

Mandatory Ethnicity and Disability Pay Gap Reporting (including Workforce Reporting and Action Plans)

Lead department	Cabinet Office
Summary of proposal	The proposal is to introduce mandatory ethnicity and disability pay gap reporting for large employers.
Submission type	Impact Assessment – 14 November 2025
Legislation type	Secondary legislation
Implementation date	2026
RPC reference	RPC-CO-25103-IA (1)
Date of issue	17 December 2025

RPC opinion

Rating ¹	RPC opinion
Fit for purpose	The Department evidences the problem under consideration. The IA identifies a sufficient range of long-list options and justifies the selection of the short-list option. The IA clearly justifies why other long-list options are not viable for short-list appraisal. The IA has identified and monetised the key impacts from the proposal and outlines the key reasons for selecting the preferred option compared to the ‘do-nothing’ option.

¹ The RPC opinion rating is based only on the robustness of the rationale, options identification (including SaMBA) and justification for preferred way forward, as set out in the [Better Regulation Framework guidance](#). RPC ratings are fit for purpose or not fit for purpose.

RPC summary

Category	Quality ²	RPC comments
Rationale	Green	The IA has evidenced the problem under consideration. However, the IA could have provided further qualitative evidence of existing reporting inconsistencies. The IA provides sufficient SMART objectives and a good theory of change diagram.
Identification of options (including SaMBA)	Green	The IA identifies a sufficient range of long-list options but could benefit from using the Green Book's Strategic Options Framework Filter (SOFF). The IA provides sufficient justification for discarding options from the long list. The Department provides a sufficient SaMBA, exempting SMBs from the regulations.
Justification for preferred way forward	Green	The Department has identified and monetised the key impacts of each measure in the short-list. The IA could provide further detail on how assumptions in the IA originally derived from the gender pay gap reporting IA. The IA provides sufficient justification for selecting the preferred option compared to the do-nothing option, explaining the trade-offs between improved workplace equality and manageable business costs.
Regulatory Scorecard	Good	Despite a negative NPSV, the proposal is expected to have a positive impact to total welfare and business, due to the non-monetised benefit of a reduced pay gap. As equality impacts appear to be significant in driving the rationale for intervention, the IA could benefit from further discussing this impact. The Department sufficiently considers the impact of the proposal on wider government priorities.
Monitoring and evaluation	Satisfactory	The Department outlines the indicators which will be used to underpin the review. The IA would benefit from detailing the datasets that will be used to gather these metrics.

Urgent measure statement

The department has used the Better Regulation Framework's 'urgent measures' process for this provision. Where the Government decide that legislation is required urgently and there is insufficient time ahead of seeking collective agreement for a

² The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. The definitions of the RPC quality ratings can be accessed [here](#).

preferred regulatory option, and the necessary options assessment (OA) to be submitted to the RPC for independent scrutiny in accordance with the framework, departments are, instead, required to submit an impact assessment (IA) for scrutiny as early as possible after obtaining collective agreement. The IA should contain evidence, which should have been set out in the OA, on the rationale, identification of options and the justification for preferred way forward. The RPC then offers an opinion that includes an overall fitness-for-purpose (red/green) rating. In this case, not only was the IA submitted for RPC scrutiny after the proposal to legislate had been agreed and announced but, because of the accelerated timescales, not until after the legislation had been introduced to Parliament.

Summary of proposal

The Government committed to introducing mandatory ethnicity and disability pay gap reporting for large employers (those with 250 or more employees) in their 2024 manifesto. The proposed reporting framework has been aligned with the existing requirements for gender pay gap (GPG) reporting, in force since 2017, to minimise the additional burdens on business. The proposed intervention will require large employers across Great Britain (GB) (except large public authorities in Wales and Scotland) to publish ethnicity and disability pay gap data on an annual basis.

To improve the effectiveness of reporting in driving inclusive practices, the proposed reporting framework will incorporate four measures requiring large employers to report on the overall composition of their workforce by ethnicity and disability (referred to as ‘workforce reporting’), report on self-declaration rates, and publicly commit to specific actions to address ethnicity and disability pay gaps within their existing Equality Action Plans. The additional reporting requirements should reduce the risk of unintended consequences resulting from this policy, such as employers intentionally not recruiting ethnic minority or disabled staff to reduce their pay gaps.

