

How to measure and report a gender pay gap

What is a gender pay gap?

The gender pay gap is concerned with the differences in the average earnings of men and women, regardless of their role or seniority. It is different to equal pay which compares the differences between individuals or groups performing the same or similar work.

It is possible that a company pays men and women equally at each level of seniority can have a gender pay gap because women are under-represented at higher levels.

Who do the regulations apply to?

Parliamentary approval of the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 and an update to the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017, has brought into effect a requirement for large employers to report publicly every year on the differences in the aggregate pay and bonuses of men and women. The Regulations mandate how organisations in England, Scotland and Wales with 250 or more employees must calculate a standard set of key metrics on their gender pay and gender bonus gaps and the format and medium in which they must report them.

The requirements for the public sector largely mirror those for the private sector, except the public sector requirements are being introduced as part of the existing Public Sector Equality Duty.

An employer is legally required to conduct gender pay gap reporting if they have 250 or more employees on 31st March for public sector organisations or 5th April for private and voluntary sector organisations. Each part time worker equals one whole employee; it is not based on full time equivalent posts.

For the purposes of the Regulations, the definition of employee is that under s.83 of the Equality Act 2010. This includes anyone employed under a contract of employment, a contract of apprenticeship or a contract personally to do work (i.e. a worker), and as such is a relatively broad definition likely to include some consultants as well as workers on zero-hours contracts.

Why report on the gender pay gap?

Reporting on the gender pay gap helps to increase transparency within organisations and encourages them to take seriously and act on any male-female divide. This can in turn enhance an employer's reputation among both potential recruits and existing employees. It shows that the organisation is willing to be open about how it treats men and women, and that they are committed to addressing inequality.

It is not simply a matter of publishing a series of numbers, but should be an explanation of why there is a gender pay gap and information on the company's policies on recruitment, employee development and equality.

What do the regulations require employers to report?

The regulations require employers to publish details of the gender pay gap for their organisation as it is on the 'snapshot' date. The snapshot date each year is:

- 31st March for public sector organisations
- 5th April for businesses and charities (and public sector employers not covered by the Public Sector Equality Duty)

The pay period may differ for employees in the same organisation; for weekly paid employees the pay period will be the one week around the snapshot date, while for salaried staff it will most likely be the whole of the pay month that includes the snapshot date.

There is also a separate requirement to publish gender bonus gap information, based on data for those employees in receipt of bonus pay during the 12 months to the snapshot date.

Employers are required to report:

- the mean gender pay gap
- the median gender pay gap
- the mean bonus gender pay gap
- the median bonus gender pay gap
- the proportion of males and females receiving a bonus payment
- the proportion of males and females in each quartile band

Employers will also need to provide a written statement confirming that the calculations are accurate. This must be signed by an appropriate senior person, such as the schools' governing body.

Employers may find it useful to provide a commentary to help explain why a gender pay gap exists in the organisation and detail what the organisation intends to do to close it, particularly if the gap is wider than average or if the industry itself is male dominated and they struggle to recruit women.

Preparing to report the gender pay and gender bonus gaps

To report its gender pay gap and gender bonus gap, an employer will need to ensure that it collects the correct data and carries out the calculations set out in the Regulations. For the purposes of providing data on the difference in the mean and median pay of men and women, and the proportion of men and women in four quartile pay bands, only full-pay relevant employees are included. Full-pay relevant employees are those employees who, during the relevant pay period, are not being paid at a reduced or nil rate as a result of being on leave – which includes annual leave; maternity; paternity; adoption; parental and shared parental leave; sick leave; and special leave.

By contrast, the calculation of the mean and median gender bonus gaps should include data for all relevant employees who received a bonus payment, regardless of whether they are full-pay relevant employees or not.

