



# Mandatory gender pay gap reporting

A five step plan to compliance



# Contents

1	Why mandatory gender pay gap reporting is everyone's business	3
2	Gender pay gap reporting: timelines & stakeholders	4
3	Five steps to ensure compliance	8
4	'Ready to report' checklist	14
5	FAQs	15

# Why mandatory gender pay gap reporting is everyone's business

By April 2018, any organisation with more than 250 employees in the private, public and voluntary sectors will be required to report its gender pay gap annually.

Some employers will be tempted to view the new obligation as just another compliance procedure for the Human Resources Director. But gender pay gap reporting has much wider implications, with consequences for recruitment practices, remuneration policies, employee relations, talent retention and public reputation.

Organisations reporting a high gender pay gap, for example, could be seen as less than fully committed to fair pay, promotion and development opportunities for women. This will make them less attractive as employers, undermine their ability to recruit and could also have a negative impact on how their brands are seen in the wider market place.

So the stakes are high and, for some organisations, the process of preparing a gender pay gap report could reveal some sobering truths. Time is of the essence. Organisations that start preparing for their first gender pay gap reports early will have the opportunity to address any issues raised before publically disclosing their gender pay gap. Those leaving preparations too late will find themselves addressing these issues in the public domain, under the watchful eye of the media, trade unions, their employees and their customers.

In short, if your organisation wants to use mandatory gender pay gap reporting to understand, improve and even showcase your success in providing fair development and promotion opportunities for men and women, the time to start planning your strategy is now.

