



HM TREASURY

Treasury Committee report on Women in the City:

the Government's response



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by Command of Her Majesty

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Foreword

We welcome the Committee's report on Women in the City as an important contribution to the debate on the under-representation of women in senior positions in the financial services sector, and the wider debate on corporate governance and the oversight of financial institutions. We also recognise the integral role of the financial services industry in the UK economy.

Although women make up 44 per cent of employees in the banking, finance and insurance sector, they are significantly under-represented at senior levels throughout the financial services sector. We must ensure that talented women are not being denied the opportunity to contribute to business and commercial decision-making. This is a concern not only for women as individuals, but also for the financial services sector. The UK needs to draw on the talents and experiences of women in order to successfully rebuild our economy following the recession. In addition, the Government has a responsibility to promote strong corporate governance in the UK. We are actively taking forward the Coalition Government's commitment to promote gender equality on the boards of listed companies, and will shortly be making an announcement setting out future direction.

We agree with the Committee that there are a wide range of factors contributing to the under-representation of women at senior levels in the financial services sector. The Government is committed to taking strong action on many of these factors outlined in the Committee's report, including promoting equal pay, extending the right to request flexible working, encouraging shared parenting from the earliest stages of pregnancy – including the promotion of a system of flexible parental leave – and promoting gender equality on the boards of listed companies. We will be working with departments across government, and with business and other partners to address these important issues.

We will set out further details of these plans in due course.

1

Introduction

1.1 The Treasury Select Committee published the report of its enquiry into Women in the City on 3 April 2010.

1.2 The Committee's report on Women in the City is an important contribution to the debate on corporate governance and oversight at financial institutions, and to the wider debate on the under-representation of women in senior positions in the financial services sector.

1.3 In addition to its recommendations on the representation of women on boards of financial services institutions, the report made recommendations concerning the gender pay gap which exists in financial services, and how this could be monitored; flexible working practices including parental leave; the effectiveness of tribunal cases; and the role of regulators in promoting equality and eliminating discrimination.

1.4 The Government has carefully considered all the recommendations made by the committee, and this document represents its response.

2

Response to the Committee's conclusions and recommendations

2.1 The Government's response to the conclusions and recommendations in the Treasury Committee report on Women in the City are set out below:

Women on boards

2.2 Recommendation: Concern about the under-representation of women on boards can be about business performance as much as fairness. There is a consensus that an effective challenge function within a board is required in financial institutions, and that diversity on boards can promote such challenge. While it is impossible to know whether more female board members would have lessened the impact of the financial crisis, the arguments for fairness, improved corporate governance, a stronger challenge function and not wasting a large proportion of talent seem more than sufficient to conclude that increased gender diversity is desirable. (Paragraph 13)

There are already 2,281 women on boards and executive committees of all FTSE listed companies. We believe financial institutions seeking new board members should broaden their horizons, and consider a wider range of sources for their personnel. (Paragraph 18)

2.3 Response: The Government supports the Committee's view that financial institutions should select new board members from a broad base. We agree with the arguments noted by the Committee on the importance of increased gender diversity at senior levels. Strong and effective corporate governance of the UK financial sector will be an important factor in ensuring the sector's long-term stability, enabling it to help businesses and households in the wider economy. We agree with the Committee that there is a risk of group-think if boards continually recruit individuals who share the same backgrounds and experiences. At the same time, as the economy recovers, it is imperative that businesses are drawing from the widest possible pool of talent, and that means ensuring that women's skills and experiences are utilised to the full.

These are some of the reasons why, as set out in the Coalition Agreement, the Government will look to promote gender equality on the boards of listed companies.

2.4 Recommendation: We recommend the Financial Reporting Council (FRC) should respond rapidly to the Government's suggestions on the Corporate Governance Code. (Paragraph 22)

2.5 Response: On 28th May, the Financial Reporting Council (FRC) announced changes to the UK Corporate Governance Code. To encourage boards to be well balanced and avoid "group think", there are new principles on the composition and selection of the board, including the need to appoint members on merit, against objective criteria, and with due regard for the benefits of diversity, including gender diversity. The Government warmly welcomes this new principle. A more equal workplace is a more successful workplace and the stronger provision on gender diversity in the new Code is an important step towards building a fair and equal society by tackling discrimination at work.

We also note that the Institute of Chartered Secretaries and Accountants (ICSA) is currently consulting on its update of the Higgs Guidance for Non-Executive Directors, which will look at issues of 'group-think' and the role board composition and diversity play in delivering a high-performance board. We look forward to learning of the outcome of this consultation.

