

Ethnicity pay gap reporting

Introduction

In the King's Speech in July 2024, the government announced plans to introduce a draft Equality (Race and Disability) Bill, which would begin the legislative process to make it mandatory for businesses with more than 250 staff to report on their ethnicity pay gap (EPG).¹

This policy briefing outlines the key principles of ethnicity pay gap reporting, insights from businesses that voluntarily report their ethnicity pay gap, and our recommendations for policy makers.

About Change the Race Ratio

Change the Race Ratio is the leading campaign in the UK calling for businesses to take action to improve racial and ethnic minority representation in their leadership teams. We work in collaboration with the Parker Review and provide businesses with a platform to signal change to their stakeholders and a community to access support and share best practice.

Change the Race Ratio has been supporting and encouraging our members to voluntarily report their ethnicity pay gaps since our launch in 2020.

The campaign represents one of the largest groups of businesses who are reporting their ethnicity pay gaps.



“At Auto Trader we have a strategic commitment to create a representative workforce across all levels of our organisation. We pursue our aim both authentically and systemically, expecting to see improvements in metrics, but not being driven solely by the pursuit of metrics.

We believe it is important to remain accountable and transparent which is why we publish our ethnicity pay gap.”

– Nathan Coe
CEO, Auto Trader



1. GOV.UK. (2024). **The King's Speech 2024.**

What is ethnicity pay gap reporting?

An ethnicity pay gap is the percentage difference in average pay of white or white British employees and the comparative ethnic minority groups in a workforce. ²

Since 2017, gender pay gap reporting has been mandatory for employers with 250 or more employees. ³

Businesses who have voluntarily reported their ethnicity pay gap have used the gender pay gap methodology as the basis for their approach.

This includes reporting the

- Mean and median ethnicity pay gap for hourly and bonus pay
- Percentage of ethnic minority and white people in each hourly pay quartile
- Percentage of ethnic minority and white people receiving bonus pay

Many of these businesses also include a supporting narrative that explains the reasons for an ethnicity pay gap and an action plan to close it.

However, despite similarities, there isn't exact equivalence with the gender pay gap.

There are important additional considerations for ethnicity pay gap reporting that our members who report voluntarily have discovered and addressed.

This report will explore these key considerations, highlight challenges they have faced, and approaches taken for successful reporting.

How do pay gaps arise?

A common reason for an ethnicity pay gap is lower representation of ethnic minority communities at senior levels in an organisation, or in other roles that attract higher pay. The pay quartiles measure helps to show these differences in representation.

The diagram below organises each member of an illustrative workforce along a horizontal line by their pay. The lowest paid are at the left of the scale, and

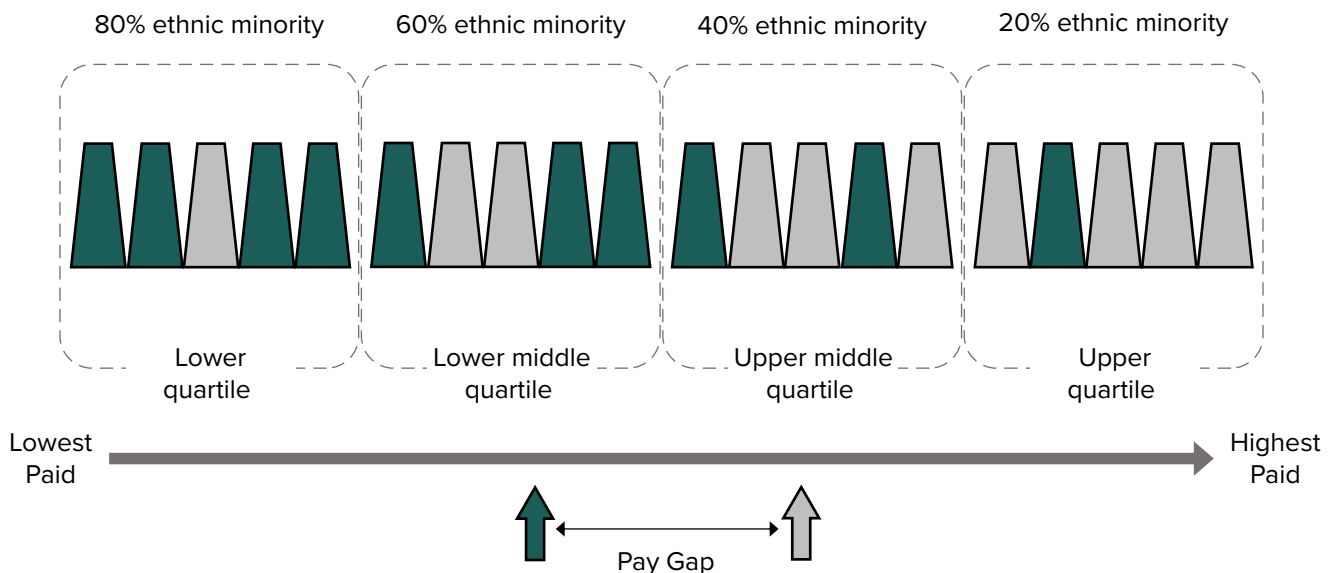
highest paid at the right. Quartiles divide the workforce into four equal sized groups, ordered by pay.