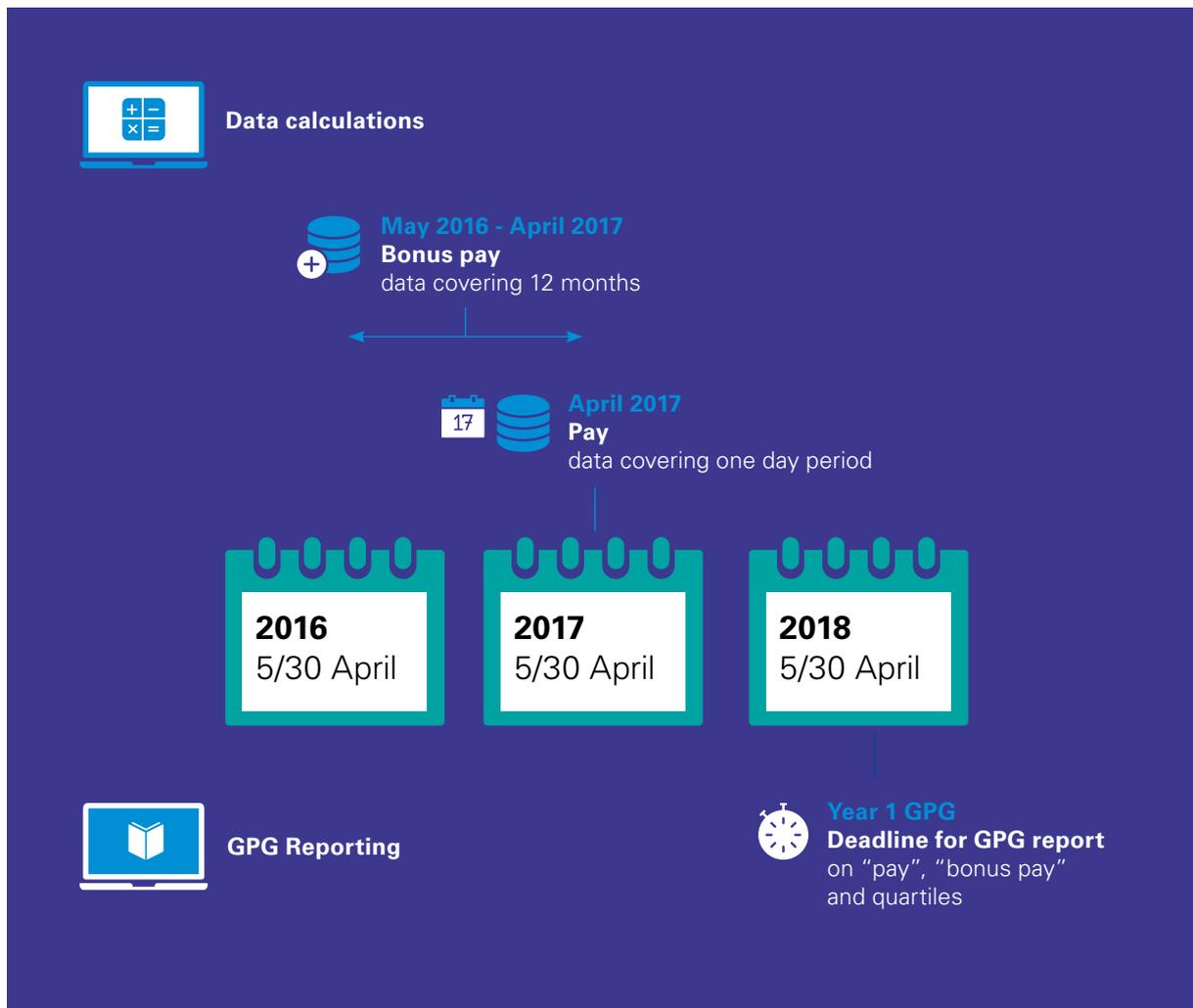


# Gender pay gap reporting: timelines & stakeholders

## When to publish?

Your first gender pay gap report must be published no later than April 2018. This report covers pay and bonus data from April 2016 to April 2017.

- Pay data in this first report is limited to a snapshot in April 2017.
- Bonus data in this first report should cover all bonuses paid between April 2016 and April 2017.



April 2018 is simply the deadline for publishing your first gender pay gap report. You can publish much earlier if you want. When to publish will be a strategic decision for your organisation and will depend on factors such as brand reputation management, media influence, and your remuneration and reporting cycles.

### How long to prepare?

As part of its consultation on gender pay gap reporting, the Government Equalities Office looked at how much it would cost organisations to become familiar with the proposed reporting requirements. The consultation suggested it would take two human resources managers just two hours each to achieve the necessary level of familiarisation and a further two hours each to complete the necessary training in preparation to comply with the new reporting obligations (Mandatory Gender Pay Gap Reporting Consultation: Impact Assessment, March 2016).

However another consultation on gender pay gap reporting, by the Chartered Institute of Personnel and Development (CIPD), suggested that the overall time needed for familiarisation and compliance would be much higher.

The CIPD consultation found that 53% of HR professionals felt it would take their organisation up to six months to be in a position to report gender pay gap data. A further 30% of those surveyed believed it could take between six and twelve months.

Our view is that the CIPD consultation gives a more accurate picture of the time employers will need. The Government Equalities Office consultation was largely limited to the technical and regulatory aspects of gender pay gap legislation. By contrast, the CIPD consultation reflects the broader implications of the gender pay gap analysis, which feed into issues such as recruitment, employee communications, remuneration policies and reputation management.



## Who to involve?

Gender pay gap reporting presents a wide range of challenges and many fall well beyond the typical remit of the human resources manager or director. These challenges will need input and support from across an organisation, so it's vital to get stakeholders on board early and make sure they are fully aware of the challenges.

The key challenges include:

Challenges	Possible challenges	Possible additional stakeholders
Technical implementation	<ul style="list-style-type: none"> <li>- Implementing a new reporting system</li> <li>- Upgrading/replacing payroll software</li> <li>- Installing new hardware (such as time recording devices)</li> </ul>	<ul style="list-style-type: none"> <li>- Payroll</li> <li>- Finance director</li> <li>- IT</li> <li>- Operations</li> </ul>
Legal compliance	<ul style="list-style-type: none"> <li>- Ensuring compliance with GPG requirements</li> </ul>	<ul style="list-style-type: none"> <li>- Legal</li> <li>- C-level support</li> </ul>
Employee relations	<ul style="list-style-type: none"> <li>- Reviewing internal HR processes and policies</li> <li>- Reviewing staff remuneration</li> <li>- Reviewing employee benefits</li> </ul>	<ul style="list-style-type: none"> <li>- Internal communications</li> <li>- C-level support</li> </ul>
Recruitment challenges	<ul style="list-style-type: none"> <li>- Reviewing recruitment policies</li> <li>- Managing reputation with candidates</li> </ul>	<ul style="list-style-type: none"> <li>- Recruitment</li> <li>- Marketing</li> <li>- Brand management</li> </ul>
Brand communications	<ul style="list-style-type: none"> <li>- Deciding on timing of report publication</li> <li>- Producing narrative to accompany report data</li> <li>- Managing media scrutiny</li> </ul>	<ul style="list-style-type: none"> <li>- Marketing</li> <li>- Brand management</li> <li>- Public relations</li> <li>- Legal</li> <li>- C-level support</li> </ul>
Internal communications	<ul style="list-style-type: none"> <li>- Producing narrative to accompany report data</li> <li>- Managing employees' questions/concerns</li> <li>- Liaising with trade unions (where applicable).</li> </ul>	<ul style="list-style-type: none"> <li>- Internal communications</li> <li>- C-level support</li> </ul>



### A testing task for the public sector

In the public sector, gender pay gap reporting raises particular challenges, from both an implementation and a reputational standpoint.

If you are a public sector employer, you already have obligations under the public sector equality duty contained in the Equalities Act 2010. This requires you to record data about the make-up of your workforce in terms of gender, age, ethnicity, sexual orientation, disabilities and other specific characteristics. Gender pay gap reporting is in addition to this requirement. However, while your existing systems for reporting under public sector equality duty may enable you to report your gender pay gap, they are unlikely to let you do this in a way that complies with the new reporting requirement.

Timing makes this challenge particularly acute. The consultation to introduce gender pay gap reporting to the public sector was only launched in August 2016 (compared to February 2016 for the private sector), but the timescales to implement and report are the same as for the private sector. In essence, the private sector has had a six-month head start on preparing for gender pay gap reporting.

In addition, the media is well aware of the new requirement to report gender pay data. As a result, as a public sector employer, you are likely to come under particular scrutiny when you make your gender pay data public, especially if you are reporting a large gender pay gap. Given the higher level of trade union membership among public sector employers, trade unions will also be showing a keen interest.

For these reasons, it's vital to take steps now to understand the extent of your gender pay gap. You'll need to develop a robust communications plan to mitigate the effect of any media discussion and be ready to manage the challenges around internal communications and employee relations.

# Five steps to ensure compliance

Understanding the challenges around gender pay gap reporting as early as possible is the best way to prepare. We've identified five steps to ensure compliance and help you pinpoint any issues you need to address before you publish your first report.

## Step 01 ▶

### Get your reporting systems in place

To comply with gender pay gap reporting, your organisation must report on three key areas:

1. the percentage difference in male and female pay on a mean and median basis
2. the percentage difference in bonus paid to men and women on a mean and median basis, and what proportion of the male and female workforce are paid a bonus
3. how many men and women sit in each pay quartile (the quartiles should reflect the overall pay range of your business based on the gross hourly rate of pay)

Your gender pay data must be based on a gross hourly rate, calculated by dividing weekly pay by weekly basic paid hours. So the first challenge is to make sure your systems can identify the number of hours each employee works. This may sound simple, but not all payroll systems record hours worked automatically. For some employees, you may be able to use metrics such as FTE equivalent, but this won't work for employees paid an hourly rate but working a different number of hours each week. Your payroll system needs to be able to report for this group, and you might need to look closely at your time recording systems or employee contracts to determine exactly how many hours an employee has worked. In addition, given that elements of pay such as overtime are excluded from the calculation, you need to be able to map payments made in relation to additional hours, so that your calculations meet the conditions of the regulatory framework.

In addition, if you have multiple payroll runs and multiple sets of payroll data, you need to be able to bring this data together. You must be confident that it is accurate and consistent before you calculate pay data for men and women across your organisation.