2.6 Recommendation: We do not consider that a legal requirement for boards to contain a particular proportion of women is appropriate. However, action by firms would be a clear signal to the public that the sector is serious about gender equality and this is especially true of financial institutions where the taxpayer has a significant shareholding. It is disappointing that the CBI no longer appears to be working on a voluntary pledge to encourage its members to increase the number of women employed at senior levels. We note that the changes proposed to the Corporate Governance Code would, of course involve compulsory reporting rather than the voluntary action a pledge would entail. (Paragraph 23)

Board membership is, of course, the culmination of a long career. If increased female representation on boards is desirable, then one must look more widely at industry structures, to ensure that able women who wish to progress are not held back. We recognise that differences in male and female working patterns may stem from preference rather than prejudice and that there are circumstances in which employers need to make great demands on their employees' time and flexibility. But the City needs to ensure that it has access to the best talent—female as well as male. (Paragraph 26)

Board members of all City firms should consider the extent to which female employees can progress within their organisation. As Sir David Walker said, promoting the development of women to senior positions within the companies which employ them will be an essential element in boosting the scale and diversity of the pool of talent available for future board positions. (Paragraph 27)

2.7 Response: We accept the Committee's recommendations regarding women on boards. The report acknowledges that increased gender diversity at board level is desirable. Increased gender diversity at board level will promote better corporate governance practices, greater equality and a stronger environment for challenge, particularly in the financial services industry. The report also acknowledges that divergent working patterns are often the result of employees' personal circumstances and not necessarily of prejudice and we support the view that the debate should be framed in the context of improving flexibility as well as tackling discrimination. Measures are already underway to implement the recommendations of the Walker Review which will have a direct impact on the governance practices in the City and will address the problems of board level functioning, fairness and challenge and we are confident that this will have a direct impact on the issues raised in connection with gender inequality. The Government looks forward to working with business groups and the financial services industry more widely on how to promote gender equality on the boards of listed companies, and to improve women's representation at senior levels.

Gender pay gaps

2.8 Recommendation: The Equalities and Human Rights Commission (EHRC) found that large gender pay gaps exist in the financial services sector. Women working full time earn 55% less than male full time staff. The pay gap for bonuses and performance related pay is even higher at 80%. However, these figures are largely driven by occupational segregation. The evidence may suggest that even when controlling for seniority, a significant gender pay gap exists in the City, but policy makers need a firmer evidence base than that currently provided by the EHRC. We trust the next stage of the EHRC's financial services inquiry will provide more rigorous analysis. We recommend our successor Committee continues to monitor levels and structures of remuneration in the City. (Paragraph 33)

2.9 Response: We welcome the Committee's interest in the EHRC's inquiry into the financial services sector. There is clearly much to be gained by a rigorous analysis of pay structures in the financial services sector, and we note that the EHRC's inquiry into sex discrimination in the financial sector incorporated evidence from a variety of sources. We understand that the

Committee would welcome further clarity on the EHRC's research methodology, and so we refer the Committee to the EHRC's full response.

The Government also welcomes the recommendation that the successor Committee monitor levels and structures of remuneration in the City, as we agree that this would contribute to stronger scrutiny around gender-based pay disparities in the financial services sector.

Monitoring the pay gap

2.10 Recommendation: There is evidence that equal pay audits can identify gender pay gaps and inform firms about the possible reasons behind them. This is especially important at entry level so that pay gaps do not persist. We urge City firms to follow the EHRC's recommendation to conduct equal pay audits and publish their results. We note that Clydesdale Bank has volunteered to carry out such an audit. (Paragraph 42)

We note Mr Phillips's view that equal pay audits should not be mandatory. Any regulations requiring companies to publish information about gender pay differences will require Parliamentary approval. Government and Parliament will doubtless take into account the extent to which there is evidence that unjustifiable pay differences persist when deciding whether such regulations are appropriate. However, we suggest firms which are found guilty of discrimination at an employment tribunal should be required to carry out regular equal pay audits. (Paragraph 43)

2.11 Response: The Coalition Agreement sets out the Government's intention to promote equal pay and take a range of measures to end discrimination in the workplace. As yet, no decisions have been made regarding the specific approach taken to address this issue. However, we will carefully consider the Committee's recommendation as we develop a programme of action to promote equal pay.

Flexible working

2.12 Recommendation: There is an obvious conflict between a long hours culture and flexible working. Sometimes long hours may be unavoidable, but we are disappointed that many City firms do not appear to have been successful in introducing flexible working policies for senior staff, both male and female. (Paragraph 54)

Response: The Government notes the Committee's findings on the conflict between a long hours culture and flexible working in the City, particularly for staff at senior levels. The Government will extend the right to request flexible working and we have a commitment to do so in the Coalition Agreement. We will launch a consultation with business at the earliest opportunity. Extending the right to request flexible working will help people to find working patterns that match their other responsibilities, including enabling them to care for and spend time with their family alongside work. It will also broaden the variety of jobs available on a flexible basis, including at senior levels, and will help to remove any stigma attached to flexible working requests which may exist at the moment. In turn, we know that flexible working benefits business by giving them access to a wider pool of skills and talents in the workforce, improving recruitment and retention rates and increasing staff morale and productivity.

