

NARRATIVE REPORT
REPORTING YEAR: 2017/18

BRITISH COUNCIL GENDER PAY GAP REPORT

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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.

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.

Fair pay for all employees matters to us. The requirement for annual 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 remedy those causes.

This report is our second and covers all employees on UK contracts (including those working overseas). The data and calculations used are in accordance with Gender Pay Gap Information Regulations 2017 and are based on a data snapshot taken on 31 March 2018 and any bonuses paid out in the period 1 April 2017 to 31 March 2018. The same as last year, we have taken the opportunity, in our analysis of the data, to consider if there is an ethnicity pay gap within the workforce and include our findings in the report.

As this is our second report, we are able to compare our findings this year with last year's report allowing us to see whether pay gaps are reducing or increasing. An additional year's data gives further scope to identify possible underlying causes for pay gaps and to develop a more effective action plan to tackle them.

Unfortunately our pay gaps have grown since last year and although disappointing this outcome was to some extent anticipated given that we observed in our last report that our resourcing trends showed that over the short-term we would be unlikely to be able to make any significant changes to our uneven demographic profile (the main cause of our pay gaps).

What we are seeing this year is that although we were able to improve the proportion of female and minority ethnic staff being recruited and promoted to senior management, due to a review of our UK Operations, the actual numbers being recruited and promoted were quite small and more than offset by higher proportions and numbers of female than male staff leaving the organisation. As a result the proportion of women in senior management went down compared to the previous year. On top of this we saw that four out five recruits to junior level roles were female and thus the proportion of women in junior roles increased.

The extent to which the pay gaps have grown; particularly the median gender pay gap is significant and highlights that we must prioritise work to address both the underlying issues that we know cause the pay gaps, and examine in detail why those pay gaps widened over the course of a year.

To facilitate a greater awareness and understanding of these issues we are again this year running open briefing sessions on the Pay Gap report. Our aim is to encourage open conversations throughout the organisation and we welcome feedback and comments from all staff on our findings.

Our main focus for the year ahead is to translate the better understanding that we now have from the report on what causes the pay gaps into a meaningful and realistic action plan of what is required to improve the situation and start to implement this.

EXECUTIVE SUMMARY

- The British Council has gender pay gaps across most of its metrics, with the gender pay gaps growing quite significantly since last year and the average bonus gap remains our largest gap both on gender and ethnicity.
- In terms of benchmarking, our pay gaps now sit above the middle of all organisations reporting with our median pay gap exceeding by nearly 70 per cent of all organisations and our bonus gaps are around the middle.
- Our pay gaps also exceed around 70 per cent of public sector employers and our bonus gaps exceed nearly 80 per cent of public sector employers.
- Our analysis of the pay gaps assures us that unequal pay is not a contributing factor and confirms that, the following issues have contributed the existence of the current pay gaps:
 - 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.
 - In the reporting year 2017/18, the proportion of female staff in senior management roles went down while the proportion of female staff in junior management roles went up. The cumulative effect of these factors caused our gender pay gaps to increase.
 - The reasons for these changes in demographics were:
 - although we saw an improvement in the proportion of female staff being promoted to and recruited to senior management roles, this was more than offset by a higher proportion of senior management female staff leaving the organisation.
 - a higher proportion of men in junior management roles left the organisation and nearly four out of five recruits to junior management roles were female.
 - A different bonus system for senior management contributed to the average bonus gaps for both gender and ethnicity remaining larger than the average pay gaps. Senior management staff received bonuses as a proportion of salary whereas other staff received fixed cash bonuses. This factor accentuated the already existing average pay gaps.
- We have taken the following action over the last year to further understand the underlying causes for the pay gaps and where possible address the issues which may be responsible for them. However, despite these actions, as this year's report is based on data in year ending 31 March 2018, we are conscious that it is too early to see an improvement in the situation. We anticipate that by next year's report the impact of the changes will begin to be reflected in the data:
 - We reviewed senior level¹ and Senior Management Broadband² (SMB) representation targets for both women and minority ethnic staff. Our target for 2021 is for SMB to comprise 50 per cent women and 12 per cent minority ethnic individuals and for senior level staff to comprise 50 per cent women and 10 per cent minority ethnic individuals. We anticipate that if we achieve these targets our pay gaps will reduce significantly.
 - We introduced pay gap metrics into the annual pay review process which led us to change our bonus system paying fixed cash bonuses to all staff, including senior management. As a result we believe our gender average bonus pay gap could fall to around seven per cent next year compared to 17 per cent this year.

¹ Senior level = grades LMFG, EL and EB (Executive Board)

² SMB = grades SMP, LMFG, EL and EB (Executive Board)

- We have developed a Business Unit level pay gap analysis and action plan process to help business units understand their own pay gaps and the underlying causes and develop their own action plans to tackle them.
- The Resourcing and Reward teams have reviewed the strategy for setting salaries for new appointments and propose that the British Council includes salary information when advertising roles.
- We have developed a new approach to talent management and succession planning that we consider will help us to achieve our senior management and senior level female and minority ethnic representation 2021 targets.
- We have communicated the results of the gender pay gap in an open and transparent way with our staff. This is raising general awareness and interest in the underlying causes and the actions that can be taken to tackle them. To achieve our 2021 targets will require cooperation and support across the organisation and we recognise that communication of the issues has an important role to play.
- For the year ahead the following work is planned:
 - We will implement Business Unit level pay gap analysis and action planning processes for our larger business units.
 - To help us achieve our senior management representation targets for women and minority ethnic staff, we will implement the first phase of the talent management and succession planning process which will focus on the senior level of the organisation.
 - We will equality impact assess our proposed approach to starting salaries and implement the new approach in 2018/19.
 - We will investigate the reasons behind why we had higher proportions of women than men in senior management leaving the organisation in 2017/18 and whether this is a one-off occurrence or part of a wider trend that could adversely affect our gender pay gaps in the future.
 - We will investigate whether there are any issues with our recruitment processes at junior levels in 2017/18 whereby we had 35 per cent male applications for roles at this level, but only 20 per cent of new recruits were male.
 - We will review our current pay structure to assess how much impact it has on the pay gap and whether there are any changes that we can make to lessen the impact while maintaining a structure that enables us to recruit and retain the staff that we need.
 - We will conduct research on the possible barriers to career progression for women and minority ethnic staff. For example, analysing whether taking maternity leave, or career breaks has an impact on the pay gap.

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, public sector employers are required to publish the following statutory calculations every year showing the extent of any pay gap between male and female employees:

- Mean³ gender pay gap in hourly pay⁴
- Median⁵ 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 have decided to provide a narrative to give the figures some operational context and show why specific pay gaps might exist and what action we have taken and propose to take to remedy the issues identified as causing the pay gaps.