The IA includes nine options in its long list:

- Do Nothing
- Voluntary reporting with an accreditation scheme
- Alternative or additional metrics
- Recruitment & progression quotas
- Tax incentives
- Diversity requirements in government procurement and funding
- Regional/Sector based intervention
- Including all employers
- Mandatory disability and ethnicity pay gap reporting for large employers (preferred)

The preferred option then consists of four main constituent parts for employers:

- Reporting on the same six metrics which are currently required for gender pay gap reporting, but for ethnicity and disability
- Reporting on workforce composition by ethnicity and disability (a figure that is required to calculate pay gaps)

- Reporting on self-disclosure rates
- Adding and publishing interventions related to addressing ethnicity and disability pay gaps in their Equality Action Plans.

Rationale

Problem under consideration

The IA outlines the problem under consideration, explaining that whilst ethnic minority groups and disabled people face persistent pay gaps, reporting on their pay gap is currently not mandatory. The Department evidences this problem, referencing a range of data from the ONS which has found many ethnic groups earning less median gross hourly pay than White employees and a 12.7% national disability pay gap in 2023. Whilst this data is focused on the existing pay gap and does not evidence the problem of under-reporting, the IA explains that mandatory reporting will provide employers with the information to understand and change the disparities in their workforces. Furthermore, the IA draws on evidence from the post-implementation review of the GPG regulations, which found that mandatory gender pay gap reporting resulted in over half of reporting employers improving their median gap. These findings demonstrate the importance of consistent reporting, therefore helping to evidence the problem being addressed. However, the IA could have provided further evidence of existing reporting inconsistencies amongst businesses to further support the rationale.

Argument for intervention

The IA's argument for intervention is focused on market failures and equity. The IA states that a pay gap isn't just a market failure but can cause social issues, and unfairness experienced by some people from ethnic minorities and disabled people runs counter to the expectations of equality. The pay gap evidence from the ONS supports this argument, providing an example of how the labour market has not treated everyone fairly.

Objectives and theory of change

The IA provides three objectives, which follow the SMART framework. The Department outlines the measurable outcomes for each objective in their respective reporting year and suggests potential indicators which might be used to capture these. The IA could be improved by providing more detail on these potential indicators, including how employer statistics on recruitment will be sourced. The intended compliance outcomes (75% in year 1 and 90% in year 3) also appear slightly arbitrary, and the IA could benefit from commenting on whether they are realistic. The IA has provided a good theory of change diagram.

Identification of options (inc. SaMBA)

Identification of options

The Department has generated nine options for its long-list, including a do-nothing option, the option to report alternative or additional metrics, tax incentives and an option for a regional or sector-based intervention. The Department details these options in the IA, describing qualitatively what they would involve and their associated risks. However, the assessment could be improved by including detail on the process behind developing the long list of options, such as how research and other evidence have been used to form these policies. The long-list of options could benefit from using the Green Book's Strategic Options Framework Filter (SOFF), which could help present the long-list in greater detail whilst retaining a clear and concise structure.

The IA explains that only the preferred option (mandatory disability and ethnicity pay gap reporting) is taken through to the short-list to compare with the do-nothing option. The Department then generates four measures within this option, consisting of four constituent parts for employers, such as reporting on six metrics for pay gaps, reporting on self-disclosure rates and adding interventions in their equality action plans. These measures effectively form a short-list. The IA justifies this approach, explaining that whilst this diverges from Green Book guidance (to have multiple separate options in the short-list), this is appropriate as the preferred option is a manifesto commitment and has been announced in the King's Speech. This means the policy has been focused primarily on that intervention, and no further short-list options could be generated. However, the IA could benefit from explaining how the measures will be implemented in practice, such as outlining the six metrics that businesses will report on.

The RPC considers this short-list sufficient, as there are no further viable alternative options. The IA also provides a thorough discussion of each long-list option, explaining their limitations and why they have been discarded. This qualitative assessment justifies the selection of the short-list options, and The IA clearly explains the reasoning behind this and justifies why other long-list options are not viable for short-list appraisal. However, the IA could be improved by using the Green Book's critical success factors (CSFs) to further justify this and display a systematic process of how the long-listed options were discarded to produce the short-list option. The use of CSFs could provide a clearer argument for why certain long-list options were discounted, such as the regional based intervention option being discarded for being too resource intensive, and potentially not meeting a supplier capacity CSF.

The Department discusses a non-regulatory alternative, a voluntary reporting framework whereby organisations who report receive accreditation of some form. The IA explains why this option is not suitable, as the self-selecting nature of the scheme would likely see skewed data and the existing voluntary framework has not been effective at solving the market failure previously, with a low level of take-up reported in the recent pay gap consultation.

