**EEF response to the Women and Equalities Committee inquiry into the gender pay gap**

**Overview**

1. EEF, the manufacturers’ organisation, is the voice of manufacturing in the UK, representing all aspects of the manufacturing sector including engineering, aviation, defence, oil and gas, food and chemicals. With 6,000 members employing almost one million workers, EEF members operate in the UK, Europe and throughout the world in a dynamic and highly competitive environment.

2. EEF recently surveyed its manufacturing members about the new gender pay reporting requirements. We had 100 respondents across a range of manufacturing and engineering sectors and across various company sizes, including those under 250 employees. For example, a quarter of respondents had over 1,000 employees and 15% had under 100.¹

3. We also hosted a webinar on gender pay reporting – both to inform manufacturers of the future changes and also to gather further evidence to feed into this policy topic. We had 100 attendees to the webinar, and had the opportunity to pose a number of polling questions taken directly from the government’s recent consultation on closing the gender pay gap. We have included these polling results within submission.

**EEF Survey headlines**

4. When asked about their awareness of the forthcoming gender pay reporting requirements, some 83% of respondents said they were aware and 14% said they weren’t aware. We believe that the strong awareness amongst EEF members was due to the communications to our membership on the issue, and indeed many manufacturers outside of EEF’s membership signed up to attend our webinar. However, we have concerns that businesses that are not members of a business organisation or trade association will not be as prepared for the forthcoming changes as our members will be.

¹ Full breakdown available upon request.
5. However, whilst awareness may be high of the forthcoming changes, not all manufacturers are up-to-speed with the likely future requirements of gender pay reporting, as only 7% stated they were completely up to speed. The majority (44%) said they could do more and 36% has significant gaps. Of concern, 13% said they had no understanding at all of gender pay reporting. Unsurprising then, 36% of survey respondents said they were completely unprepared for the introduction of gender pay reporting, and a further 27% said they were somewhat unprepared. This compares to just 27% are said they were somewhat prepared and 8% completely prepared.

6. We therefore believe that these results demonstrate that the introduction of gender pay reporting will require a measured approach – with time allowed for larger businesses to report first, followed by a phasing in of the requirements for smaller businesses. Whilst it may seem that businesses with over 250 employees will have the resources and systems in place to comply with the new reporting requirement, our experience of mid-size EEF members is that they have very limited internal HR and compliance functions and may need external support, at least at the start, to comply with the new legislation.

7. Manufacturers do see some benefits of reporting their gender pay gap, with almost half (47%) stating it was a great opportunity to benchmark their companies against similar companies and other industries. In addition, 38% said that the work that they would need to undertake to provide the data will be helpful in terms of getting to grips with their companies’ pay structure.

8. It seems clear from our survey responses that businesses will embrace gender pay positively, but that they will need flexibility in order to do so. Comparability of gender pay reporting between different businesses, which is a key outcome, will require a simple calculation of the gender pay gap, and one that is based on basic pay only. Including many, different, employer-specific pay variables will result in a metric that is incapable of comparison. An average, or median, hourly rate based on basic pay could provide such a standard metric capable of widespread comparison, but employers who wish to go further than this should be allowed to do so. Similarly, an employers who wished to add a narrative, and explain what they were doing to reduce the gender pay gap should be permitted, but not required, to do so.
9. Finally, employers should be able to determine the method of publication of their gender pay gap information provided that it was widely available to those who are likely to have a legitimate interest in it.

**GENDER PAY TRANSPARENCY**

10. We agree, subject to some additional considerations, that the publication of gender pay information will encourage employers to take actions that will help close the pay gap. A common question from manufacturers attending our focus groups was how meaningful the gender pay gap number would be, as this would then determine whether employers would be encouraged to take action on gender pay. It was clear that while companies could state in numerical terms what the pay gap was, there would need to be more work to be done to both explain the number produced and address the causes of the gender pay gap. These cases were likely to be fact specific, and a larger gender pay gap figure might not necessarily encourage an employer to take action to address this. For example an employer who had recently hired a large number of female apprentices may find that this increased their gender pay gap, but it would be unlikely that the employer would, or could, in the medium term address this.

11. Encouraging young females into the manufacturing industry is already a real challenge, and many EEF members already actively encourage women to join and have policies in place to retain women thereafter. However, at entry level, only 7% of manufacturing and engineering apprenticeships are taken by girls and only 15% of engineering degree applications are made by females. It is difficult to conclude that publication of the gender pay gap will encourage participation at entry level, as the gender split of the sector is likely to result in a larger gender pay gap than in other sectors where the gender split is more even. There are many underlying issues such as the image of manufacturing, inadequate careers advice and guidance. Policies cannot therefore be taken in isolation. Overcoming the gender imbalance in the sector requires collective action by a number of stakeholders, including government.

