



Ethnicity pay gap report

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Representation and compensation as
at 31 March 2023

nestpensions.org.uk

Introduction

We've made a long-term commitment to closing our ethnicity pay gap. This latest report shows our data and initiatives for the 2022/23 financial year. Voluntarily disclosing this data every year is part of our commitment to transparency and to reducing our gap.

The ethnicity pay gap shows the difference in average pay between staff from ethnic minority backgrounds compared to white staff. This is not to be confused with equal pay, which partly looks at the pay disparities of those from a white background and those from ethnic minority groups being paid differently for doing the same job.

The data is clear. Our ethnicity pay gap is the highest it has been since we began collecting data. We know that there are factors that have affected this increase. 32% of leavers from an ethnic minority background were in the upper-mid and upper pay quartile, and we saw 3% more leavers from an ethnic minority background compared to 2021/22. Furthermore, 83% of new starters from an ethnic minority background this year were in the lower to mid quartiles. This will have impacted the pay gap.

There are some causes for optimism. We are pleased to report that this year we have seen an increase in the number of new hires from ethnic minority backgrounds, and 25% of new hires came in at the upper-mid and upper quartile. Furthermore, according to our staff survey, 77% of our colleagues from ethnic minority backgrounds said that Nest is committed to ensuring an inclusive environment, 77% felt Nest values diversity, and 79% said they feel respected at Nest.

However, we know we need to do more to decrease our ethnicity pay gap. We're concerned about the increase and are committed to understanding and addressing the reasons behind it. Last year we reported that we were doing well to attract diverse talent to Nest, but we need to do more to retain these employees. We still have a higher proportion of employees from ethnic minority backgrounds in our workforce than the proportion in the UK working-age population. But we also recognise that we must do more to develop the skills of these employees and support their progression from junior to senior roles.

Closing a large pay gap takes time, and the commitments we have in place are for the long term. We have expanded our plan of action this year, and we'll measure the effectiveness of our initiatives.

Highlights from 2022/23 include:

- publishing our diversity, equity and inclusion strategy
- working collaboratively with our race working group to deliver on their agreed actions
- taking part in the 10,000 Black Interns Programme
- building our data infrastructure to better understand our staff and candidates and find targeted areas for improvement

This report shows how determined we are to hit our targets. It sets out the steps we've already taken and makes clear how we aim to achieve success in the future.



There's no denying that over the past year our ethnicity pay gap has widened. However, I am proud that our workforce continues to maintain a greater representation of employees from ethnic minority backgrounds compared to the proportion found in the UK's working-age population. I am certain that with greater transparency and a targeted, long-term holistic plan, we can close the gap and reflect the fair organisation I know we are.



Helen Dean
Chief Executive Officer

What we've already done

We take action to make Nest a fair and inclusive place to work. The initiatives we put in place to do this aim to close pay gaps and increase ethnically diverse representation in our senior roles.

In 2022/23 we took a range of steps across the organisation to make improvements in this area. Although we have a way to go, we are proud of the uptake in our initiatives. Here are the highlights.

Improving our recruitment practices

We worked to remove bias and barriers from our recruitment processes. This gives us the best chance of attracting and hiring candidates from under-represented groups. Over the last year, we have:

- Updated our careers page to show our commitment to diversity and inclusion to encourage people from diverse backgrounds to apply for roles at Nest.
- Updated our job adverts to include a statement mentioning our commitment to diversity and inclusion with the aim of attracting diverse talent. Data from our onboarding survey shows a high proportion of candidates from ethnic minority backgrounds were encouraged to apply for a role at Nest for this reason.
- Started working with an organisation called BME Jobs to take a direct approach to reaching and recruiting candidates from ethnic minority backgrounds.
- Worked with our internal audit team to audit our recruitment and onboarding processes. We will address the recommendations outlined in the resulting report to ensure that we make our recruitment and onboarding processes as inclusive as possible.