In the illustration, the green shapes represent ethnic minority people, and the grey shapes white people. For ease of understanding, this diagram shows only two groups, although an ethnicity pay gap report may disaggregate data to distinct ethnic groups. In this example,

ethnic minorities have highest representation in the lower pay quartiles and white people have the highest representation in the upper pay quartiles.

This means that ethnic minority people have a lower average pay than white people.

The percentage difference in these averages is the ethnicity pay gap.



2. Office for National Statistics. (2023). **Ethnicity Pay gaps, UK: 2012 to 2022.**
 3. GOV.UK. (2024). **Gender pay gap reporting: guidance for employers.**

What makes ethnicity pay gap reporting important?

Analysis published by the Office of National Statistics demonstrates that in the UK in 2022, most ethnic minority groups earned a lower average hourly pay than white employees.⁴

In 2023, the UK government released guidance for employers on ethnicity pay gap reporting, providing technical advice on data collection, analysis, and reporting.⁵

This aims to encourage employers to voluntarily measure and report their pay gaps, to identify and address racial disparities in the workplace.

Change the Race Ratio member organisations commit to publishing an ethnicity pay gap report within two years of joining. For meaningful change to happen, businesses must be transparent about their progress and actions, so reporting is a key component.

Our 2024 annual survey showed that 79% of our members now publish relevant data.⁶



“Our ambition is for our people to reflect the customers and communities we serve. We are using data to drive improvements and our ethnicity pay gap report is a fundamental source of that data.”

– Danny Harmer
Chief People Officer,
Aviva plc

Dispelling common misperceptions about pay gaps

There are three common misperceptions about pay gaps that can cause inaccurate interpretation and lead to unhelpful or harmful narratives. We explain each here:

Misperception 1: A pay gap means people are paid unequally

A pay gap is **not** a measure of unequal pay. Unequal pay means that employees with the same or equivalent work are not receiving the same pay. This practice is illegal as it amounts to discrimination on the basis of race.

A pay gap measures the difference in the average pay across a whole organisation (including all job roles and levels of seniority) for one demographic group as compared to another.

Pay gaps can arise when roles that attract higher pay have different demographic representation to roles that have lower pay. This can happen even when each employee receives equal pay for their role.

Misperception 2: If a pay gap increases, it means that things are getting worse

A common misperception is that if an organisation’s ethnicity pay gap increases, that organisation is performing badly regarding equality.

However, consider an example of an organisation that hires a large cohort of early career roles in one year, with a strategy

to develop them through to senior roles over time. If the organisation starts with a majority of white employees and the new cohort has greater ethnic diversity, the average pay of ethnic minority employees will go down because more ethnic minority people will be represented in lower pay bands.

However, the overall outcome will be a positive increase in ethnic minority representation, and result in a pipeline of ethnic minority talent who may become the organisation’s future leaders. In this example, the pay gap will increase before it then decreases in later years.

4. Office for National Statistics. (2023). **Ethnicity pay gaps, UK: 2012 to 2022.**

5. GOV.UK. (2023). **Ethnicity pay reporting: guidance for employers.**

6. Change the Race Ratio. (2024). **Setting the pace on ethnicity pay gap reporting.**

Misperception 3: A negative pay gap means that there are no inequities for ethnic minorities, and that EDI has gone too far

It can and does happen that an organisation has a negative pay gap. In other words, the average pay of ethnic minority employees is higher than the average pay of white employees. This should not automatically be interpreted as there being an unfair disadvantage for white people, nor that there is no longer any inequity for ethnic minority employees.

We most commonly see a negative pay gap for organisations with a national presence and many employees based in London. London is the UK's most ethnically

diverse region, with 46% of the population from Asian, black, mixed and 'other' ethnic groups. In comparison, in England and Wales overall the figure is 18%, and in the North East of England this drops to only 7%.^{7,8}

For organisations with employees distributed around the UK, the majority of ethnic minority employees are typically based in London where there is a pay premium to help with the higher cost of living. London pay bands are above the equivalent pay bands elsewhere in the country, where the employee population is mostly white. Ethnic minority

employees in London may be in the lowest London pay band but appear higher in the overall pay structure nationwide due to the London pay premium. This raises the average pay and can cause the ethnicity pay gap to become negative.

