

Association of Accounting Technicians (AAT) response to the Department for Business, Energy & Industrial Strategy consultation on Ethnicity Pay Reporting

1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to this consultation published in October 2018.
- 1.2. AAT is submitting this response on behalf of our membership and for the wider public benefit of promoting a responsible business agenda.
- 1.3. In October 2018, AAT surveyed its members to establish their views on several questions contained within this consultation to ensure members views on this issue are represented as accurately as possible.

2. Executive summary

- 2.1. **AAT believes that ethnicity pay reporting has numerous benefits for employers, employees and the wider economy.**
This is demonstrated by member views detailed at 3.1 & 3.2 below.
- 2.2. **AAT does not believe that publishing a single pay gap figure is satisfactory and instead would like to see figures for different ethnic groups being published.**
- 2.3. **Publishing an action plan to deal with discrepancies should be an absolute minimum.**
It is often said that public reporting “shines a light” on a problem. Unfortunately shining a light on a problem is often insufficient to tackle it.
- 2.4. **Companies with 50+ employees should be required to report on ethnicity pay.**
99% of UK businesses employ less than 250 people, reducing the ethnicity pay gap at smaller companies is therefore likely to lead to more compelling outcomes than simply requiring change at companies employing more than 250 employees.
- 2.5. **AAT recommends that new requirements for Ethnicity Pay reporting are utilised to remedy some of the shortcomings with the existing Gender Pay Gap reporting requirements.** For example, both requirements could be brought into line by requiring both to publish action plans, both to differentiate between part-time and full-time workers and both to apply to all companies employing more than 50 people.

3. AAT response to the consultation

Ethnicity pay reporting

What are the main benefits for employers in reporting their ethnicity pay information?

- 3.1. The *AAT Ethnicity Pay Survey 2018* revealed that 2% believe financial benefits are the key benefit, 10% believe it will improve company performance and 50% believe the key benefit is improving social justice. It is also worth noting that 21% believe all three of these benefits will be realised by Ethnicity Pay Reporting.
- 3.2. A quarter of members (25%) remain unconvinced of the value of Ethnicity Pay reporting, with 16% believing none of the above benefits will be realised and 9% not knowing what, if any benefits will be delivered.

What type of ethnicity pay information should be reported that would not place undue burdens on business but allow for meaningful action to be taken?

- 3.3. Publishing a single pay gap figure comparing average hourly earnings of ethnic minority employees as a percentage of white employees does have the benefit of mirroring the gender pay gap methodology. AAT is very much in favour of replicating the successful elements of the Gender Pay Gap requirements wherever possible. However, in this instance it would not be helpful.

- 3.4. Combining the various classifications of ethnic minority groups into a single figure could be very misleading and could mask significant problems i.e. over or under representation in one class. This is therefore one example where simplicity needs to make way for clarity. As the consultation document itself states, “...an organisation with lower than average ethnic minority representation could still show a positive pay gap figure if those ethnic minority individuals it employs are in more senior positions.”
- 3.5. The £20,000 pay band suggestion has limited merit, again it could mask some significant problems and although the final reporting may be simple, the calculations required for it are unnecessarily time consuming. Publishing ethnicity data by pay quartiles as with Gender Pay Gap reporting would be an improvement but the third option (3.6) would be the preferred option.
- 3.6. Publishing pay gap figures for different ethnic groups would appear to be the most attractive option. This has the benefit of relative simplicity (as with the single pay gap option) but provides much greater clarity because different groups are identified, and differentiations made. AAT accepts that there is still an element of grouping here, but this needs to be weighed against the benefits of simplicity and keeping in mind the need not to burden employers with having to provide excessively granular detail.

What supporting or contextual data (if any) should be disclosed to help ensure ethnicity reporting provides a true and fair picture?