12. Companies that benchmark themselves against their peers and find they have a wider gender pay gap may be more inclined to look at how they develop female talent in their company in order to close that gap. However, we expect that many companies will find that there are entrenched, systemic reasons underlying the gender pay gap. As
stated in the government’s recent consultation document, the gender pay gap widens as women struggle to get ahead and stay ahead, but is narrow, or even negative in younger, full-time, age groups. Until new policy reforms such as shared parental leave become the norm – for employees as well as employers – a gap is still likely to remain. However, the work by Lord Davies to increase the number of women on boards work, which has advocated a voluntary approach, has been successful – although it has taken some time to reach the targets set out back in 2011.

13. It difficult to determine whether transparency on pay will increase take up of flexible working or shared parental leave among employees. Since the right to request flexible working was extended to all employees, we have not seen a surge in requests from EEF members’ employees. This may be due to many manufacturers already having flexible working arrangements in place that go beyond the statutory requirements, and so those who wanted to work flexibly already had the opportunity to do so. Shared parental leave is still in its infancy and therefore take-up again is likely to be low for some time. It is therefore difficult to know whether transparency on gender pay would lead to increased take up of shared parental leave, but this appears to be unlikely. Decisions on shared parental leave are far more likely to be influenced by the earnings of the parents involved and the replacement income available during the period of leave.

14. There are other factors that are more likely to influence, or encourage, the offering of or take up of flexible working or shared parental leave. Manufacturers have long offered flexible working arrangements with attractive total reward packages, and this will continue with the new gender pay reporting requirements. Similarly, employers will continue to embrace the new shared parental leave arrangements, but are unlikely on the whole to equalise contractual maternity pay with shared parental leave pay. There have been concerns however from EEF members that offering a wide range of flexible working arrangements may lead to a wider gender pay gap, given that women who work full-time experience a significantly lower gender pay gap when compared to women working part-time.

15. The new gender pay reporting requirements are likely to lead organisations to ensure they are complaint with current gender pay legislation. According to our survey, only 17% of employers have undertaken an equal pay audit in the last year, and we expect that work to produce a gender pay gap report will increase the numbers of
employers conducting a gender pay audit. Some 18% of our members said they had undertaken a pay audit in the past 2 to 5 years, and a further 3% in the past 6 to 10 years. However, over a quarter (27%) said they have never undertaken a paid audit.

16. We therefore believe that the introduction of gender pay reporting should be at a pace that will allow employers not only to publish a figure on their gender pay gap, but to address any underlying issues surrounding this, which is likely to take many months or even years. We envisage that as part of the process of collating the data and undertaking the analysis ahead of the gender pay reporting requirements, companies will want proactively address the causes of their gender pay gap, but will need to be given the opportunity by government to do so.

17. We believe that this is somewhat important that employees, and wider stakeholders are able to compare their gender pay gap with others. Key to any analysis will be what companies are regarded as similar. As stated above, almost half of manufacturers responding to our survey said they thought the new gender pay reporting requirements would help them benchmark themselves against others – this then is a positive sign that our members are keen to embrace gender pay reporting. However, comparing an engineering company to an IT provider or accountancy firm may not provide a realistic comparison. Any comparison must therefore be based on companies of similar industry sectors and similar workforce profiles.

18. The guidance from government should state what, other than the calculation, an employer should consider reporting. However, any additional, voluntary reporting made by a business should not be defined by government and may not be directly comparable to similar organisations. For example, one manufacturers’ pay grading structure will vary significantly to what may be considered a ‘similar organisation’. There needs therefore to be sufficient flexibility for employers on how to report their gender pay gap data. Making the process too difficult by ensuring any/all calculations are directly comparable may deter businesses from reporting more than what is required in the regulations.

19. We think that the regulations should allow an employer to decide the manner of the publication. It is now becoming clear from the work underpinning modern slavery reporting that attempts to define in great detail how and where an employer should publish information is almost
impossible. Not all employers have websites – some have several. For some there are home pages, for others landing pages. Attempting in regulation to define which type of website and in what form the information needs to be published is likely to prove unhelpful. Similarly, attempting to specify that the information must be published in the parent/holding companies’ annual report may not achieve the purpose of the legislation – where for example the parent’s annual report is published in a language other than English.

