

GENDER PAY GAP REPORT 2016–17

FOREWORD



The British Council is the UK's international organisation for cultural relations and educational opportunities. We create friendly knowledge and understanding between the people of the UK and other countries. We do this by making a positive contribution to the UK and the countries we

work with – changing lives by creating opportunities, building connections and engendering trust.

Equality, diversity and inclusion are at the heart of our cultural relations ambitions. Our work is centred on building meaningful, enduring and respectful relationships across different cultures and the different contexts in which we work.

Our vision is to have an inclusive organisational culture based on our commitment to equality, diversity and inclusion, and reflective of our values. With over 10,000 people working for us in more than 110 countries, this approach matters as much internally for our people as it does externally for our customers, partners and stakeholders.

Fair pay for all employees matters. The requirement for gender pay gap reporting is an important step in helping companies and organisations understand the extent of any issues, consider what the underlying causes are and identify actions that can be taken to tackle those causes.

This report covers all employees on UK contracts (including those based overseas but only those on UK contracts). The data and calculations used are in accordance with the Gender Pay Gap Information Regulations 2017.

As part of our commitment to building a truly inclusive, equal and fair internal culture, we have also looked at the ethnicity pay gap in our analysis. The data shows that while we have made progress in closing our pay gaps, we need to do more to tackle some of the underlying causes which lie behind the gaps.

Changes do take time, and we are working to address the issues which we hope will improve the current gaps. As a start, we are running briefings to help raise understanding and encourage open conversations throughout the organisation. Then our main focus for the year ahead will be to conduct further research and analysis.

We want to better understand the underlying causes of the pay gaps to see if we can answer key questions such as: why are six out of ten job applicants for our junior roles female, whereas only four out of ten applicants for our senior management roles are female? We also want to see whether working practices, such as flexible working, are a barrier to career progression for female or minority ethnic staff. By gaining a more nuanced and thorough understanding of the underlying causes of the pay gaps, we hope to develop realistic action plans to address those issues.

The British Council strives to be a fair and inclusive workplace; actively tackling gender and ethnicity pay gaps and their underlying causes is one of the ways in which we can achieve this.

Sir Ciarán Devane
Chief Executive, British Council

EXECUTIVE SUMMARY

- The British Council has gender pay gaps across most of its metrics; the average bonus gap is somewhat higher than the other pay gaps.
- In terms of benchmarking, we sit roughly in the middle of all employers that have provided data to the government portal, and slightly behind the public sector average.
- We believe that, broadly speaking, pay gaps exist for the following reasons:
 - unequal pay is not a contributing factor
 - there are disproportionately fewer female and minority ethnic staff in higher-paid senior management roles and disproportionately more female and minority ethnic staff in lower-level roles
 - similar gender and ethnicity imbalances were also reflected in our external recruitment and internal promotion results in 2016–17; as such these processes would have had little to no positive impact on the imbalanced staff profile and the associated pay gap
 - the average bonus gaps for both gender and ethnicity are larger than the average pay gaps because senior management had disproportionately higher ratings than other management levels in 2016–17, and hence higher cash awards; and the senior management level has disproportionately fewer female and minority ethnic staff.
- As a result of the pay gap results and an assessment of the likely underlying causes, we have developed the following action plan:
 - review all senior level representation targets for women and minority ethnic staff taking into account pay gaps with a view to accelerating our targets where it proves to be achievable
 - conduct equality impact assessments on:
 - bonus system and structure
 - any new pay system proposals that might be part of the 2017–18 pay award process
 - how candidates are sourced externally
 - starting salary process
 - talent management and succession planning processes.
 - communicate summary findings of the gender pay gap review to all staff internally; encourage discussions and raise awareness of the contributory factors behind the pay gap and consider what can realistically be done to address the issues

BACKGROUND

UK gender pay gap reporting regulations came into effect on 31 March 2017 for public sector employers with 250 or more employees. Under this legislation we are required to publish the following statutory calculations every year showing how large the pay gap is between male and female employees:

- mean¹ gender pay gap in hourly pay²
- median³ gender pay gap in hourly pay
- mean bonus gender pay gap

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

As well as providing the data, we want to provide a review that gives the figures some operational context on why specific pay gaps might exist and what action has and will be taken to tackle these issues.