Both the second and third misperceptions highlight the importance of the accompanying narrative in a pay gap report that explains the reasons for a gap and its change over time.

Experiences of businesses that are voluntarily reporting ethnicity pay gap

Methodology

This section shares insights gained from recent data collection and consultations with Change the Race Ratio members about their ethnicity pay gap reporting. It is broken down into three key areas:

1. Data collection
2. Pay gap calculations
3. Acting on the findings

How businesses are collecting their ethnicity data

Unlike with the process of gender data collection, businesses operate on a principle of employee self-identification, meaning employees may choose whether to share their ethnicity with their employer. Businesses that have been collecting ethnicity data for a number of years find that whilst some employees feel hesitant about sharing their data, achieving disclosure levels of 90% and above is achievable. Change the Race Ratio recommends members begin reporting when they achieve an 80% disclosure rate.⁹

To structure the data, most firms use the ONS ethnic group categories¹⁰. Many emphasise the need to carefully consider the process for requesting and collecting data from employees. From a starting point of having no ethnicity data, it may take a year or longer to reach sufficient disclosure to analyse and reporting

the pay gap. However, once these processes are implemented, requesting this data from new joiners is relatively straightforward and disclosure rates can be maintained over time.

IT system configuration is required to store the new data collected, along with robust security and access control to protect the data from unauthorised use. This must be accompanied by ensuring privacy policies are updated and conducting a data protection impact assessment for GDPR compliance. Large organisations with modern HR management systems and compliance and IT support are well equipped to implement these changes. However smaller businesses or those with legacy systems may lack the IT infrastructure or skills to achieve this without system upgrades and external support.

9. Change the Race Ratio. (2024). **Setting the pace on ethnicity pay gap reporting.**

10. Office for National Statistics. (w date). **ONS ethnicity categories**

Common approaches to requesting and collecting ethnicity data include:

Developing trust and transparency

Clear communication to colleagues about why the data is collected, how the data is used and who has access is imperative. Provide education about the meaning of the ethnicity pay gap.

Building a communication strategy

Having ongoing engagement with employees about how robust data can build a fairer workplace can help achieve a higher disclosure rate. Data collection isn't a one-off exercise, it should be treated as a long-term employee engagement campaign.

Leadership engagement

Leaders play a vital role to build trust with employees. By highlighting the business importance of sharing data and commitment to addressing barriers to progression, visible engagement from leaders can encourage more employees to share their data.

Make data sharing easy and accessible to all

Make data sharing easy and accessible to all. The process of sharing data must be simple, and be inclusive for employees, including employees who do not work at a computer with easy access to company HR systems.

How businesses are reporting their ethnicity pay gap data

Businesses recognise the benefits of using data that is disaggregated to the ONS five- or 18- category ethnic group breakdown. Wherever possible, they use disaggregated data for internal analysis and decision making as this captures important differences across ethnic groups. However, for the ethnicity pay gap report, most firms report the binary white versus non-white pay gap.

The primary challenge for reporting more granular ethnicity categories is the privacy risk to individuals, due to very small group sizes for some ethnic minorities. This is particularly challenging

for smaller businesses and businesses located in areas of the UK with low ethnic minority representation. Larger businesses also cite difficulties in disaggregated reporting as representation is often not well distributed across the five categories, leading to small sample sizes in certain groups despite a large workforce.

In their consultation on ethnicity and disability pay gap reporting published in March 2025, the government proposes a minimum threshold of 10 employees in any ethnic group being analysed.¹¹

The consultation calls for the binary reporting to be the

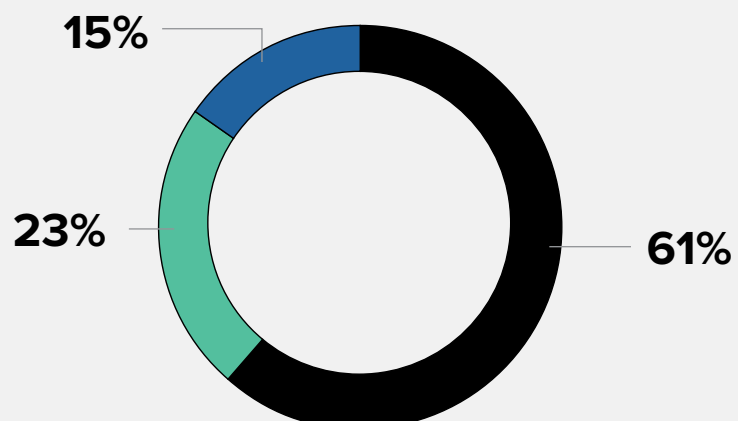
minimum and encourages further disaggregation where possible.

