

Full Regulatory Impact Assessment for Religion or Belief

1. Intended Effect

The proposal makes it illegal to discriminate against individuals in any matter regarding employment because of their religion or belief. Currently, there is no employment legislation in the UK specifically covering discrimination on the grounds of religion or belief, although discrimination against Jews and Sikhs is already covered by the Race Relations Act. Due to the lack of reliable data on the extent of any discrimination on grounds of religion or belief, the following calculations can at best be used as an indication of possible costs and benefits.

2. Numbers Affected

Although the Directive covers everyone regardless of religion or belief, we use estimates of active religious membership in order to guide our analysis of those most likely to be affected.

There is much variability in the information on the distribution of religion or belief amongst workers derived from a variety of sources. Two sources, however, provide reasonably similar estimates. Christian Research estimated that there were about 8.2 million active adult members of religious organisations (see Table 1 below)¹. This implies that there are about 6.3 million active adult religious members of working age², of which roughly 4.7 million will be in paid employment³. Similarly, the British Social Attitudes Survey (1999) found that 21% of adult females and 15% of adult males attended religious services or meetings at least once a month⁴. This estimated that there are about 2.5 million women and 2.15 million men in employment who actively participate in religious activities⁵. Although some religions or beliefs will not be reflected in these figures, they are likely to be overestimates. Firstly, most discriminated groups, especially ethnic minorities, tend to

¹ This covers the adult population aged 18 and above. Many of these active participants, however, will be retired from the labour force.

² There are 35.08 million people of working age and 10.55 million over the state retirement age in Great Britain. Source: Census 2001. The proportion of over 16 year olds who are of working age is $(35.08 / (35.08 + 10.55)) = 0.77$. That is, $8.178 \text{ million} \times 0.77 = 6.297 \text{ million}$ are of working age. This may well be an overestimate as retired people are much more likely to be active members of religious organisations.

³ From the Labour Force Survey (March 2002 – May 2002), it was estimated that the working age employment rate in Great Britain was 74.9% (Table A.11, Labour Market Trends, August 2002). This suggests that there may be $6.3\text{m} \times 0.749 = 4.71 \text{ million}$ workers with active membership of religious groups. This may be an overestimate as women have lower employment rates but higher levels of attending religious services (see British Social Attitudes Survey below).

⁴ Social Trends 31. Respondents aged 18 and over who said they belonged to a religion or were brought up in a religion, were asked how often, apart from special occasions such as weddings, funerals and baptisms, they attended services or meetings connected with their religion.

⁵ There are 17.02 million women aged 16-59 and 18.06 million men aged 16-64 in Great Britain (Census 2001). Employment rates are 69.8% for females and 79.4% for males. There are about $17.02\text{m} \times 0.698 = 11.88 \text{ million}$ women and $18.06\text{m} \times 0.794 = 14.34 \text{ million}$ men of working age in employment. There are, therefore, about $11.88\text{m} \times 0.21 = 2.49 \text{ million}$ employed women and $14.34\text{m} \times 0.15 = 2.15 \text{ million}$ employed men who actively participate in religious meetings. That is about 4.64 million workers.

have lower employment and economic activity rates. Secondly, retired people, especially older women, have much higher levels of attendance at religious meetings.

Table 1: Active Church Membership				
Active Adult Members, Thousands, United Kingdom				
Religions	1970	1980	1990	1995
Trinitarian Churches				
Roman Catholic	2714	2457	2201	1915
Anglican	2994	2179	1728	1785
Presbyterian	1666	1438	1214	1100
Other Free Churches	646	516	601	648
Methodist	642	521	452	401
Orthodox	191	203	266	289
Baptist	269	240	231	223
All Trinitarian Churches	9122	7554	6693	6361
Non-Trinitarian Churches				
Mormons	85	114	160	171
Jehovah's Witnesses	62	85	117	131
Other Non-Trinitarian	138	154	182	220
All Non-Trinitarian Churches	285	353	459	522
Other Religions				
Muslim	130	306	495	580
Sikh	100	150	250	350
Hindu	80	120	140	155
Jewish	120	111	101	94
Others	21	53	87	116
All Others	451	740	1073	1295
All Active Members	9858	8647	8225	8178

Source: Table 13.23, "Church Membership" in Social Trends 29, 1999 edition

We have no direct information on the extent of employment discrimination on the grounds of religion or belief. In most workplaces, religion is not an issue of dispute. The British Social Attitudes Survey (2001) found that only 2% of the British public believed that employers discriminated against job applicants a lot on grounds of religion or belief. This contrasts with about 10% on grounds of sexual orientation and around 20% on grounds of race. We assume that about 2% (roughly 94,000) of those who could possibly be affected may have experienced any form of discrimination⁶.