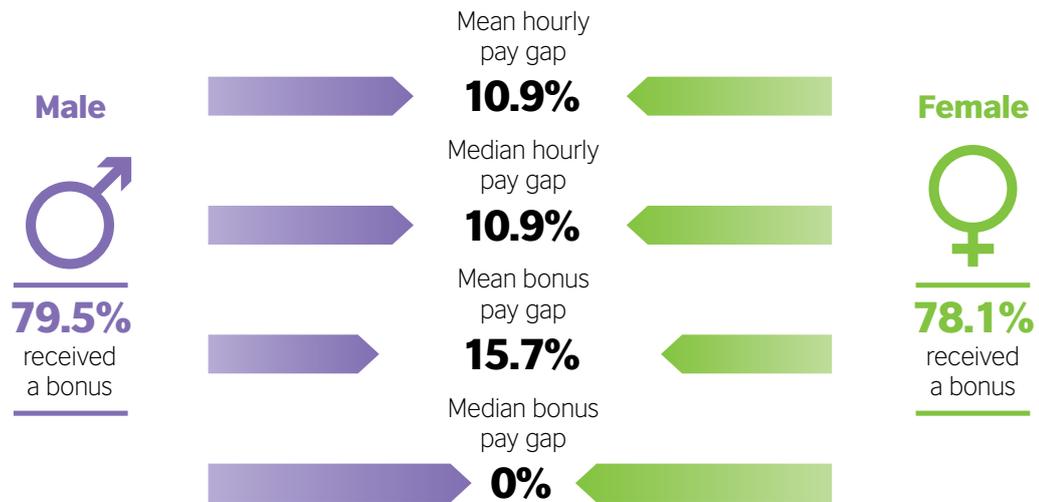
PAY GAP MAIN REPORTING REQUIREMENTS

Using the same methodology as the gender pay gap regulations, we have chosen to include additional analysis to look at the pay gap between white and minority ethnic staff.

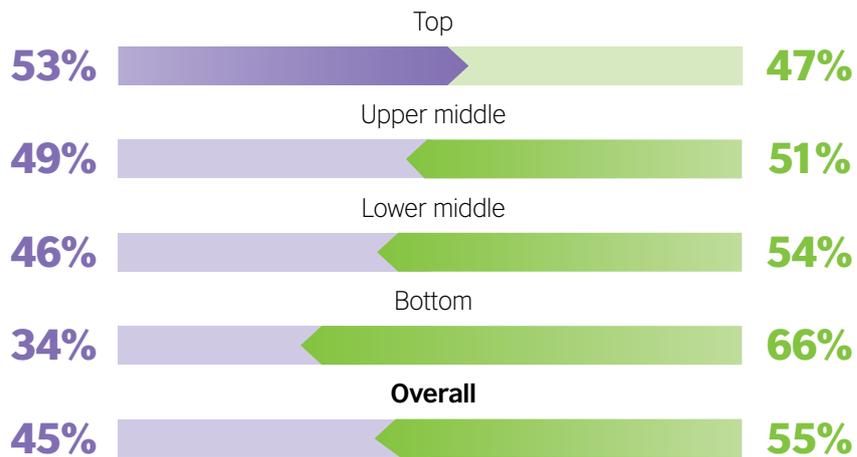
Like many organisations, the British Council has pay gaps on both gender and ethnicity across most of the standard measures. The main reasons for these gaps are explored in the subsequent sections of this report. Of the standard pay gap measures, the quartile ranges point to the main reasons the gaps exist – disproportionately more female and minority ethnic staff in lower-paid roles in the bottom quartile, and disproportionately fewer female and minority ethnic staff in higher-paid roles in the top quartile when compared to the overall proportions of female and minority ethnic staff in the British Council. This uneven profile is reflected in the proportions of female and minority ethnic staff at all pay bands. To illustrate this, a breakdown of gender and ethnicity by pay band has been included alongside the main pay gap reporting requirements.

1. The 'mean' pay gap is calculated by taking the overall pay mean average of men and comparing it with the overall mean average of women.
2. For the purposes of gender pay gap reporting 'pay' constitutes base pay + allowances + bonus.
3. The 'median' pay gap is calculated by taking the overall median pay of men (i.e. the mid-point of a ranked list) and comparing it with the overall median of women.

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SALARY QUANTILES



BRITISH COUNCIL HEADCOUNT GENDER RATIOS BY PAY BAND

Pay band (Executive Board most senior)