Developing our workforce

To close our ethnicity pay gap, we know that we need to develop our diverse talent from more junior roles into senior positions. Our latest initiatives to do this include:

- Introducing personalised learning accounts. These let employees have more control over their development by providing a £2,500 budget to spend on training that will help them to progress. In 2022, 38% of staff from ethnic minority backgrounds accessed a learning account, a 7% increase from 2021.
- Providing access to the LinkedIn Learning platform. This allows all our employees to choose from thousands of online courses that they can access flexibly at a time that suits them, giving them more ownership of their development.
- Launching a future leadership sponsorship programme for high potential colleagues from ethnic minority backgrounds. This connects them with leaders across the company to accelerate their career development. In turn, it gives sponsors a greater understanding of the challenges faced by those from ethnic minority backgrounds seeking leadership roles. This programme is part of our commitment to developing, progressing and retaining diverse talent.

Improving our data

We work on improving the data that we capture to understand the experiences of staff from ethnic minority backgrounds. Over the last year we have:

- Launched our data declaration campaign to encourage our colleagues from ethnic minority backgrounds to declare their data and we now have a declaration rate for ethnicity of 99%.
- Looked at our recruitment data, staff survey results, exit interview and other data to understand the experiences of members of staff and candidates from ethnic minority backgrounds.
- Used this data to write our new diversity, equity and inclusion strategy for 2022/25 which will support us with closing the ethnicity pay gap.

Fostering a diverse and inclusive culture

Our culture is key to closing our pay gaps. If our workers can bring their authentic selves to Nest, we think they'll be more likely to succeed and progress. Our work over the last year included:

- Working collaboratively with our race working group to agree on priorities for 2022/23. These included a focus on improving our recruitment process and career development knowledge and opportunities, and working to build a more inclusive culture. Details on our progress are outlined throughout this report.
- Continuing to run our 'let's talk about race' sessions to bring awareness of challenges faced by employees from ethnic minority backgrounds in the workplace.
- Listening to feedback from our staff forum, 'Your Voice' on our diversity, equity and inclusion strategy, our new policies and our pay propositions. We share our plans and request feedback from the forum before we finalise decisions.

Taking a lead in our industry

If we can help to improve diversity in our industry, then we act. Not only can it help to reduce pay gaps, but it shows our own employees that this is an issue that really matters to us. Our activities in the last year included:

- Tackling race equity as part of the 30% Club UK Investor group where we're proud to have a Nest member sitting as co-chair.¹ In the last year we've written to a small number of US companies with poor gender and ethnicity board representation to set out expectations for improvement. This year we also worked with ShareAction and sent letters to companies outlining our expectations to advance racial equity and pay gap reporting in the UK workforce.
- Taking part in the 10,000 Black Interns Programme with two talented individuals joining our investment team. It was a great learning experience for Nest and the interns gave us insight into how we can move forward on the projects they delivered.

¹ See 30percentclub.org/uk-investor-group

- We took part in an initiative run by the Diversity Project called The Skills Workshop, to deliver a session to young people and students from ethnic minority and lower socio-economic backgrounds. The session encouraged them to get involved in the investment industry and gave tips on the recruitment process at Nest. You can view a recording of the skills workshop on YouTube.²

Reviewing and reporting on our progress

We aren't where we want to be with our pay gap performance. Our data can help us to improve. It gives us a clear measure to track our progress against, and sharing it shows our commitment to transparency. Our latest reporting shows:

- We have stayed committed to achieving the targets we set as part of our approach to diversity, equity and inclusion. We said that by 2025 we'll have a minimum of one director from a Black heritage background and that 13% of our executive team would be from an ethnic minority background. We're yet to make progress with these targets but we'll continue to review and report our progress.

² See youtube.com/watch?v=LgiPzxfhjuk



We're aiming for 13% of our executive team to be from an ethnic minority background by 2025.

Our ethnicity pay data for 2022/23

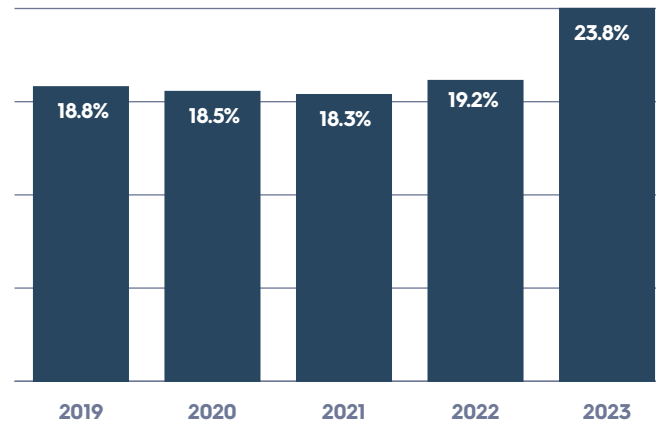
We're pleased to keep making this data publicly available. We recognise the pay gap between employees from ethnic minority backgrounds and white employees is disappointing and accept we need to keep working hard to improve this.

