigate the drivers of inequalities, and to think about actions to narrow them.

As part of their fair pay report, **employers should be required to produce a fair pay narrative**. This should set out their understanding of the cause of their gender, disability and ethnicity pay gaps, an action plan to address these pay gaps, and any targets for reducing these gaps. This should also include a justification for their pay ratio, and the number of employees paid below the living wage.

Given the complex intersectionality of pay gaps that we set out in chapter 1, employers should be encouraged to address intersectional issues as part of their fair pay narrative. This might include reporting on ethnicity pay gaps by gender, or gender pay gaps by age.

To ensure employee involvement and participation, employers should be encouraged to engage and consult with their workforce in developing their fair pay narrative and action plan. Trade unions and the Trades Union Congress (TUC) should provide guidance and support to union branches to help them engage with this.

Employers should be encouraged to include information on outsourced workers in their fair pay narrative where possible. However, in order to minimise complexity of reporting and the burden on employers, the additional reporting requirements we set out above should apply only to directly employed staff, rather than to both directly employed and outsourced workers.

11 In order to become an accredited Living Wage employer, the Living Wage Foundation requires employers to pay the Living Wage both to directly employed staff, and to regularly contracted staff who work for 2 hours or more a day, in any day of the week, for 8 or more consecutive weeks of the year.

As with the proposed narrative reporting for the gender pay gap, this would involve a small additional burden on employers. Taking a non-prescriptive approach on what the fair pay narrative should involve would minimise the burden on employers, but requiring some form of narrative report would encourage more to engage with the issue of fair pay, to consider the drivers of pay inequality, and to think about what could be done to address these.

Regularity of reporting

As we set out above, there is a strong case for extending reporting requirements from large firms with 250 or more workers to medium-sized firm with 50 or more workers in the case of gender pay reporting, and with regards to pay ratio and living wage reporting. However, to limit the burden on medium-sized employers, the reporting requirement should be only to report every two years, rather than annually.

INTERNAL PAY REPORTING AND EQUAL PAY

While the gender pay reporting regulations provide valuable data on the gender pay gap, they do not help identify incidences of unequal pay. That is because gender pay gaps may be the result of several factors other than unequal pay.

Currently, if a woman believes that she is the victim of unequal pay, she can request information from her employer. If employers do not respond, then she would have to present a claim to an employment tribunal, which has the power to order disclosure. Employment tribunals can also order employers to carry out an equal pay audit in the case where there has been found to be an equal pay breach (Equality Act 2010).

To help employees, identify cases of unequal pay where it exists, and to provide reassurance where it doesn't, government should introduce further internal transparency measures. These should include the following.

- **Internal pay range reporting**: all large employers with 250 or more employees should be required to publish their pay ranges by role internally to their workforce, as well as the average for each role (IPPR CEJ 2018). The requirement should only be for roles with five or more employees, to avoid the potential for individuals' pay to be identified. This would provide individual employees with the ability to assess their own pay against the average and range for their role, and for roles of similar value, helping them to identify where there may be cases of illegal unequal pay. Like the proposed pay ratio reporting, it would also encourage employers to ensure that large pay differences were justified. While pay scale reporting is already common in the public sector, the measure may require employers in the private sector to gather data on ranges by role. However, this could have the positive effect of encouraging more systematic and robust approaches to setting pay. Internal pay range reporting should be introduced from April 2020 to give employers time to adapt.
- **A right to comparison data**: as recommended by the European Commission, employees should have the right to request information on pay levels, broken down by gender, for the same job role, or for work of equal value within their organisation (European Commission 2017). Similar rights exist in Finland, Ireland and Norway. This could involve re-introducing the statutory questionnaire process under which employees could request information on pay from employers, which was scrapped in 2014.
- **A right to trigger an independent pay audit**: currently, only an employment tribunal can require an employer to conduct an equal pay audit. Employees should have a right to request a full independent equal pay audit at all organisations with 50 or more employees. The trigger for the request should

be 5 per cent of the workforce. This would provide employees with the ability to gain an independent assessment of the legality of pay arrangements across the organisation where there is a sufficient level of concern within the organisation about potential unequal pay. Employers should not be required to conduct an independent pay audit more regularly than once every four years.

Tracking progress towards equality: The annual fair pay review

Alongside the employer reporting requirements set out above, EHRC should produce an annual fair pay review. Based on the data produced by individual employers, the annual fair pay review should provide analysis of trends in pay gaps, and recommendations both for employers and government to promote equality.

CONCLUSION

While the gender pay reporting regulations are in their early days, they seem to be having the desired effect of increasing transparency, raising the profile of the gender pay gap, and stimulating employer action. There is good reason to suspect that they will contribute to accelerating progress in narrowing the gender pay gap.

In this report, we make the case for extending the gender pay reporting regulations, including through expanding their scope to medium-sized employers and requiring employers to produce narrative reports. In addition, we argue for expanding pay transparency in other areas. Employers should be required to produce a **fair pay report**, covering not just the gender pay gap, but the ethnicity pay gap, the disability pay gap, internal pay ratios, and the proportion of workers below the living wage. We argue that greater transparency on pay could help drive employer action to tackle wider inequalities too.

However, while transparency will help, in isolation it will not solve these problems. Gender pay reporting alone will not eliminate the gender pay gap, and wider pay reporting will not eliminate the other pay inequalities. Pay transparency will need to be accompanied by other measures to address the structural drivers of inequality.

Looking specifically at the gender pay gap, further action will be needed from across Government, from employers, and from other stakeholders to address the structural drivers of the gender pay gap. In previous reports, IPPR has called for:

- ‘use it or lose it’ paternity leave to promote a more even distribution of caring responsibilities (IPPR CEJ 2018)
- additional investment in childcare in order to support parents to balance work and care (Cory 2015)
- improving work incentives under universal credit, so that second earners get to keep more of their earnings, in order to encourage more mothers to participate in the labour market (Cory and Stirling 2015)
- requiring all jobs to be advertised on a flexible and potential job-share basis, except with good reason, in order to expand the availability of high-quality part time work for those seeking to balance work and care (IPPR CEJ 2018)
- an industrial strategy for the foundational economy to drive up productivity and pay in low-paying sectors traditionally dominated by women (IPPR CEJ 2018).

In its first report on the gender pay gap regulations, IPPR set out several measures which employers could take to address their gender pay gap (Colebrook et al 2018). Following the first year of reporting, the Behavioural Insights Team (BIT) and the GEO have also set out a number of possible actions which have an evidenced impact on the gender pay gap (BIT and GEO 2018).

While transparency can be a powerful tool in driving behaviour change, further action from both government and employers will be needed to tackle pay inequalities.

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