Parental leave

2.13 Recommendation: Discrimination against women on the grounds that they may require maternity leave, or may not return to work full time after their leave has ended, is illegal and there are legal remedies for obvious cases of discrimination. Such protection is long established, and employers should pay heed to it. However, it would be naive to think that it is easy to prove discrimination on these grounds, and that the existence of protective legislation alone will prevent discrimination. (Paragraph 55)

While some maternity leave will always be needed, we welcome the proposals to allow more flexibility in the use of parental leave by both men and women. This would allow couples to choose how to arrange their childcare responsibilities as they see fit. It would also lessen the incentives for companies to try to evade the law. (Paragraph 57)

2.14 Response: The Government welcomes the Committee's recommendations around the use of parental leave to decrease discrimination in the workplace against women and allow families to choose how to arrange their childcare responsibilities as they see fit.

We are committed to encouraging the involvement of both parents from the earliest stages of pregnancy, including the promotion of a system of flexible parental leave. Such a system would improve choice for families around how parents take leave, and how to balance work and childcare. At the same time, we also know that early, active involvement by fathers can lead to a range of positive outcomes for children and young people.

Information on tribunal cases

2.15 Recommendation: There is little information about the effectiveness of legal remedies. We understand the constraints of confidentiality, and we also understand the limitations of official statistics, but we recommend that the EHRC and the Tribunals Service consider whether there is a way in which official statistics could give more information about the nature and outcomes of sex discrimination cases brought. (Paragraph 59)

2.16 Response: The Government welcomes the Committee's recommendation. As the Coalition Agreement makes clear, we will be taking a range of measures to end discrimination in the workplace, and having a more comprehensive picture of the nature and outcomes of sex discrimination cases would be helpful in this respect. We understand that the EHRC and the Tribunals Service will jointly be considering this recommendation, and we look forward to hearing the outcome of those discussions.

The role of regulators

2.17 Recommendation: We acknowledge that some companies are taking action to improve the diversity of their organisations. It is important that these plans succeed. The United Kingdom has had laws in place outlawing discrimination for over three decades. Despite this, the evidence suggests that women in some City companies can be at a disadvantage, and even companies which are attempting to implement equal opportunity policies can design them poorly. This is not just a problem for the individuals concerned; over the long term, it may affect the governance, and consequently the performance, of the companies themselves. We recognise that action by companies will take time to have an effect, but we would expect to see improvements in years rather than decades. (Paragraph 66)

2.18 Response: We welcome the good work which has been undertaken by many companies to promote diversity and inclusion in their organisations. However, we recognise that there is still much to do, and so we encourage companies to share best practice on promoting gender equality. We will work with business to explore how best to increase opportunities for women's progression, so that there may be no obstacles to full and fair representation at senior levels. As previously stated, we will also look to promote gender equality on the boards of listed companies.

2.19 Recommendation: We consider that the EHRC should be more rigorous in its approach to research: good policy requires good data. We also note that the recent EHRC report suggests that it will rely on persuasion to ensure that financial companies comply with the law. The EHRC should monitor the effectiveness of this approach. There is a danger that responsible companies will be overburdened by requests for information, while bad ones will go unchecked. We also would like more information on how the EHRC will ensure that the recommendations and actions in their recent report have a real effect, and are not forgotten as soon as made. We are

mindful of its powers to conduct investigations. We recommend that EHRC work more closely with the FSA and on the implementation of the Walker Review to ensure that progress is made. (Paragraph 73)

The FSA recognises its role in paying "due regard" to promoting gender equality and eliminating discrimination. It is continuing to liaise with the EHRC and we recommend that this liaison is strengthened. We believe this Committee, or its successor, should be informed about the actions taken or planned as a result of these discussions. We recommend the EHRC monitors the equality plans and progress of City firms, in consultation with the FSA, where appropriate. (Paragraph 77)

2.20 Response: We understand that, following on from their inquiry into sex discrimination in the financial services sector, the EHRC is currently working with finance companies, employees, regulators, lawyers, academics, pay and benefit consultants, head hunters and trade unions to address the findings of their investigation. The Government will also engage with the EHRC as part of this process. We refer the Committee to the EHRC's full response.

The FSA is an independent non-governmental body, and so it is for the FSA to comment on its role towards gender equality and collaboration with the EHRC.

2.21 Recommendation: Transparency and public scrutiny are important ways to ensure that discrimination does not persist; we trust that our successor Committee will return to this issue to monitor the progress made. In places in this Report we have suggested that our successor Committee return to this work; we believe that some progress will be made through sustained scrutiny without legislative fiat. We also believe there needs to be a dialogue between companies and policy makers, so that the reasons for gender imbalances are properly explored. We have focussed on the City in this Report. However, the place of women in the economy is not a matter for the Treasury Committee alone, and we hope that other Committees will join these efforts. (Paragraph 78)

2.22 Response: We welcome the report's conclusion and recommendation, in particular on the importance of transparency and public scrutiny in eliminating discrimination. Greater transparency will also be important in rebuilding public trust in the financial services sector.



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Correspondence and Enquiry Unit

HM Treasury

1 Horse Guards Road

London

SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: public.enquiries@hmtreasury.gsi.gov.uk

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