Mean hourly pay gap

A gap of 23.8% in 2022/23. This works out to be £8.98 per hour.

This is an increase of 4.6 percentage points from 2021/22 when the gap was 19.2% and £6.96 per hour.

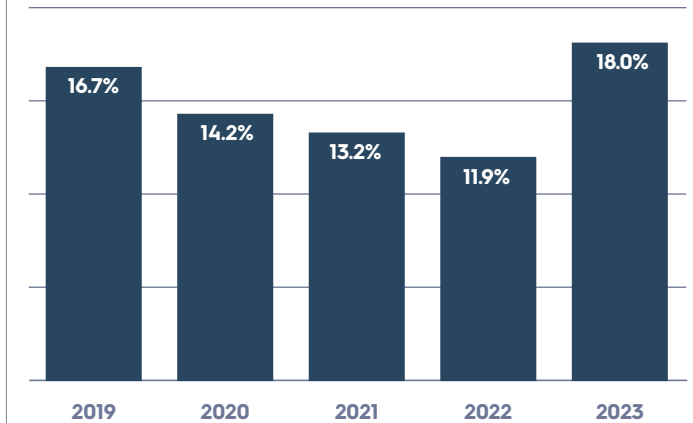
- In 2022/23, 32% of ethnic minority leavers at Nest were from upper-mid and upper quartile roles. This loss of ethnic minority staff in higher paid positions will have impacted the pay gap figures.



Median hourly pay gap

A gap of 18% in 2022/23. This works out to be £6.03 per hour.

This is an increase of 6.1 percentage points from 2021/22 when the gap was 11.9% and £3.79 per hour.

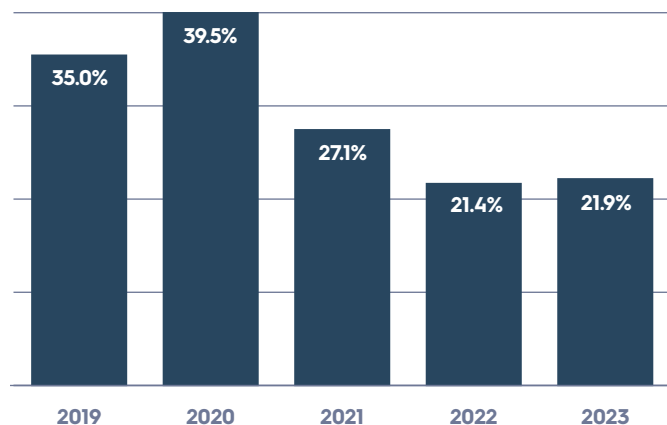


Mean bonus pay gap

A gap of 21.9% in 2022/23. This works out to be an average bonus gap of £352.66.

This is an increase of 0.5 percentage points from 2021/22 when the gap was 21.4% and £401.00.

- This gap is due to employees from ethnic minority backgrounds being over-represented in the lower pay grades and therefore receiving a lower bonus.



