

Work and Pensions Committee

Oral evidence: Executive pensions, HC 2268

Wednesday 24 July 2019

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Members present: Heidi Allen; Frank Field; Ruth George; Steve McCabe; Nigel Mills; Chris Stephens.

In the absence of the Chair, Heidi Allen took the Chair.

Questions 75-105

Witnesses

I: Dominic Hook, National Officer for Finance, Unite; and Ged Nichols, General Secretary, Accord.

Examination of witnesses

Witnesses: Dominic Hook and Ged Nichols.

Q75 Chair: Thank you very much for joining us this morning. Frank is running late, so you've got me chairing the session instead. Just for the sake of the cameras, before we begin the questions, will you introduce yourselves and say what organisation you are from and what your role entails?

Ged Nichols: I am Ged Nichols, the general secretary of the Accord trade union. I am the lead negotiator and responsible for external affairs in the union.

Dominic Hook: I am Dominic Hook, national officer for the finance sector in Unite the union. We represent members across all the main banks, including Lloyds, RBS, NatWest, HSBC and Barclays.

Q76 Chair: Thank you. As you know, we are here to talk about the pensions of chief executives and executives relative to the workforce. Will you start by giving us a flavour of your views on how the remuneration of executives through pensions should look, compared with the other employees in an organisation? Give me your sense of the fairness of that.

Ged Nichols: I think they should be reflective, and I think the recommendations of the Investment Association would be supported by the majority of the workforce. There are not many employees in many companies who think their chief executive is under-rewarded, but when you add into that long-term incentives and pension arrangements, I think people generally take a dim view of it. They have more immediate concerns about their own job security, pay and benefits, and so on, so I would not say it is something that exercises union members a lot, but certainly in Lloyds Banking Group, for the people who remain in defined-benefit pension schemes and who had a cap imposed on the growth of pensionable pay in 2014, the imbalance between how they feel they are treated and how some of the executives are treated is an issue.

Q77 Chair: Before I come to Dominic, on that point, we recently took evidence from Stuart Sinclair, who is chair of the Lloyds remuneration committee. He said that people consider their boss to be a "winner", that everybody loves him and that they are happy for him to have this different level of pension remuneration. Is that how members articulate it to you?

Ged Nichols: I was rather surprised by that comment, I have to say. I do not know what the evidential basis for the statement was. It is certainly not the view reflected by union members across the piece. The chief executive is not unpopular, given some of the difficult things that have had to be done and the jobs that have been lost over the last 10 years, but whether people equate that with him being worth his weight in gold is



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another matter. I was surprised by that statement, and I do not think most union members would agree with it.

Q78 Chair: Out of interest, just anecdotally, was there any kickback after our session? Did any of your members contact you with a view on that?

Ged Nichols: A few. There is a climate in the bank of existing employees not speaking out; but through social media and other platforms, people who have left the bank through either redundancy or retirement, but who are still associated with the union, were a bit more outspoken. But people were asking, "Well, I was never asked whether I was happy with it, so how could that statement be made?"

Q79 Chair: I am interested that you said there is a climate of people not being able to speak out or being afraid to speak out. I have worked in organisations where you kept your mouth shut and you didn't really get involved, but we learned about Hive, some kind of employee feedback system—is that right?

Ged Nichols: Yes. That is a kind of internal Facebook, and there is quite a bit of traffic on that. We do not have access to it, because we are outside the organisation, but some of our members contribute to the discussions on Hive, and they let us know what is going on there. I am not aware of what the Hive traffic was in response to the statement made by Mr Sinclair.

Q80 Chair: Dominic, how about from your point of view?

Dominic Hook: We did get some comments, which we were not surprised to receive. What are our members' concerns? Job security and their own pay and benefits. That is what we have concentrated on for the last few years, given that there has been so much change in the bank. We have lots of long-standing employees who are members and, despite everything they have had to put up with—there is a bit of a survivor syndrome in many places, with so many colleagues and friends having been made redundant, branches closed and jobs lost—they are very loyal to the bank brand. They see themselves helping customers every day, whether it is in a branch or a contact centre. But chief executives come and go, frankly. They do not dislike the current chief executive, but they are not singing from the rooftops that he should be paid at the level he is, whether that is his actual pay or with his pension on top.