This report accompanies our second annual gender pay gap submission and the main reporting metrics in it are based on an employee census snapshot taken on 31 March 2018, with accompanying analysis based on the period 1 April 2017 to 31 March 2018. In some cases, we have chosen to include some figures that are in the following reporting year (i.e. 1 April 2018 to 31 March 2019), to show the progress we are making and which we will be able to formally report in the next yearly report.

PAY GAP MAIN REPORTING REQUIREMENTS

Like last year, we have chosen to include an analysis of the pay gap between white and minority ethnic staff using the same methodology as the gender pay gap regulations.

Like many organisations, on both gender and ethnicity we have pay gaps across most of the standard metrics; potential reasons for these gaps are explored in the subsequent sections of this report. On gender we have seen that both our pay and bonus gaps have widened compared to last year, with the top salary quartile decreasing its proportion of female staff and the bottom salary quartile increasing its proportion of female staff. On ethnicity we have also seen a smaller widening of the pay gaps with very little change in the proportion of minority ethnic staff in the top and bottom salary quartiles, while we have observed that the bonus gaps have narrowed.

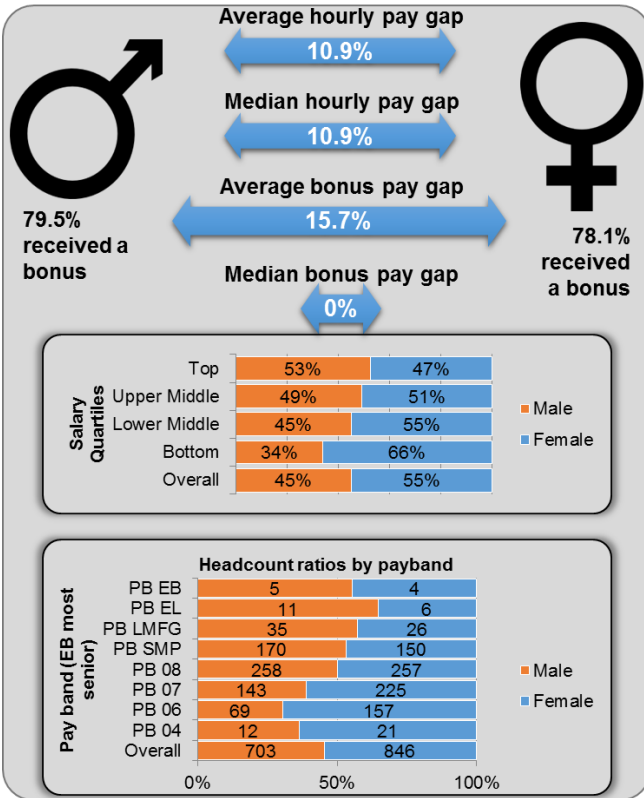
As noted last year, of the standard pay gap metrics, the quartile ranges point to the main reasons for the gaps existing: There are disproportionately more female and minority ethnic staff in lower paid roles in the bottom quartile and disproportionately fewer female and minority ethnic staff in higher paid roles in the top quartile when compared to the overall proportions of female and minority ethnic staff in the British Council. A similar uneven profile is reflected in British Council's proportions of female and minority ethnic staff within its pay band levels. To illustrate this, a breakdown of gender and ethnicity by pay band has been included alongside the main pay gap reporting requirements (see Figure 1):

³ The 'mean' pay gap is calculated by taking the overall pay average of men and comparing it with the overall average of women

⁴ For the purposes of gender pay gap reporting 'pay' constitutes base pay + allowances + bonus

⁵ The 'median' pay gap is calculated by taken the overall median pay of men (i.e. the mid-point of a ranked list) and comparing it with the overall median of women

2016/17



2017/18

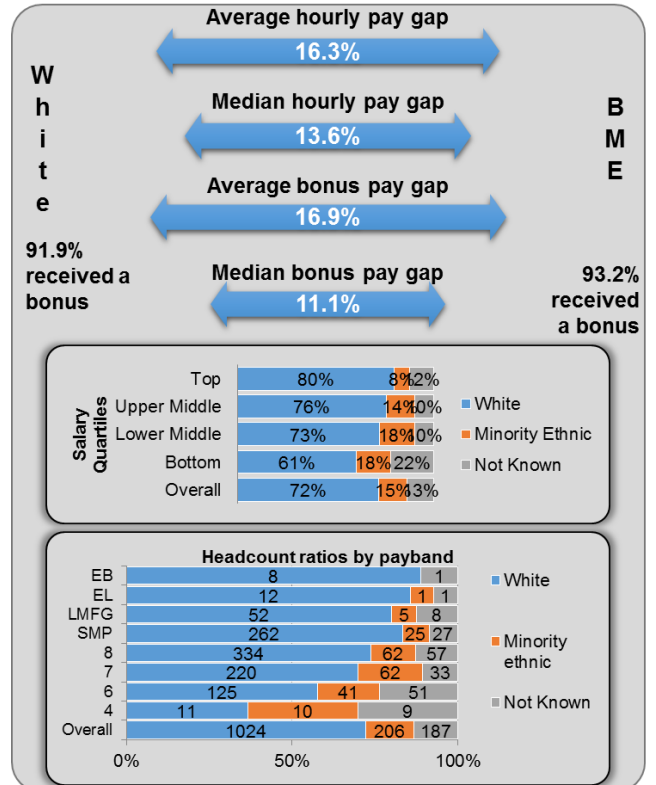
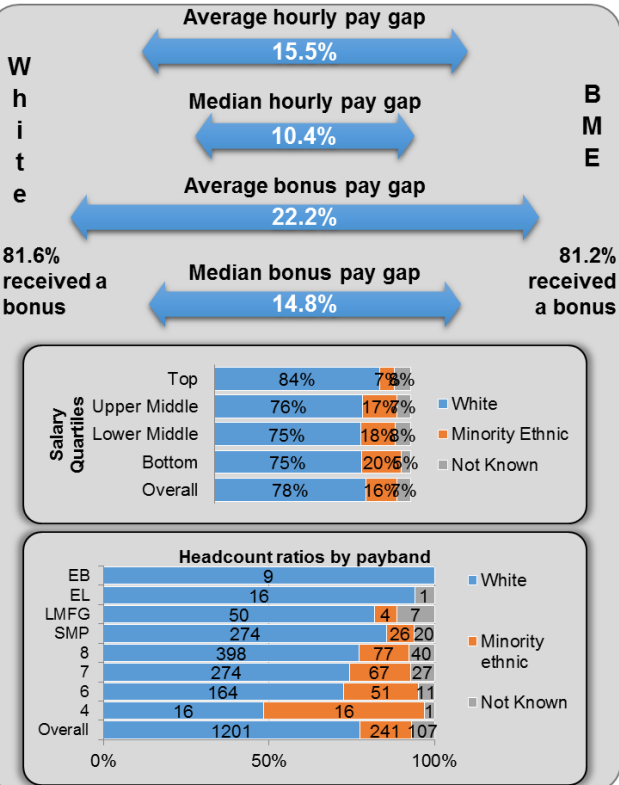
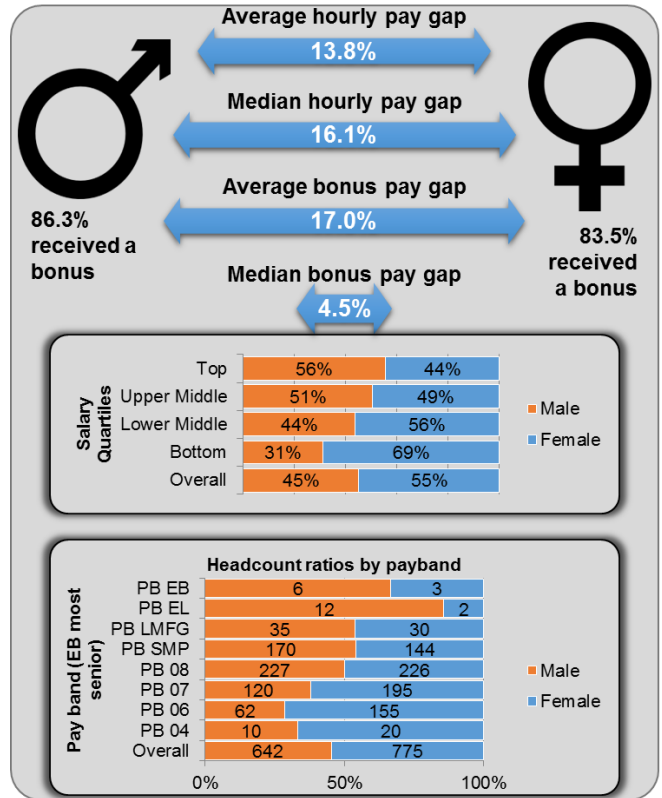