**Acquiring the relevant information on the gender pay gap**

**Acquiring the stats and making the calculations**

20. The evidence from our members, set out below, has revealed a great variation in the information which manufacturers currently hold. There is also a variation on what businesses currently report upon. On balance, we favour option (a), but to allow employers to report more detailed metrics should they choose to do so.

21. Our survey revealed that just 9% of manufacturers currently report any gender pay information, compared to 80% who said they don’t. Just 4% had in the past and a handful (7%) had not yet but have considered it.

22. One company attending our focus group in the South East had undertaken a gender pay report, which was composed following an agreement with their union. The company said they found it very difficult as they didn’t have any template to follow and there were a number of questions internally on what should be included. The employer told us they had particularly difficulties around performance-related pay and knowing each employee’s starting salary. This is particularly difficult for manufacturers who tend to include many allowances of pay in addition to basis salaries. Another manufacturer in the Midlands told us they had started to look at their gender pay cap in anticipation of the changes but were already finding this a significant task.

23. One in five manufacturers said it would be very easy for their company to find and provide accurate and robust pay data needed to meet the requirements with a further 44% saying it would be easy. This is, however, likely to be on the assumption that, as suggested, the calculation is based on basic pay. Almost one in five (18%), said it would be difficult and a further 6% said it would be very difficult.
24. Manufacturers appear fairly confident in their ability to provide accurate and robust pay data for all job roles. Nearly one in five (19%) said they are very confident and a further 48% or confident. Some 17% say they are not very confident with 11% not confident at all. Some manufacturers may be willing and able to report on job grades and roles, however this should not be a requirement of the regulations. This should remain voluntary. One company attending a focus group told us they have 15 pay grades for management and professional jobs alone and we would expect the responses to change if the pay data required was more complex.

25. Manufacturers pay structures can be extremely complex, indeed 29% of manufacturers said they had a complex pay structures. Moreover, 35% of manufacturers said they do not have measurement systems in place for various pay grades. These figures may suggest that perhaps there is over confidence in companies’ ability to provide robust and accurate data (as suggested above), unless the requirement was no more than a calculation based on basic pay.

26. Nearly one in four (39%) of respondents to our survey said they do not undertake regular job evaluations. During our focus groups a number of companies said they had job evaluation systems in place and some had measurement systems in place for various pay grades. Some companies expressed concerns that they did not have robust job evaluation systems in place and that undertaking any such process would be extremely difficult in diversified industries. Almost a quarter (23%) of companies have however undertaken some work to define jobs of equal value.

Providing a narrative will be important, but should be voluntary

27. Providing a narrative should be voluntary and not set out within the regulations or non-statutory guidance. The regulations should only set out what calculation must be made to comply with Section 78 (i.e. the simple average/median hourly earnings of men and women in the organisation). It should be the company’s choice as to whether they supplement their gender pay gap with a narrative or other data.

28. For our sector, we expect many employers will voluntarily offer a narrative given the demographic of the industry. Indeed nearly a third (32%) of manufacturers agreed that industries such as theirs (manufacturing) which struggle to attract women into skilled roles are likely to have a wider gender pay gap. It will also provide employers
with an opportunity to demonstrate any action that they may be taking currently to narrow the gap. Again, this should be voluntary and therefore not set out within regulations.

29. Manufacturers are already concerned about the time it will take to provide the mandatory data, indeed for three in ten respondents to our survey this was a concern. Setting out the additional narrative information in regulations will only add to time concerns.

30. One company told us that while the overall gender pay gap for their company may be around 10%, by job grade this is likely to be 1-2%, reflecting the gender imbalance in different job roles in manufacturing. This is an example where a business may wish to proactively report additional gender pay gaps and provide a narrative. However, this will work best if a voluntary approach is taken.

31. Whilst many of our members see advantages in an annual report, we believe that this may in practice lead to an incentive for quick fixes which are unlikely to be long term and sustained. We therefore favour a period of 3 years, with the ability to revise a prior report sooner. Less time than this will not give employers sufficient time to take action and make a realistic difference in the next reporting cycle. We are aware that members who have taken action to address issue of gender pay have done so over lengthy periods, which in some cases were as long as 4 years. Moreover, an annual report is a short time frame for businesses to accumulate, analyse and report the data required and, if choosing to do so, provide a voluntary narrative. If employers wish to report on a more frequent basis then they should be encouraged to do so. However, the default position should be 3 years.