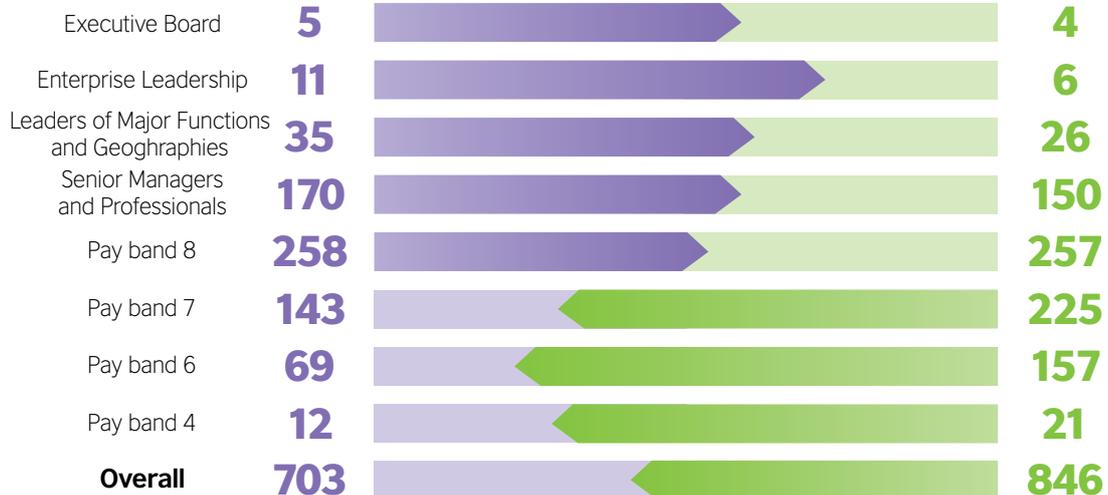
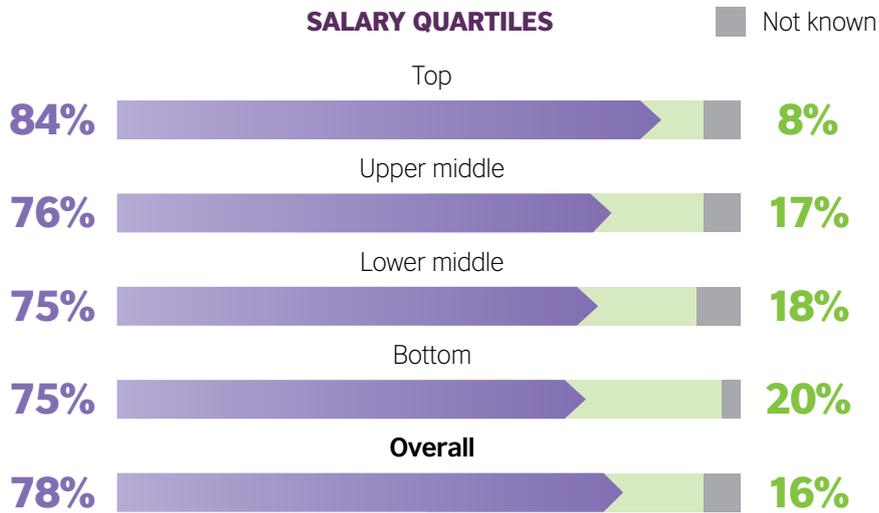
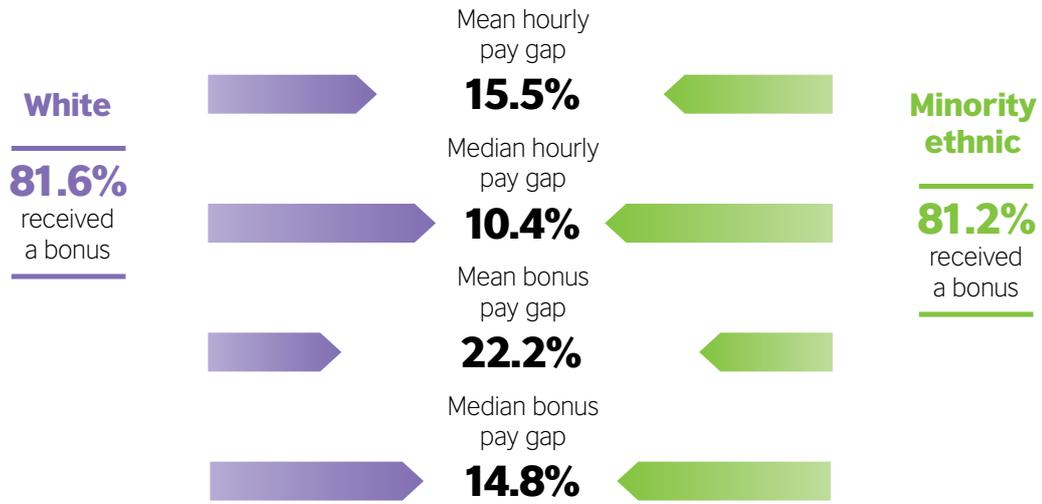


Figure 1: British Council pay gap reporting metrics – gender

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BRITISH COUNCIL HEADCOUNT MINORITY ETHNIC RATIOS BY PAY BAND

Pay band (Executive Board most senior)

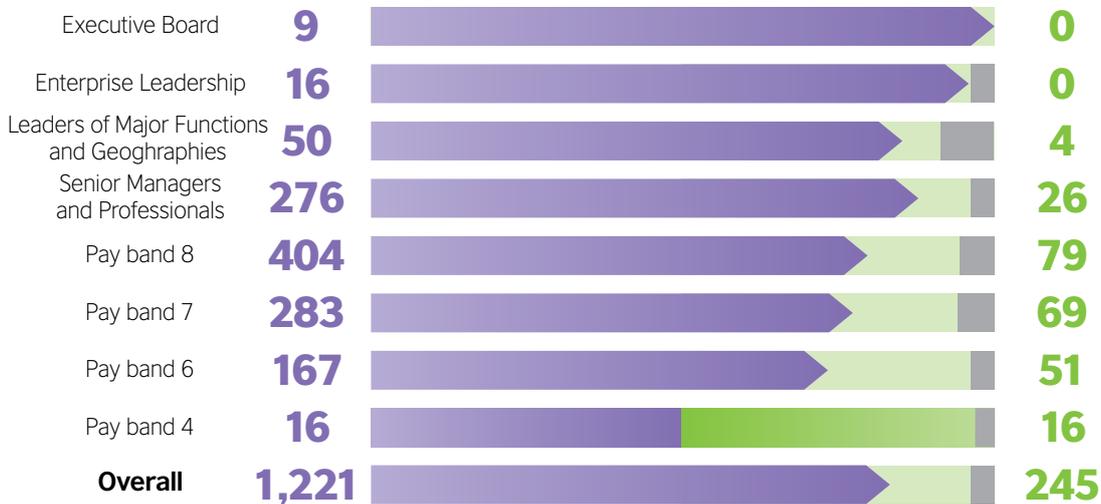


Figure 2: British Council pay gap reporting metrics – ethnicity

WHY THE GAPS EXIST

EQUAL PAY

'Equal pay' has been UK law since 1970. The legislation requires that different equality categories (e.g. men and women) are paid broadly the same for carrying out work of 'equal value'. While a consistent pattern of unequal pay could certainly contribute to organisational pay gaps, it is important to note they are not the same thing.

