Mandatory UK Gender Pay Gap Reporting

Beyond the gender pay gap: Embracing broader Diversity, Equity and Inclusion reporting to create meaningful change

Year 6 Gender Pay Gap Reporting 2022/23

May 2023

pwc

Foreword

As we reflect on the sixth year of gender pay gap reporting, our analysis has identified the most significant annual decrease in the median of the reported mean hourly pay gaps since 2017, with a decrease of 0.7% compared to the prior year. This has resulted in the median of the reported mean hourly pay gaps falling to 12.2%. Whilst this is a positive development, there is still a long way to go. If the mean gap continues to decrease at the rate it has since 2017 (when the regulations were introduced), it will take at least 50 years for pay parity to be achieved.

As the Environmental, Social and Governance (ESG) focus evolves beyond climate to social issues, and as pay transparency regulations continue to evolve around the world, organisations are under growing pressure to demonstrate their commitment to equity. Stakeholders are looking to companies to provide transparent and accurate accounts of their efforts to address the root causes of gender pay gaps, as well as to show measurable progress towards genuine change. By doing so, organisations can build trust with their stakeholders and demonstrate their dedication to creating a more equitable world.

Key gender pay trends in 2022/23

10,427

Companies disclosed their gender pay gap

↓1.2%

Reduction in pay gaps since 2017

12.2%

Median of reported mean pay gaps

Introduction

Although we are now in the sixth year of gender pay gap reporting, we see scrutiny of this measure continue to grow. The gender pay gap is increasingly a key metric within sustainability reporting frameworks (as part of the 'S' of ESG). At the same time, new requirements are being introduced internationally which include, for example, the EU Pay Transparency Directive[1] which will likely take effect in 2026.

In this context, companies with high pay gaps or little positive reported change are often facing considerable scrutiny. This comes both externally from stakeholders such as investors and internally from employees who increasingly want to know that they are being rewarded fairly. This was echoed in PwC's Global Hopes and Fears Survey 2022[2] which showed that 71% of employees think being fairly rewarded financially is one of the most important factors when considering a change in work environment.

Our gender pay data analysis shows that the pay gap has remained the same, or worsened, for just under half of organisations who reported in 2022/23 and 2021/22. Of those companies that have disclosed their pay gaps for both reporting years, just over half (53.7%) reported a decrease in their mean pay gaps.

The data shows moderate decreases in the mean and median hourly pay gaps, with the largest decrease in the median of mean pay gaps compared to previous years, with a 0.7% reduction from 12.9% to 12.2%. However, the overall rate of change is slow and there is still a long way to go to close the gender pay gap.

As the data shows, it has been difficult for organisations to make meaningful reductions to their gender pay gaps. However, given that pay gaps can often be a lagging measure of change, this does not necessarily indicate a lack of action from organisations. But to articulate this (and drive change in the longer term), it is vital for companies to understand the key underlying drivers of their pay gaps, and the inequalities across their organisation and more broadly in society. This information can help to create a forward-looking action plan, which includes targeted interventions and initiatives, against which organisations can monitor progress. Demonstrating a credible action plan will be critical going forward as organisations grapple with rising stakeholder expectations and increasing sustainability reporting requirements. Ultimately, organisations will need to step up and demonstrate their efforts to improve fairness through their wider sustainability reporting narrative and diversity pay gap reporting.