Change the Race Ratio recommends the default reporting should be binary, comparing all white groups versus all other ethnic groups.

We would also encourage businesses to further disaggregate reporting wherever possible, to increase transparency and usefulness of the report. We would particularly encourage reporting the pay gap for black employees, data shows that between 2012 and 2022 black employees in the UK were the only ethnic group to consistently earn less than white employees.¹²

Recent data collected by Change the Race Ratio shows:

- 61% of members report the binary pay gap
- 23% of members disaggregate to the ONS five-category ethnicity breakdown
- 15% of members are reporting the binary gap alongside a black pay gap



11. GOV.UK. (2025). **Open consultation – Equality (Race and Disability) Bill: mandatory ethnicity and disability pay gap reporting.**

12. Office for National Statistics. (2023). **Ethnicity pay gaps, UK: 2012 to 2022.**

It is a commitment of Change the Race members to publish their ethnicity pay gap and race action plan within two years of joining. We recommend including a narrative explanation of the pay gap. In assessing the meaning of the pay gap, it is important to recognise that the geographic locations of a business, along with its sector, can significantly impact its resulting pay gap.

This makes it difficult to draw meaningful comparisons between businesses from the pay gap figure alone. Rather, we recommend that businesses

assess their progress by comparing their own year-on-year results, underpinned with analysis of factors that have driven these changes.

Many businesses have the resources required to produce their report internally. A time scale of a year for the end-to-end process to produce the first report is typical, but firm's estimates for the average number of staff days of effort required is under 30 days. Some organisations engage marketing agencies to produce the final report, with financial costs

reported as between £6,000 to £20,000 for the creative aspects of the report.¹³

Like with data collection, internal communication about the report publication is an essential part of the process to raise awareness, build trust and transparency. Businesses take both formal and informal approaches to achieve this, with formal actions including communications from senior leaders, intranet articles, and inclusion in annual reports, ranging to informal discussion forums and engagement with employee groups.

How businesses are taking action to reduce inequalities

Many businesses have taken action to reduce and remove barriers to recruitment and progression of ethnic minority staff.

Key actions include:

- Setting targets for ethnic minority representation.
- Ensuring leaders and people managers have training to equip them with inclusive leadership skills.
- Increasing employee voice by establishing Employee Resource Groups that are a

part of diversity, equity and inclusion governance, and sponsored by a senior leader.

- Engaging Employee Resource Group leaders for inputs on interpretation of the findings and developing the action plan.
- Providing mentoring and sponsorship opportunities to ensure underrepresented colleagues have the tools and opportunity to progress.
- Reviewing recruitment processes to ensure job descriptions are free from bias

and recruitment processes and suppliers support the outreach to all available talent.

- Using data to understand the whole employee lifecycle and identifying trends and differences in retention, progression and tenure between groups and over time.
- Conducting additional pay equity analysis based on job roles.
- Publishing the action plan in the ethnicity pay gap report.



Summary of ethnicity pay gap reporting considerations

Ethnicity Pay Gap reporting is an important process as part of a businesses drive to create an inclusive workplace and demonstrates commitment to tackle disparities and increase transparency.

The ethnicity pay gap measures the difference in average pay between ethnic groups in a workforce.

A pay gap often arises as a result of under representation in senior

roles and regional differences in pay.

Taking action to address under representation in a business can often have the short-term impact to increase the pay gap, for example by increasing ethnic diversity in junior roles.

It is possible to have a negative ethnicity pay gap, but this does not necessarily indicate reducing inequalities. Regional differences

in representation and pay may be the root cause.

Achieving a pay gap of zero may not be possible and may not equal achieving equality.

Accompanying narrative to the ethnicity pay gap is needed to explain the reasons for the pay gap. The pay gap figure alone does not convey a complete picture.

Key takeaways for policy makers

1. The ethnicity pay gap is an imperfect measure, that is often misunderstood. Reporting does, however, bring much needed transparency, demonstrate commitment, and is a useful catalyst for action.
2. It is crucial to accompany the pay gap report with a clear narrative explanation and action plan. This is needed to give meaning to the result, and drive change to tackle underlying issues such as underrepresentation in leadership levels.
3. The default disaggregation of the pay gap should be binary white versus all other ethnic groups. We would encourage businesses to further disaggregate reporting wherever possible, to increase transparency and usefulness of the report. We would particularly encourage reporting the pay gap for black employees, data shows that between 2012 and 2022 black employees in the UK were the only ethnic group to consistently earn less than white employees.



