Association of Accounting Technicians response to the Business, Energy and Industrial Strategy (BEIS) Committee inquiry into Corporate Governance: Delivering on Fair Pay (1)

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1. Introduction

1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the Business, Energy and Industrial Strategy (BEIS) Committee inquiry into Corporate Governance: Delivering on Fair Pay (Gender Pay Gap), published on 23 March 2018.

1.2. AAT has approximately 140,000 members. In 2016, 69% of AAT members were women. This compares extremely well with other accountancy bodies such as ICAEW (28%) ICAS (33%) CIMA (35%) ACCA (46%) and CIPFA (32%).

1.3. AAT published its Gender Pay Gap data as part of its annual report long before it was legally required to do so, was the first and remains the only accountancy body to have signed the Women in Finance Charter and has regularly engaged with policymakers on issues relating to Gender Equality.

1.4. AAT has added comment to add value or highlight aspects that need to be considered further.

2. Executive summary

2.1. **AAT welcomes the new Gender Pay Gap reporting requirements.** The new requirements are a good start, have stimulated debate and have indirectly shone much needed light on the fact most companies employ more men in senior roles than women but more needs to be done to ensure data is genuinely useful, put into context and presented uniformly.

2.2. **The sanctions regime must be clearer and stronger.** Relying on public stigma may be acceptable as a last ditch, short-term approach but it is no substitute for a properly considered, fair and widely understood sanctions regime. There should be no need for court action. Instead there should be set fines for non-compliance, based on company size and turnover, and these should be widely advertised in advance.

2.3. **More needs to be done to highlight that the Gender Pay Gap has nothing to do with men and women not being paid equally for the same work.** This is very rare, wholly illegal under the 1970 Equal Pay Act and unrelated to Gender Pay Gap reporting.

2.4. **All companies should aspire to having "no Gender Pay Gap".** In the same way that "full employment" does not equate to there not being a single person unemployed, having "no Gender Pay Gap" should be considered anything less than 3% either in favour of women or in favour of men to allow for the changes in staffing and pay arrangements that occur throughout the year. This is further explained below at 3.34.

3. AAT response to the BEIS Committee Inquiry

3.1. **Is the annual information related to pay required under the Equality Act 2010 sufficient? Should any further information be required?**

3.2. AAT wholeheartedly supports the principles behind, and objectives for, Gender Pay Gap reporting.

3.3. As the world's fifth largest economy with a reputation for forward thinking and fairness, the UK should be leading the way in this area.

3.4. There are numerous reasons why closing the Gender Pay Gap is a worthwhile objective. Not just because it's the right thing to do, leads to a more diverse and inclusive workforce, broadens the skills base and can improve staff satisfaction and retention but because it will substantially add to UK GDP, in fact McKinsey estimate it could add £150 billion to UK GDP by 2025 and add 840,000 women to the workforce[1].

3.5. However, AAT does not believe that the way data is currently being collected is entirely helpful in seeking to raise awareness and understanding of the problem and that more could have been done to make the process more successful.

3.6. A good place to start would have been identifying just how many companies should report. There was considerable uncertainty about this. Government Ministers confirmed they were unsure as to the numbers required whilst stating it would be in the region of 9,000. This added to a sense of disorganisation and wider confusion that could arguably have encouraged some not to comply. Some employers may have felt that if the Government was unsure about compliance, they could probably get away with not complying. The final number was almost 12,000, with 10,212[2] complying and the Equalities and Human Rights Commission (EHRC) confirming that a further 1,557 firms missed the deadline.

3.7. There is a strong argument for the extension of these requirements to smaller companies. 99% of UK businesses employ less than 250 people, reducing the pay gap at smaller companies is therefore likely to lead to more compelling outcomes.

3.8. With this in mind, the Committee might like to consider that in March 2014 the European Commission introduced recommendation 2014/124/EU which suggested every member should introduce compulsory company level Gender Pay reports for companies with more than 50 employees, not 250. Of course, any reduction in company size reporting requirements must be balanced with the likely administrative burden this would place on those SMEs.