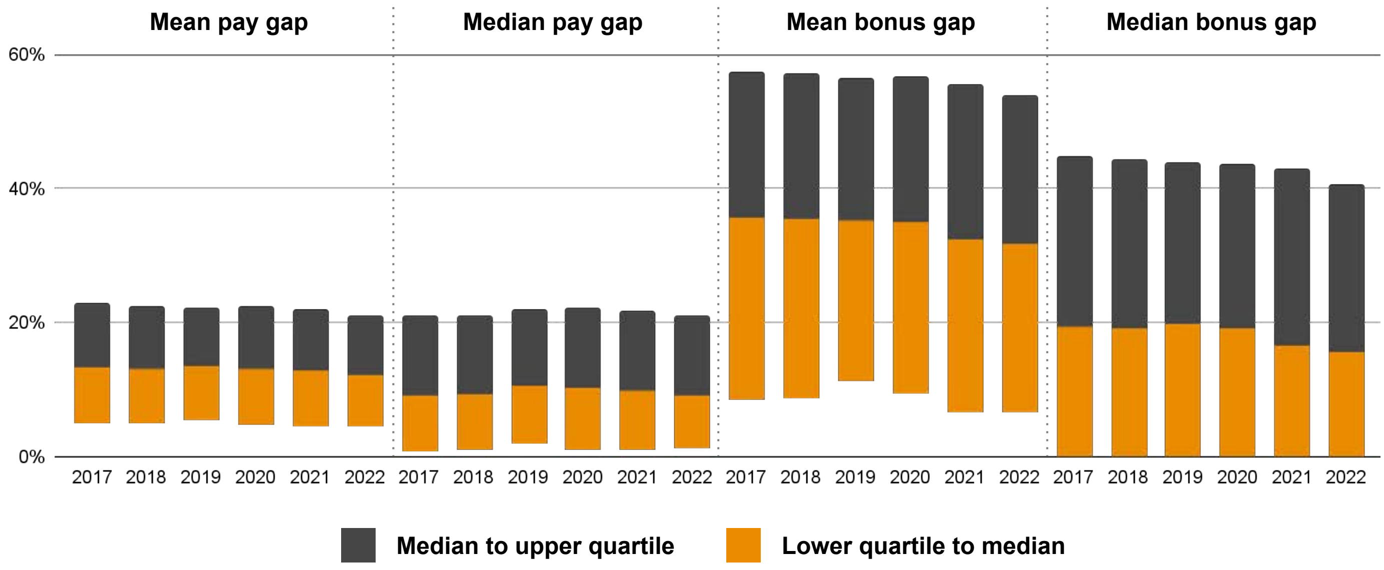
[1] https://www.consilium.europa.eu/en/policies/pay-transparency

[2] https://www.pwc.com/gx/en/issues/workforce/hopes-and-fears-2022.html

Key trends

Our analysis shows a decrease of 0.7% in the mean hourly pay gaps from 12.9% to 12.2%, and a decrease of 0.6% from 9.8% to 9.2% for the median hourly pay gaps compared to the prior year.

Encouragingly there have been larger decreases to both the mean and median bonus gaps over the reporting period this year.

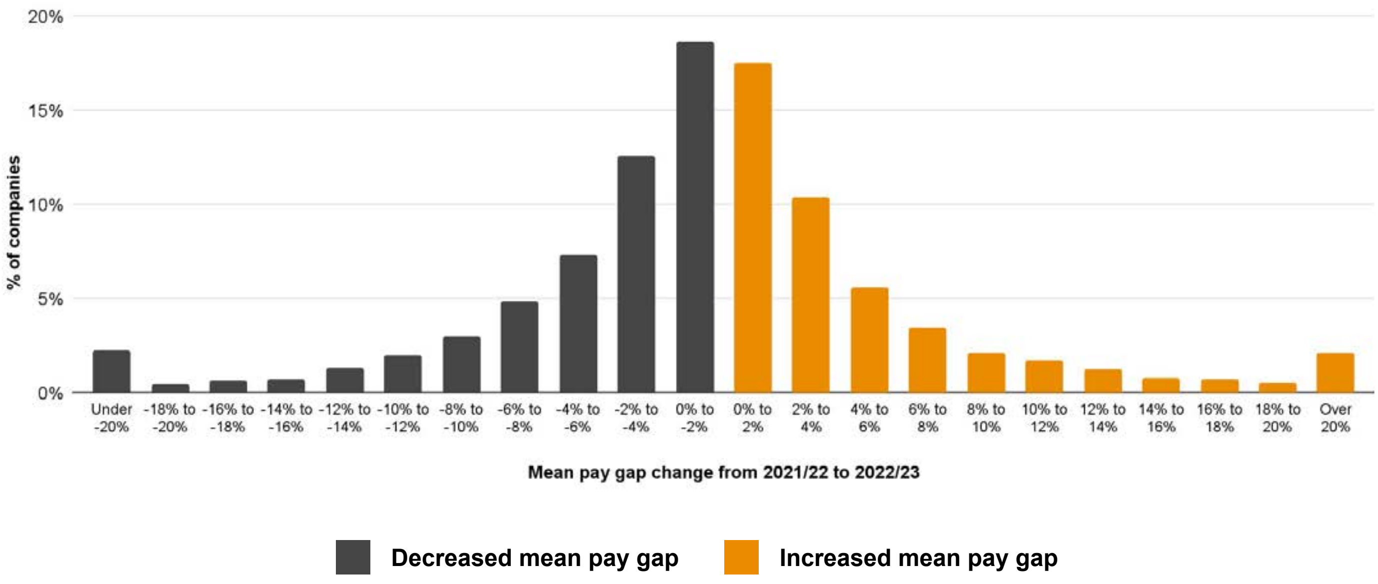


Size of change in mean pay gap from 2021/22 to 2022/23

When looking at the distribution of changes in the mean hourly pay gaps for companies that reported in both 2021/22 and 2022/23, most organisations reported only a small change with nearly 60% of companies reporting increases or decreases of up to 4% from last year to their mean hourly gender pay gap.

