



## Government response to Baroness McGregor-Smith

Dear Ruby,

### **RACE IN THE WORKPLACE**

You recently presented your independent report to me on 'Race in the workplace' which had been commissioned by the former Business Secretary, Sajid Javid. I am writing now to thank you for the important work you have undertaken and to set out the Government's response.

The Prime Minister has made clear that the economy must work for all. For this to happen, everyone regardless of race, gender, religion, sexual orientation, or background must be able to enjoy the same opportunities and get equal reward for their efforts. The fact that individuals from Black and Minority Ethnic (BME) backgrounds are less likely to be in work, and when in work, are less likely to be fulfilling their potential is wrong and must change. That is why the Government asked you to examine these issues.

As you will already be aware, the Prime Minister launched the Race Disparity Audit in August to look at the different outcomes for people of different backgrounds, in every area from health to education, childcare to welfare, employment, skills and criminal justice. The audit will expose these disparities and also gaps in the data, allowing government to identify where change is needed. Publishing the findings of the audit on a digital platform will also enable the public and the Government to hold public services to account.

It is clear from your report that you have examined the issues around race in the workplace carefully and I thank you for this. The findings are stark and while you acknowledge that progress has been made, it is clear that more has to be done. The opportunity to generate a further £24bn to the economy each year should be enough to encourage even the most reluctant Board member that action is needed.

I will cover off the recommendations for Government below, but I wanted to be clear up front that while the majority of your recommendations are for businesses, the Civil Service takes its responsibility as an employer very seriously and we will continue to lead from the front in taking positive action to make both the Civil Service, and where we can, the wider public sector more inclusive. In the responses below, I have identified those areas where the Civil Service is implementing changes to improve diversity and inclusion across all departments as well as responding to recommendations directly for Government.

I know you have had regular discussions with business leaders and that they have been broadly supportive of your findings. I am sure that all responsible employers in the UK will

rise to the challenges you have set. In doing so, they will not only be making the UK a more inclusive place to work, but also a more prosperous one.

I set out below our response to your recommendations.

### **Supporting business (Recommendation 22, 23 &24)**

We welcome the recommendations seeking to support employers in improving their diversity and inclusion approach. We agree that there is significant merit and demand for developing a simple guide on how to discuss race in the workplace, ensuring easy access to an online portal of best practice and celebrating success through a list of the top 100 BME employers. As you acknowledge in your report, success in delivering greater outcomes for BME progression requires a partnership approach and Government will work closely with Business in the Community (BITC), employer and worker representatives and third sector organisations on these points.

My officials have already had discussions with a number of groups who have shown enthusiasm to be part of this change. Specifically, BITC is already doing a great deal of positive work, sharing best practice and bringing employers together. Their current online toolkits and guides already provide support to hundreds of employers and we will continue to work with them and others over the coming months to do what we can to deliver on your recommendations in this area. This includes developing a guide on discussing race in the workplace as well as having a single portal where useful case studies and unconscious bias training packages can be sourced.

**Businesses are best placed to know what support they need to improve diversity and inclusion and so we will work with them to ensure they have the resources they need to fully embed change within their organisations.**

### **Improve transparency (Recommendation 4)**

Transparency can be a useful tool for companies to explain a company strategy and the performance of the business and we welcome the report's recommendation of publicly available data. We know that some organisations have started gathering data on their workforce ethnicity with a view to supporting BME progression and are confident that the culture change that has already begun will continue throughout all levels of business.

The Government's preferred approach here is to set out to all companies, and institutional investors, the value of employing a diverse workforce at all levels rather than moving now to legislate. This is the approach that we have taken in increasing the number of women on boards, where the Davies Review, and subsequently the work of Sir Philip Hampton and Dame Helen Alexander, has highlighted the benefits and driven change from within the business community.

We know that responsible investors will consider the company's annual report and the effectiveness of the board of directors when making further investment decisions. The majority of companies are already required to produce a strategic report which adds colour and context to the accounts. Legislation already requires that companies use the strategic report to document information about the company's employees, and social and community issues, and companies can choose to report information such as diversity of their employees as part of this. Alternatively, investors could ask for diversity information

to be included or ask for diversity information at the Annual General Meeting. Given the clear link you and others have identified between diversity and greater returns, I would expect more investors to challenge in this area now, generating change in even the most reluctant business.