3.9. Turning to the data itself, this has created widespread misconceptions around men and women not being paid equally for the same work, which is of course very rare and illegal under the 1970 Equal Pay Act.

3.10. The data leaves a lot to be desired. There are a range of statistical anomalies that whilst theoretically possible are statistically extremely unlikely and require thorough investigation. This is demonstrated by Primark, McDonalds and Starbucks all claiming to have a Gender Pay Gap of precisely 0%.

3.11. The likes of Unilever and BT have been shown to pay women slightly more than men. Having a Gender Pay Gap that favours women has been widely praised in the media as being a good thing and something responsible businesses should strive for.

3.12. However, the biggest Gender Pay Gap in the country is Yellow Dot Nurseries who pay women 81% more than men. So, a Gender Pay Gap in favour of women is good, but not if it is too big.

3.13. Some of the strange and often misleading data is simply a result of not asking the right questions.

3.14. There is much not included in the data that would provide a much more rounded view of what is happening in the British economy. For example, age plays a significant factor in pay levels – women in their 20's earn significantly more than men on average [3] and the distinction between part-time and full-time employment is not made anywhere, inflating the pay gap.

3.15. Women also earn on average 5.1% more than men in part-time roles[4]. This is largely explained by the fact 41% of women have part-time jobs compared to just 13% of men.

[1] McKinsey, September 2016: https://www.mckinsey.com/global-themes/gender-equality/the-power-of-parity-advancing-womens-equality-in-the-united-kingdom

[2] EHRC figures correct as of 10 April 2018

[3] Guardian, 2015: https://www.theguardian.com/money/2015/aug/29/women-in-20s-earn-more-men-same-age-study-finds

[4] ONS 2017: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2017provisionaland2016revisedresults

3.16. Germany did not make the same mistake when introducing their Gender Pay Gap legislation - *The Transparency of Remuneration Act* which came into force in July 2017 and requires information about the full/part-time split at a company.

3.17. Conversely, allowing the exclusion of partners (as they are not classed as employees) deflates the gap and should be ended. Most partners are male and are the most highly paid in their respective firms. Whilst the big four accountancy firms Deloitte, EY, KPMG and PwC voluntarily provided such information and should be commended for doing so, most law firms did not. Data quality should not rely on voluntarism.

3.18. Put simply, the primary reason for the Gender Pay Gap is that most companies employ more men in senior roles than women. That is the real issue that needs to be tackled.

3.19. The calculations bluntly compare the salaries of all working women to all working men in a single employer. Obviously, they don't all undertake the same job. So, figures are not comparing like with like.

3.20. Adding further context, Cynthia Than from Ninja Economics highlights, *"…since men and women tend to choose different professions, occupational segregation explains some of the difference in the Gender Pay Gap since men are more likely to choose higher-paying fields. This results in women being disproportionately represented in lower-paying jobs…men may enjoy an earnings advantage but it doesn't mean women are being paid less for the same job."*[5]

3.21. Kate Andrews of the Institute of Economic Affairs, went further by summarising the way in which data is being collected as, *"… not good for well-meaning companies, which are having their brand name smeared, but it is particularly bad for working women who are being bombarded with misinformation about their standing in the workplace."*

3.22. In conclusion, AAT believes that the new requirements are a good start, have stimulated debate and have indirectly shone much needed light on the fact most companies employ more men in senior roles than women. However, changes are needed to ensure data is genuinely useful, put into context and uniform (closing loopholes around partners etc.). Likewise, the sanctions regime must be clearer and stronger and finally, much more needs to be done to highlight that the Gender Pay Gap has absolutely nothing to do with men and women not being paid equally for the same work, which is very rare and wholly illegal under the 1970 Equal Pay Act.