Figure 1: British Council Pay Gap Reporting Regulation metrics for 2016/17 and 2017/18 for gender and ethnicity

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. Gender pay gaps look at the overall gap across the whole organisation, whereas equal pay gaps only look across work of 'equal value' (typically within a pay grade).

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 ethnicity as of 31 March 2018 are shown below. A positive gap indicates that average or median pay for male or white staff is higher than female or minority ethnic staff within that pay band; a negative gap indicates that average or median pay for female or minority ethnic staff is higher than male or white staff in that pay band:

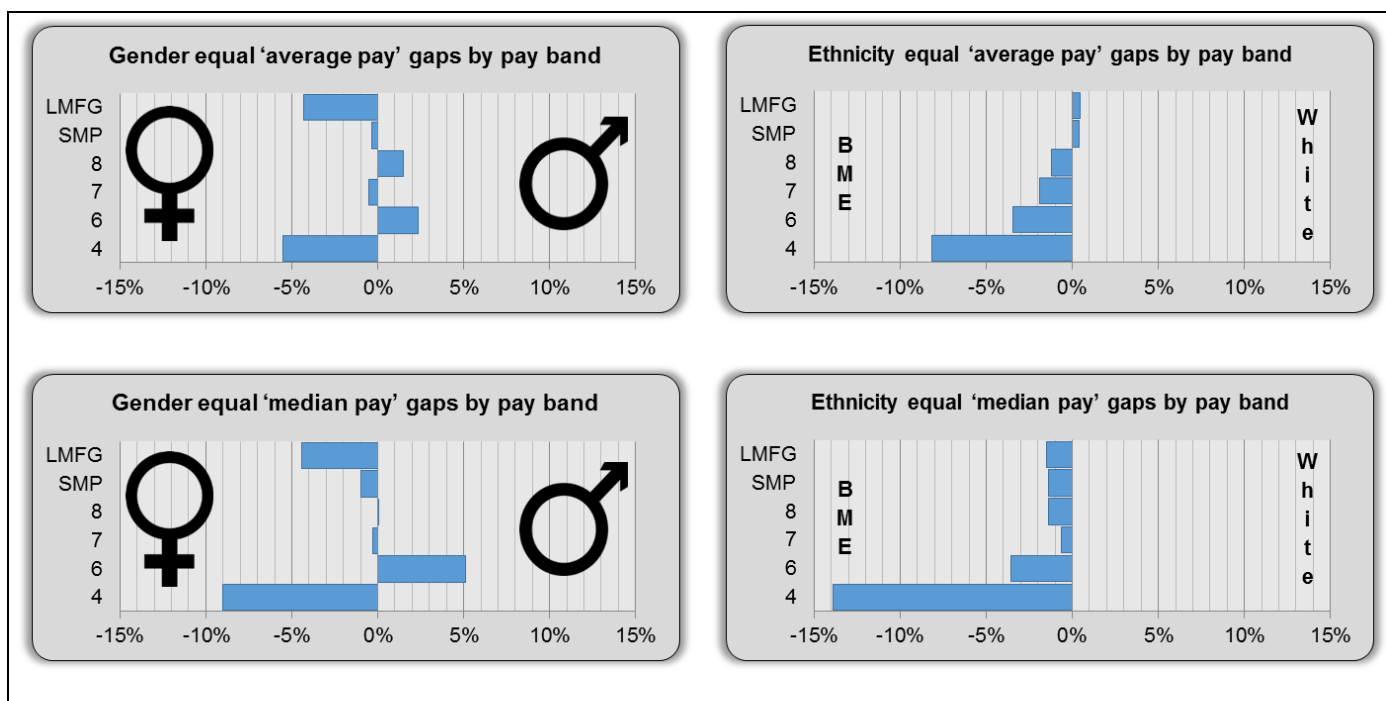


Figure 2: British Council 'equal pay' comparisons on gender and ethnicity as of 31/03/2018

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 averages and medians. From an organisational pay gap perspective, this analysis shows that actually 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 risk at British Council nor does it contribute to the organisational gender and ethnicity pay gaps.

Uneven pay band level gender and ethnicity demographics

As with last year, one of the main reasons our pay gaps exist 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. Apparent reasons for the growth in gender pay gaps since

last year is that although the proportion of female staff in the organisation has remained steady at 55 per cent, the proportion of women in our junior grades⁶ has grown by 2 per cent and the proportion of women in our senior management broadband (SMB)⁷ roles has fallen by 1.5 per cent and fallen by 2 per cent in our 'senior level'⁸ roles. On ethnicity we've seen a small increase in the proportion of minority ethnic staff in senior management and the proportion in junior grades has reduced by around 5 per cent. These would seem to be the reason why our ethnicity pay gaps have not widened as much as our gender pay gaps.

In subsequent sections of the report, we will explore in more detail why we think these changes in proportion have arisen, but first we want to focus on the relationship between demographics and the pay gaps.