Over 35% of companies reported pay gap changes between 0 and 2%, with, disappointingly, an almost equal split between those reporting increases and those reporting decreases.

Proportion of companies vs. change in mean pay gap

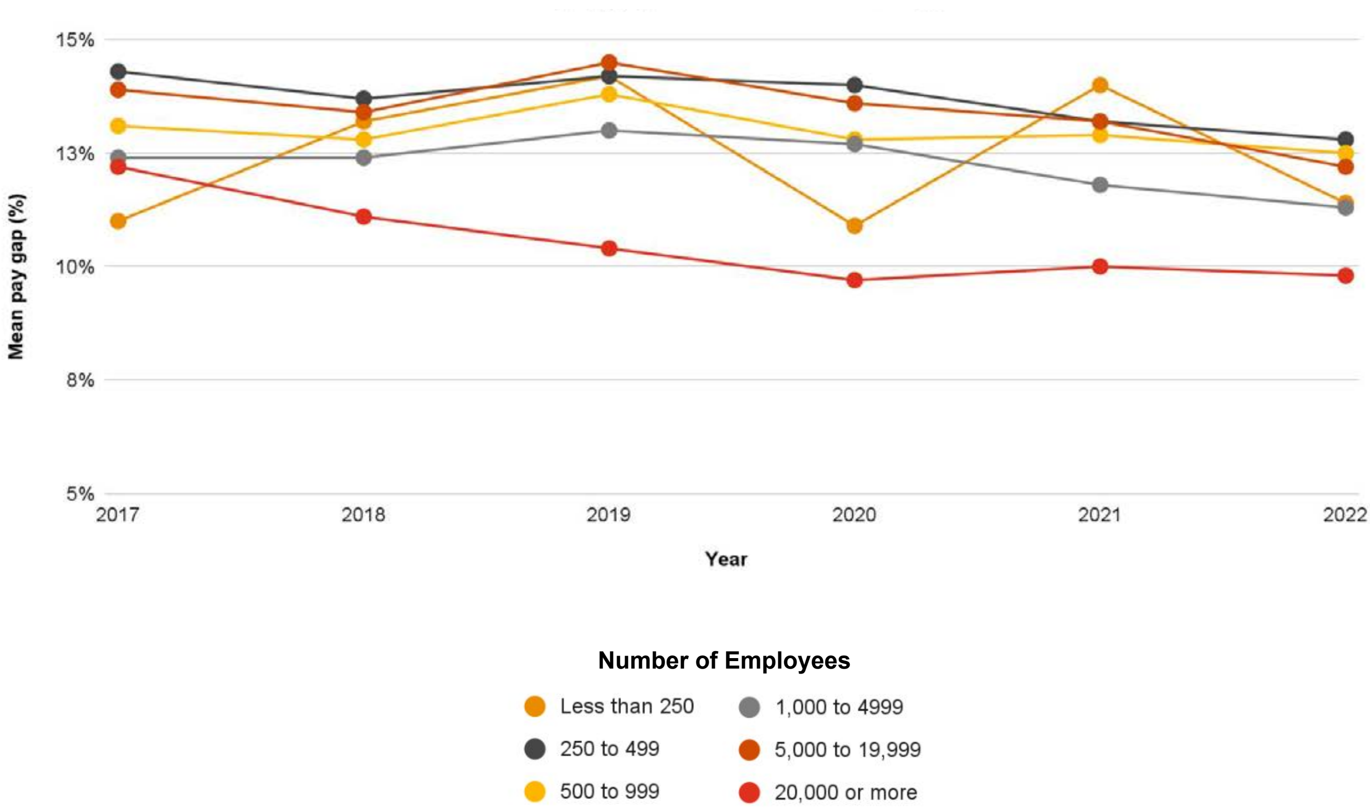


Size of change in mean pay gaps by organisation size since 2017/18

Our analysis shows that generally larger organisations (with 20,000 employees or more) have lower mean hourly pay gaps compared to smaller companies. From 2017/18 to 2020/21, the mean hourly pay gap of those larger companies was also decreasing at a quicker rate, with reductions of nearly 1% per year. However, since 2020/21 the mean hourly pay gap has actually increased from 9.7% to 9.8% for those organisations.