- 3.7. Gender would appear to be an obvious starting point given its impact on pay, the intersectionality with Ethnicity Pay reporting and the way existing Gender Pay Gap reporting requirements could be utilised here.
- 3.8. Location is likely to play a key role. For example, the UK Indian population is estimated at 2.5% whilst this figure rises to 6.6% in London and to 14% in certain London Boroughs. This geographical variation means it would be possible to be more diverse than the national average whilst also being less diverse than the community in which the business is based. Whilst such information is important in establishing an understanding ethnicity representation within companies, it has considerably less importance in relation to the interrelationship between pay and ethnicity. As a result, additional contextual detail on this issue should not be required. If necessary, any issues relating to geography could be highlighted in any accompanying company action plan rather than having to be part of the main Ethnicity Pay reporting requirements.
- 3.9. Age may not be a particularly helpful piece of additional data to capture given that people from ethnic minorities are generally younger than the white population¹ and pay generally increases with age. This means such data is unlikely to add much context on Ethnicity Pay. That said, not including age related data could skew other results such as the interrelationship with Gender. For example, women in their 20's earn significantly more than men on average.²
- 3.10. Distinctions between part-time and full-time workers could be helpful. The distinction between part-time and full-time employment is not made in existing Gender Pay Gap reporting requirements, inflating the pay gap.
- 3.11. Women earn on average 5.1% more than men in part-time roles³. This is largely explained by the fact 41% of women have part-time jobs compared to just 13% of men.
- 3.12. 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. AAT has long recommended that the British Government resolve this omission for Gender Pay Gap reporting. It would therefore make sense to do the same for Ethnicity Pay reporting.

¹ ONS

<https://www.ethnicity-facts-figures.service.gov.uk/british-population/demographics/age-groups/latest>

² Guardian, 2015:

<https://www.theguardian.com/money/2015/aug/29/women-in-20s-earn-more-men-same-age-study-finds>

³ ONS 2017:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2017provisionaland2016revisedresults>

Should an employer that identifies disparities in their ethnicity pay in their workforce be required to publish an action plan for addressing these disparities?

- 3.13. Gender Pay Gap reporting simply requires companies to report their pay gaps, there is no requirement to do anything about them – there isn't even an obligation to produce an action plan, although many employers voluntarily do so. This has been a significant criticism of Gender Pay Gap reporting and so it would seem illogical to repeat this position with Ethnicity Pay reporting.
- 3.14. Those companies that voluntarily produce a Gender Pay Gap action plan are the types of companies that take these issues seriously and are committed to improvement anyway, the same will be true of Ethnicity Pay reporting. By compelling such action those companies that seek to do the bare minimum will be rightly challenged to do more.
- 3.15. The *AAT Ethnicity Pay Survey 2018* demonstrated overwhelming support for such action, with more than two thirds (68%) supporting a legal obligation on companies to publish an action plan compared to 19% who did not and 13% who answered, "don't know".

Ethnicity data and classifications

Do you currently collect data on ethnicity at your workplace? If yes, do you use standard ethnicity classifications for reporting? If so, which ones?

- 3.16. In keeping with trends identified in the consultation document, most of those who responded to the *AAT Ethnicity Pay Survey 2018* do not currently collect data on ethnicity in their workplace (58%) compared to 17% that do and 25% who do not know whether such data is collected.
- 3.17. It may be also worth noting that AAT's membership base was not as representative as its own organisation, with 87% of members identifying as white⁴.
- 3.18. AAT employs over 260 people, collects ethnicity data when offering employment and reports this data annually. At the end of 2017 this comprised of both the ethnicity of AAT utilising the classifications used in the 2011 ONS census and ethnic distribution by pay grade. The grade approach is not as intrusive as providing individual salary details whilst still providing pay insight on the basis that the higher the grade, the higher the pay.
- 3.19. AAT's 2017-18 Annual report⁵ showed its employee make up as follows:
- White 68.4%
 - Asian/Asian British 11.92%
 - Black African/Caribbean/Black British 10.38%
 - Mixed/multiple ethnic groups 1.92%
 - Other 3.85%
 - Undefined 3.46%

What do you think are the most effective approaches for employers to improve employee self-reporting or declaration rates?