Employers may wish to create an Excel spreadsheet for use in calculating the figures required for reporting purposes. Employers may find it easier to create 5 tabs on Excel titled:

- Mean gender pay gap
- Mean gender bonus gap
- Pay quartiles
- Median gender pay gap
- Median gender bonus gap

Data required to calculate the gender pay gap

For each full-pay relevant employee, the employer will require data on ordinary pay during the snapshot pay period. This includes:

- basic pay
- allowances (including car allowances, recruitment and retention payments etc.)
- pay for piece work
- pay for leave (including annual leave; family related leave; sick leave and special leave)
- shift premium pay

The employer will also need information on any bonus pay paid to each full-pay relevant employee during the snapshot pay period. This includes:

- productivity, performance and incentive payments
- commission and profit shares
- payments in cash, vouchers, securities options and interests in securities

Where a bonus payment paid during the snapshot pay period relates to a bonus period that is not the same length as the pay period, it should be converted on a pro-rata basis. For example, an annual bonus should be divided by 12 for an employee who is paid monthly.

Overtime pay, redundancy or other termination payments, pay in lieu of leave, or non-cash benefits such as the value of a company car is not included in ordinary pay or bonus pay.

Each element of ordinary and bonus pay included in the calculation should be the amount paid before deductions made at source, such as tax, NI etc.

Calculating the mean gender pay gap

To calculate the mean gender pay gap, the employer will need to add up the standard hourly rates of all men and divide this figure by the number of male employees to create a standard male hourly rate. The same calculation should be repeated for women.

The employer then needs to subtract the standard female hourly rate from the standard male hourly rate, divide the total by the standard male hourly rate, and multiply the resulting figure by 100.

So, where the standard male hourly rate is A and the standard female hourly rate B, the calculation is $(A - B)/A \times 100$.

Expressed as a percentage, this is the organisation's mean gender pay gap.

In an example where A = £25 and B = £20, the mean gender pay gap is $(25 - 20)/25 \times 100 = 20\%$.

Calculating the median gender pay gap

The employer will need to input the standard hourly rate of pay for each employee and the employees gender into their Excel spreadsheet.

The employer will then need to filter or separate the data so that the entries for men and women can be worked on separately. For each gender, the data needs to be sorted by value with highest earner at the top and lowest earners at the bottom.

Once the data has been sorted (as above), the median male hourly rate is the rate of pay for the man at the midpoint of all the men in the spreadsheet. For example, if there are 76 males, the median male hourly rate is the man at 38 in the table. Repeat this for women.

Where there are an even number of employees, there will not be a single employee at the median. One method of working out the median in these circumstances is by taking an average of the two values on either side of the median point.

To calculate the median gender pay gap, the employer needs to subtract the median female hourly rate from the median male hourly rate, divide the total by the median male hourly rate, and multiply the resulting figure by 100.

So, where the median male hourly rate is C and the median female hourly rate D, the calculation is $(C - D)/C \times 100$.

Expressed as a percentage, this is the organisation's median gender pay gap.

In this example where C = £9.46 and D = £8.11, the median gender pay gap is $(9.46 - 8.11)/9.46 \times 100 = 14.27\%$.

Data required to calculate the gender bonus gap

Using the mean gender bonus gap and median gender bonus gap tabs, the employer should set out the spreadsheet to include:

- job title
- employee ID
- productivity payments
- performance payments
- incentive payments
- commission payments
- profit shares

Unlike the mean and median gender pay gap calculation, this calculation will need to include all relevant employees (regardless of whether or not they are full-pay relevant employees) who receive bonus payments during the 12 months to the snapshot date. The data must include all bonus payments made in that 12-month period (not just those made in the pay period in which the snapshot date falls).

The amounts collected should be those paid before deductions made at source (before tax, NI etc).

Once the columns have been populated with data, the employer should create an additional column to add together all elements of bonus pay, creating a total bonus payment figure for each employee. These figures will be used as the basis for calculating the mean and median gender bonus gaps.

Calculating the mean gender bonus gap

Separate or filter total bonus payments by gender. Using the total bonus payment column create a total male bonus payments figure and a total female bonus payments figure.

