Appendix 3.04.5 New methods of reporting.

In Chapter 9, 10 and 14 we delve into the various types of reporting that occurs. It is not just the annual report and interim reports. There are numerous presentation and analysts meetings. Also there is personal contact between the professional investors and the executives of the company or group. Post-Carillion there are likely to be many changes which we delve into and asses probable scenarios.

Now there is new type of reporting. So professional investors and other stakeholders have to find this information at a new place. Both the gender and supplier payment information is collected and posted on a government sponsored website. This marks a change from reporting methods from the annual (and quarterly, half-yearly) report to a new type of data collection (cheaper for the government) and method of viewing the same data. There may be other new methods. The two new methods relate to a) Gender gap and b) Supplier payments practices.

Gender pay gap

The Gender pay gap disclosure is mandatory from April 2017 but on a government website only. The gender pay gap is the percentage difference between average hourly earnings for men and women - to publicly report their median and mean gap. .About 11,700 organisations (public, private and voluntary) will have to calculate their gender pay gap (and bonus pay gap) and publish it on this website by 4 April 2018, or 30 March for the public sector.

https://www.gov.uk/report-gender-pay-gap-data

The data can be viewed on this website:

https://gender-pay-gap.service.gov.uk/Viewing/search-results

As of May 2018, 10,659 organisations had uploaded this information – we thought this was nearly all and this surprised us (the number was thought to be 9,000 but this was an underestimate). Then Equality and Human Rights Commission announced that about 1,500 large British companies have broken the law by failing to report their gender pay gap in time and could now face legal action. The missing companies have been given 28 days to report their gender pay gap and those that fail to do so will be "named and shamed", face court action and face unlimited fines. See Appendix 3.3 for the latest on the gender pay gap situation.

A couple of weeks before the deadline the number of companies that had uploaded these statistics was only 4,000 then by the deadline this suddenly increased to 10,200. We thought that everyone had reported – the initial estimate being only 9,000. But it seems a further 1,500 large companies together with probably many thousands of smaller institutions and public bodies had not.

We had thought the successful uploading was due to the great last minute push and wall-to–wall TV and media coverage - perhaps as result of saturation news coverage/ And the continue statements including the threat of fines and court actions[1].

The latest is UK companies that fail to comply with the gender pay gaps face "unlimited" fines and convictions, according to the Equality and Human Rights Commission, although its "first

[1] https://www.theguardian.com/society/2018/mar/25/companies-could-face-court-over-gender-pay-gap-reporting

port of call" would be to engage informally with employers in breach of the regulations, it would take enforcement measures against those that did not publish data on the differences in pay in their companies between men and women[2].

One of the reasons is that the gendered pay gap is especially onerous, and that is why we thought there would be a large number of organisations not uploading/ it appears to be a simple set of metrics but there are detailed calculations. The details for its calculations are available from this website:
https://www.gov.uk/guidance/gender-pay-gap-reporting-guidance and
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/671681/2017-11-29_GPG_Requirements_FV.pdf
The definition of an employee requires special treatment and definition. It includes, for example, contractor or consultant who has a direct contract with and provides personal services to the client (with no substitution). And also contractor or consultant who contracts with the client through a limited company and provides services personally (with no substitution). I suppose a firm could always claim there was s substitution available but it is a tricky definition. We doubt that it will be religiously adhered to.

The definition of a snapshot of ordinary pay and bonus is closely defined. The ASHE method (see the glossary on our website) has to be used to calculate ordinary hourly pay using March wage and salary data but uses actual bonus pay for the year in what seems to be quite complex calculations involving splitting quartile and median pay. Organisations can input narrative as well.

This may be a useful bit of additional fee business for the accounting and auditing firms. However, our prediction is that, as this unaudited, the number of entries that will be a) Fudged in some way (as the comment from the FT below shows) or b) Initially a failure to report at all. After a time the department of business will chivvy firms to comply though we image there may be some exceptions and extenuating circumstances. Also there may be some clarification of the regulations. Krish thinks that the current data will not be that valuable because there is no mechanism to ensure accuracy on what is an extremely complicated, and in his view, misjudged reporting requirement – it should have been less complicated. Accuracy should have been sacrificed for a metric that was easier to compute and input.