Senior management demographics

Using historical equal pay audit data it is possible to look at trends in the average base pay⁹ gaps, and the proportion of female staff and minority ethnic staff in senior management in Figure 3 below:

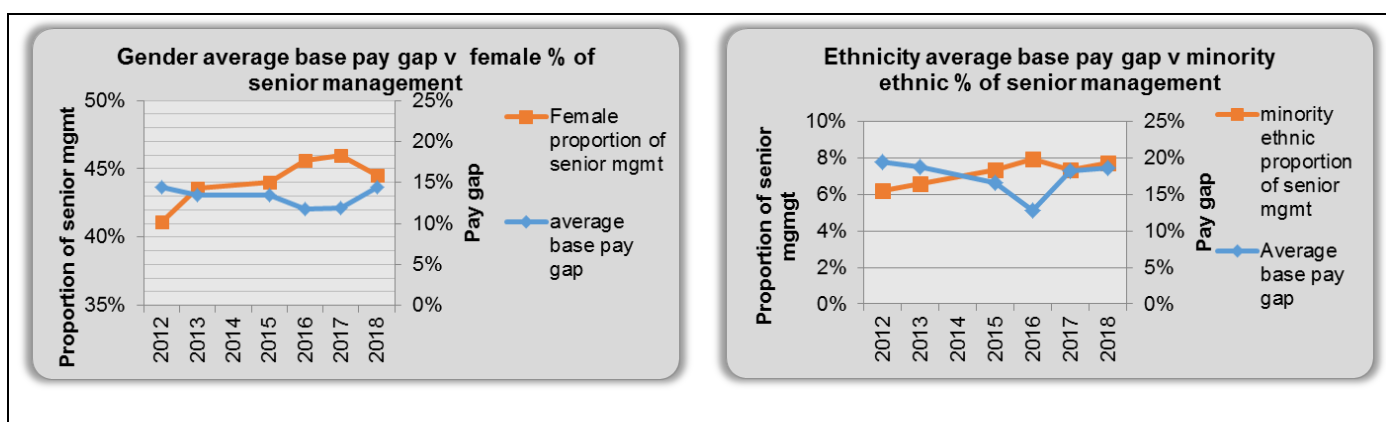


Figure 3: British Council 'average base pay' gap trends compared to female and ethnic minority staff proportions in senior management

We can see from the graphs that there is a broadly an inverse relationship between the proportion of female and minority ethnic staff in senior management and the size of the pay gap – if the proportion goes up, the pay gap comes down and if the proportion goes down, the pay gap goes up.

However what we have observed this year is the strength of that inverse relationship has weakened because although we have seen the proportion of women come down and our pay gaps have gone up as one would expect, the amount the pay gaps have gone up is higher than expected – they do not entirely fit the trend.

So it is likely that some other factor is also having an impact on widening the pay gap beyond the proportion of females and minority ethnic staff in senior management.

⁶ Junior level = 4 and 6

⁷ Senior management broadband (SMB) = SMP, LMFG, EL and EB

⁸ Senior level = LMFG, EL and EB

⁹ British Council have only tracked base pay historically rather than the gender pay gap regulations definition of 'pay'

Junior management demographics

Another factor that has an impact is the different demographic imbalances in junior management, where we find disproportionately higher numbers of female and minority ethnic staff compared to the overall organisation. On gender we saw the proportion of women in the lowest salary quartile rise from 66 to 69 per cent and the proportion of women in junior roles rise from 69 to 71 per cent. With ethnicity we saw a reduction in the proportion of minority ethnic staff in the lowest quartile (20 to 18 per cent) and in junior roles (26 to 21 percent), however it should be noted that the number of people not declaring an ethnicity rose considerably and if these individuals were not included in the analysis the proportion of minority ethnic staff in junior roles has remained the same compared to last year.

As indicated last year, it is difficult to use trends and regression analysis over time to establish the impact of our having disproportionately more females and minority ethnic staff in junior roles on the pay gap because their proportions have not changed much over time. However, if we remove the top or bottom quartile of earners from the data for this report and recalculate the pay gaps, this gives some indication of the level of impact, as seen in Table 1 below:

Salary Quartile removed	Gender		Ethnicity	
	Average pay gap	Median pay gap	Average pay gap	Median pay gap
Top	8.1%	7.0%	6.8	6.2%
Bottom	7.2%	11.1%	13.5%	16.4%
Overall pay gap	13.8%	16.1%	16.3%	13.6%

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

On gender it can be seen that removing the bottom quartile has a bigger impact on the average pay gap than removing the top quartile, but on the median pay gap removing the top quartile has a bigger impact than removing the bottom quartile. On ethnicity it is clear that removing the top quartile has a much greater impact on lowering the pay gaps than removing the bottom quartile, with the median pay gap actually increasing if the bottom quartile is removed. It is somewhat surprising that the median pay gap increases with the removal of the bottom quartile and this issue together with other the issues with outliers identified above, warrants further investigation and is considered in the section below.

The impact of ‘outliers’

Given that we have observed a larger than expected increase in some of our pay gaps, particularly the median gender pay gap, some consideration needs to be given to whether the presence of statistical ‘outliers’ have any role in contributing to the pay gap. So rather than just looking at quartiles as required by the gender pay gap regulations methodology, this year we have chosen to look at the outlying proportions of staff at the top and bottom of the pay structure. We have done this both in terms of their demographics and also in terms of whether there have been any changes since last year, which might explain the higher than expected widening of the pay gaps:

Hourly pay percentile grouping	2016/17			2017/18		
	Female %	Male %	Salary Range	Female %	Male %	Salary Range
Bottom 5%	68%	33%	37%	75%	25%	22%
Bottom 10%	72%	28%	54%	74%	26%	35%
Top 10%	41%	59%	211%	42%	58%	202%
Top 5%	49%	51%	176%	39%	61%	167%

Table 2: female and male proportions in the lowest and highest earning percentile groupings

Hourly pay percentile grouping	2016/17				2017/18			
	White %	Minority Ethnic %	Not known %	Salary Range	White %	Minority Ethnic %	Not known %	Salary Range
Bottom 5%	75%	19%	6%	37%	45%	14%	41%	22%
Bottom 10%	72%	21%	6%	54%	49%	16%	35%	35%
Top 10%	83%	6%	11%	211%	82%	7%	11%	202%
Top 5%	83%	3%	14%	176%	83%	6%	11%	167%

Table 3: white and minority ethnic staff proportions in the lowest and highest earning percentile groupings

The 'salary range' is a measure of how much higher the highest hourly pay is than the lowest hourly pay for that percentile grouping and we can see the top percentile groupings stretch over much wider ranges than the lower groupings. For this reason, any demographic imbalance in favour of men or white staff in the top percentile groupings will have an exaggerated impact on the pay gaps, compared to a similar imbalance in bottom percentile groupings which don't span such a wide range. We can also see that in 2016/17 the top five per cent of earners were almost half female, but this fell to 39 per cent in 2017/18 and it seems possible that it is this shift that led to a bigger pay gap increase than we expected. Conversely, we haven't seen a comparable shift in the top five per cent of earners on ethnicity which may be the reason why the widening of the ethnicity pay gaps were smaller than the gender pay gaps.

