

have been reporting excessive work pressures leading to large amounts of unpaid overtime, as they struggle to deliver excellent performance with less and less support.

**It appears that what has really happened is that money allocated for salary increases has been used instead to report a greater decrease in operating costs (down 2%) and improve the cost-income ratio (by 5%).**

**So if in 'good years' staff are treated so appallingly through being expected to tolerate salary increases that are lower than paid to colleagues working in Retail - and endure large staff reductions - what should we expect if there is a 'bad year'?**

***"total cash reward for you has never been higher and as our profits grow so will the pot"***

Where is the evidence? After all, Commercial's top management is developing a penchant for not being quite straight with staff!

We would expect as a bare minimum that Total Pay should increase year on year to keep track with inflation, but is it increasing at above the rate of inflation to genuinely reflect the excellent performance of the business unit?

Of course, the Pay Pot will not grow as much as it should if pay increases are withheld each year; since it is based on the total salaries paid in the business unit which have, as we now know, been unjustifiably held down.

***"you are among the best paid staff in the industry"***

We do not accept that this is the case. What

evidence can Senior Management provide to substantiate this claim?

***"the share price gains we have seen have been driven by what you have done"***

At last we agree. But if top management accepts this is the case, why is it paying its "winners like losers".

After all, by restricting pay increases to the rate of inflation rather than the Pay Pot - or for that matter failing to match increases in average earnings elsewhere in the UK - Commercial Staff salaries are falling backwards relative to people working both inside and outside of the Lloyds TSB Group.

***"why would I do this? just to annoy and demotivate you all?"***

Well this may not be the intended effect of the short-sighted and unjustified policy of "restricting pay rises to around inflation". But it is certainly the consequence.

And criticising staff for 'whinging' and 'moaning' - particularly when staff have been deceived - certainly will not improve the situation.

The facts are that despite some of the improvements in overall business strategy over recent years, which has been recognised by many staff, this good work will be undone if staff feel quite justifiably that they have been 'conned' out of receiving pay increases to which they know they were entitled.

**Mark Brown**  
Assistant General Secretary

2nd May 2007

All Members

# Unravelling of the Lloyds TSB Pay System?

When is a 3.8% pay pot not a 3.8% pay pot?

The answer is, when it gets into the hands of Managing Directors who seem to think that either they don't have to spend the pay pot or that they can spend it on whatever takes their fancy. Commercial Banking stand accused of not spending its pay pot for the last three years on salary increases but instead using it to fund bonuses. That is clearly contrary to the Bank's stated pay policy.

We have always suspected, but thus far have never been able to prove, that whilst on the one-hand the Bank says its pay pot is 'X%' the reality is that it only ever spends 'Y%' and that's why large numbers of staff throughout the organisation are still being paid below the rate for the job despite the fact that they will have been carrying out the same role for many years.

The difference between 'X%' and 'Y%' is either given back to the centre, presumably in the hope of currying favour with Eric Daniels when it comes to the end of year rating process, or they follow the Commercial Banking model which is to give the false impression to your staff that the two payments are the same.

The policy of not using the full pay pot on salary increases has been exposed by the Managing Director of Commercial Banking, David Postings, in a message to his staff about their "whinging and moaning" about the low pay rises they received this year. In that message which, we have produced overleaf, Mr Postings says, in a

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## The Missing £1.6 million

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way which puts every Managing Director on the spot, that for the last three years he hasn't used all the pay pot for basic salary increases, which is what it should be used for. Instead they have used it to increase the level of the bonus pot. How many other Managing Directors in the Group have manipulated the pay system in the same way?

We've calculated that over the last three years £1.6 million has been skimmed of the pay budget for Commercial Banking and diverted to a fund to be used for bonuses. Staff are bound to ask "Who has received the Commercial Banking money?"

LTU have asked the Bank to provide us with the pay pot spend for all business units covered by our pay negotiations for the last three years. Furthermore, to ensure the total transparency of the pay process LTU will also be suggesting that an internal audit team should be set up, consisting of a Full Time Official of LTU, Head of Employee Relations and a Local Director from the Branch Network, to ensure that pay pots have been used appropriately.

Overleaf LTU have reproduced the Newsletter we have issued to members in Commercial Banking. Members with any questions on pay can contact the Union's Bedford Office on 01234 262868.