We have been conducting independent equal pay audits for well over ten years. These audits have consistently shown that unequal pay is a low-risk issue, with no discernible pattern of female or minority ethnic staff pay being exceeded by male and white staff pay for work of equal value. Using the gender pay gap regulations methodology to determine pay, our pay gaps within pay bands (which encompass roles of broadly equal value) for both gender and minority ethnicity (as of 31 March 2017)

are shown in Figure 3. A positive gap indicates that pay for male or white staff is higher than female or minority ethnic staff within that pay band; a negative gap indicates that pay for female or minority ethnic staff is higher than male or white staff in that pay band.

Most pay bands have gaps of fewer than five per cent (the accepted criteria to determine equal pay). The gaps which are greater than five per cent are in pay bands with small sample sizes, where individual outliers can distort the means and medians. From an organisational pay gap perspective, this analysis shows that in the majority of pay bands female and minority ethnic staff pay marginally exceeds male and white staff pay, so this leads us to conclude that 'unequal pay' is not a contributing factor to the overall pay gaps.



Figure 3: British Council 'equal pay' comparisons on gender and ethnicity (as of 31 March 2017)

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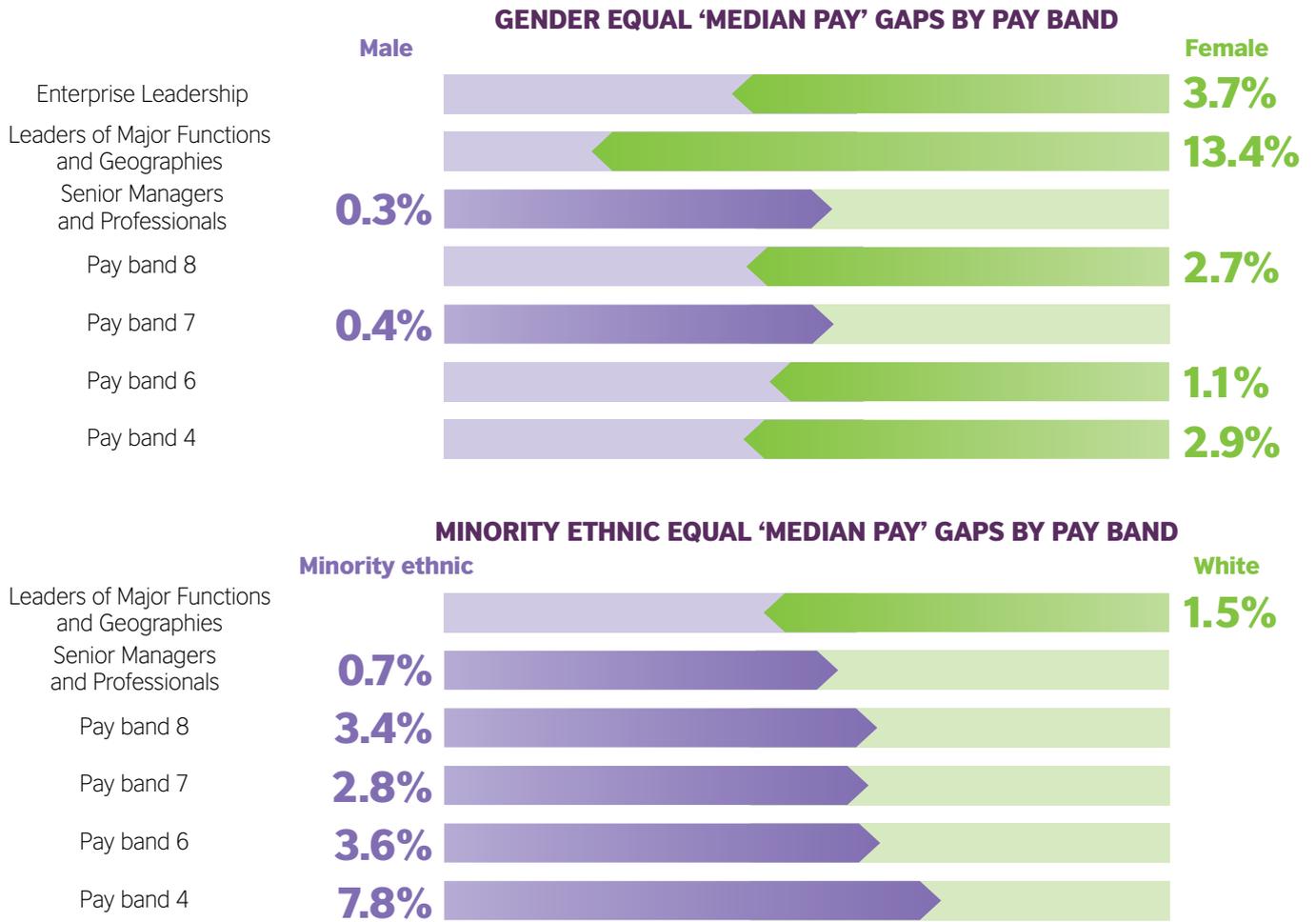


Figure 3: British Council 'equal pay' comparisons on gender and ethnicity (as of 31 March 2017) continued

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UNEVEN PAY BAND LEVEL GENDER AND ETHNICITY DEMOGRAPHICS

As already referenced, probably one of the main reasons for the pay gaps is an uneven distribution of both gender and ethnicity within the different pay band levels of the organisation. There are disproportionately more women and minority ethnic staff in the lower pay bands and disproportionately fewer women and minority ethnic staff in the higher pay bands (see Figures 1 and 2).