## Step 02 ▶

### Understand how to make your calculations

To calculate your organisation's gender pay gap, you need to be clear on a range of factors:

- which elements of pay and bonus are covered by the gender pay gap reporting requirement
- which employees, including contractors, agency workers and casual workers, are covered
- what period you need to draw pay and bonus data from
- how to calculate the gross hourly rate with your existing systems, given the number of variables to be considered
- what the implications for 'group' organisations are, and how to report gender pay gap data in the context of a group or individual entities within the group

You should also be aware that pay and bonuses are calculated differently, and across different time periods.

### Calculating pay

Pay calculations are made on the basis of remuneration paid in the pay reference period falling on 30 April (or 5 April, subject to confirmation in the final regulations) each year. The legislation sets out which elements of an employee's remuneration package should be included in this calculation – and which shouldn't.

Included	Excluded
- Basic pay	- Overtime pay
- Paid leave	- Expenses
- Maternity pay	- Value of salary sacrifice schemes
- Sick pay	- Benefits in kind
- Area allowances	- Redundancy pay
- Shift premium pay	- Arrears of pay
- Bonus pay	- Tax credits
- Car allowances	
- On call and standby allowances	
- Clothing, first aid and fire warden allowances	

## Calculating bonuses

You must include bonus in your pay calculation (see page 8), but must also report separately any bonus paid over the relevant 12-month period (for gender pay gap reports due by April 2018, for example, the relevant period is the 12 months to April 2017). This is to ensure that all bonus payments within the reporting period are covered, irrespective of how they are paid. Some bonuses, typically profit share bonuses, are usually paid annually, whilst other forms, such as commission or employee incentive bonuses, tend to be paid more frequently.

The legislation sets out the payments you should include when you calculate bonuses for the purpose of gender pay gap reporting.

### Included

- Payments received and earned in relation to profit sharing, productivity, performance and other bonus or incentive pay, piecework and commission
- Long-term incentive plans or schemes (including those dependent on company and personal performance)
- Cash equivalent value of shares on the date of payment

## Step 03 ▶

### Perform a trial run

The next step is to carry out a trial run of your gender pay gap report. This helps in two ways. First, it lets you check that your systems and processes are ready to report in a way that is compliant with the new reporting requirement. Second, it provides you with an early and private snapshot of the current gender pay gap in your organisation.

#### Are you ready to report?

A trial run can provide you with reassurance that the people whose job is to produce the data for gender pay gap reporting are trained and familiar with the processes, and that the processes are adequate to deliver the report.

A trial run can also pick up any issues with the infrastructure behind this process. If you discover you need new software or hardware (such as time recording devices), finding this out early will give you time to complete what may be a lengthy IT and procurement process.

#### What's your gender pay gap?

The other important advantage of performing a dummy run is that it lets you identify precisely what, if any, disparities in pay exist within the business.

Our experience is that many organisations are either unaware that they have a gender pay gap or, if they know they have one, that they underestimate it. Part of the gap can be down to factors beyond the organisation's control, such as the make-up of the local labour market or the type of work the business does. But often the way recruitment, promotion and pay negotiations are handled make the gender pay gap bigger than it needs to be. Understanding as early as possible where you could do more to reduce your gender pay gap gives you a chance to seek advice in confidence. Typically, the issues identified are sensitive so seeking advice under the protection of legal advice privilege is important to give you a chance to explore and address them without risk of disclosure.

KPMG's analytics software can provide clear visual representations to help you understand your data, identify any trends and pick out problem areas.