⁶ Both sources discussed give about 4.7 million workers with active religious participation. Therefore, $4.7m \times 0.02 = 94,000$ workers may be affected.

3. Awareness of the Legislation

A key stage in the implementation of the legislation will be to communicate to employers the nature and extent of the changes being introduced, and employers will need to consider, and possibly seek advice on, any changes required by their organisation. The format of the guidance, and the method of communicating it, will naturally help determine the response by employers. It will also be important for employees and other workers to gain awareness of their new employment rights.

3.1. Costs to business

3.1.1. Reading and understanding guidance

There will be a time cost to employers of reading guidance and/or seeking advice initially. All businesses will have to spend some time considering the guidance published by the DTI. The amount of time, and number of businesses spending time, is dependent upon the size of the business, the current equal opportunity policies of that business and the awareness of the managers towards these issues.

It is envisaged that each employer will have access to a leaflet that explains the changes to employment law resulting from all the Article 13 regulations. We assume that a manager in every business spends about 15 minutes reading this guidance. Further consultation regarding the regulations can be obtained by telephone. Currently, it is proposed that ACAS will take on this dissemination role. Further follow up calls may take about 15 minutes for questions related to religion or belief.

In total, small employers, those with less than 50 employees, may be expected to spend about 30 minutes in total reading and understanding the guidance on religion or belief. Medium to large employers, those with 50 or more employees, will be expected to take more time, about an hour, in reading and considering the guidance, as some of them may produce and disseminate guidance for personnel departments and other staff. These are assumptions of the average time spent dealing with the guidance. There may be considerable variation around these averages.

There are about 1.18 million businesses in Great Britain,⁷ of which about 1.14 million are small employers and just over 37,000 are medium to large employers⁸.

⁷ There are 1,207,995 businesses with employees in the UK, Source: Small Business Service Statistics (SBS) 2001. There were 31,555 businesses with employees in Northern Ireland in 1999, Source: SBS 1999 (no regional data is, as yet, available for 2000 or 2001). This implies that there were about 1,176,440 businesses with employees in Great Britain in 2001.

⁸ There are 1.169 million small employers out of a total of 1.208 million employers in the United Kingdom. Using this ratio, we estimate that there are about 1.14 million small employers in Great Britain ($1.169\text{m}/1.208\text{m} \times 1.18\text{m} = 1.14\text{m}$). Similarly, there are about 38,175 medium to large size firms in the United Kingdom. We estimate that there are about 37,290 medium to large firms in Great Britain ($38,175/1.208\text{m} \times 1.18\text{m} = 37,290$).

The costs for each small business will be about £11⁹. The total cost for small businesses of reading and understanding the guidance is, therefore, about **£13 million**¹⁰. The cost for medium to large business is about £25 each¹¹. The total cost for medium to large businesses of reading and understanding the guidance is, therefore, about **£1 million**¹².

The total costs for awareness and guidance are, therefore, **£14 million**¹³. These are one-off implementation costs.

3.1.2. Production cost of guidance

There may be some medium to large employers who produce official guidance for personnel departments and other staff, detailing the changes. This guidance would cover the range of recruitment and development issues affected by the legislation. We assume that these employers update this information regularly and this legislation will be incorporated into these routine revisions. This will involve a small additional cost, which has not been quantified here.

4. Recruitment

Reducing discrimination on grounds of religion or belief will increase the pool of potential employees. Potential applicants may feel more confident that they will be treated fairly and are, therefore, more likely to apply. The effects will be a slightly higher participation of the affected groups in the labour market and a better match between job seekers and vacancies.

4.1. Benefits to individuals

The benefits to employees of increased participation cannot easily be quantified. For the individuals who find employment because they are no longer discriminated against or no longer have to fear discrimination, the net benefit would be the difference between the wage they earn in this employment and any income they would have had otherwise.

Currently, some discriminated individuals would eventually find less well paid jobs, the effect of the legislation may be a better matched and rewarded job. Taking perceptions

⁹ In 2001, the average hourly pay, excluding overtime, of a manager/administrator (1 digit SOC90) in Great Britain was £17.24. Source: New Earnings Survey (NES) 2001 from NOMIS (www.nomisweb.co.uk). The cost of a manager's time includes non-wage costs and overheads, estimated at 30% of wage costs. The hourly cost of a manager's time is, therefore, £17.24 x 1.3 = £22.41. Half an hour reading and understanding the guidance will cost £22.41 x 0.5 = £11.20.

¹⁰ The cost for small firms is 1.14m x 11.2 = £12.768 million.

