Change the Race Ratio response to the consultation on mandatory ethnicity pay gap reporting

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 represent 80 leading businesses who collectively employ over 600,000 employees in the UK. 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, share best practice and gain new insights.

Change the Race Ratio has been supporting and encouraging its members to voluntarily report their ethnicity pay gaps since its launch in 2020. The campaign represents one of the largest groups of businesses who are reporting their ethnicity pay gaps, with 79% of our members voluntarily reporting their pay gaps[1].

Extending mandatory pay gap reporting to ethnicity

Ethnicity Pay Gap reporting is an important part of a business's drive to create an inclusive workplace and demonstrates their commitment to tackle disparities, increase transparency and address under representation at senior levels.

We support the proposal that large employers, with more than 250 staff, should report their ethnicity pay gaps. Data from our 2024 Progress Report shows that 79% of our members including Aviva, BP, BT, Sage and Shell have been voluntarily reporting their ethnicity pay gap data as they recognise the need to increase transparency and to use data to make more informed decisions.

Geographical scope

We support the proposal to mirror the geographical scope used for gender pay gap reporting.

In the absence of a formal framework, businesses who have voluntarily reported their pays gaps have used the same geographical scope used for gender pay gap reporting. The systems employers already use allows for segmenting employees using this geographical scope.

Furthermore, parity of reporting enables businesses to produce one pay gap report, consolidating reporting for gender, ethnicity and disability rather than reporting separately, which would add to cost and complexity.

Using a different geographical scope would create bureaucracy for business without additional benefit.

Pay gap calculations

We support the reporting of an overall pay gap, a bonus pay gap and pay gap by quartiles.

Reporting an overall pay gap is a useful single number but greater insights and understanding of the factors that are driving the gap can be found through reporting the pay gap per quartile. Pay gaps often arise through unequal representation of ethnic minority colleagues at different levels

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1. [Change the Race Ratio Progress Report 2024](#)

in a business. Typically, ethnic minority representation is higher in lower paid jobs and lower in senior management and director positions, reporting pay gaps by quartile will better highlight this imbalance.

We agree that large employers should disclose a breakdown of ethnicity, including the percentage of employees who decided not to disclose their ethnicity.

Ethnicity data, unlike data on gender is collected by employers under the principle of self-disclosure. It's important and good practice for employers to be transparent about the demographic makeup of their workforce. Furthermore, providing a 'prefer not to say' allows employees to participate in data disclosure campaigns and make it clear they don't want to disclose their ethnicity.

Reporting the ethnic minority makeup of the workforce is an important measure of workplace equality. Breaking down representation by levels in the workplace adds greater granularity as does reporting by the five ethnic minority groups, if the data set is large enough to protect anonymity.

Reporting overall disclosure rates is also important as it's a key measure of the statistical significance of the pay gap reported.

Action plans

It is crucial that companies also publish an action plan as well as their pay gap data and an accompanying narrative. A narrative provides important context to the figures, and the action plan sets out how the business plans to address the underlying issues, such as underrepresentation in leadership levels.

Interpreting a company's pay gap data and trends over time is challenging without a narrative and action plan. Action that results in increasing recruitment of ethnic minority staff, can increase pay gaps in the short term as volume recruitment often occurs in junior roles. Without a narrative and understanding of long term plans, the analysis can often be flawed.

Action plans also enable employees and wider stakeholders to better understand that actions the business is taking and hold businesses accountable for making progress.

Flexibility on where businesses publish action plans should be considered, many firms report this data in their annual reports alongside, if relevant, their Parker review targets, while others include action plans in the body of the pay gap report.

Reporting dates and deadlines

We support the proposal for reporting dates and deadlines to be consistent with gender pay gap reporting, namely a 'snapshot date' to collect the data of 5 April, and a maximum of twelve months to publish the data.

Businesses who are voluntarily reporting have already adopted this practice. Using the same snapshot date reduces the administrative burden as business can run one project to capture pay gap data for both ethnicity and gender at the same time. Using a different date would create additional burden without benefit.

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We also support the proposal to use the same system for online reporting as is used for gender pay gap reporting. Businesses are familiar with this system, and it would therefore be the most time and cost-effective approach. Having a central reporting facility is also important for tracking compliance and provides one single resource, for stakeholders, to understand how many businesses are reporting their ethnicity pay gaps. Under voluntarily reporting the lack of a single repository means that it is currently impossible to understand with any certainty how many businesses are reporting their ethnicity pay gaps.

Enforcement

We support the proposal to adopt the same enforcement policy as used for gender pay gap reporting. It is important that ethnicity pay gap reporting is treated with equal importance as gender pay reporting. This approach also reduces the administrative burden for business as they are already aware of the policy and compliance requirements.

Ethnicity: data collection and calculations

We support the proposal to use the GSS harmonised standards for ethnicity categorisation. Data from our 2024 Progress Report shows that 98% of members are collecting ethnicity data and all use these categories for data collection.