Example data from KPMG's analytics software

2015



**Difference in Medians**



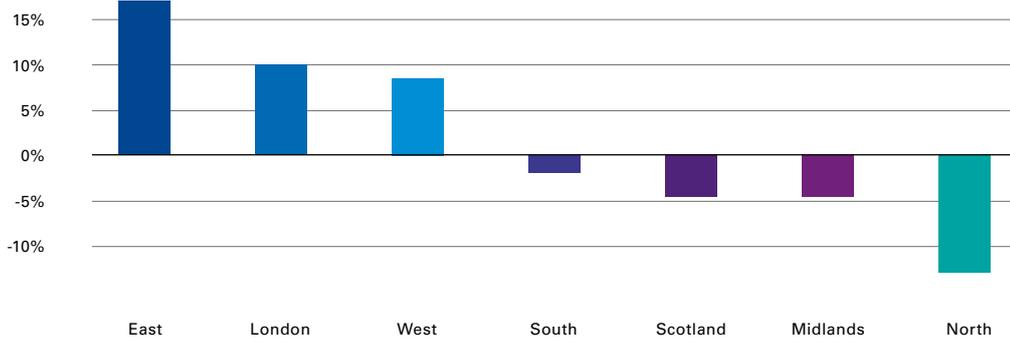
**Year On Year Change**



2015



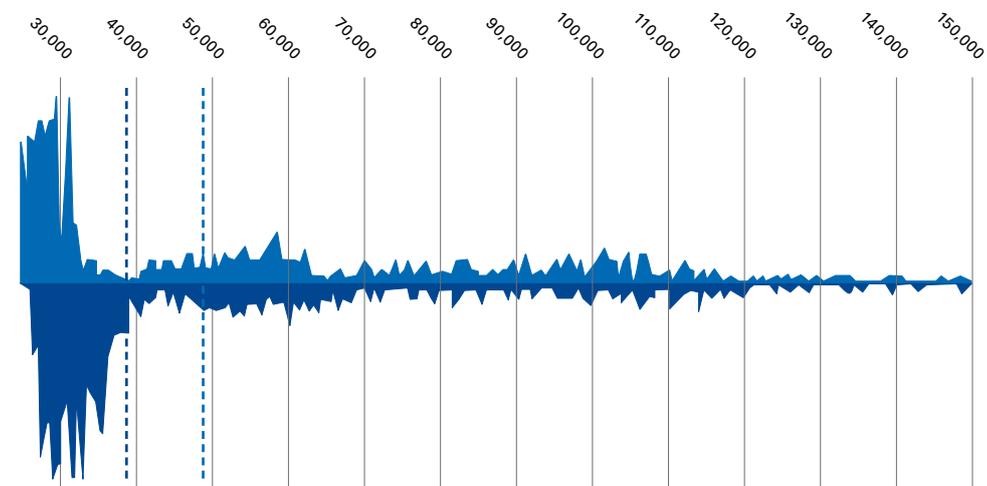
**Difference in Median Pay by Location**