¹¹ In Great Britain in 2001, the average hourly wage, excluding overtime, of a personnel manager (3 digit SOC90 code 124) was £19.55. Source: New Earnings Survey (NES) 2001 from NOMIS. The cost of a worker's time includes non-wage costs and overheads, estimated at 30% of wage costs. The hourly cost of a personnel manager's time is, therefore, £19.55 x 1.3 = £25.42. The cost for medium to large firms to read and understand the guidance is, therefore, about £25.42.

¹² The cost for medium to large firms is 37,290 x 25.42 = £947,912.

¹³ Total cost will be £12.786m + £0.948 million = £13.7 million.

into account, we assume that about 1% (47,000) of these workers may have suffered such a detriment because of their religion or belief¹⁴. Further, assuming that these individuals gain a 10% increase in wages, these individuals will be able to earn an extra £2,000 each¹⁵. This gives a benefit of about £90 million¹⁶. In most cases, other workers will be displaced. Even if 90% of this were displacement (affected groups just replacing other workers), the gain would still be about **£9 million**¹⁷.

4.2. Benefits to business

Many employers have problems recruiting employees. A survey by CIPD in 2001 showed that 77% had problems in filling one or more vacancies.¹⁸ Recruitment is also a costly matter. It costs on average about £4,000 to recruit and train a new employee.¹⁹ Employers benefit in terms of increased productivity resulting from the better match. This is equivalent to the wage premium and any savings made from a reduction in recruitment costs. We do not attempt to quantify these costs.

4.3. Costs to business

In line with best practice, employers may wish to advertise job vacancies more widely in order to ensure that recruitment is targeted evenly across sectors of society and that recruitment is generally more formalised. As with race, disability, age and sexual orientation, employers may face the risk of litigation if they continue to use word of mouth and other informal means of recruitment. This, however, is not a requirement of the legislation, so is not costed here.

The removal of discrimination may encourage more applicants to apply. We have no information on those adverts that specify religion or belief. Some costs may be involved in vetting advertisements to ensure that they are not discriminatory in terms of religion or belief. We assume that a personnel officer spends about 15 minutes checking the templates for each of these advertisements. Even assuming that 1% of all advertised vacancies,²⁰ about 60,000, may require attention from personnel staff on the grounds of religion or belief, the costs are not large. The total costs would be **£0.2 million**.²¹ These

¹⁴ We assume that this affects about half of those that were perceived as suffering from discrimination on grounds of religion or belief. That is, $4.7 \text{ million} \times 0.01 = 47,000$ workers affected.

¹⁵ Average gross weekly pay in Great Britain in 2001 was £370.50. This gives average annual earnings in Great Britain as £19,266. Source: New Earnings Survey (NES) 2001 from NOMIS. The expected gain from fairer recruitment is, thus, 10% of £19,266 = £1,923.

¹⁶ This benefit is $47,000 \times £1,923 = £90.38$ million.

¹⁷ The net gain is, therefore, $90.38\text{m} \times 0.1 = £9$ million.

¹⁸ Table 8: Recruitment difficulties and the average number of weeks to fill a vacancy in 2001 in "Labour Turnover: Survey report, October 2001", Chartered Institute of Personnel and Development.

¹⁹ The overall average cost of turnover per employee in 2000 was £3,933. Source: Table 10: Estimated total cost of labour turnover cost per year (per leaver) in 2000 in CIPD (October 2001).

²⁰ There are an estimated 8 million annual vacancies in the economy. The Employment Service handled around 2.664m vacancies in the twelve months to April 2001 (the latest available figure). About a third of all vacancies are advertised in jobcentres. Not all vacancies, however, are formally advertised. Based on the Age Code of Practice survey evidence, about three quarters of vacancies are advertised. This implies that about 6 million vacancies are advertised each year.

²¹ In Great Britain in 2001, the average hourly wage of a personnel officer (3 digit SOC90 code 363) was £10.75. Source: New Earnings Survey (NES) 2001 from NOMIS. The hourly cost of a personnel officer's

are one-off implementation costs.

5. Training and Promotion

Training and promotion are key issues with respect to an individual's career, job satisfaction and general motivation.²² Apart from the direct effect on the employer's performance in terms of increased human capital there are benefits arising from improved motivation and staff morale. The Directive will prevent employers from taking discriminatory actions in the fields of training and promotion.

5.1 Promotion

In line with good practice, promotion decisions should be transparent and based on competence related factors. Following the implementation of the Directive, management decisions may come under greater scrutiny and consequently businesses may invest in training and awareness programmes in order to minimise the risk of litigation.