Using historical equal pay audit data, it is possible to look at trends in the mean and median base pay⁴ gaps, and the proportion of female staff and minority ethnic staff in senior management (see Figure 4):

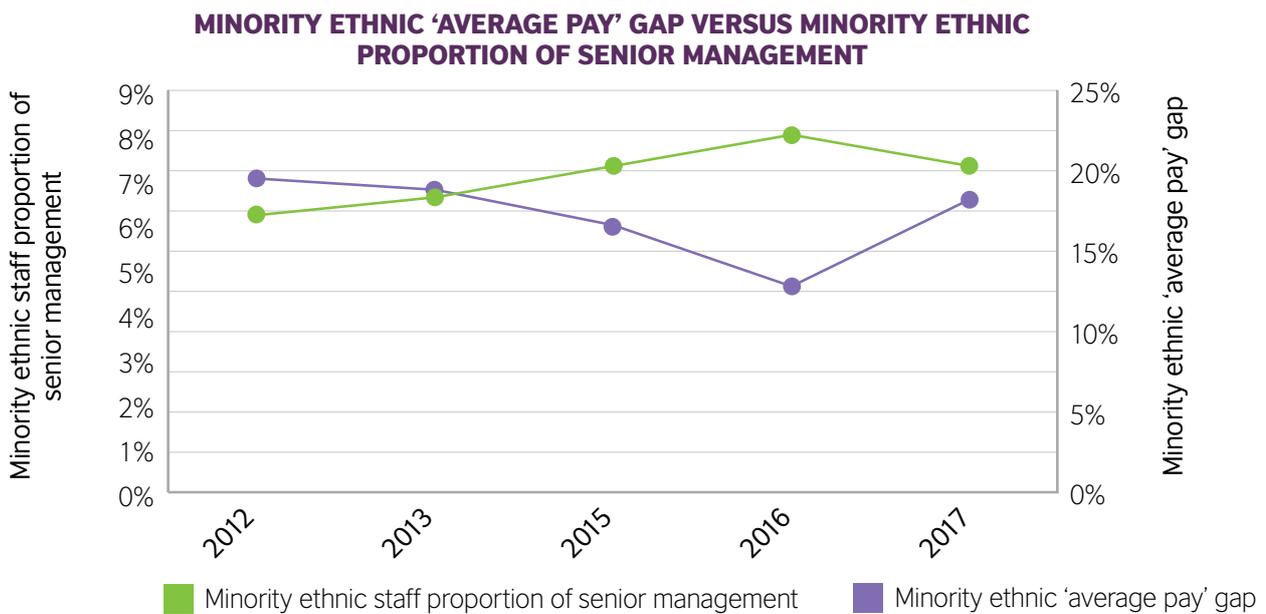
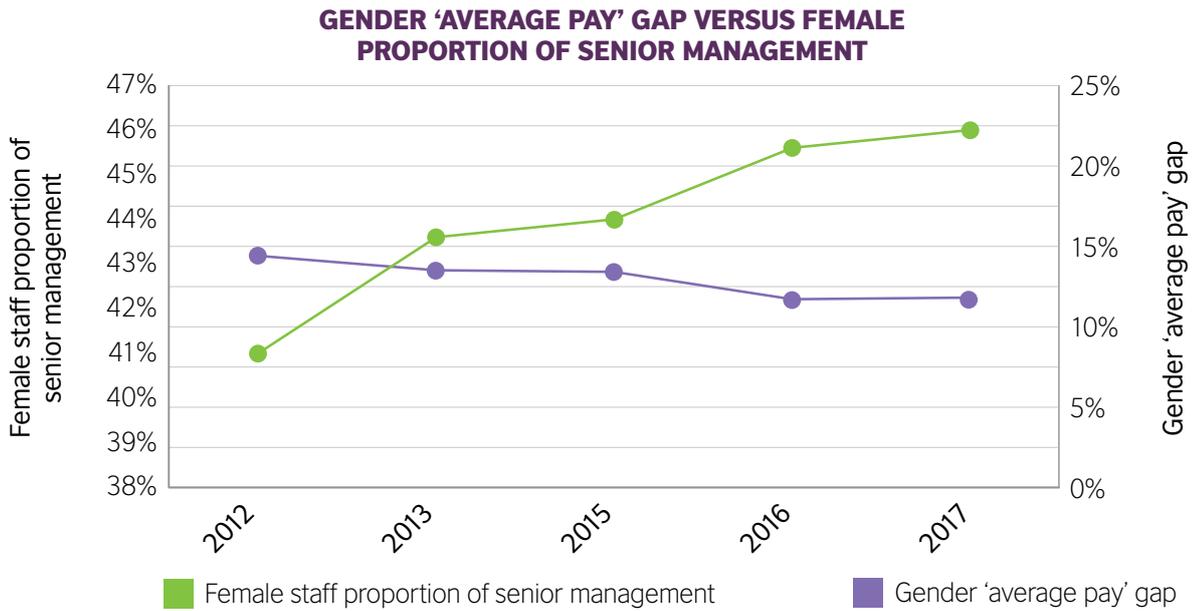


Figure 4: Proportion of senior management pay gaps

4. The British Council has only tracked base pay historically rather than the gender pay gap regulations definition of 'pay'.