**For these reasons, we believe that in the first instance, the best method is a business-led, voluntary approach and not legislation as a way of bringing about lasting change. We believe the case you have made in your report is compelling and expect businesses will want to comply. We therefore believe a non-legislative solution is the right approach for now, but will monitor progress and stand ready to act if sufficient progress is not delivered.**

### **Investment funds (Recommendation 25)**

With regards to asking institutional funds for their policies on diversity and inclusion, Government is already in contact with investors on various issues. We believe that the compelling business case you have put forward will act as a helpful reminder to an industry that is already taking steps to promote diversity and inclusion. Earlier this year, the UK investment industry came together to launch a Diversity Project (<http://diversityproject.com/>) to help accelerate progress towards a more inclusive culture and representation in the industry. In addition, many funds already publish their policies on their website as a sign of their commitment to improving diversity and inclusion.

**We will draw attention to the importance of effective diversity and inclusion policies in our ongoing conversations with institutional funds, ensuring they are aware of the significant financial benefits of greater diversity in the workplace.**

### **Supply chains (Recommendation 16)**

We agree that organisations should consider diversity and inclusion in all parts of their business, including the supply chain. Public organisations must comply with applicable procurement law when conducting their procurement activities and award contracts on the basis of the most economically advantageous tender, which in the case of central government involves assessing value for money (or best value for local authorities). The public procurement rules allow for social considerations to be incorporated into the procurement process subject to certain requirements.

The public sector is already leading the way through the Public Sector Equality Duty, which sets out certain legal obligations in relation to equality which public organisations must have due regard to when conducting their procurement activities. The Public Services (Social Value) Act 2012 also places a requirement on procurers to consider the economic, environmental and social benefits of their approaches to certain types of procurements, before they start the procurement process. These obligations must be met in a way that is consistent with applicable public procurement law. This means ensuring that where equality-related matters are incorporated into public procurement, they are relevant to the subject matter, or relate to the performance, of the contract.

In addition to this, Government has recently published the Standard Selection Questionnaire, which allows for organisations to be excluded from the bidding process where any finding of unlawful discrimination has been made against it.

**We will of course continue to look at other ways in which we can improve diversity in our supply chains but in the meantime, we hope all employers will take our lead and do what they can to improve their contracts to encourage greater diversity.**

## **Responsible employers (Other recommendations)**

The majority of your recommendations are for employers; the Government encourages all employers to adopt your recommendations to make the workplace more inclusive. As the proportion of British working age adults from BME backgrounds is increasing, it has never been more important for employers to harness the potential of this home-grown talent and influence positive behaviour change in the labour market. As with any significant change in working practices, success will only be delivered if everyone in an organisation takes ownership of the issue. The Government supports these recommendations and where possible will lead from the front in the public sector.

- **Data and targets (Recommendation 1-3)**

We encourage employers to be open with their data and progress against targets. This is not about naming and shaming poor employers – it is about celebrating success together. For instance, we know how important data is when it comes to taking positive action. Without a clear baseline it is impossible to measure success. That is why Civil Service departments already publish their workforce data as part of the Public Sector Equality Duty. We also know that this data has to be comprehensive and as such, there has been a push in recent years to increase declaration rates across all departments. To achieve this, our Permanent Secretaries have agreed strategic diversity objectives that include action to improve reporting rates amongst the workforce.

As set out in our Workforce Plan, the Civil Service wants to become the most inclusive employer in the UK – with the aim of increasing diversity and inclusion across our workforce. We are taking a comprehensive look at what are meaningful measures of progress towards this objective and how targets could be used within our Civil Service Diversity and Inclusion strategy in 2017.

- **Unconscious bias training (Recommendation 5-7)**

It is also important to tackle the bias and long standing inequalities that exists from recruitment to progression in the labour market. As you state, biased decision-making has no place in any modern, progressive organisation. But science now tells us that unconscious bias – being biased in ways that you're not even aware of – is just as big a problem as conscious bias. In order to reduce the impact of bias, as an employer, the Civil Service has increased the use of unconscious bias training across the organisation and has embedded unconscious bias learning as part of the broader training offer.