5.1.1. Benefits to the individual

Denial of promotion has direct effects on the individuals themselves in terms of reduced income. Promotion usually leads to higher wages²³. This can also have effects on the motivation and productivity of the respective workers. Some individuals, who are currently promoted, will be displaced, but there will be net gains from the absence of discrimination on the grounds of religion or belief. Human capital is matched more efficiently with jobs. We do not know how many workers are discriminated against in this area because of their religion or belief. We do not attempt to quantify this.

5.1.2. Benefits to business

There are several sources of potential benefits in a non-discriminatory policy towards promotion. To ensure that the most effective individual receives promotion is one form of improving productivity and efficiency in the work place. If potentially affected individuals are not promoted despite their abilities, this implies that an employer is not realising the human capital available to them. Employers also gain from the lower turnover of staff resulting from the better matched workers. We have no information on the extent of discrimination in promotion on the grounds of religion or belief. We do not attempt to quantify these benefits.

5.1.3. Costs to business

time is $£10.76 \times 1.3 = £13.99$. It is assumed it takes 15 minutes to check an advert. Total costs are $60,000 \times £13.99$ (average hourly wage costs of a personnel officer) $\times 0.25$ (15 minutes) = £209,850.

²² See: Measuring the quality of Job, by Rannia M. Leontaridi and Peter J. Sloane, European Low-Wage Employment Research Network, April 2001

²³ Booth, Francesconi and Frank (2002) find that promotion leads to average wage increases of about 5% for men in "A Sticky Floors Model of Promotion, Pay and Gender", European Economic Review, forthcoming. Using average annual wages of about £19,000, promotion leads to an average pay rise of about £1,000 a year for men.

Employers may feel the need to adopt more formal job descriptions and undertake performance and development reviews for staff in order to avoid the possibility of litigation. This is regarded as good practice but it is not a requirement of the Directive, and is, as such, not evaluated here.

5.2. Training

As mentioned above, training is closely related to promotion. Training also has implications for the productivity and the motivation of the workforce.

5.2.1. Benefits to individuals and business

Workers increase their productivity as a result of training. This could be reflected in a higher wage²⁴. Individuals also benefit from increased employability as a result of newly acquired skills. Workers who are denied access to training will feel less valued by the organisation. This can have a negative impact on their performance as well as their general well-being and the morale of other workers. Similarly, employers gain from the increased productivity and motivation of their workers. We do not attempt to quantify any of these, as the available data do not show the extent of discrimination in training decisions on the grounds of religion or belief.

5.2.2. Costs to business

If training is undertaken, employers may incur the costs of paying for the training and any loss of output foregone by workers undergoing the training as well as those teaching the trainees. We do not attempt to quantify these costs. It is likely that any benefits resulting from more training will outweigh the costs of providing such training.

6. Terms and Conditions

Under the new legislation, and in line with best practice, employers may need to accommodate a wide variety of religious and cultural needs of workers such as different dietary requirements and prayer room facilities. Employers may also need to be flexible in order to accommodate cultural or religious holidays and restrictions on hours of work. People should not be discriminated against in recruitment decisions if they cannot work on particular days of the week; particular times of the day; or in particular areas of a business (for example, the meat or alcohol section of a supermarket). Employers are not expected to incur significant costs in exercising flexibility at the workplace but may need to recruit more workers in order to cover for those who are restricted over hours/days/work area and generally to maintain a larger and more flexible workforce. The additional recruitment is however, expected to impose only a marginal cost burden on personnel/human resource management of businesses. We do not attempt to quantify these costs.

²⁴ Booth, Francesconi and Zoega (2002) found that males gain, on average, about a 3% wage premium from training in the last twelve months. "Unions, Training and Wages: Evidence for British Men" (www.iser.essex.ac.uk/staff/cv/mfrancv.php)

7. Enforcement

There will inevitably be complaints (and therefore cases and tribunals) against discrimination as a consequence of new legislation. Even if we assume that adjustments such as those discussed above are made (i.e. full compliance), complaints can arise against other forms of discrimination such as prejudicial treatment from colleagues (including discriminatory 'canteen culture') and where fair treatment at work can depend on participation in social activities outside working hours which involve alcohol for example. It might, therefore, be reasonable to assume that some employers may be taken to a tribunal by aggrieved employees.

The number of employment tribunal claims under race discrimination, 3,183 in 2001/02,²⁵ can be used to help estimate the approximate number of claims that are likely to occur under religion/belief discrimination. However, assuming some cases would have been made under race discrimination in the absence of legislation covering religion, we estimate the number of new cases to be around 1,000²⁶. On this basis, the compliance cost to business is expected to be around **£2 million**,²⁷ and the cost to government of around **£0.5 million**²⁸. These are all recurring annual costs.