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We have seen a drop in both the average and median base pay gaps over the past five years. Over the same period there has been an increase in female senior management⁵ proportions, rising from 41 per cent in 2012 to 46 per cent in 2017 (an increase of 75 in headcount). There is a clear inverse relationship⁶ between the proportion of females in senior management and the size of the pay gap (particularly on average pay). The trend indicates that a 1.6 per cent increase in the female proportion of senior management will probably result in a one per cent decrease in the average pay gap. Similarly, there is also a fairly clear inverse relationship between the proportion of minority ethnic staff in senior management and the size of both the average and median pay gaps. However, due to the smaller sample size, it's difficult to make statistically based predictions with any degree of certainty on what will happen to the pay gap if the proportion of minority ethnic staff in senior management changes.

The fact that there are disproportionately more female and minority ethnic staff in the lower pay bands also has an impact on the pay gap. Because the proportions have remained pretty steady over time it is difficult to use trends to ascertain what that impact is. However, if we remove the top or bottom quartile of earners from the data for this review and recalculate the pay gaps, this gives some indication of the level of impact, as seen in Table 1.

On gender at least it can be seen that removing the bottom quartile of earners has a greater impact on the pay gaps than removing the top quartile, whereas on ethnicity it's clear that removing the top quartile of earners has a greater impact on the pay gaps.

Table 1: impact of removing salary quartiles on British Council pay gaps

Salary quartile removed	Gender		Ethnicity	
	Mean pay gap	Median pay gap	Mean pay gap	Median pay gap
Top	7.1%	6.9%	3.6%	6.8%
Bottom	4.1%	6.4%	12.3%	12.4%

5. Senior management = Senior Managers and Professionals, Leaders of Major Functions and Geographies, Enterprise Leadership and Executive Board.

6. Using statistical analysis techniques, the 'coefficient of determination' (a measure of how strongly the data fits a linear relationship, with 100 per cent meaning there is a perfect fit) is 92 per cent.

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BONUS STRUCTURE AND PERFORMANCE RATINGS

The gender average bonus gap, at 15.7 per cent, is quite a bit higher than the average pay gap (10.9 per cent). Similarly, the ethnicity average bonus gap at 22.2 per cent is higher than the ethnicity average pay gap (15.5 per cent).

The British Council's bonus structure is linked to both performance and grade; a higher-graded role will receive a larger bonus than a lower-graded role if they both get the same rating. Bonus levels in senior management roles are determined by a percentage of salary, whereas in non-senior management roles bonuses are determined by a fixed cash amount. However, for most pay bands, the fixed cash amount expressed as a percentage of the median salary in that pay band will actually be higher than the senior-level bonus percentage.

The distribution of performance ratings in 2015–16 (relevant to bonuses paid in 2016–17) was broadly the same across all pay bands apart from senior management roles, which had a five per cent higher distribution of 1 and 2 ratings⁷ compared to other pay bands. We also know that senior management had disproportionately fewer female and minority ethnic staff, so in effect more men and white staff were receiving higher cash bonuses and this served to exacerbate the already existing average pay gaps.

It is possible that the bonus structure of paying percentage-based bonuses and the longer pay ranges in SMB could also be contributing to the average bonus gaps being larger. Further analysis is needed to examine to what extent this is a factor.

EXTERNAL RECRUITMENT, INTERNAL PROMOTIONS AND STAFF RETENTION

Having determined that the principal reason for the pay gaps is related to disproportionately fewer female and minority ethnic staff in senior management and disproportionately more female and minority ethnic staff in the lower pay bands, we need to look at the factors that can have an impact on our staff gender and ethnicity demographics: external recruitment, internal promotions and employee turnover.

External recruitment in 2016–17

- 57 per cent of all recruits were female which is roughly in line with our overall gender profile of 55 per cent female.
- 41 per cent at senior management broadband level were female.
- 76 per cent in the lower pay bands were female
- An analysis of all applications (both for internal and external recruitment) shows that:
 - 40 per cent of all initial applications for senior management roles were women
 - 62 per cent of all initial applications for lower pay band roles were women.
- Recruitment data for minority ethnic staff is less clear because of the high numbers of applicants and new recruits who chose to withhold their ethnic origin.

What figures show from the candidate stage through to the recruitment stage is a similar imbalanced profile to our current gender profile. There are disproportionately more women applying for and being recruited to lower pay band roles, and disproportionately fewer women applying for and being recruited to senior management roles. This means that using external recruitment as a method to change the imbalanced staff demographic profile would have been negligible in 2016–17.

Internal promotions in 2016–17

- 56 per cent of promotions were female staff; and 21 per cent were minority ethnic staff.
- 45 per cent of promotions into or within the senior management broadband were female staff.
- Seven per cent of promotions into or within the senior management broadband were minority ethnic staff.