Gender pay gap results

Finding information about a company can be found here:
https://gender-pay-gap.service.gov.uk/Viewing/search-results
Marks and Spencer for example has the following information (as at March 2018):

Table Typical Gender Pay gap Information Marks and Spencer (march 2018)	
Women's hourly rate is	
12.3%	3.3%
LOWER LOWER	
(mean)	(median)
Pay quartiles	

2 https://www.ft.com/content/91aaccda-e3e5-11e7-97e2-916d4fbac0da

How many men and women are in each quarter of the employer's payroll.	
Top quartile	
33.7%	66.3%
MEN	WOMEN
Upper middle quartile	
28.1%	71.9%
MEN	WOMEN
Lower middle quartile	
24.6%	75.4%
MEN	WOMEN
Lower quartile	
25.3%	74.7%
MEN	WOMEN
Bonus pay	
53.4%	15.9%
LOWER LOWER	
(mean)	(median)
Who received bonus pay	
66.3% 7	5.7%
OF MEN	OF WOMEN
Women's hourly rate is	
12.3%	3.3%
LOWER	LOWER
(mean)	(median)

The full download of data can be found here:
https://gender-pay-gap.service.gov.uk/Viewing/download

As of the end of April only 9,945 companies that have reported, 1,122 had a positive discrimination in favour of females. Barlows (UK) limited had a mean hour’s difference in favour of females of 267.6%. Complete Care Holdings had an equivalent statistic of -400%! and 1,370 with a median discriminating in favour of females, for what it’s worth these are the current numbers:

No gender pay gap (less than 1%)

- Organisations with less than 1% mean difference 454
- Organisations with less than 1% median difference 1,407
- Organisations with less than 1% mean and median difference 442
- Organisations with less than 1% mean or median difference 1,861

Gender pay gap (greater than 50%)

- Organisations with greater than 50% mean difference 141
- Organisations with greater than 50% median difference 168
- Organisations with greater than 50% mean and median difference 72
- Organisations with greater than 50% mean or median difference 309

As a comment on this new reporting method, it has been a great success in term of publicity, in terms of naming and shaming (not really justified because the comparison is not like-for-like)

Gender pay gap data: usefulness comment
The problem with the headline figures often show females at the bottom of the organisations chart and males at the top. So this does not fairly represent the gender pay gap for the equivalent job. The gender pay gap as measured is sometimes confused with equal pay for the same job (which has been a legal requirement for many years). In the M&S example, one might have thought that the majority of the sales assistants are probably female, whilst management are predominantly male. So the resulting median gap of only 3.3% shows that this is not true and that the pay gap is much smaller than one would have normally surmised.

We prefer the sort of report shown below and used by EY and PwC except we would like to see a more granular break-down of associates and trainees (by year). In terms of additional information, it would be nice to see the absolute numbers at each level and the salaries for both genders at each level - both mean and median. Then that salary pay gap metric would be more complete and more useful than the simplest (but complicated) current metric.

Supplier Payment information
The first issue that strikes one is that this is going to be additional fee income for the accounting and auditing firms. And if the gender pay gap experience is anything to go by, companies will need help.

PwC succinctly put this on their website:

> Effective from April 2017, all large UK companies now have a duty to report publicly on their payment policies, practices and performance.
> The UK government has for some time voiced concerns about the administrative and financial burdens faced by thousands of companies because they are not paid on time.
> This new requirement, launched by the Department for Business, Energy and Industrial Strategy (BEIS), will need careful consideration, both to ensure compliance and also manage the likely public scrutiny.
> Our Assurance, Data and Working Capital experts are well-placed to help you successfully navigate the new regulations.
> Link: https://www.pwc.co.uk/services/audit-assurance/insights/payment-practices-and-performance.html

The companies and partnership have to report if they met two out of the three conditions below:
1) £36m annual turnover
2) £18m assets in the Balance Sheet
3) 250 employees

As this only starts for the financial year from April 2017, we will not see promising results and queries immediately. Many supplier payments are on an ongoing basis but the government sees it differently. Firms are required to publish information about their payment practices and performance by contract. Normally one views this information by supplier in an aged debt type report. So this is a departure and requires additional reporting and perhaps information gathering. Krish finds the government requirement almost impossible to fathom however, in practice firms have had little difficulty. Maybe the contract basis will be reduced to just individual suppliers which is covered in we have not had any feedback yet. This can be found:

https://www.gov.uk/government/publications/business-payment-practices-and-performance-reporting-requirements
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/649941/payment-practices-performance-reporting-requirements-oct-2017.pdf