Unsurprisingly, there is increased volatility in the mean pay gaps of the smallest organisations (less than 250 employees), where a single employee can have a more significant impact on overall average pay due to the smaller overall employee population.

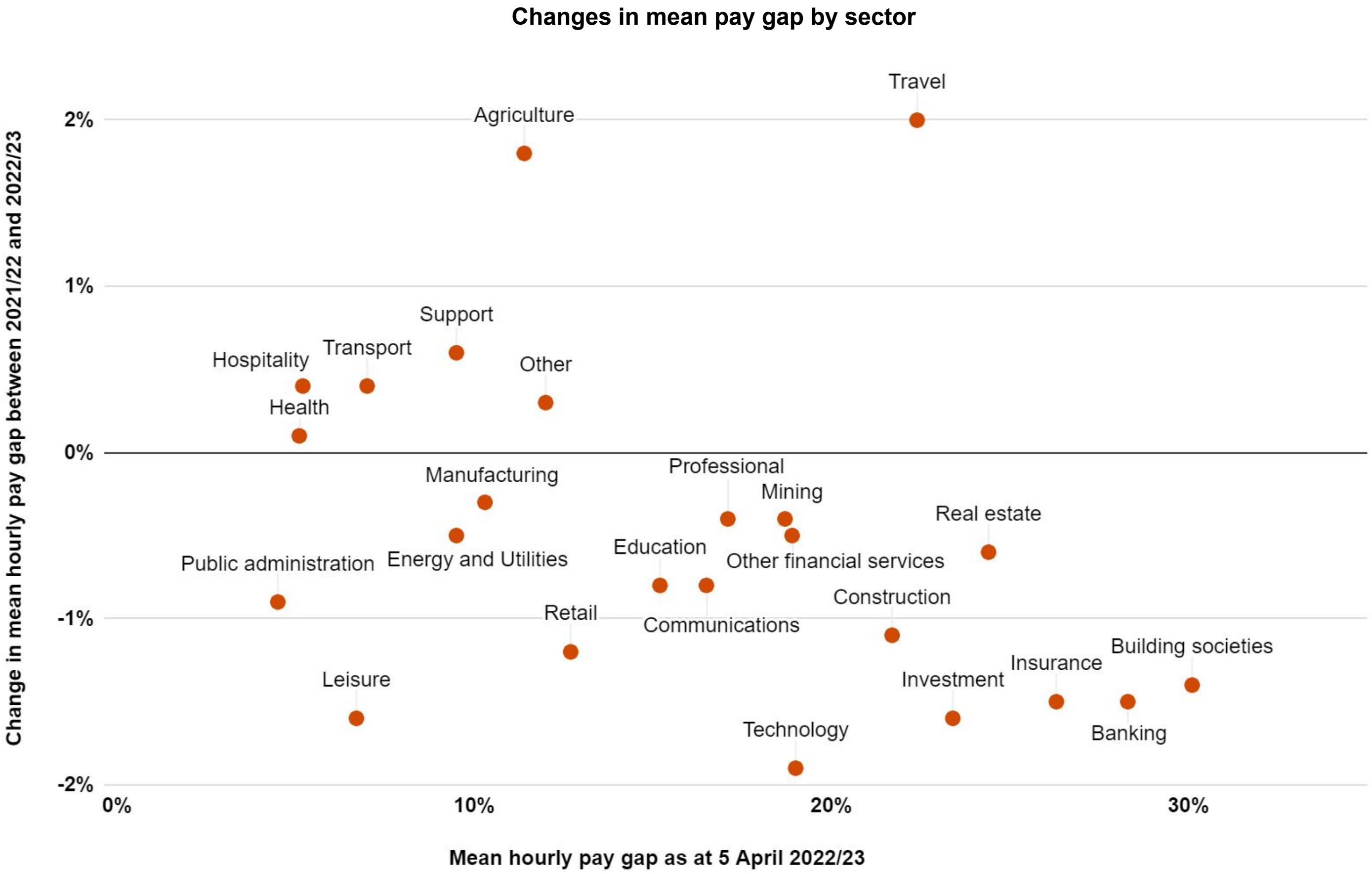
Mean pay gaps for different sized organisations



Sector trends

Our analysis shows that despite being amongst the sectors with the largest decreases in mean gender pay gaps, the building societies, banking and insurance sectors continue to have the highest mean hourly pay gaps in 2022/23.

