



ETHNICITY PAY REPORTING TEAM
Department for Business, Energy & Industrial Strategy,
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London,
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Dear Sir or Madam,

LGPS Central Limited (“LGPS Central”) welcomes the opportunity to respond to the Department for Business Energy & Industrial Strategy’s (BEIS) consultation on ethnicity pay reporting.

LGPS Central was established as part of the programme of pooling local authority pension fund assets in order to reduce costs and provide access to asset classes such as direct infrastructure. We currently manage around £14bn on behalf of our partner funds.

We have a clear commitment to operating and investing in a responsible manner. Diversity is an issue that is integrated into our investment practices and within our own operational boundary.

On the investment side, LGPS Central’s Responsible Investment & Engagement Framework includes the following statement: “There is clear evidence showing that decision-making and performance are improved when company boards and investment teams are composed of cognitively diverse individuals.” We consider the value of diversity when appointing external fund managers, in our direct investments, company engagement (for example with listed companies), and shareholder voting decisions. Diversity has been one of our stewardship themes in 2018-19.

With that in mind, we are very supportive of the proposals to introduce ethnicity pay reporting. We are also supportive of Baroness McGregor-Smith’s *Race in the Workplace* report (2017). We have found that transparency and comparable disclosure can lead, via focussed investment stewardship, to positive changes that benefit investor, investee, and wider stakeholders alike. We think that reporting on ethnicity pay should match the reporting on gender pay and that future evolutions of disclosure requirements affecting gender diversity should lead to an equivalent evolution in disclosure requirements for ethnic diversity. We also think that there is an opportunity at this juncture for BEIS to consider

whether additional dimensions of diversity require mandatory disclosures from certain firms.

The expectations on UK pension funds in the UK with respect to responsible investment and stewardship are increasing all the time. For large, diversified investors the value of easily attainable and commonly reported data cannot be overstated. This is for several reasons including (a) investors can observe with greater ease which parts of their portfolio are deserving of greatest attention, and (b) data can set the framework for meaningful discussions with company management and boards.

Disclosure by itself is not a sufficient criterion for delivering tangible outcomes on matters such as diversity. Action plans to address weaknesses (for example in ethnicity pay gaps) are crucial for allowing long-term shareholders – among others – to be effective stewards of the companies they invest in. Action plans need to be meaningful and value additive, not merely tick-box affairs. We have found that companies able to explain *why* diversity is valuable to their organisation are more likely to grasp the opportunities from an enlarged talent pool, an engaged workforce, and a diversity of perspectives among decision-making bodies.

In our consultation response, we wish to emphasise the following points:

- 1) Reporting requirements on ethnicity pay reporting should match the requirements for gender reporting. In order to future-proof the proposed changes to diversity pay reporting, BEIS should take the opportunity to consider whether additional elements of diversity (beyond gender and ethnicity) should carry similar requirements.
- 2) We would prefer disclosure covering all operations, not just UK employees. For major regions of operation (UK or overseas), reporting should be contextualised against the rates of ethnicity in local populations. If disclosure is required to follow the categorisations in your Annex A (Census 2011), we think it preferable to include all material elements of the workforce including temporary/ zero hours employees and contractors.
- 3) We think the timeline for implementation should be relatively swift to bring the reporting in-line with gender pay reporting as early as possible. An effective period from 2020 seems reasonable for large firms.
- 4) Measure the effectiveness of the diversity pay reporting requirements, for example by surveying business leaders, HR specialists, board members, investors, and the workforce to see how the data are being used and whether meaningful change has occurred.

Our additional comments are provided with respect to the consultation questions below.

Should you wish to contact LGPS Central about this consultation response, please do not hesitate to get in touch.

Yours sincerely,

Michael Marshall

Director of Responsible Investment & Engagement, LGPS Central Limited

1. What are the main benefits for employers in reporting their ethnicity pay information?

We have found that disclosure leads to action. In the present case, we think comparable disclosure on ethnicity pay could lead to improvements in diversity and inclusion within an organisation. Taken as an opportunity rather than a cost, a more diverse culture can provide businesses with a wider talent pool, an engaged workforce, and a diversity of perspectives among decision-making bodies.

2. What type of ethnicity pay information should be reported that would not place undue burdens on business but allow for meaningful action to be taken?

The data should be disclosed in a manner that

- Enables stakeholders (including shareholders) to hold companies to account
- Does not place undue burdens on the company
- Allows comparison (i.e. reporting requirements should be uniform)
- Aligns with gender pay reporting requirements
- Does not compromise the identity or personal data of employees
- Does not give away employers' salary intelligence to competitors

As above, we believe the data should cover the global workforce, and should cover contractors (above a materiality threshold) and temporary (including zero hours) staff.

3. What supporting or contextual data (if any) should be disclosed to help ensure ethnicity reporting provides a true and fair picture?

We think the reporting should be broken down by location/ domicile of employees and should include reference to ethnic demographics of the local populations (for operations above a materiality threshold; i.e. reporting for two staff members in an overseas sales office would be exempt).

4. Should an employer that identifies disparities in their ethnicity pay in their workforce be required to publish an action plan for addressing these disparities?

Yes, and the person or committee responsible for delivering against the action plan should be made clear.

5. Do you currently collect data on ethnicity at your workplace?

- a) Yes

If yes, do you use standard ethnicity classifications for reporting? If so, which ones?

Our classification system is based on the 2011 census categories.

6. What do you think are the most effective approaches for employers to improve employee self-reporting or declaration rates?

There needs to be clear explanations of why the data are being collected and how the data will be used. The rate of self-disclosure is a function of the general level of trust in an organisation. Without trust, colleagues are less likely to disclose. A focus on employee engagement and the development of trust is crucial to increasing the rate of disclosure.

7. How should self-reporting or non-disclosure rates be reflected in the information reported by employers?

We support the right of a “prefer not to say” option for employees who chose not to disclose. Providing anonymity is preserved, we think the proportion of the global workforce not disclosing should be made clear in the ethnicity pay reporting.

8. For a consistent approach to ethnicity pay reporting across companies, should a standardised approach to classifications of ethnicity be used? What would be the costs to your organisation?

From an investment stewardship perspective, we believe this is crucial for the usefulness of the data. If the disclosures cannot be aggregated, they are far less likely to be used. As you have included Annex A, the census classifications would appear to be a sensible system.

9. Please outline steps that should be taken to preserve confidentiality of individuals.

We think that adherence to a company-wide data protection policy (aligned to GDPR), and omission of pay data where employee ethnic categories contain very few members would preserve confidentiality.

10. What size of employer (or employee threshold) should be within scope for mandatory ethnicity pay reporting?

- Employers with 250+ employees (as for gender pay gap reporting)

We would expect the threshold for ethnicity pay reporting to change if the threshold changes for gender pay reporting, e.g. to 50 employees as recommended. To be clear, we are supportive of as far reaching a disclosure requirement as possible, but we believe consistency is paramount.

11. What support measures do you think would be useful for employers?

We think the following measures would be effective:

- An outreach and engagement campaign, with reminders for reporting deadlines
- FAQs literature in the public domain
- Model answers for disclosing data, based on several representative organisation types