8. Impact on Small Businesses

The Directive on religion or belief should have a smaller impact on small businesses than medium and large businesses. Small businesses will be expected to spend up to 30 minutes each reading the guidance and seeking advice on issues raised. In contrast, larger firms are expected to spend up to an hour on this process although, as a proportion of turnover, the cost may be greater for small firms. The costs of reading and understanding the guidance for each small business will be about £11. The total cost to small businesses is, therefore, about **£13 million**. Further, small firms are not expected to produce any guidance on these matters. The additional costs of training are less likely to be borne by small firms, as they are less likely to train their workers. As regards to enforcement, however, there may be a larger impact on small firms, as these are more likely to be taken to employment tribunals than larger firms.

²⁵ Employment tribunal service, management information 2001/02.

²⁶ Employers, in general, win about a third of all cases. Assuming that employers comply with the legislation, we assume that there will still be $(1/3 \times 3000 =)$ 1,000 cases a year.

²⁷ The average costs of a tribunal case to an employer are £2,000. The calculation above will be an overestimate as it includes awards paid to individuals. We assume full compliance in an RIA and therefore do not include cases won by the applicant. $£2000 \times 1000 = £2$ million.

²⁸ The average costs of a tribunal are £540 to the Employment Tribunal Service. $1000 \times £540 = £0.54$ million.

9. Competition

Removing firms' ability to discriminate on the grounds of religion or belief will enhance competition in the labour market. Labour market competition may also benefit from an increased pool of applicants, increased training and improved promotion prospects. We have been unable to identify any market where competition between firms may be affected by this regulation.

10. Benefits to the Taxpayer

The Exchequer gains tax and national insurance revenue from the gains from recruitment, training and promotion. These gains are just transfers from employees and employers to the Exchequer²⁹. We do not attempt to quantify these.

11. Summary

This summary consists of the quantifiable costs and benefits as well as the non-quantifiable ones. There are many non-quantifiable benefits such as the improved working atmosphere, greater opportunities, and more diverse workforce due to more transparent promotion and training practices. The non-quantifiable benefits outweigh the non-quantifiable costs.

In total there are net quantifiable benefits to the proposed legislation. Even considering employers only there is scope for net benefits. The costs to employers consist of a one-off cost of nearly **£14 million** for getting to grips with the legislation and an annual recurring cost of **£2 million** for defending tribunal cases. Individuals gain about **£9 million** each year. There is a loss to the economy of **£7 million** in the first year but there are recurring net gains of **£7 million** each year thereafter. There is, therefore, a **net quantifiable gain to the economy** from the removal of discrimination on the grounds of sexual religion or belief after just two years.

²⁹ The Exchequer may also gain from the reduction in social security benefits as previously unemployed groups are encouraged to participate in the labour market.

The total costs and benefits are presented in the table below.

Summary of Costs and Benefits for Religion or Belief	
Employers	
Benefits	
General	Benefits for business are significant but difficult to quantify precisely. They include ensuring more effective matching of abilities to jobs; better retention of skills and knowledge; avoiding sickness and long-term absences; and better motivation more generally among the workforce. Employment policies based on equality help to avoid complaints and costly tribunal cases. A diverse workforce can be more creative, help business reach wider markets, and create a more positive image. All of these benefits aid productivity.
Costs	
Awareness & guidance	£13.7 million (one-off) plus small additional cost for producing guidance
Recruitment/Advertising	£0.2 million
Training	Costs of providing additional training
Promotion	Costs of identifying the right workers
Non-wage	Some additional costs incurred for non-wage benefits given to employees
Enforcement	£2 million (recurring)
Total Quantifiable Costs to Employers	£13.9 million (one-off) £2 (recurring)
Individuals	
Benefits	
General	Greater opportunities to match abilities to available jobs; to secure development and training; and plan career progression. Avoiding sickness and long-term absences. Allowing time off for religious festivals. Flexible working over hours, days and weeks to accommodate cultural needs.
Recruitment	£9 million (recurring)
Training	Greater opportunities, increased wages and improved skills.
Promotion	Better matching and greater opportunities.
Total Quantifiable Benefits to Individuals	£9 million (recurring)
Taxpayers	
Benefits	
General	Benefits are difficult to quantify but include increased tax and National Insurance Contributions from recruitment, training and promotion. There may also be some marginal reductions in social security payments as more people are encouraged into the labour force.
Costs	
Awareness and Guidance	Information and awareness costs
Enforcement	£0.5 million
Total Costs to Taxpayers	£0.5 million