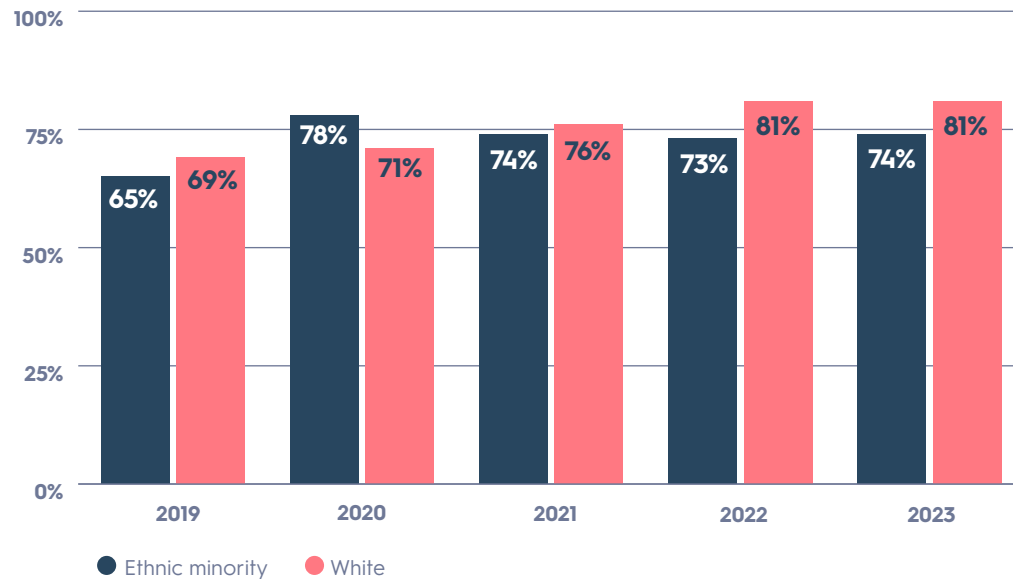
Median bonus pay gap

There is no gap in 2022/23. Employees from ethnic minority backgrounds received the same median bonus as white employees. This has been the case since 2021/22.



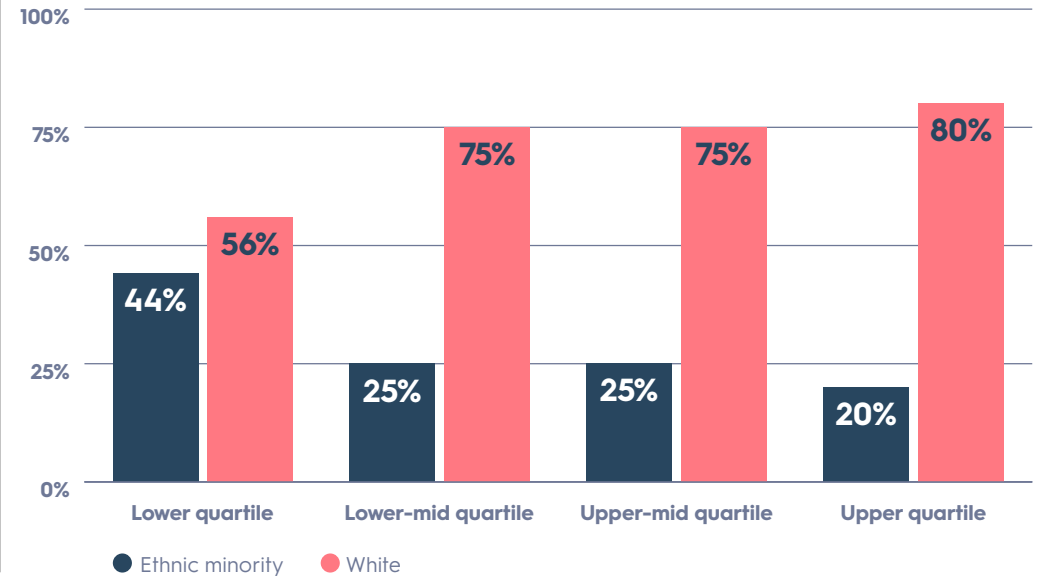
Proportion of people from ethnic minorities who received a bonus in 2022/23

- In 2022/23, 74% of employees from ethnic minority backgrounds received a bonus. This is an increase of 1 percentage point from 2021/22.
- In comparison, 81% of white employees received a bonus in 2022/23. This is the same as 2021/22.
- These figures are solely attributed to the appointment of a higher percentage of candidates from ethnic minority backgrounds compared to white candidates. Therefore a higher proportion of employees from ethnic minority backgrounds were not eligible for a bonus because of their length of service.



Distribution of employees per pay quartile

- Employees from ethnic minority backgrounds make up 27% of the Nest workforce. This has remained the same as last year. The data does not account for those who chose not to disclose their ethnicity.
- In 2022/23 the median hourly salary for leavers from ethnic minority backgrounds was higher than the median hourly salary for new starters from ethnic minority backgrounds. This would have impacted the pay gap figures.
- Employees from an ethnic minority background continue to be under-represented in the upper pay quartile and over-represented in the lower quartile, as shown in the graph below. We are committed to understanding the reasons for this, and we will keep focusing on developing our talent to support employees from ethnic minority backgrounds to progress into upper-pay quartile roles.