2015

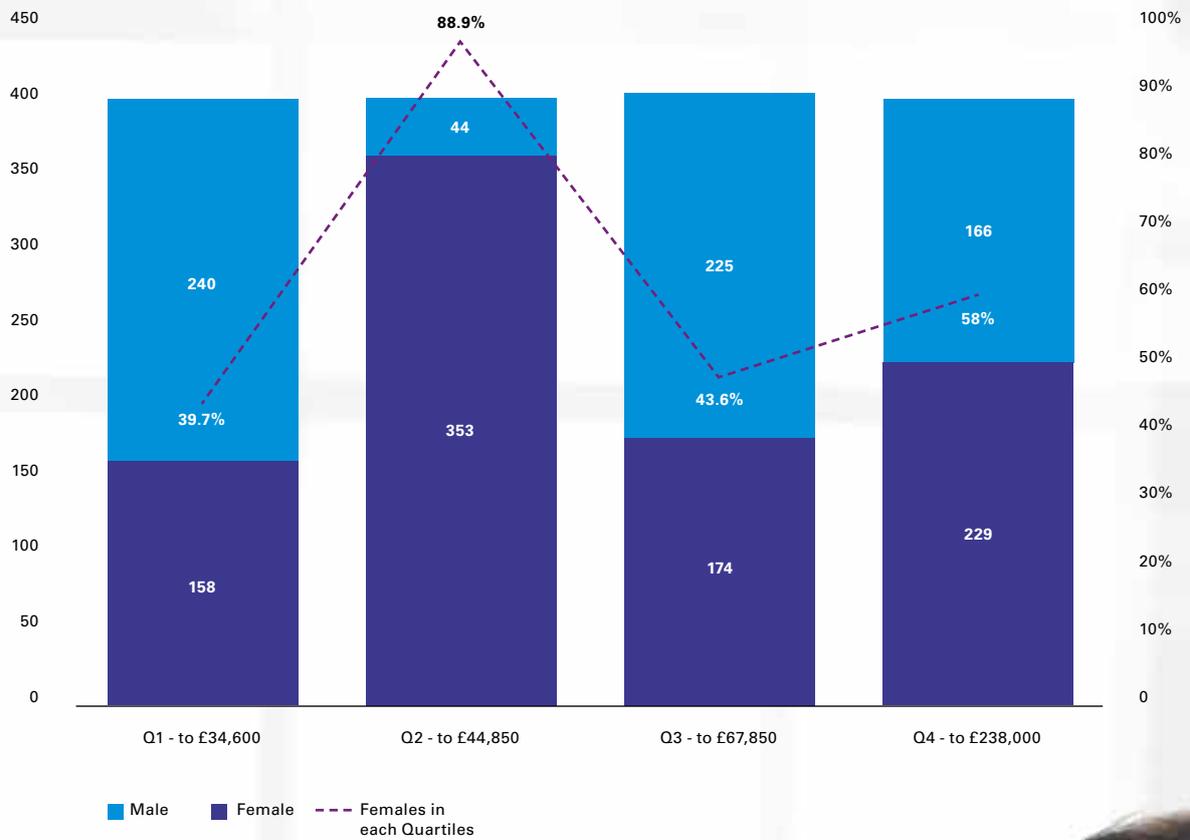


**Distribution of Pay**



By location  
 ■ £48,312 n=2,107  
 ■ £38,463 n=2,107

### Number of Men and Women in each Quartile (Equal number of Employees)



## Step 04 ▶

### Look at the underlying issues

If your data reveals a large gender pay gap, this will have an impact on your success as a recruiter. In KPMG's 2016 Think Future research, for example, 55% of women polled said that a sector's reputation on gender equality would influence their decision about working in it.

Similarly, a large gender pay gap will also have a negative impact on employee morale, motivation and retention – who wants to work for an organisation where not everyone has the same chance to reach their full potential? A large gender pay gap can also look unappealing to your customers and other stakeholders, especially if ethical behaviour is an important part of your brand story.

On a positive note, gender pay gap reporting can be an opportunity to address an important issue that is often overlooked in the day-to-day running of the business. This goes far beyond reviewing your pay bands; it is about looking deeper into exactly where and why a gender pay gap exists.

Some of the most common areas to consider include:

- Recruitment practices
- Salary negotiations
- Bonus awards
- Promotion decisions
- Support for returners
- Options for flexible working
- Organisational culture

Understanding the reasons for your gender pay gap as early as possible gives you time to work out how to explain them (if the reasons are fair and valid) or to take professional advice on how to address them and to take action before your first gender pay gap report.



## Step 05 ▶

### Get ready to publish

The legislation requires you to report your gender pay gap data in two ways:

- Directly to a government department, which will make the report available to the public and collate a league table to enable businesses and employees to compare the results
- On your own website, in an area that is easy to find. There's no strict definition of what this means, but we suggest making your GPG data accessible from the home page. You must leave your report on your site for at least three years

A director or employee at a similar level must sign off the data behind your report.

There's no requirement in the legislation for a narrative to support your data, but our recommendation is to include one. This narrative will be a key part of your gender pay gap reporting strategy.

### Getting your narrative right

The narrative is particularly important if your organisation is reporting a relatively large gender pay gap. This is because the public and the media often confuse 'gender pay' and 'equal pay' (as covered by the Equal Pay Act 1970) although they are two very different things. The narrative you provide can help minimise the risk of confusion.

While a large gender pay gap may indicate wider issues around equality of pay in your organisation, it doesn't necessarily mean you are acting in a way that is contrary to the Equal Pay Act. Despite your best efforts to be an inclusive employer, you could have a large gender pay gap for reasons largely beyond your control. The narrative is your opportunity to discuss these issues and challenges, and avert any criticism that may be directed at you.