They divide the requirements (still on a contract basis) as:

Narrative descriptions:

- Standard payments terms in days
- Maximum payment terms
- Changes to these terms including discussion with suppliers
- Any dispute resolution process

Statistics on:

- Average number of days to make payments
- The percentage of payments made within 30 days, 31-60 days, or on or after 61 days.
- The percentage of payments due within the reporting period which were not paid within the agreed payment period

Statement of policies and practices as to whether:-

- Whether suppliers are offered e-invoicing
- Whether supply chain finance is available to suppliers
- Whether the business practices and policies cover deducting sums from payments as a charge for remaining on a supplier's list, and whether they have done this in the reporting period
- Whether the business is a member of a payment code, and the name of the code

The report needs to be published here:
https://publish-payment-practices.service.gov.uk/publish

The reporting requirement is twice a year 30 days after the first 6 months of the financial year and 30 days after the end of the financial year. In theory, it is a criminal offence though the department of business (BEIS) will be the policeman in this case and they are normally reluctance to prosecute. Nevertheless, this is a significant additional reporting requirement and may require additional collection of data and analysis.

Link:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/649941/payment-practices-performance-reporting-requirements-oct-2017.pdf

Also see this EY explanation:
http://www.ey.com/Publication/vwLUAssets/EY-new-payment-practices-and-performance-regulations-is-your-business-ready/$FILE/EY-new-payment-practices-and-performance-regulations-is-your-business-ready.pdf

We are not sure how this will be taken up. If the contract by contract issues are resolved in favour of just suppliers, then it will be comparatively easy, nevertheless as these are not audited, there may be a degree of inaccuracies to begin with. If the data has to be collected on a contract basis and there are many contracts per supplier, then new data collection techniques may be required. That said it is still an additional worry for management.

Supplier Payment information results
To see if anyone had entered any details go to this site:
https://check-payment-practices.service.gov.uk/search
The problem is that this search lists all the sites and not just those that have filed a report. We could not find a specific report but you can export the whole file. So far, as of May, 2018, 1,640 companies had reported.

The worst payers with over 100 day's average time to pay were 11 companies. Three of these have known financial troubles Las Iguanas, Bella Italia and Café Rouge chain of restaurants – all three have over 1,000 days. Three relate to DS Smith a FTSE 100 packaging company. Annual return looks good initially until you realise that this company has been financing its growth through its suppliers. Creditors are approximately twice that of debtors (2017 annual report), and this company has been growing fast profiting from online packaging among. Interestingly two of EY companies also owe over 130 days. One is a TUI company. The final two are solicitors (Minster Law and Irwin Mitchell)

Otherwise (average time to pay):
Best payers: 50 companies pay within 10 days – none famous or particularly big apart from one KPMG company.
Payers within 30 days or so: 562 out of the 1,640 so around one third.
Payers taking between one month to two months: 841 companies.
Payers taking over two months: 149 companies.
Payers taking over three months: 14 companies.
Payers with no information: 164
And payers with a longest standard payment period of more than 100 days: 89 companies
Payers with a longest standard payment period of more than 300 days: 8 companies

Supplier Payment information: usefulness comment
Krish can remember trying to chase the then Fiat Auto for money, and this often invoked a fluctuating period of time ranging from 3 months to 9 months. Thyssen Krupp, a German company, was even worse - paying somewhere between 3 months to 2 years, Ford and GM could be just as bad shorter but inconsistent. The best and most reliable payers were the Japanese.

However, the above information is useful. If for nothing else, it provides more information on which to assess a company. Suppliers to poor paying companies can make their own contractual terms – or accept a take-it or leave-it situation in the knowledge of their payment practice. Overall very useful. Companies in trouble can be quickly identified. It may have provided advanced warning to a company like Carillion. It also seems that the firms have had fewer difficulties in fulfilling this requirement that we had imagined. Very useful.

So this will place on record their payments policies which are probably excellent for the suppliers.

for trades and electronic format of annual reports respectively – the latter is due to be incorporated in EU regulations shortly[3].

[3] Links:https://www.esma.europa.eu/sites/default/files/library/2015/11/2015-esma-1464_-_final_report_-_draft_rts_and_its_on_mifid_ii_and_mifir.pdf
and
https://www.esma.europa.eu/sites/default/files/library/esma70-151-370_final_report_tr_public_data_under_emir.pdf

Appendix 3.04.5 New methods of reporting.