We can illustrate this effect further by measuring the pay gaps, having removed the different percentile groupings from the dataset:

Percentile removed	Gender		Ethnicity	
	Average pay gap	Median pay gap	Average pay gap	Median pay gap
Bottom 5%	12.0%	14.9%	15.7%	13.9%
Bottom 10%	10.3%	14.5%	15.0%	13.8%
Top 10%	10.0%	10.4%	10.6%	9.1%
Top 5%	11.0%	12.1%	12.2%	10.8%
Overall pay gap	13.8%	16.1%	16.3%	13.6%

Table 4: Pay gap measures after removing top and bottom percentile groupings

On both Gender and Ethnicity what can be seen is that removing the top percentile groupings has a bigger impact on the median pay gap – i.e. the wider pay ranges for these groupings, that have disproportionately fewer women and minority ethnic staff in them, skews the median for male and white staff upwards. It follows that if these groupings are removed the median pay gap is reduced. Removing just the top five per cent of earners (71 staff) from the dataset brought the median gender pay gap down

by four percentage points, to almost the same level as last year and a similar impact is seen on the ethnicity pay gap.

We will consider the causes of the gender demographic shifts in the top earner percentile groupings in a subsequent section, but we should note at this point that our pay structure which comprises short pay ranges in the lower pay grades and longer/broader ranges in the higher pay grades is one of the reasons we see such a wide spread of salaries in the upper percentiles groups compared to the lower percentiles. We note that although such pay structures are typical of the market we operate within, they can accentuate any pay gaps arising from demographic imbalances in those higher grades with longer pay ranges.

Bonus structure and performance ratings

Last year we observed a larger average bonus gap than the average pay gap for both gender and ethnicity. At the time we felt this larger gap arose because of a combination of three factors:

- SMB staff received a higher proportion of higher ratings than lower pay bands.
- SMB bonuses were calculated as a percentage of salary rather than a fixed cash amount as applies in the lower grades. This combined with the longer pay ranges in SMB meant the level of differentiation between bonuses at this level and the lower pay bands was larger.
- SMB comprised disproportionately more male and white staff than the lower grades.

These three factors taken together accentuated the already existing average pay gaps into larger bonus gaps.

This year we continue to see the same kind of results on gender, with a larger average bonus pay gap than the pay gap although the difference is not as large as last year. On ethnicity both the average and median bonus gaps have reduced.

We consider the main reason why this year the difference between the average pay gap and the bonus gap is not as large on gender and the bonus gap has reduced on ethnicity, is that senior management did not receive a higher proportion of higher ratings than other levels. We also saw that the proportion of women receiving higher ratings in senior management was higher than that for men. This therefore also served to narrow the degree of difference between the average pay and average bonus gaps.

However, although we recommended in our last report to review the two tier approach to bonuses between SMB and lower grades, that recommendation came after the bonuses for the year in question had already been agreed and implemented using the same two tier approach. Therefore, the issue that in SMB, which had disproportionately fewer female and minority ethnic staff, had their bonuses calculated as a percentage of salary rather than the fixed cash bonuses as paid in the lower grades which had disproportionately more female and minority ethnic staff in them, persisted for this reporting year.

We did see a small increase in the proportion of minority ethnic staff in senior management and a reduction in junior management, so this would seem to explain why the bonus gaps reduced between white staff and minority ethnic staff. However, with regard to gender, we still had the issue that more men proportionally received higher cash bonuses and this served to exacerbate the already existing average gender pay gap.

External recruitment, internal promotions and staff retention

Given that, as with last year, the pay gaps appear, to a large degree, to be driven by demographic imbalances, with disproportionately fewer female and minority ethnic staff in senior management and disproportionately more female and minority ethnic staff in the lower pay bands, we have looked at the factors that can impact our staff gender and ethnicity demographics.

These factors comprise: external recruitment into British Council; internal promotions through the organisation; and who is leaving the British Council.

External Recruitment in 2017/18

- We recruited 159 staff in 2017/18 – a 26 per cent drop compared to the 216 roles we recruited in 2016/17 and 83 per cent of these roles were below senior management.
- 67 per cent of all recruits were female – a considerable jump from last year's 57 per cent and considerably more than our organisational female proportion of 55 per cent.
- 52 per cent at senior management broadband level were female – an increase from last year's 41 per cent but given our lower level of recruitment in 2017/18 this only represented one extra female member of staff recruited to SMB, compared to 2016/17.
- Out of the three recruitments to the 'senior level' in 2017/18, only one was female.
- 78 per cent of recruitment into junior grades were female, a small increase from last year.
- An analysis of external job applications shows that:
 - 40 per cent of all initial applications for senior management broadband roles were female which is the same proportion as last year.
 - 65 per cent of all initial applications for junior roles were female which is a slightly higher proportion than last year.
- The results of the analysis of recruitment data for minority ethnic staff is less reliable because of the high numbers of applicants and new recruits who chose to withhold their ethnic origin.

These figures show that in terms of external applications, we still have a demographic profile that largely mirrors our internal profile with disproportionately fewer women applying for senior management roles and disproportionately more women applying for junior level roles. It is encouraging that we've made some improvements compared to last year in terms of the proportion of females we recruited into senior management. However recruitment volumes at this level were low and we only recruited a small number of female staff into senior management and only one to the 'senior level', compared to two men. Given our concern that it's the very senior level of the organisation, with its long pay ranges and disproportionately fewer women represented, that is accentuating the overall median pay gap; the fact that we only recruited one woman out of three at this level will have exacerbated the situation.

We're also seeing an increasing proportion of women being recruited to junior roles. A significantly higher proportion of women than men who apply are recruited. We are therefore not only finding it difficult to attract men to apply for junior roles, but it would also seem those who do apply are less likely to be recruited than a female applicant. Given that most recruitment volume in the reporting year happened at the lower level, these recruitment patterns definitely contributed to increasing the overall female proportion of the bottom salary quartile by three per cent.

Taking all these recruitment patterns together we can see they may have contributed to our widening pay gaps. Indeed we have measured the pay gap of those 107 recruitments and we can see that the average gender pay gap was 23 per cent and the median gender pay gap was 32 per cent. Conversely if we remove our new recruits from 2016/17 from the overall data and recalculate the pay gaps we can see our average pay gap would have reduced from 13.8 to 12.9 per cent and the median pay gap would have fallen from 16.1 per cent to 14.1 per cent.