7. British Council performance management rating scale: 1 (highest) to 5 (lowest).

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The proportion of women being promoted overall matches their proportion within the whole workforce. The proportion of minority ethnic staff exceeds their overall proportion. This is encouraging because it shows that a good number of female and minority ethnic staff are progressing through the management levels. However, once we get to senior management we again see disproportionately fewer women and minority ethnic staff getting promoted, which again means that the impact of promotions on the imbalanced senior management profile would have been negligible in 2016–17. Further analysis is needed to understand the underlying causes for this.

Employee turnover in 2016–17

It has only been possible to track voluntary employee turnover⁸ by gender rather than by ethnicity because of the large number of ‘not knowns’ in our leaver data:

- overall voluntary turnover was 9.8 per cent
- the voluntary employee turnover rate was ten per cent for women and 9.5 per cent for men
- in lower pay band roles the voluntary turnover rate for women was 17.6 per cent and for men it was 21.5 per cent.

When looking at employee turnover what we should be aiming for are similar turnover rates between men and women, which would therefore not affect the pay gap. Although there are scenarios where the pay gap could be narrowed through employee turnover (such as men having much higher turnover than women in senior management), these are not desirable from an operational perspective. The figures above show a similar level of employee turnover among men and women at all levels and hence no negative impact on the pay gap.

WHY THE PAY GAPS EXIST: A SUMMARY

- Unequal pay is not a contributing factor.
- Female staff make up 45 per cent of higher-paid senior management compared to 55 per cent of all staff; minority ethnic staff make up seven per cent of higher-paid senior management roles compared to 16 per cent of all staff.
- Females make up 65 per cent of lower-paid roles in lower pay bands compared to 55 per cent of all staff; minority ethnic staff make up 26 per cent of lower-paid roles in lower pay bands compared to 16 per cent of all staff.
- There are probably three main ‘levers’ that contribute to the overall staff profile and over time can change it, so we have also assessed the gender and ethnicity proportions (where possible) in these areas for 2016–17:
 - **external recruitment** – from the candidate stage through to the job offer stage, the proportion of females applying for and being offered different level roles mirror the same imbalances in the wider population (i.e. disproportionately more women at lower levels and fewer women at senior levels) so there would have been a negligible to zero positive impact on the pay gap through external recruitment
 - **internal promotions** – the proportions of female and minority ethnic staff being promoted to and within the senior management level are also lower than their overall proportions across the workforce. This means internal promotions were unlikely to have had a positive impact on the pay gap in 2016–17
 - **employee turnover** – employee turnover at different management levels was not markedly different between male and female staff and therefore we can say that employee turnover was not a contributory factor to the pay gap in 2016–17.
- The average bonus gap is larger than the average pay gaps because senior management had disproportionately higher ratings than other management levels in 2016–17, and therefore higher cash awards, plus the senior management level has disproportionately fewer female and minority ethnic staff. Here both factors combined exacerbate the already existing pay gaps.

8. Voluntary employee turnover = headcount number of voluntary leavers in a given year divided by the average headcount in that same period.

TACKLING THE REASONS FOR THE PAY GAPS

We want to tackle underlying inequality issues that contribute to the pay gap rather than just seeking to narrow the pay gap for better reporting outcomes. As we have shown, there is a range of complex reasons why a pay gap might exist. Some are not going to be tackled overnight and for others it is unrealistic to expect them to be tackled because they require societal rather than organisational change.

WHAT HAS BEEN ALREADY BEEN DONE

The British Council, as an international cultural relations organisation, places equality, diversity and inclusion (EDI) at the heart of its ambitions. To support this we have a clearly articulated EDI strategy which aims to bring EDI into everything we do, from how we recruit and treat our staff, to the work we do and the people we work with. We have a dedicated EDI Unit, which has global responsibility for making this happen through a range of initiatives and activities.

Clearly the existence of a pay gap, not just between genders, but also between ethnic groups, is an EDI as well as an HR concern. Even more so, as the data seems to suggest that one of the main contributors to the pay gap is related to disproportionately fewer female and minority ethnic staff in senior management and disproportionately more female and minority ethnic staff in lower pay bands.

The EDI Unit has implemented a range of initiatives over the past five years that, alongside HR policies and initiatives, have contributed to lessening the pay gap either directly or indirectly.

EDI representation targets

Perhaps the biggest direct impact on the gender pay gap has been the introduction of senior-level⁹ representation targets for female, minority ethnic and disabled staff.

On gender, our action focused on creating internal awareness of gender issues and gender equality and leveraging the commitment to improved gender representation at senior levels to inform appointment decisions. In 2012 women made up 28.6 per cent of the senior level. Subsequently a 2018 target of 40 per cent was set; we made progress on this target year-on-year and met it a year early in 2017 (42 per cent).

There is an inverse relationship between senior management female and minority ethnic proportions and the size of the pay gaps (particularly on average pay). Having these targets in place on gender and reaching them can certainly be said to have had a positive impact on reducing the gender pay gap; in 2012 the gender 'average base pay' gap was 14.4 per cent and this was reduced to 11.8 per cent by 2017.

Progress against the 2018 minority ethnic target of ten per cent has been less successful. In 2012 minority ethnic staff made up 6.2 per cent of the senior level and in 2017 it was up to 7.3 per cent. Over the same period the 'average base pay' gap has reduced from 19.5 to 18.2 per cent.

Given the slow progress, efforts have been made in recent years to try to identify barriers to career progression facing minority ethnic colleagues and take action to address these, including the appointment of a Race Champion, a series of targeted Masterclasses, unconscious bias sessions and awareness raising.