Q81 Chair: What does that do for how employees feel? They are there through thick and thin, sticking at it and doing their best to keep the bank's head above water, and then they hear, "He's worth so much more than you are." How does that make them feel?

Dominic Hook: We know from surveys of our members that a lot of people are doing a lot of unpaid hours. You might be contracted to work 9 to 5 in a branch, for example, but you need to be there before the branch opens and there may be a team meeting beforehand. So quite a lot of unpaid hours are being stacked up. When you are being paid only £18,000 a year—or £25,000, as a branch manager, to run a branch—this builds up. People are unhappy that they are doing those hours for nothing. If you

then compare that to people being paid an incredible amount of money, of course, it is a difficult job, and people see that, but is it worth 300 or 400 times what they are being paid? I would say they do not think it is.

Q82 Chair: What would your members like to happen?

Ged Nichols: Our members would like their pay and benefits to be improved. If there is a reduction in the chief executive's pension arrangements or remuneration, that might be a totemic issue, but it will not improve the quality of their working lives, make their jobs more secure or make them better paid. Our negotiating agenda is formed by our members and it is focused on how we try to ensure that they are treated well as organisational changes inevitably take place; how their pay and reward is put together, making that as fair as possible; and how they are treated at work. We have made some progress in recent years.

That issue would not be the highest priority for our members. They are more concerned about their own job security and financial interests.

Dominic Hook: There is a two-tier workforce: the people who were lucky enough to join the bank before the final salary pension scheme was closed, and those who have joined in the 18 or 19 years since, who do not have access to it. There are very different views from newer employees compared to longer-standing ones, but what is of most interest is, "Is my branch going to close today? Will the robot that is being invented take my job as a contact centre worker?" Those are the things that are most of concern.

Q83 Chris Stephens: I am thinking back to when I was in local government and alterations to staff pensions was a hot topic in the workplace. When the employer comes to you gentlemen to start negotiations, and you negotiate on behalf of the people you represent, are the pension arrangements of the executives a starting point for you in trying to get the best for your members?

Ged Nichols: It would have been nice to have been involved in some negotiations on pensions matters in the recent past, to be honest. When Lloyds Banking Group imposed the 0% cap on the growth of pensionable pay in 2014, we had a consultative ballot for industrial action, which unfortunately did not get the level of support we had hoped for. Since then, the bank has regarded the issue of the defined benefit pension scheme as a closed issue. There is still some consultation on it on going-forward issues, but to describe that as negotiations would be an overstatement. Certainly, our recognition agreement goes up, like in many organisations, to only a certain level and it does not include the executives. Of course, we would use anything that we gleaned about executive pay and reward in those negotiations to try to bargain to the best of our ability for what our members will receive.

Dominic Hook: Of course, if we are looking at payrises, we are always going to compare the payrise on offer to our members with the payrise or increase that the chief executive or other senior colleagues have had. There is always that comparison but, as Ged said, it has been incredibly



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difficult to retain final salary pension schemes. The battle for many of those was lost a long time ago, as it was in Lloyds when they closed it to new entrants. That has been the case across the whole finance sector, really. There are still schemes where people are paying in, but there are lots of places where there is no final salary pension scheme on offer to anyone.

Q84 Chris Stephens: In your view, what is the appropriate relationship between executive pensions and those of the rest of the workforce?

Ged Nichols: I think they should be the same. I know that the recommendations from the Investment Association are that executive pensions should reflect the pension arrangements for the majority of the workforce. We support that. I think that Lloyds Banking Group will deliver that in time. Whether they just review the make-up of executive reward, and what they lose on the pensions they will gain somewhere else—I would not be surprised if that happened, but generally the workforce would be more supportive of the same pension arrangements applying to executives as to everybody else.