Internal promotions in 2017/18

- The number of internal promotions fell from 110 in 2016/17 to 67 in 2017/18, with over half of those promotions being into or within SMB.
- 57 per cent of promotions were female staff; and 19 per cent were minority ethnic staff.
- 57 per cent of promotions into SMB were female; and 17 per cent were minority ethnic staff.
- 31 per cent of promotions into the senior level were female; and 15 per cent were minority ethnic staff.
- Although it's difficult to ascertain from our internal application data, details of those applying for promotion, our analysis shows that 38 per cent of applications to senior management broadband roles were female (the ethnicity for half of our internal applicants is not known, so it makes any analysis from that perspective largely inconclusive)

As was the case last year, the proportion of women being promoted overall matches their proportion within the whole workforce, furthermore this year we have seen an increase in the proportion of women being promoted into SMB. This is in line with their overall proportion in the workforce and is especially encouraging given the small proportion of female staff applying for Senior Management Broadband roles. However we should be mindful that due to the lower volume of promotions generally, the actual headcount of women being promoted into SMB was quite small and unlikely to make much difference to the proportion of women generally within SMB. Also we are concerned that only a very small number of women were promoted into the senior level given the extra weight this group has on the median pay gap. Potentially one reason the proportion of the top five per cent of earners shifted significantly in favour of men, may have been down to the fact that 69 per cent of promotions to the senior level were men.

On ethnicity the proportion of staff being promoted overall, into senior management and into the senior level slightly exceeded their overall proportion in the workforce. This was encouraging, however because of the small volume of promotions, this was unlikely to make a significant change on the proportion of ethnic minority staff in senior management and senior leadership roles.

Employee turnover in 2017/18

In 2017/18 British Council reviewed its UK operations and ran a voluntary exit exercise – 91 staff left under this scheme and overall 320 staff left during this period compared to 235 the previous year. Overall one in five staff left British Council employment, so rather than just focussing on voluntary turnover like we did last year, this year we have looked at the impact of all leavers on our demographic profile and pay gaps:

- Overall employee turnover was 22 per cent, with about half of these being resignations – voluntary turnover was 11 per cent.
- Overall employee turnover for women was 24 per cent compared to 19 per cent for men.
- In SMB, the overall employee turnover for women was 21 per cent compared to 15 per cent for men and voluntary turnover for women increased from last year's five per cent to nine per cent this year, whereas for men the voluntary turnover rate remained the same as last year at six per cent
- In the senior level the overall employee turnover for women was 23 per cent (i.e. nearly one in four females left senior level roles in 2017/18, compared to 17 per cent for men and voluntary turnover was 14 per cent for women compared to eight per cent for men.
- At all management levels apart from junior, female overall and voluntary employee turnover exceeded that of men. In the junior level overall employee turnover for men was 30 per cent compared to 26 per cent for women and voluntary employee turnover for men was 21 per cent compared to 16 per cent for women.
- We also looked at the breakdown of everyone who left as part of the UK review programme:

- 58 per cent were female (marginally more than their overall proportion in the organisation)
- 45 per cent were female in SMB (in line with their proportion in senior management)
- 63 per cent were female in pay band eight – considerably more than their 50 per cent proportion in pay band eight 8.
- It's more difficult to analyse ethnicity retention data because of the growing proportion of 'not knowns' among the population (growing from seven per cent in 2016/17 to 13 per cent in 2017/18), however we were able to pull together the following analysis:
 - Overall employee turnover for minority ethnic staff was 18 per cent compared to 21 per cent for white staff
 - In SMB overall employee turnover for minority ethnic staff was 13 per cent compared to 17 per cent for white staff
 - At the senior level there was no employee turnover amongst minority ethnic staff (albeit for a very small sample).

Given the higher volume of leavers in the reporting year and also the higher turnover rates of women compared to men in senior management and specifically at the senior level, shows that the high number of women leaving senior higher paying roles who were either not replaced at all, or if they were replaced were more likely to have been replaced by a man, would have had a significant impact on shifting the demographic profile in the senior level. This in turn produced wider pay gaps this year. It's also worth noting that the higher turnover rates for men in the junior level roles would also have increased the proportion of women in those levels – again contributing to the widening of the pay gaps.

Due to the higher proportions of staff with a 'not known' ethnicity category, it's difficult to form strong conclusions about what the employee turnover data tells us, however it seems clear that contrary to the situation for women, minority ethnic staff were not leaving organisation at a high rate. This was therefore unlikely to have a negative impact on the pay gaps – again another potential reason why the ethnicity pay gaps did not widen as much as the gender pay gaps.

WHY THE PAY GAPS EXIST: A SUMMARY

- As with last year, unequal pay is not a contributing factor.
- As with last year, there are still 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.
- On gender issues, longer senior management pay ranges mean the top five per cent of earners encompass a much longer range of 'outlying' salaries and this group are 61 per cent male and this skews the median pay gap upwards.
- We noted a combination of much higher turnover for women compared to men in senior management and the senior level within it and much lower recruitment and internal promotion volumes to senior management. This meant that quite a number of high paid females left the organisation in 2016/17 and these were either not replaced or if they were replaced it was more likely to be by a man. The female proportion of the top 5 per cent of earners fell from 50 to 39 per cent in one year and we know that the top earners skew the median upwards and it is probably this significant shift that largely contributed to the median pay gap widening as much as it did.
- Conversely, we saw a turnover rate for men in junior management higher than it was for women and again if they were to be replaced at all, it was highly likely they would be replaced by a female, increasing the proportion of females in junior management to over 70 per cent and in turn this would have lowered both the female average and median salary and increased the male

average and median salary and hence both the gender average and median pay gaps would have widened.

- The average bonus gap for women remained higher than the average pay gap because we still had in place a two-tiered approach to calculating bonuses, with senior management broadband, which has disproportionately fewer women in it, receiving bonuses based on a percentage of salary and the grades below that receiving a fixed cash bonus.

ACTION TAKEN SINCE LAST REPORT

As we mentioned in our report last year, our aim in managing the pay gaps is to tackle the underlying causes rather than specifically focusing on just narrowing the pay gaps themselves. The underlying causes are largely about demographic imbalances at different levels which will take time to even out and it seems unlikely that any significant impact is likely to be achieved in one year.

Furthermore, due to the fact that we reported quite late in the reporting cycle (along with the vast majority of reporting organisations) and that the next set of data to be used in this report was due only a short period after we submitted our report and agreed our action plan, there was extremely limited scope for the actions we took to remedy the issues identified last year to have any impact on the findings this year. An option in future may be to report earlier thus giving more chance for seeing the immediate impact of our action plan on the results. However regardless of the timing of the reporting it is unlikely we would make significant improvements in one year and we need to see this whole approach as a long term, multi-year action plan and narrative that looks at reversing some of the underlying causes over time gradually narrowing the pay gap.