SaMBA and medium-sized business (MSB) assessment

The IA provides a sufficient SaMBA. The proposal exempts SMBs from the regulations, meaning there are no costs expected for SMBs. The IA explains that this

exemption was chosen to avoid significant business burden on SMBs, and the exemption is justified as it matches inclusion criteria for gender pay gap reporting. Furthermore, large employers are more likely to have the systems and resources in place to comply with these new reporting regimes. As the regulations are still applied to businesses with more than 250 employees, and some of these will be medium sized (defined as those with 50-499 employees), the IA could benefit from expanding the SaMBA to consider the impact of the proposal on those medium sized businesses. The IA has done well to consider some mitigations for these businesses, stating that a range of guidance and teach-ins will be developed to cover issues when the regulations come into force.

Justification for preferred way forward

Appraisal of the shortlisted options

The Department has identified and monetised the key impacts of each measure in the short-list, the familiarisation and administrative costs faced by businesses. Administrative activities include training costs, the costs of collecting and reporting metrics and the costs from recalculating metrics on an annual basis. The IA also estimates the public sector costs which reflect the one-off cost of expanding the online reporting service for GPG to include ethnicity and disability pay gap data. The Department explains that ongoing maintenance will be the responsibility of the existing GPG service and the costs for enforcement will be carried out by the independent equality and human rights commission (EHRC). When taking the business NPSV (-£161.0 million) and public sector NPV (-£0.2 million) together, the IA presents a total NPSV of -£161.2 million.

The assessment also includes a qualitative discussion of the non-monetised impacts, which include the benefits to households from closing pay gaps and to businesses from cultural improvements. The IA explains that evidence from the GPG indicates that whilst there will be a positive impact on closing pay gaps, there could also be a negative impact on overall wages if the pay gaps are closed by slowing the growth of the higher wage-earning groups. The IA could benefit from providing further evidence from the GPG to indicate the likely scale of this impact, as this is a potentially significant outcome, or unintended consequence. The staff costs to manage the online reporting service also remain non-monetised, as the IA explains that these have fluctuated dramatically across the five years since GPG reporting was implemented. Nonetheless, the IA could include some higher or lower bound estimates to indicate the potential scale of this impact.

The business administrative costs are calculated by estimating the time required by relevant staff to undertake administrative activities and applying this to the associated salary costs. The IA explains the full methodology for these calculations, including the data and assumptions used. The time required for each activity is sourced from the original GPG reporting IA, and it is assumed this will be the same for ethnicity and disability reporting as for gender. However, whilst the Department explains that these original time estimates were based on research and interviews, the IA could provide further detail on how these assumptions were originally derived

and their associated uncertainty. The IA could also benefit from clarifying how the one-off cost for expanding the online reporting service has been estimated at £235,000.

The IA applies reasonable assumptions to capture the counterfactual, identifying that 44% of businesses already voluntarily report their ethnicity pay gaps, based on the sample of the 2023 BITC survey on Ethnicity Data Capture and Transparency and a 2024 CIPD survey. This baseline is only removed from training costs and calculation costs, with the remainder of impacts (reporting, publishing and recalculating) being new for all businesses. The analysis assumes that no businesses already calculate and publish data on disability pay gaps.

The IA tests this counterfactual assumption in the sensitivity analysis, presenting an upper and lower bound. The Department also tests the impact of other variables changing, such as the legal and compliance costs for collecting data and the costs of an outsourced data protection officer. However, the IA could benefit from expanding its sensitivity analysis to test the impact of other variables changing, such as the assumptions on time taken for staff to undertake administrative activities.

Selection of the preferred option

The IA explains that mandatory disability and ethnicity pay gap reporting is the preferred option. The IA outlines some key reasons for selecting this as the preferred option compared to the 'do-nothing' option. By requiring comprehensive reporting and the publication of targeted interventions in the equality action plans, the preferred option effectively encourages organisations to address workplace inequalities and support positive outcomes for ethnic minorities and disabled people. The public accessibility of data incentivises organisations to be held accountable and evidence from the GPG reporting IA has shown success in reporting schemes in achieving the intended objectives. The IA explains how this preferred option sufficiently balances the desire for enhanced information against the administrative burden to business, explaining the trade-offs that have occurred. The qualitative discussion of the proposed option and monetised analysis used to justify the preferred approach is sufficient.