Dominic Hook: People understand that a chief executive should get paid a lot. Whether it should be the “a lot” that it is, is something that they might disagree with. If you asked members, I am sure they would say that everyone should have the same pension scheme. There should not be an executive pension scheme. It should be the same pension scheme for everyone.

Q85 Chris Stephens: Other banks, such as HSBC, have adopted the Investment Association guidance. From what you have said, Ged, you are confident that it will happen eventually. Have you approached Lloyds Banking Group and said, “We want the same as HSBC or other banks”?

Ged Nichols: Yes, and as I understand it, the remuneration policy goes to the shareholders; it is a three-yearly policy. HSBC were a bit ahead of the timing of Lloyds. I think Lloyds’ one comes up in 2020 at its AGM. In response to our questions, they have said that they are open to a widescale review of executive remuneration before putting proposals to shareholders at the 2020 AGM.

We are involved in quite detailed discussions about a new approach to pay and grading for everybody in the bank anyway, as part of a culture change away from some of the old bureaucracy and hierarchies within the business. We are hoping to complete that this year. Hopefully some of that will be reflected in the approach to executive reward that they put to the AGM in 2020. It is clear to me that their intention is to comply.

Dominic Hook: People want it to be fair. That is what they want to see. It seems like the guidelines from the association would be fair. That is what people would expect to be implemented—the sooner the better. If they have to wait another year, I think people would be prepared for that, but they just want to see fairness.

Q86 Chair: On the way that the IA has badged companies amber or red, I find



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it a bit sneaky that, with António, Lloyds got an amber. That felt to me like it should be straight red. I do not know whether your smiles answer that question or not.

Dominic Hook: They will point to the voluntary reduction of his pension as to why it is amber and not red.

Chair: Such a generous reduction, too.

Ged Nichols: I would have to check the VAR on that one before deciding between red and yellow. That is not a decision that we were part of. We noted it.

Q87 **Chair:** But you would want to see change as soon as possible?

Ged Nichols: Yes, within the timescales we are talking about; the next AGM is only in May next year, so we are in the process of quite detailed reviews of remuneration for all employees. I hope that that will bring greater parity between the construct of the executive reward and the construct of other staff reward, so there is a greater community of purpose than there perhaps has been historically, when executives have been treated very differently.

Chair: It is good that you have the IA in your corner, at least, saying that there needs to be some fairness and some parity.

Ged Nichols: Yes.

Q88 **Nigel Mills:** I suppose there are two ways of achieving parity: you can either reduce his pension, or increase everybody else's—but I suppose there is very little chance of that.

Dominic Hook: If you look at the deficit of their final salary scheme, it is unlikely, frankly, that we would get an improvement in that kind of way. The contribution for employees from the bank is 13%, which is not the highest in the banking sector, so there could certainly be improvements there.

Ged Nichols: Our union's policies are set by a biennial delegate conference, and so our policies and objectives are set by members. They clearly want their pay and benefits to be improved and a transparent and equitable reward system in the bank. We have never had a policy proposal put to our conference that we should campaign against the chief executive's pay or pensions, so that frankly is not a priority for us. You are right that what we are interested in doing is narrowing the CEO pay gap by improving the pay and conditions of the majority of the workforce.

Q89 **Nigel Mills:** If there was some more money around for remuneration, do you think your members would prefer a higher pension contribution or a payrise?

Dominic Hook: A payrise.

Ged Nichols: There is an issue, because there is a profit-sharing scheme in the bank where a percentage of the bank's profits create a pool for



distribution. One of our issues is that that distribution is grade-related, so the higher your grade, the higher the proportion of that variable pay that can come through that pool. We have been trying to say to the bank that, again, they could get a greater buy-in and community of purpose if everybody got the same level of variable pay through that system, so that António can have 10% and people on the frontline can have 10%, say. His 10% will be worth a lot more, but at least you would have that flow-through. The current approach, which is grade-related, is perceived as particularly inequitable and we are campaigning to have that changed. We have secured some success with the bank this year: we have a profit-sharing scheme for the lower grades, which means there is less risk for them, but we would like to see that reflected throughout the organisation.