The narrative is also your opportunity to explain the measures you are already taking to address your gender pay gap. Future reports should refer to previous reports to highlight the success of any initiatives you've introduced. These future reports are likely to come under even more scrutiny than your first report, as employees, trade union representatives and the media look to see whether mandatory reporting has had an impact.

### Timing your report communication

You are free to publish your gender pay data at any point between May and April in the reporting year.

You may already have a communications timeline that works for your gender pay gap report. For example, you could report your gender pay data in your company's annual report, AGM statement or other formal communication. Or you may prefer to treat this as an entirely separate communications process with its own schedule.

If you have a positive report, you may decide to publish your gender pay data relatively early to maximise the reputational benefits. If you have a less positive report, you may choose to wait. This will give you more time to put remedial policies into action, which you can then detail in your narrative.

Whatever your situation, it is likely that various stakeholders – Marketing, Brand Communications, Public Relations and even C-level stakeholders – will want to be included in the decision on timing.

### Managing internal communications

Your gender pay gap report will be available publicly, so your employees and any trade unions recognised by your organisation are likely to access it. It's better to take control and decide how you want to communicate your report internally and engage with employees on the wider issues of gender pay and diversity.

If your report is unfavourable, you may be tempted to downplay its publication, but doing this can allow employees, the media or trade unions to take control of the narrative. This can be extremely damaging to your brand. Far better to own the narrative and tackle any issues or concerns head-on.

# 'Ready to report' checklist



## Inform your stakeholders

Gender pay gap reporting will require input and support from a range of stakeholders, particularly if you need to change your payroll infrastructure or put together a communications plan for a potentially negative report. Different departments work at different speeds, so start engaging early to avoid getting caught out.



## Understand your ability to report

Check your reporting systems can deliver the data you need and be clear on how much human intervention is likely to be involved in compiling your gender pay gap report. Key questions to ask are: Have we got the right software and hardware? Have we confirmed procedures for calculating pay and bonuses? Have staff had the right training?



## Explore your gender pay gap

Organisations that report a large gender pay gap are likely to face intense media, public, employee and trade union scrutiny. So try to understand where your organisation stands before you go public with your data. Conduct a 'practice run' to identify the issues within your organisation – and create an opportunity to address them away from public view.



## Implement proactive change

How you respond when you identify a gender pay gap could come under as much scrutiny as your gender pay gap itself. Failing to demonstrate positive change could put you in the firing line. Think now about how changing policies and practices in key areas, including recruitment, talent development, training, remuneration and retention, could help reduce your gender pay gap.



## Plan your communications strategy

Your organisation needs to own the narrative around your report. This is particularly important given that gender pay and equal pay are often confused. Prepare for challenges to your report from third parties, time your communications strategy carefully and put plans in place to control your message.

# FAQs

## **Which employers are covered by gender pay gap reporting?**

Mandatory gender pay gap reporting applies to all employers in the private and voluntary sectors with 250 or more employees.

Mandatory gender pay gap reporting also applies to public sector employers with 250 or more employees, via an extension of the existing public sector equality duties.

## **When does mandatory gender pay gap reporting come into force?**

Organisations must report their gender pay gap no later than April 2018. This report must include a 'snapshot' of pay data from April 2017, as well as data on all bonuses paid in the 12 months up to April 2017. The reporting process then continues on an annual basis.

## **What gender pay data do employers have to publish?**

Employers will have to report the following gender pay data:

- the difference in mean and median pay between male and female employees
- the difference in mean and median bonus pay between male and female employees
- the proportion of male and female employees who received bonus pay
- the number of male and female employees in each quartile of the organisation's pay distribution

## **Do employers have to publish a narrative with their gender pay gap report?**

Employers aren't required to publish a narrative explaining their gender pay data, but most probably will. Gender pay gap reporting is about focusing employers on the issue of gender pay disparity, so many organisations will take the opportunity to explain any disparity that exists and what they intend to do about it.

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