A key part of successfully encouraging employees to self-declare their ethnicity is to make it easy for them to disclose their data. Employees are familiar with disclosing their ethnicity using these categories in other parts of their life and activities. Standardised data collection also allows for easy comparison across businesses and sectors and avoids unnecessary complication and duplication that may arise from using a different methodology.

Calculating and reporting ethnicity pay gaps

Data from our 2024 Progress Report reveals that 61% of members who report their pay gaps report a binary gap. A small number of members do report White British v's all other categories but only because representation is too low to protect anonymity. The vast majority of the 61% who report the binary gap using the same definition which is White Group v's all other groups. For clarification by White group we mean the HSS standardised definition of;

White

1. English/Welsh/Scottish/Northern Irish/British
2. Irish
3. Gypsy or Irish Traveller
4. Any other White background

This methodology directly links to the standard definition of what we mean by ethnic minority in the UK, which in simple terms, is the 16 non-white categories of ethnicity.

We believe that reporting against the stated preferred White British v's all other presents a material risk to the meaningfulness of the data. This proposed definition risks distorting the figures and adding confusion by including non-British white employees in the definition of

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ethnic minority. Non-British white people represent around 7% of the UK population, including this group would materially impact the pay gap data as non-white ethnic minority representation in the UK is just 18.3%.

Our strong recommendation is that binary reporting should compare the White Group v's all other categories combined. Reporting the binary gap using White British as the comparison should only be used where there is insufficient data to reach the stated threshold of ten.

Thresholds for reporting

Providing clarity for business on the minimum threshold for disaggregating reporting data to avoid disclosing information about individual employees makes sense, and we support the proposed threshold of 10.

Many businesses who are already reporting their data have adopted similar thresholds, for both internal analysis and external reporting; this threshold tends to be between 5 and 10. It should be noted that some members do operate a higher threshold above 25.

The threshold, will of course mean, that it is more challenging to report disaggregated data for smaller businesses as well as regional businesses, who often have lower ethnic minority representation, due to the local demographics. It should also be noted that as the threshold is low, small changes, such as recruiting one or two people would have a material impact on the pay gap and without clear explanation in the narrative could lead to misunderstanding of the changes from year to year.

However, on balance a threshold of 10 is a good compromise and we believe it will support businesses to disaggregate pay gap data with confidence.

Disaggregated reporting

We support the proposal to use ONS guidance on aggregating ethnicity categories, however we suggest that the approach is simplified. Data from our 2024 Progress report shows that 23% of members report their pay gap data against the five ONS ethnic groups. Having a common approach to data disaggregation is cited by our members as important and avoids added complexity, as the five ethnic groups are well understood. Disaggregated reporting to this level adds to the robustness of the report and clearly shows the difference in pay gaps between different groups.

Disaggregating data any further would be very problematic for business as it would add huge amounts of complexity and confusion when comparing data over time or with other businesses or sectors. The definitions for the 13, 12, 11, 9 and 7 groups are not well known or understood. We would therefore recommend that there is a balance between robust data reporting and straightforwardness and encourage disaggregation to the Five groups.

In practice under voluntary reporting firms have adopted a staggered approach to disaggregation, with focus on increasing transparency in areas where greater inequality exists. This has led to 15% of our members reporting a black pay gap and a binary pay gap. Typically, we see our members then go onto further disaggregate data in the following years.

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Our recommendation would be for businesses to report at a minimum the binary White Group v's all other and then to encourage disaggregating using the five ethnic groups. The comparison should always be the white group as the control rather than White British which confuses the calculation and risks conflating nationality and ethnicity. It would be sensible to also have a review of a default binary reporting approach, after 3 years, to understand if more action is needed to support disaggregated reporting.

Summary and recommendations

We support the introduction of mandatory ethnicity pay gap reporting. The proposals set out in the consultation document largely reflect the approach that Change the Race Ratio members have adopted in voluntary reporting. We support the principle of mirroring the process firms follow for gender pay gap reporting. Businesses understand this process and therefore close alignment minimises the time and additional cost for businesses to implement this measure.

In two important areas – the definition of binary reporting, and the guidance for disaggregated reporting – we feel the recommended approach risks adding confusion and complexity to ethnicity pay gap reporting and could lead to distorting the pay gap data. Our recommendations to simplify the proposed approach are to

1. Mandate the binary reporting to compare the White Group against all other categories, (removing non-British white employees from the ethnic minority side of the calculation). Reporting the binary gap using White British as the majority definition should only be used as a last resort if businesses can't achieve the required threshold of 10.
2. Disaggregated reporting should be encouraged to the five ethnic groups. Further disaggregation, whilst desirable, adds undue complexity and should be reviewed at a later date.
3. Ensure guidance on disaggregation also presents businesses with the option of reporting a binary gap and a separate gap for a specific group (i.e. a black pay gap) this has proved beneficial for our members and supports a pathway to further disaggregation.

1. Change the Race Ratio Progress Report 2024