Over the past 12 months we have introduced guides on race equality and other areas of EDI. Sessions are being run to promote the guides and to help raise awareness about greater inclusion. A gender guide is planned for the coming year.

Diversity Assessment Framework

The British Council Diversity Assessment Framework (DAF) is a tool that is used to assess the extent that UK business units, and our country and regional operations overseas, have 'mainstreamed' diversity into their work. Of the factors that are measured, EDI leadership and equality monitoring could have had some impact on pay gaps, at least within the department, although without further analysis it is difficult to tell the level of impact.

9. 'senior level' is different from 'senior management' – it encompasses Executive Board, Enterprise Leadership and Leaders of Major Functions and Geographies pay bands (but not Senior Managers and Professionals).

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EDI deliverables

It is HR policy that all individual performance management plans contain at least one EDI-related deliverable. Where this may have had an impact on the gender pay gap is at the senior leadership levels; many senior leaders are putting into their personal EDI deliverables senior-level representation targets for both female and minority ethnic staff within their business unit.

There is a clear inverse relationship between the proportion of female and minority ethnic staff within the senior level and the size of the pay gap, so the achievement of such senior leader EDI deliverables most likely contributed to reducing the pay gap. What is not clear is the extent of the impact at a business unit level. Again, more analysis is needed to understand the level of impact.

Equality screening impact assessments

We have a process for equality screening any new or revised policies that might have an impact on different equality groups. This includes HR processes such as recruitment, performance management and talent management, all of which could have an impact on gender and ethnic minority representation levels. Again, it is difficult to isolate the impact of such assessments on the pay gap without further analysis, but it seems logical that such assessments would ensure that HR processes which affect gender and ethnic minority demographics within the British Council treat all staff fairly.

WHAT WILL BE DONE

Some of the underlying causes we've identified need further understanding before they can be tackled. Below are a list of actions we feel will help both build understanding on what causes the pay gaps and also to start tackle those underlying causes where appropriate. However considering the long timescales needed to bring about the kind of demographic changes needed, it is unrealistic to expect everything to be achieved in one year.

EDI senior-level representation targets

We currently have in place female and minority ethnic targets up to 2018. These will be reviewed and updated targets will take into account our gender and minority ethnic pay gaps; we know that those gaps are likely to go down if we increase the proportion of female and minority ethnic staff at the senior level.

To support a review and set realistic targets, we do need to understand more about what the barriers are to female and minority ethnic staff progressing to senior levels of the organisation. To facilitate this we will conduct a range of research activities both quantitative and qualitative to answer questions such as:

- Why are only four out of ten applicants to jobs in senior management female?
- Is the need to work flexibly (e.g., working part-time, working compressed hours, working from home) a barrier to career progression into the senior levels, and is this more likely to affect women than men?
- Do some business units have smaller proportions of female and minority ethnic staff than others at the senior level and why is this?

Integrating pay gap issues and action plans into EDI performance deliverables and the DAF process

Through raising awareness of the gender pay gap across leadership and the likely causes of it, actions to address the causes (such as coaching and developing future leaders; putting into place talent and succession plans to address EDI representational imbalances) could be reflected in leadership EDI deliverables (such as gender and ethnic minority targets for senior management level representation within the department they have responsibility for leading).

We will also integrate pay gap reporting and analysis of the underlying causes into the DAF approach. This will help business units understand how they individually contribute to the overall pay gap and this will hopefully lead to action plans to address the underlying causes at a business unit level.

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Equality impact assessments

Given the issues that have been identified in this report and how they might be contributing to the underlying causes that cause the pay gaps, we will aim to put the following policies and HR practices through equality impact assessments:

- **external recruitment process** – while we're not proposing to look at the whole process, some work could be done on our attraction strategy at the senior and junior levels
- **performance bonuses and their link to performance management** – again, a full review of the performance management system is not being proposed. However, focus could be given to the bonus process and whether the current bonus structure and approach is somehow contributing to the bonus pay gap
- **starting salaries** – we are currently reviewing the starting salary process, and any revised approach will be assessed on equality impact
- **British Council UK-appointed pay structure** – current indications are that Civil Service pay restrictions are likely to be relaxed in 2018. This might be an opportunity to review the pay structure with a particular emphasis on how employees progress through the pay system
- **talent management and succession planning strategy** – is the British Council an organisation that develops or buys in talent? These differing approaches can have an impact on gender and minority ethnic pay gaps.

Transparency and awareness-raising on EDI and gender pay gaps

What is clear from developing this review is the need to have an open approach to sharing the information internally. It is important for our staff that awareness is raised on pay gaps and equal pay, and encouraging open discussions on the potential causes and what can be done about them.

As well as publishing the report, we are actively sharing and promoting this internally through a series of events such as briefings, webinars, global staff talks (the results will actually be of interest globally as well as in the UK), internal news publications, Yammer¹⁰ discussions and staff polls. The aim is to raise awareness of gender (and minority ethnic) pay gaps, what causes them and what we are doing to try to narrow them. To help with this awareness-raising, we will share the results and report with our trade union representatives and discuss with them possible actions that can be taken to improve our results.

10. Yammer is a social media tool used by many organisations to put in place a private social media platform within their business that teams and staff can use to communicate and collaborate on.