- **Executive sponsorship, diversity as a key performance indicator, transparent and reward system (Recommendation 8-9, 15)**

We encourage all businesses to identify senior sponsors within their organisations for all diversity issues and make diversity a clear objective of all senior leaders. People want to feel like they are being treated fairly and the processes in place to reward and recognise good performance must be transparent. In order to support the progression of BME talent in the Civil Service, we are implementing a programme of work under the Talent Action Plan. All Permanent Secretaries across the Civil Service have a commitment within their

performance management objectives to improve diversity and inclusion within their department. What is more, as committed in the Talent Action Plan, we now have five Permanent Secretary Diversity and Inclusion Champions. Each of these champions has a clear set of priorities to drive forward our vision to become the 'UK's most inclusive employer' as set out in the Workforce Plan.

- **Recruitment Practices and transparency on career pathways (Recommendation 11-15; 17-19)**

Embedding inclusive recruitment processes and equal access to opportunities are key to delivering long-term success. To support the diversity of recruitment further, the Civil Service is exploring a number of different initiatives including the use of strength based assessment and selection panel composition. All the main departments are also utilising anonymised recruitment, where a candidate's names and other personal details are removed prior to applications being shared with recruiters. This helps to assure candidates that people are assessed on the basis of the evidence that they present. We have also committed to innovative and best practice approaches to recruitment which includes a focus on the use of inclusive language in job descriptions.

The Civil Service is also ensuring its leadership pipeline is more diverse. In 1998 just 3.4% of the Fast Stream intake came from a BME background. We have intensified our efforts to attract BME students, developing links with groups such as African Caribbean Societies and the Social Mobility Foundation - and the proportion rose to 14.6% in 2015, the highest ever and in line with the UK graduate population. Cross government BME networks have been working with senior colleagues across the Civil Service to ensure there are visible role models for BME staff who share information about the career path they have taken, for example through blogs, and provide support and direction to staff.

As you identify in your report, the Workforce Race Equality Standard (WRES) for the NHS is a good example of best practice in this space. A plethora of evidence highlights that improving the treatment of BME staff in the NHS has beneficial impacts on the efficient and effective running of the NHS and upon the quality of care received by all patients. The WRES was introduced in April 2015 to help support NHS organisations make the necessary operational and cultural changes needed to advance workforce race equality. Since 2015, the WRES has been included in the NHS standard contract – making the implementation of the WRES mandatory for all NHS Trusts.

- **Provide mentoring and sponsorship and establish inclusive networks, (Recommendation 10, 20 & 21)**

Mentoring and sponsorship schemes should be made available to anyone who wants them. As part of the Talent Action Plan we committed to requiring members of the leadership group to mentor junior staff. A mutual mentoring programme which establishes mentoring arrangements between staff from underrepresented groups and Senior Civil Servants has been in place since 2015 and is currently being evaluated.

We recognise that staff networks are pivotal to creating a diverse and inclusive workforce. For instance, our BME staff networks (over 30 across the civil service) provide support and insight for their respective Permanent Secretary Race Equality Champions, deliver practical support to BME colleagues. In addition, all cross government race equality networks come together to share departmental best practice and provide further challenge and insight.

**While a great deal of action is underway, we acknowledge that more needs to be done to improve outcomes for ethnic minorities in the labour market. With the right leadership, we can all change our workplaces for the better. We encourage all employers to take on board the compelling case you make for action and accept the recommendations you make.**

### **Next steps**

This has always been an industry-led review with recommendations that are mostly for the private sector to consider. However, **Government will keep a close eye on how things develop over the next 12 months and take the necessary action where required (Recommendation 26).**

The Government is committed to building an economy that works for everyone. This is a mission that needs to start from the top – Chairs, CEOs, and CFOs – to help effect the change and Government stands ready to support all businesses on this.

I would like to offer my congratulations again for your review, and to thank you for the time and effort that you put into the role, combining this with your responsibilities of running a successful British business and commitments in the House of Lords.

The Government is strongly committed to ensuring that this is a country of opportunity where everyone regardless of race, religion or gender can fulfil their potentials. However, there are limits to what any Government can do on its own and so it is also important that all employers play their part in harnessing this potential.

I know that the BME workforce are looking to both the private and public sectors to provide equality of opportunities and support talented individuals regardless of their backgrounds and this would increase productivity and benefits to the UK economy.

Both I and Greg Clark, as Secretary of State, are fully committed to delivering on that mission.

Yours

**Margot James**

Minister for Small Business, Consumers & Corporate Responsibility