It follows that in this section, although we outline what action we took since the last report to tackle the underlying causes of the pay gap, we have already established that essentially none of that action would have had an impact on our pay gap results in this report. So instead, because we have the benefit of pulling together this report part-way through the next reporting year, we can briefly report on the impact we have achieved so far through implementing the action plan that will hopefully be reflected in our next round of official gender pay gap reporting figures.

Senior management representation targets (including senior level targets)

All of our senior level representation targets for various equality groupings ended in 2018, so it was time to review and put in place new targets taking into account our understanding of what achieving such targets would have on our pay gaps. As well as putting in a senior level target, we also put in a target for the wider senior management broadband. In setting the targets we looked at previous trends, what benchmark organisations looked like in terms of senior level demographics and what we thought was realistically achievable given the change programmes that were taking place:

Equality grouping	Management level	2018 target	March 2018 proportion	September 2018 proportion	2021 target
Female staff	Senior level	40%	40%	44%	50%
	Senior management broadband	Not set	45%	46%	50%
Minority Ethnic staff	Senior level	10%	7%	8%	10%
	Senior management broadband	Not set	8%	7%	12%

Table 5: British Council senior management equality representation targets

While these targets are certainly challenging, more so given that on gender they were trending downwards at the end of the 2017/18 reporting year, we still feel they are achievable given longer term trends. Moreover, we have seen an improvement on recruitment and promotion proportions at senior management level in the last year and this has continued into this year and as a result we are starting to see an upturn in the proportions of female staff in senior management. Taking into account these recent upturns, it can be seen on gender that the long-term trends show we will be close to meeting our targets in 2021. However some extra initiatives such as improving the application rates of women to senior management roles and ensuring that any future exit programmes monitor the impact on senior level demographics might be required for us to be certain to meet the targets.

On ethnicity, we cannot rely so much on the general trend upwards, and a more significant effort will be required around improving the levels of minority ethnic staff being promoted to and recruited to senior management.

Another way to seek improvement in this area will be to improve the disclosure rate on ethnicity which has dropped significantly in the last year – as of 31 March 2018 we don't know the ethnicity of 13 per cent of staff compared to 7 per cent in the previous year.

Although we have observed a weakening of the inverse relationship between the proportion of women in senior management and the size of the pay gaps this year, we can still predict with some confidence that the pay gaps are likely to go down as a result of meeting these targets and on average pay it could narrow to somewhere between seven and nine per cent, if all other factors stay equal. On ethnicity it's more difficult to predict because of the smaller sample size, but with a doubling of minority ethnic staff in senior management we can expect both the average and median ethnicity pay gaps to narrow significantly.

Transparency and awareness-raising around diversity and gender pay gaps

Although the gender pay reporting regulations are an external reporting requirement, it was clear to us from a very early stage of developing the narrative for our first report that the group that would be most interested in the results, what was causing the pay gaps and what could be done about them were our own staff. To this end we took a deliberate strategy of communicating in detail to staff, delivering presentations both face to face, in a number of our locations in the UK, as well as via webinars on the background to the regulations, the methodology, our results, the underlying causes to the pay gaps and what we felt could be done about them. Colleagues were given space to ask questions and make suggestions in these sessions, which we ran in partnership with our Equality Diversity and Inclusion (EDI) team. These sessions were well received by staff and within Human Resources leadership we found them a very useful vehicle for getting staff feedback, to help us think about further action we might take. We also delivered a session on the gender pay reporting process for our global staff ahead of planned policy to implement some form of gender pay reporting globally for all our staff.

Business Unit Pay Gap Analysis and Action plans

Last year we included in our action plan a commitment to conduct further research on what the barriers were to female and minority ethnic staff progressing to the senior levels of the organisation and one such area we wanted to look at was whether our different business units were contributing more or less to the pay gaps. Through taking this approach we could raise awareness within the business units of their own pay gaps and the underlying causes and action plans could be developed and agreed at the Business Unit level rather than just corporately. We consider such a bottom up approach is more likely to be successful in terms of addressing the underlying causes of the pay gaps than a top down corporate approach.

While the analysis was certainly useful, we had to be mindful that it was only really meaningful in larger business units, with smaller business units often being massively skewed by a single outlier and thus far the focus of the analysis has been more around awareness-raising of the pay gaps and their causes and less about developing action plans to address those causes. In the year ahead more focus will be given to this area.

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

Although we spent a lot of time around awareness-raising of the gender and ethnicity pay gaps and their underlying causes, as mentioned above we didn't really get such an opportunity to turn that into meaningful business unit led action plans and performance deliverables. This is an area we hope to improve in the year ahead through developing a specific business unit approach to gender and ethnicity pay gaps and action planning, which can then be reflected in business unit leadership performance deliverables.

Equality impact assessments

An equality impact assessment is an internal process of equality screening any new or revised policies that might have an impact on different equality groups. In our action plan from last year we highlighted a number of areas that would benefit from such an approach, however we recognised at the time that we wanted to look at a wide range of different areas and it was unrealistic to expect everything to be done within one year. Unfortunately, for various reasons, we were unable to fully complete an equality impact assessment on any of the areas identified in the last year; however we were able to make some changes to certain processes due to issues identified as part of the gender pay gap reporting process:

Performance bonus system

Although we did not conduct a full equality impact assessment, we did introduce pay gap metrics as part of the pay modelling process for the 2018 pay award. Each bonus option was tested for its impact on the gender and diversity pay gaps and through this approach we were able to determine that introducing a fixed cash bonus approach to all staff including those staff in senior management would result in much lower bonus pay gaps than previously and for this reason this option was approved by senior leadership. Due to the fact that in this report we are still reporting on bonuses awarded under the old two-tier approach, we will not see any impact on the bonus pay gaps arising from this change in approach until the next report, however according to our modelling data, we expect the gender average bonus gap to fall to around seven to eight per cent (compared to 17 per cent this year) and the ethnicity average bonus gap to fall to around 14 per cent (compared to 16.9 per cent this year).

British Council UK-appointed pay structure

As well as including pay gap metrics on our bonus options, we also included them as part of our main pay award options. Although it was clear that none of our options were going to have a significant impact on the pay gaps, it was good to know this was the case and it allowed us to make a decision to implement an approach that awarded staff more if they were in the lowest part of the pay range knowing that potentially this would marginally improve the pay gap and would certainly not have an adverse impact. Given that we now know that the pay structure with its longer pay ranges in senior management could be contributing more to the median pay gaps than we previously thought, we may need to look at this issue further as part of our action plan in the year ahead.

Starting salaries

We are still in the process of reviewing the approach to agreeing starting salaries which we have agreed within Human Resources needs to be a more robust process than present. One area of focus we are looking at is a more transparent approach to advertising salaries – at present we do not advertise

salaries, but there is evidence to suggest such an approach is off-putting to female candidates (*Reducing the gender pay gap and improving gender equality in organisations: Evidence-based actions for employers, Government Equalities Office 2018*). The plan is to put forward a revised process by the March 2019 - any new approach will need to be equality impact assessed before being signed off and implemented in 2019/20.