**There will be costs for employers of undertaking this new requirement**

32. In terms of cost and time, we are unable currently to provide real data on this at this time. However, this is likely to be available in the future as we will be facilitating a series of seminars with members later this year. We have already gained feedback from a number of member companies that have begun modelling potential requirements. The exact requirements for employers are unlikely to be published until early next year, however, many of our members have begun calculating their gender pay gap using similar models to the ONS.
33. The threshold, for companies to produce a modern slavery report, is current set at a level which is broadly accepted as the division between an SME and a larger firm. Larger firms are more likely to be able to provide informative information and more likely to be able to influence the behaviour of smaller employers. In addition, requiring smaller employers to report may result in unrealistic comparisons being drawn, particularly where for geographic reasons a workforce may be almost entirely male. We are therefore of the view that the current threshold of 250 employees is appropriate and should not be altered.

34. In our response to the GEO on the publication, the preference of our members would be for the cut-off date to be the year-end for the business, subject to some flexibility, as this would most closely align to the business cycle. However, it should be noted in practice that it usually takes some time following the year-end for the company to complete its year end accounts, undertake its audit, and prepare its annual report. This can typically take 6 months. Therefore, a more realistic time period would be for the company to report within a defined period of its year-end - which could be 6 months. There is however, additional flexibility which will be needed, potentially on a continuous basis. For many businesses, the date of their annual pay determination is not the same date as their year-end. For example, pay could be determined by the calendar year, but the year-end by the financial year. The impact of this is that it is not until the end of the calendar year that the level of pay is known. There is no straightforward solution, but it seems very likely that the gender pay metric will represent for most an historic reflection of pay, as determined by the date of the last pay determination date during the last year-end accounting period.

35. Related to this is the impact of attempting a calculation based on anything other than basic pay. Bonuses and commission can be paid in a single sum, or in a series of payments, sometimes years after the year in which they were there “earned”. This is because their calculation may be linked to the amount of business which the employer attracted, and its value, which is determined by future circumstances. An amount may therefore be paid in one year, but represent a reward for work in past years. When speaking to our members it is clear that there is a huge variation of variable pay, which would make the calculation of a single, comparable, gender pay figure difficult or impossible. We therefore believe that only basic pay should be included in the gender pay gap.
Government support is needed to ensure businesses both comply, and potentially go further in their gender pay gap reporting

36. The Government should work with business organisations and trade associations to extend its outreach by running workshops and seminars. EEF has already hosted a free webinar for its members and will run workshops following the introduction of the regulations to ensure that EEF members are prepared for the new gender pay reporting requirements. The difficulty for Government will be reaching out to businesses that aren’t part of a business organisation or trade association. The shared parental leave campaign is a good example of how Government publicised the changes –working with industry as well as the public to ensure the new proposals were both well understood and well received. The Government should look to the shared parental leave campaign as an example of how it can effectively deliver a similar campaign for gender pay reporting.

37. Some employers have expressed their concerns as to the accumulation and analysis of the data required to comply with Section 78. During focus groups with EEF members we found this was particularly the case for those medium-sized firms who were for example just over the 250+ headcount. Any free and easy to use software that the Government can offer to businesses would therefore be welcomed. We would be happy to promote this to our members if we were confident the software was simple to use and delivered that is required by the regulations.

38. Manufacturers know that women are under-represented in their industry at all levels. However, a more in-depth breakdown would help companies benchmark themselves against others and get a better understanding of what action needs to be taken at various stages.

39. Some companies have raised concerns as to the implementation date of the new gender pay gap reporting requirements. The GEO’s recent consultation suggests that regulations may be laid in the first half of 2016, with the earliest possible implementation date of October 2016. However, feedback from EEF members suggests that undertaking a full job evaluation (which many feel necessary ahead of the reporting requirements) takes between 12-18 months. Therefore, even starting the job evaluation process now will not give them enough time to then report by October 2016.
Best practice to increase the number of female apprentices and graduates could lead to a larger gender pay gap in the short-term

40. Manufacturers are making a significant effort to address the gender imbalance in their workforce. There are a number of initiatives that EEF members are engaged in to encourage more female entry-level talent into the industry – particularly focusing on encourage more participation in STEM. As these initiatives start to take effect the number of female entry-level starters will increase and in the short-term this is likely to widen the gender pay gap. This is an example of where employers are likely to supplement their gender pay gap with a voluntary narrative to ensure their audience(s) are aware that positive action is being taken.

41. It seems very likely based on the data published alongside the GEO’s consultation that employers who are taking action to retain women in the workforce will see a higher gender pay gap figure as a result. Similarly, causes of the gender pay could be tackled, and hence a lower figure achieved, by segmenting the workforce artificially, or contracting out certain roles typically performed by women. These are clearly not positive steps, but would have the result of achieving a more favourable gender pay gap figure.

6 December 2015