The total male bonus payment figure should be divided by the number of men to create a mean male bonus payment, and the total female bonus payment figure divided by the number of women to create a mean female bonus payment.

The mean female bonus payment then needs to be subtracted from the mean male bonus payment, the outcome divided by the mean male bonus payment and the resulting figure multiplied by 100.

So, where the mean male bonus payment is E and the mean female bonus payment F, the calculation is $(E - F)/E \times 100$.

$$(222.22 - 125)/222.22 \times 100 = 43.75\%$$

Calculating the median gender bonus gap

The employer will need to input on the Excel spreadsheet the total bonus payment for each employee and the employee's gender. Separate the data so that the entries for men and women can be worked on separately. For each gender, the data needs to be sorted by value (highest bonus payment at the top, lowest at the bottom of the table). Once the data has been sorted, the median total bonus payment for each gender can be calculated. The median is the midpoint of all the men (or women) in the spreadsheet. For example, if there are 76 males, the median male is at 38 in the table. Repeat this for women.

Where there are an even number of employees, there will not be a single employee at the median. One method of working out the median in these circumstances is by taking an average of the two values on either side of the median point.

To calculate the median gender bonus gap, the employer needs to subtract the median female bonus payment from the median male bonus payment, divide the total by the median male bonus payment, and multiply the resulting figure by 100.

So, where the median male bonus payment is G and the median female bonus payment is H, the calculation is $(G - H)/G \times 100$.

Say G was £8,000 and H was £7,000, the median gender bonus gap would be:

$$(8,000 - 7,000)/8,000 \times 100 = 12.5\%$$

Calculating the proportion of men and women paid a bonus

To calculate the proportion of male relevant employees who received a bonus, the number of male relevant employees receiving a bonus needs to be divided by the total number of male relevant employees and the resulting figure multiplied by 100, to express the total as a percentage. The same needs to be calculated for women.

$$\text{Men} - (1 / 9) \times 100 = 11.11\%$$

$$\text{Women} - (1 / 8) \times 100 = 12.5\%$$

Calculating the proportion of men and women in quartile pay bands

Start by ranking the full-pay relevant employees by basic salary and gender, ranking should begin with the lowest paid and end with highest paid. Then, create a column for gender with two values: women and men.

Split the list into four evenly sized quartiles (or as close as possible to this), for example, if you have 36 employees, you will have four quartiles of 9 employees each. Where there are a number of employees on the exact same hourly rate of pay crossing between two quartiles, make sure that the males and females are split as evenly as possible across the quartiles. It is important not to change the boundaries to accommodate everyone on the same pay into the same quartile as this will skew the results. For example, if there are 36 females and 4 males on the same pay then for every 9 females listed, 1 male should be with them.

Then, calculate the average hourly pay for women and men.

Calculate the gender pay gap for each quartiles using the following calculation:

$$[(\text{male pay} - \text{female pay}) / \text{male pay}] \times 100$$

What to do with the information?

The results (not the raw data on which the calculations are based) and the signed statement confirming accuracy will need to be published somewhere accessible on the organisations website by 30th March 2018 for public sector organisations and 4th April 2018 for private and voluntary sector organisations. The information must remain on the website for at least three years.

The information will also need to be placed on a designated government website. Details of the government website will be available closer to the snapshot date.

The sooner an organisation can publish the information the better, but organisations have one calendar year in order to publish the calculations.

Going forward...

Organisations that meet the criteria on the snapshot date each year will need to publish this updated information annually. If the organisations headcount drops below 250 they will not need to produce this information, but it is beneficial if the organisation still reports the information voluntarily.

The gender pay gap information will always be based on the situation at 31st March or 5th April every year, depending on the type of organisation.

The benefits

Reporting the calculations ensures that an organisation is compliant but the benefits to the organisation come when they do something about the results and work to close the gender pay gap.