- 3.20. Collecting information at the point of job offer in the recruitment process is now commonplace and certainly AAT has been collecting such data for several years. This should continue, ideally in a standardised form.
- 3.21. However, this does not help with existing employees who may have been employed for many years. Here it would appear reasonable for employers to clearly explain for what purpose the data is being sought, how it will be used, how it will benefit the individual, their employer and wider society and then to request that employees provide such information in as quick and easy a manner as possible. This could be aided by the provision of concise information from Government that can be utilised by employers.

⁴ AAT Annual Member Survey 2017

⁵ AAT Annual Report 2017-18:

<https://www.aat.org.uk/prod/s3fs-public/assets/Creating-progression-AAT-Annual-Report-1-Jan-2017-31-March-2018.pdf>

- 3.22. Providing a “prefer not say” option would be problematical as it could suggest there is no need to comply, discourage the provision of meaningful data and could lead to very skewed results. AAT does not provide such an option and as a result has very high reporting levels – obtaining data for almost 97% of its workforce.

For a consistent approach to ethnicity pay reporting across companies, should a standardised approach to classifications of ethnicity be used? What would be the costs to your organisation?

- 3.23. A standardised approach would clearly enhance consistency. The costs for each individual organisation would be variable depending on whether a standardised approach required any additional information to that being recorded anyway, and if so how much. Some companies may be requesting more information than a standardised approach would require and therefore no costs would be incurred. If considerably more information was required then inevitably this would create additional costs, not simply in terms of IT changes and recording but analysis and publication.
- 3.24. The 2011 Office of National Statistics Census groups individuals into five broad ethnic groups: White, Asian, Black, Mixed and Other which would appear to be a reasonable degree of information to avoid the pitfalls of a single group classification (as detailed at 3.4) whilst providing the benefits of different classifications as detailed at 3.6
- 3.25. However, the 2011 ONS census also breaks these five broad ethnic groups down into 18 detailed ethnic groups. Replicating that approach risks burdening employers with weeks of unnecessary work providing excessively granular detail as highlighted above at 3.6.

Next steps and government support for employers

What size of employer (or employee threshold) should be within scope for mandatory ethnicity pay reporting?

- 3.26. In 2014 the EU Commission recommended all companies with 50+ employees report their gender pay gap, in 2017 AAT recommended the same and in 2018 the Business, Energy & Industrial Strategy Select Committee agreed.
- 3.27. This is because over 99% of UK companies are SMEs and change at a small number of large companies is helpful but does not solve the problem.
- 3.28. The same argument can be applied to Ethnicity Pay Reporting. The argument is strengthened by the fact that, according to figures quoted in the consultation document, a mere 8% of SMEs are voluntarily reporting on ethnicity pay.
- 3.29. Findings from the *AAT Ethnicity Pay Survey 2018* show a very clear majority favour a reporting threshold well below the likely 250 threshold currently in place for Gender Pay Gap reporting.
- 3.30. 47% would like this to be applied to companies employing more than 50 employees and notably almost one in five (19%) would like to go even further with Ethnicity Pay reporting requirements to be imposed on all companies employing more than 10 people. The 250+ threshold was supported by 27%. A small number (6%) did not know what number the threshold should be set at.
- 3.31. AAT appreciates the difficulty policymakers would have in requiring companies with 50+ employees to report on ethnicity pay whilst having a different figure of 250+ for gender pay gap reporting. The solution to this conundrum would be to ensure pay reporting for both gender and ethnicity was set at 50+ rather than taking the easy option of using the existing 250+ Gender Pay Gap reporting requirements as an excuse to use the same threshold for Ethnicity Pay reporting.

What support measures do you think would be useful for employers?

- 3.32. Clear examples of what is required, including the provision of templates where necessary, will ensure smaller companies without in-house expertise do not need to turn to expensive pay consultants which could in turn lead to resentment of such reporting requirements.

3.33. The most supportive steps Government could take would be to ensure Gender Pay Gap reporting and Ethnicity Pay reporting requirements are combined to ensure no repetition occurs, thus reducing bureaucracy.

3.34. This would also be a good opportunity to correct some of the obvious imperfections with Gender Pay Gap reporting i.e. the exclusion of partnerships, part-time workers, company size threshold, compulsory need for an action plan and uncertainty around enforcement and penalties.

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:

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

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