Regulatory Scorecard

Part A

Impacts on total welfare

The Department indicates that the preferred option is expected to have an uncertain impact on total welfare. The IA presents an NPSV of -£161.2 million but explains that the overall social impact of the reporting measures is expected to be positive, due to a positive impact of narrowing pay gaps. However, there is a possibility of a negative impact on overall average wages. As equality impacts appear to be significant in driving the rationale for intervention, the IA could benefit from further discussing this impact, alongside any indicative evidence or case studies. Whilst the Department discusses equality elsewhere in the IA, explaining that barriers to recruitment can

reduce happiness and social trust for the affected groups, this welfare impact could be further explained in the scorecard.

Impacts on business

The IA indicates that the preferred option is expected to have a neutral impact on business. The Department presents an EANDCB of £18.8 million, consisting of familiarisation, training and administrative costs for business. The IA also states that there is a non-monetised benefit to business from cultural improvements. The IA could benefit from including any evidence to indicate the scale of this potential benefit.

Impacts on households, individuals or consumers

The IA does not monetise household NPV or present an EANDCH metric but explains that the overall impact of the preferred option on households is expected to be positive, with considerable levels of uncertainty as overall impact on wages is difficult to predict. The IA states that existing evidence from GPG reporting indicates that as pay gaps narrow, there is a potentially negative impact on overall wages. As the impact on wages appears to be a potentially significant impact for households, the IA could shed some more light on how this impact could unfold. In particular, the scorecard could benefit from extracting the relevant evidence from the GPG reporting post-implementation review to explain further the potential scale and magnitude of this impact.

Distributional impacts

The IA identifies some distributional impacts, explaining that whilst businesses with 250 or more employees (who are impacted by the regulation) are relatively evenly distributed across UK regions, there is some variance when considering sector, with the production industry being the most disproportionately impacted. However, it is worth noting that these distributional impacts are not judged to be adverse impacts, as one of the primary objectives of the policy is a redistributive objective of narrowing existing pay gaps. The IA also highlights the distributional impact on households stating that as around half of UK employees work for organisations with more than 250 employees, this will likely have a positive impact and see a relative transfer of income towards currently lower paid disabled people and ethnic minorities. As these are protected characteristics, the IA could expand its discussion of this impact alongside any evidence to indicate its scale. The IA could also use the scorecard to summarise any unintended consequences from the policy that might impact disabled people and ethnic minorities. These unintended effects could include the risk of gaming from employers, such as declining requests from disabled people for fewer hours or reclassifying roles to avoid negative impact on reporting. Whilst the IA mentions that requiring narrative explanations in Action Plans will mitigate this, these wider impacts on people with protected characteristics could be detailed in the scorecard.

Part B

The IA explains that the policy is not expected to have impacts on natural capital and decarbonisation, with uncertain impacts on international considerations, depending on how the UK's approach to equality measures are perceived by international investors. If introduction of these measures is seen to be divergent from interests of international investors, there could be a small negative impact on investment, but if the UK is seen positively as an international leader in equality practices this could positively impact international investment.

The IA also indicates that the preferred option may work against business environment, due to the administrative costs placed on business. The Department explains that these are relatively small and are not expected impact competition. However, the IA could benefit from expanding its discussion of this impact, considering how improved transparency encourages competition between organisations. Furthermore, reducing the pay gap and increasing the cost of labour may affect the supply and demand of goods and services in a competitive market equilibrium. The IA could consider how this will impact the long-term price and quality of goods and services provided by these businesses. Whilst the Department has not modelled the business costs for different businesses, the IA could provide some examples of businesses and how the proposal will impact their supply side possibilities. The IA could also consider other indicators for the ease of doing business in the UK. For instance, the IA could consider how the proposal may increase productivity across businesses due to helping employers find and retain the best person for the job, boosting organisational efficiency and improving diversity.

Monitoring and evaluation

The IA confirms that a post-implementation review will be conducted in five years time and outlines some indicators that could be used evaluate the success of the policy, including metrics on the size of the pay gap, employer compliance and declaration rates. However, the IA could be strengthened by outlining the available datasets it will use to find and obtain these metrics, and how the data will be recorded. For example, data sources used in the GPG PIR could be highlighted such as the Annual Survey of Hours and Earnings. The IA could also benefit from setting out the high-level research questions that will shape the future evaluation. These could be clearly linked to the SMART objectives identified earlier in the IA. The IA could also benefit from confirming how it will accurately capture the size of the pay gap, with particular consideration on how it will establish a counterfactual for this metric to be compared to.

Regulatory Policy Committee

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