Talent management and succession planning strategy and process

We have developed a new approach to talent management and succession planning which will be implemented in 2019/20 onwards. Clearly this approach will be critical in enabling British Council to achieve its senior level representation targets (which have a weighted impact on the pay gaps) and also make sure we are adequately resourcing a diverse talent pipeline for the longer term future.

ACTION PLAN FOR THE YEAR AHEAD AND BEYOND

As we outlined in our action plan from last year, we were realistic enough to admit that, although we identified a lot of follow up actions arising from the first report, we weren't going to be able to deliver the entire action plan in one year. Many areas we identified we wanted to look at as part of the action plan, were areas of HR policy and process that were not clearly formulated at the time and many are still in a process of formulation or review, so for instance it's difficult to equality impact assess a talent management and succession planning strategy, if the strategy is still not yet complete and agreed. Furthermore given many of the underlying causes are deep-rooted and complex, action plans and the reports themselves will always be part of long-term plan and narrative around the gender and ethnicity pay gaps. As such a number of areas reflected in our action plan from last year will also be in this action plan this year and are likely to be in future action plans. Alongside that, now we have the benefit of two reports and being able to compare the results from one year to next, we have been able to identify other areas that need examination, which were not apparent in the first year when we had nothing to compare with. These items will also be reflected in the short-term and long-term action plan.

Develop and implement a Business Unit pay gap analysis and action planning process

Although we have developed an approach to analysing gender pay gaps and sharing this information at the business unit level, this has largely been around raising awareness of the pay gaps and their causes rather than putting into place action plans to tackle those causes. In the year ahead we need to move from just providing information toward developing Business Unit action plans that in turn may become specific EDI-related deliverables for senior leaders within the business units. To facilitate this we will implement Business Unit gender pay gap analysis packs, guidance on interpretation and guidance on developing action plans. Furthermore there will be an Executive Board commitment to hold Business Unit leadership teams to account to achieve their action plans.

Implement the first phase of our talent management and succession planning strategy

Although we have agreed senior management and senior level gender and ethnicity representation targets we are conscious that to actively change our demographic profile over time, we need to reflect the targets in our approach to talent management and succession planning, ensuring that we have both the female and minority ethnic talent coming through the organisation and these groups are getting the

development support they need to progress to the highest levels. In this way we will be able to achieve our long-term senior representation goals. Our planned approach to talent management and succession planning will have a strong EDI component to it. The first phase, focusing on the 'senior level', will be launched early in 2019/20 and will include identification of critical roles, succession plans for those roles and the development of a 'high potential development programme' for those likely successors. Any succession plans without a diverse representation in line with our senior level representation targets will be strongly challenged. Given that this year we have discovered that the very highest paid roles have an exaggerated impact on the pay gaps, it is hoped this initial focus on senior leadership will start to even up the demographic imbalances at the very highest levels in the medium to long term and this will in turn have a significant impact on narrowing our pay gaps.

Better understanding about barriers to career progression for women and minority ethnic staff

We included in our action plan last year an objective to investigate other barriers to long-term career progression for female and minority ethnic staff, however due to a number of reasons relating to lack of data and time, it was not possible to achieve in the first action plan and therefore we have now moved this item into the next action plan.

Investigate why women left the organisation at higher rates in senior management in 2017/18

Having identified that the higher employee turnover rates among women in senior management was one of the main reasons for the drop in the proportion of female staff in senior management, which in turn led to our gender pay gaps widening, we need to examine why that was and whether it was a one off dip related to our restructuring of our UK operations or part of a wider long-term trend.

In the year ahead we are implementing a new staff survey tool which will allow us to track questions such as "how likely will you still be working for British Council in two years?" and to gather exit questionnaire data. This data will allow us to identify whether women are more likely to leave than men in the next two years and to see if this trend of more women proportionally leaving the organisation than men is likely to continue. If it does seem likely that a trend is being established of women in senior management leaving at higher rates than men, we can use the more rigorous exit questionnaire data to assess for what reasons women are leaving, which in turn could allow us to take further action to address these reasons for leaving.

We should also be mindful that the turnover rates for women were much higher than men in the grades immediately below senior management, which is where our talent pools for senior management are established and any investigation about the impact of higher female employee turnover on senior management female representation levels would need to include this group too.

Implement a new approach to agreeing starting salaries

We are currently finishing off our review of the approach to agreeing starting salaries for new appointments, which will aim to implement a more rigorous process that includes an assessment of how packages compare internally as well as externally with the market. We also aim to be more transparent about our total reward offer which external research suggests may currently be off-putting to both female and minority ethnic candidates. With a more transparent approach to advertising salaries, this could potentially improve the proportion of female and minority ethnic applications we see for SMB roles. The

plan is to finish the review of this starting salary process by March 2019 and get the approach equality impact assessed and implemented in early 2019/20.

Investigate whether there are any issues with our recruitment approach to junior level roles

Although a lot of focus of the action plan is on improving representation levels of female and minority ethnic staff at the most senior levels of the organisation we have to recognise that another significant contributor to the pay gaps and their widening is the significantly higher proportion of female and minority ethnic staff in our junior level roles. On gender in particular we can see a trend of this group becoming even more female over time, with four out of five junior level recruits being female in 2017/18. So we need to look at why not more men are applying for roles at this level. Also it does seem there is quite a significant drop off in terms of the proportion of men applying for junior level roles (35%) and those we select (20%) and we need to be sure there isn't any bias in our recruitment processes at this level.

Review current pay structure to assess whether anything can be done differently to manage pay gap issues

Given that our analysis this year indicates that our longer pay ranges at the most senior levels of the organisation can have an exaggerated impact on both the pay and bonus gaps, we will assess the level of impact that our current pay system has on the pay gaps and determine whether any action can be taken to lessen that impact. However, we still need to be mindful that at the most senior levels where roles are the most strategic and business critical, to be able to recruit and retain the staff we need in these roles the flexibility of longer pay ranges that reflect the extra 'value' these roles and their role-holders can bring have a place and are typical market practice.

Further integration of pay gap issues with diversity assessment framework (DAF) and EDI-related performance deliverables

Although the HR team worked closely with the EDI team in developing the narrative for the gender pay gap report last year and this year, more work needs to be done to formally integrate pay gap issues into the DAF for UK-based units.

Improve the ethnicity disclosure rate for employees

In a number of areas of this report we have observed an increase in the number of staff who have not disclosed their ethnicity and hence this has made it difficult to draw strong conclusions from the data. It would seem a relatively simple exercise to try and improve this disclosure rate through a targeted campaign to encourage staff to disclose their ethnicity highlighting the importance of such data to help us shape our Equality, Diversity and Inclusion policy and to gain better insight from things like equality monitoring and pay gap analysis.