What we'll do next

We're committed to closing our ethnicity pay gap over the long term. Going forward, we have a clear plan in place to help us do this.

Carrying on with our commitments

In our previous pay gap reports we outlined some initiatives to help us make progress. They continue to be an important part of our approach to closing our gap.

Improving our recruitment practices

- We will review our direct-hire approach to make sure we're attracting applicants from ethnic minority backgrounds through our recruitment processes.
- We will focus on attracting a diverse range of candidates by updating our careers webpage and social media presence to ensure we better reflect our commitment to diversity and inclusion.
- We will review and update the questions that hiring managers plan to ask during the recruitment process to ensure we're considering diversity and inclusion.
- We will recommend that all hiring managers take action for more diverse interview panels.
- We will work with senior leaders to ensure we take positive action in areas of under representation.³

³ The Equality and Human Rights Commission identifies six examples of positive action in the workplace, see equalityhumanrights.com/en/advice-and-guidance/employers-what-positive-action-workplace

Developing our workforce

- We will launch a mentoring programme for our staff from ethnic minority backgrounds to ensure we're focused on developing our internal talent.
- We will work with our senior leadership and people and development team to ensure we focus our efforts on succession planning so that we have a diverse group of future potential leaders.

Improving our data

- We will continue to use our workforce equality and people data more effectively. By looking at trends in our recruitment, development and progression data we can identify, and work to remove, the barriers staff from ethnic minority backgrounds face that contribute to the ethnicity pay gap.

Diversity, equity and inclusion

- We will continue to work towards our 2025 target of having a minimum of one member of our executive team from an ethnic minority background and a minimum of one director from a Black heritage background.

- We will continue to follow the recommendations in the McGregor-Smith review and voluntarily publish our ethnicity pay gap data every year.
- We will continue to act on employees' feedback. We're planning to run focus groups for employees from ethnic minority backgrounds in 2023 following the staff survey results.
- We will review our diversity, equity and inclusion training and work with the leadership coaches to refresh the content to ensure that it is relevant to the organisation and aligns with what we're trying to achieve in our diversity, equity and inclusion strategy. This is an important part of ensuring that we educate our staff to support us with creating an inclusive culture.
- Taking a lead in our industry, we will continue to lead and collaborate with our peers. We'll keep working to improve diversity across our industry, whether that's through initiatives like the Black Interns Programme and Diversity Project – we are hosting another two interns in 2023 – or through new opportunities we think can be influential.
- We will use our scale to push for change. Our responsible investment team continues to hold the companies we invest in to account on issues including ethnicity pay gaps and the make-up of boards.

Other areas of focus

Going forward we think these further initiatives can play a key role in helping us to close our pay gaps.

- We will provide routine training to line managers to support them with managing and understanding diversity, equity and inclusion in the workplace. We will also develop and promote our line manager hub, updating it with guidance and resources to upskill managers on inclusive people practices.
 - We will continue to listen to our staff forum, 'Your Voice'. We'll keep listening to everything they raise, including issues that can help us to close our pay gaps like pay, progression and development.
 - We will continue to work with our diversity, equity and inclusion working groups to help us meet our diversity, equity and inclusion commitments and ensure that we continue to be an inclusive organisation.
- We will use exit interviews to understand the reasons people from ethnic minority backgrounds leave Nest and use this information to inform our people processes and actions.
 - We will make our pay structures as transparent as possible for employees, so they know exactly how to progress at Nest. This will be supported by the provision of clear career paths and an environment that supports development, which is being worked on by the career progression working group.
 - We will continue to run our 'let's talk about race' sessions and, from May 2023, will begin to deliver 'let's talk about race' workshops to individual teams across the business.



While I am disappointed this latest report shows our ethnicity pay gap has increased, we are encouraged by the recent increase in new hires from ethnic minority backgrounds and the initiatives we have designed to both decrease the gap and hire the best talent. We know there's more to do, but we are fully committed to move in the right direction.



Richard Lockwood
Chief Financial Officer

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