3.23. **What is the extent of compliance? Is the information accurate?**

3.24. Compliance appears to be reasonably good given EHRC are reporting that only 1,557 from a total exceeding 10,000 have failed to report.

3.25. It's also worthy of note that over 200 companies who did not have to report (as they have less than the required 250 employees) did so anyway. This suggests many companies see merit in complying rather than simply doing so because of the threat of sanctions.

3.26. Whilst most of the information is likely to be accurate, a much more important question is whether the information is relevant and useful (see above 3.9-3.22)

3.27. **How effective are the sanctions for non-compliance with reporting requirements?**

3.28. The sanctions for non-compliance appear to be rather lacking in rigour. In March 2018, the Minister for Women, Victoria Atkins MP, said in her evidence to the Treasury Select Committee that four or five letters will need to be sent to the employer reminding them of their legal duties before EHRC will even consider imposing a fine at which stage, given they have no regulatory powers to impose such fines, the EHRC then needs to go to court to obtain either a court order compelling the company to publish or for the court to impose a fine. It also appears to mean that the EHRC has no control over the likely level of fine as this would be a matter for the courts to determine.

3.29. Fortunately, most companies have complied with the law, not just because it is a legal obligation or because it is the right thing to do (AAT was publicly reporting its Gender Pay Gap long before it was legally obliged to do so) but because those who do not publish are likely to face considerable media and political attention. As such, attention may shift in future years and so it would be sensible to have a much clearer system of sanctions for non-compliance in place

[5] Cynthia Than, Ninja Economics: https://genius.com/Cynthia-than-is-there-a-gender-gap-in-tech-salaries-annotated

before the next round of reporting is due. Having a set of clearly defined sanctions would also aid the majority of companies who do comply as it would not only help ensure future compliance but provide a sense of fairness that those who do not meet the same standards will be sanctioned accordingly.

3.30. There should be no need for court action. Instead there should be set fines for non-compliance, based on company size and turnover, and these should be widely advertised in advance. The high degree of uncertainty and inadequate nature of the current sanctions regime doubtless encouraged some of the 1,557 companies who failed to report not to do so.

3.31. Relying on public stigma may be acceptable as a last ditch, short-term approach but it is no substitute for a properly considered, fair and widely understood sanctions regime.

3.32. **What requirements, if any, should there be on companies to address Gender Pay Gaps?**

3.33. The ultimate objective should be for all companies to eliminate their Gender Pay Gap. This will inevitably be harder for some companies in some sectors than others and imposing blanket targets i.e. for all companies to have less than a certain percentage gap by a specified point in the future, whether 3, 5, 10 or whatever number of years is deemed appropriate, is likely to be less than helpful.

3.34. In the same way that “full employment” does not equate to there not being a single person unemployed, having “no Gender Pay Gap” should be considered anything less than 3% either in favour of women or in favour of men to allow for the changes in staffing that occur throughout the year. There are precedents for such a figure, for example, 3% is a generally acceptable figure for most economists in relation to full employment terminology. It also covers the likes of very large companies such as BT (2.3%) and Unilever (2.2%) who reported Pay Gaps in favour of women. At present, just over 12% of employers (1,268 companies) who have reported their Gender Pay Gap data, meet this requirement of having a Pay Gap of less than 3% either way[6].

3.35. Common sense would dictate that those companies with a gap exceeding 50% would be working tirelessly to reduce this to less than 50% as speedily as possible in the first instance.

3.36. For the companies who have a gap above the national average of 18.4% but below 50%, reducing their gap to the national average should be the next goal.

3.37. For those companies with a gap below the national average of 18.4%, striving to have no gap at all (effectively 3% either way) should be their objective.

4. About AAT

4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 400,000 British businesses.

4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

5.1. If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy, at:

E-mail: phil.hall@aat.org.uk Telephone: 07392 310264 Twitter: @PhilHallAAT

Association of Accounting Technicians, 140 Aldersgate Street, London, EC1A 4HY

[6] Based on EHRC figures correct as of 10 April 2018