Public administration, health and leisure are the sectors with the lowest mean hourly pay gaps.



Moving beyond the Gender Pay Gap

Many organisations continue to use social context and external challenges to explain the slow progress on their gender pay gap figures. This is often coupled with disclosures related to specific Diversity, Equity and Inclusion ('DE&I') actions and activity (such as events and specific programmes) to demonstrate their commitment to improve the gender pay gap. However, as we enter the seventh year of reporting, for some stakeholders simply reporting the gender pay gap figures is no longer enough. The pressure to be transparent about pay (internally and externally), make commitments to broader fairness, and take active strategic steps to improve overall equity is mounting. Organisations that fail to step up risk being left behind.

It should be acknowledged that looking solely at the gender pay gap, and ignoring other DE&I and fairness data beyond this, can fail to capture the true story of fairness within an organisation. Gender pay gaps are influenced by many factors such as recruitment and attrition rates, external market pay expectations and historical organisational and occupational structures. This means that the gender pay gap can be a lagging indicator of progress that may fail to fully reflect DE&I accomplishments, as well as shortcomings.

Our analysis highlights that many companies are still struggling to make meaningful progress on the gender pay gap - so what can companies do differently? The focus needs to move beyond reportable numbers to understanding the underlying inequalities that are contributing to these gaps as well as consistently testing and monitoring the fairness of the processes, policies and behaviours that most often impact the careers of workers, whether this is access to training, performance assessment or promotion decisions. Organisations need to demonstrate that they are taking credible action that will address these inequalities, thus changing the narrative from a focus on the reportable numbers only to broader equality, inclusion and social impact.

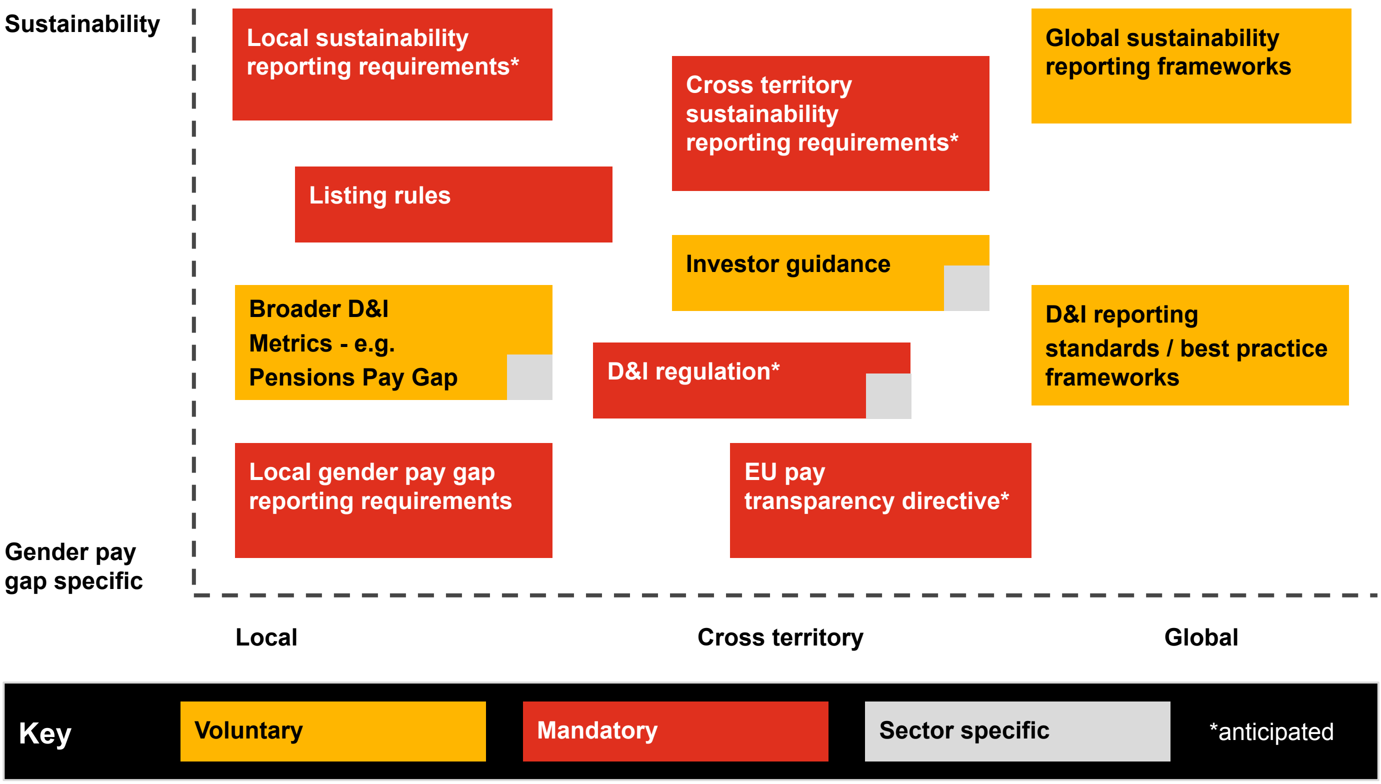
Key actions for organisations to consider:

- Analyse the main drivers of your gender pay gap and other metrics that your organisation reports (e.g. ethnicity pay gaps).
- Understand broader inequalities within your organisation that may be influenced by external social factors (e.g. lower availability of female talent in certain areas).
- Identify key actions that will help to mitigate these underlying drivers and inequalities, both within your organisation and outside it.
- Identify and analyse how these actions will impact your gender pay gap and other reported metrics in the short, medium and longer term.
- Share these actions and their impacts with your stakeholders, including recognising where changes may be positive for equity, but have limited short term impact on the pay gap.
- Use this approach to shift communications, goals and strategy from an output driven focus to input driven actions.
- Continuously communicate on progress and monitor and improve actions, recognising failures as well as successes.

Embracing broader Diversity, Equity and Inclusion reporting

DE&I regulations are continuing to gain momentum around the world and the gender pay gap is now only one metric amongst many. There is an opportunity within this evolving landscape to embrace a broader perspective by aligning multiple metrics and requirements to tell an accurate story of DE&I within your organisation.

This diagram presents examples of the key evolutions to this landscape in recent years, and highlights some of the key areas for companies to think about today.



Some of the key areas we see organisations exploring at the moment are summarised below

EU Pay Transparency Directive

The European Union Pay Transparency Directive was adopted by the European Parliament on 30 March 2023. The Directive will mandate gender pay gap reporting across the EU and includes a number of additional requirements that support pay transparency. The Directive is far reaching and enforces both external and internal pay transparency.

For further details, watch this video

Broader D&I metrics e.g. Pensions Pay Gap

Earlier this year, the new Work and Pensions minister announced proposals to consider both a definition of, and regular reporting on, the gender pension gap. A number of UK-based organisations have begun to voluntarily disclose data on the gaps in retirement income between male and female employees, with a flurry of estimations released on this year's International Women's Day. These estimates showed the percentage gap in retirement incomes is over three times the size of the gender pay gap.

For further details, watch this video

Social Reporting

New regulations such as the EU Corporate Sustainability Reporting Directive are expanding the breadth of mandatory social reporting disclosures. Whereas companies have historically focussed on their own people, social reporting is evolving to cover four stakeholders: The Workforce, The Value Chain, Communities and Customers.

For further details, watch this video

In order to prepare for the impact of broader DE&I and sustainability reporting it will be critical for DE&I teams to:

- Monitor for new sustainability reporting requirements that will apply to your business.
- Look to build a consistent reporting narrative across all social dimensions, including DE&I.
- Work alongside your sustainability teams or sustainability experts to identify where there are requirements that are DE&I related and agree the owner of these disclosures.
- Carry out risk assessments to identify any changes required in order to comply with new regulations as and when they are released.

As we look forward, DE&I reporting and broader pay transparency requirements are only getting more complex and high profile. As this happens, the pressure to increase transparency and showcase accountability will undoubtedly increase. As the wider reporting agenda continues to grow, accurately telling your DE&I story requires careful consideration of the underlying drivers of inequality, but also greater coordination with sustainability and reward teams.

For large organisations, the challenge will be to consistently tell a genuine story that demonstrates the focused action that they are taking to embed fairness and equity across their workforce and beyond.

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