In a recent Interchange message, David Postings (Managing Director, Commercial) confirmed what LTU has long suspected ... that Commercial / Business Banking has not been spending its full 'Pay Pot' allocation on salary increases over recent years. **In fact, we are told it has withheld 0.7% from salaries this year.**

**Despite the fact that the Bank's Compensation and Benefits Department has stated that "the pay pot is for use on salary increases only", Mr Postings has confirmed that money has been diverted from salary increases.**

**The intranet message lifts the lid on the pay policy that has operated surreptitiously within Commercial / Business Banking over recent years.**

## The Missing £1.6 Million

Mr Postings says that, over the last three years, average pay increases have been 3.1%. This means that, as a consequence of restricting pay increases in this way, **Commercial Staff are now being paid on average 1.6% less than they should be.**

**Put another way, this is equivalent to staff collectively being denied around £1.6 million a year in salaries that they should be receiving. And this is before calculating the longer-term loss of other benefits such as pensions.**

**But what is not clear is where exactly the missing £1.6m creamed off from salaries has been spent?**

## No Excuses

Mr Postings seems intent on blurring the facts over where the £1.6 million redirected from salary increases has been spent.

He points to higher bonuses this year. But bonuses are self-financed through improved business performance which - with profit before

tax having increased by £51 million or 26 per cent last year - are entirely justified.

Furthermore, bonus payments may have doubled over the last three years, but profits have increased by a similar amount over the same period. So additional bonuses should easily be financed from profits growth rather than diverting money from salary increases.

Of course, Mr Postings' veiled threat that if he paid the proper salary increases to which staff are entitled he would "have to reduce staff numbers" is at best disingenuous. After all, the business unit has been cutting staff numbers for some time and earlier this year announced yet more cuts.

## Mr Postings Comments - An Analysis

We have reproduced Mr Postings' interchange communication below.

So do his comments hold true or have any merit? Or are they exposed when subject to any serious analysis? That is the purpose of this section, by examining each key statement in turn.

### ***"This whinging (over pay) is getting me down" and that Commercial Staff should "stop the moaning"***

Well it may be news to Mr Postings, but denying staff the pay increases to which they are entitled means:

- \* Lower Pensions entitlement, which will have a lasting impact on staff when they eventually retire.
- \* Reductions in those other Staff Benefits linked to Basic Pay (Flavours, Sharesave, etc.)
- \* A lower overall pay budget upon which to calculate future Pay Pots. So staff will suffer from continuing smaller salary increases in future years.

So, staff have every reason to complain ... especially when only now has it been admitted that they have been receiving pay increases from a lower pay pot than the Bank centrally had been promoting.

They should be appalled by what amounts to a deception over how pay policy has actually been managed!

### ***"I myself did not receive a rise for 3 years"***

We of course suspect Mr Postings is on a

somewhat higher remuneration package than other Commercial Staff and therefore better placed to afford to choose to forgo salary increases.

We also imagine he received a substantial increase in pay around three years ago when he left Barclays to join Lloyds TSB!!!

### ***"more than double the bonus pot in the last 3 years and put an extra £600,000 in recently"***

No-one should expect anything less, since bonus arrangements are designed to be self-financing and based upon the business unit's financial performance.

The fact is that over the last three years, Business Banking's Profit Before Tax jumped from £106 million in 2003 to £214 million in 2006. That is more than a doubling of profits over the period.

Rather than boasting that the bonus pot has doubled over the last three years, the real question for Mr Postings is why the bonus pot isn't bigger!!!

What's more, we estimate that the "extra £600,000" is worth less than the amount taken from salaries!!!

### ***"if we have a bad year and I have paid you too much then I would have to reduce staff numbers"***

Complete rubbish. The fact is that the business unit did perform exceptionally well last year. This was the result of both improved performance and lower staff costs. The latter achieved through a combination of slashing staff numbers where many roles remained unfilled, massive reductions in support staff and, as we now know, withholding a large proportion of the negotiated and publicly declared Pay Pot.

A further reorganisation was announced earlier this year involving yet more staff reductions.

No doubt the declining staff numbers helps explain why so many Business Banking Staff

#### Interchange Message

#### **RE: PAY 'RISES' (OR LACK OF!)**

09-Mar-07 13.32 by David Postings

guys, freedom of speech is a key tenet of any successful business, but this whinging is getting me down. I have driven a policy of restricting pay rises to around inflation. I myself did not receive a pay rise for 3 years. why would I do this? just to annoy and demotivate you all? no. what I have done is link the total package and particularly variable pay to the financial outturn of the business. that has allowed me to more than double the bonus pot in the last 3 years and put an extra £600,000 in recently. this link between pay and performance is vital and the reason I restrict pay rises and push bonuses is simple. if we have a bad year and I have paid you too much then I would have to reduce staff numbers. If the pay rises (and lets not forget there have been many millions of pounds in pay rises over the last three years) are sensible which they are at an average 3.1% then we will be in better shape. total cash reward for you has never been higher and as our profits grow so will the pot. then it depends on your performance. You are among the best paid staff in the industry and the share price gains we have seen have been driven by what you have done and the approach we have adopted to linking bonus to outcomes. so, team please stop the moaning and lets focus on beating the competition so I can pay you bigger bonuses again this year.