- Q90 **Ruth George:** Stuart Sinclair said that they are in the middle of redesigning the pay policy, and you say you are in the middle of negotiations at the moment. Do you feel that those negotiations are being conducted fairly and equitably?

Ged Nichols: For all its faults, Lloyds Banking Group is not a bad employer. There is an interest at the executive level in industrial relations. We have good access to the senior leaders in the bank to discuss the horizon, the issues that are having an impact on the business and what outcomes might result. They have sought agreements with us over the past couple of years that have been difficult in pay negotiations, but they have wanted to get deals done, and we have had strong support from members when we have balloted them on the outcomes of those talks. Industrial relations in Lloyds Banking Group are not bad. They have delivered benefits for the majority of the workforce through engagement over the past few years.

Dominic Hook: When it comes to consultation about change and job losses, the bank does more than it needs to legally, by some measure. You couldn't say they are just doing what they have to under the law and trying to get away with it. We have a good relationship generally and they are able to get things done.

- Q91 **Ruth George:** We were given great hope at the meeting that they were at that this new pay policy, which was going to be completely redesigned, would bring much more equality into their pay policy. I think your smile says it all.

Ged Nichols: I share that hope, but the proof of the pudding will be in the eating. The economic and political instability is not helping the business at the moment, so it is a tough time for trying to negotiate what would be potentially significant increases in fixed costs. We are trying to do it but, until we've finished and until our members have had the opportunity to vote on those proposals, it is work in progress.

Dominic Hook: As HSBC said, one of the things we have been able to do is have a fixed pay-rise for lower graded staff that is higher than for more senior staff. We have worked together to implement that. A 2% payrise for somebody on a lot of money is a lot more than a 2% payrise for somebody

on a very low salary. Increasing the payrise for lower graded staff is much more important to our members, because that is where they are. That is part of what we are trying to do as well.

- Q92 **Ruth George:** Some of your members will be shareholders in the banks. I am sure you are aware that it was reported that the directors wrote to the independent staff union, Affinity, before the AGM, trying to persuade staff to vote in favour of the remuneration package. Do you have any views? Is that something that you would engage with, with your members?

Ged Nichols: I am not sure that that is an accurate reflection of what happened. I think the bank was encouraging employees to vote as shareholders. They didn't indicate which way people should vote in particular. Accord is a shareholder in Lloyd's Banking Group and we enjoy our annual vote on executive remuneration.

The reality is that the number of shares owned by employees is tiny in comparison with the shareholdings of institutions. As far as the AGM is concerned, even if you campaigned for all staff to vote against the executive remuneration package, it would still go through, on the basis of the institutional shareholders. I think the last time it was 97% in favour at the AGM.

You are wasting your time if you are going to campaign on that. What people want us to do is work hard to improve their pay and conditions. As I say, that is what members charge us to do, not to campaign against executive pay or pensions, even though some people are not as supportive as they could be or don't like it, but it is not a priority for them.

Dominic Hook: Of course, we are also independent trade unions. We have been working on these issues for a long time. If we wanted to organise a demonstration outside an AGM for a particular reason, for example, we would do that. We have done that over the years at different banks on particular issues.

We don't want to be having to have our debates there; we want to be able to negotiate properly with an employer, so that we can reach a deal that is beneficial to both sides—that is what negotiation is, of course—without having to go to an AGM.

If our members said, "Actually, this has broken down so far and we want to vote in a particular way at an AGM," we would, of course, facilitate that. If there is a demonstration outside with banners and flags, we would do that. We were the union that took the Bank of England staff on strike just a few years ago, so we are prepared to take that action where it is necessary.

- Q93 **Ruth George:** I think the vote this year was 91.9% but in 2018 it was 79%, so have feelings improved since 2018 at that AGM?

Ged Nichols: Again, the AGM is for shareholders. We don't try to organise staff voting in relation to AGMs, because we will be outvoted by



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institutional shareholders. Anyway, it wouldn't be a priority for us; it would just be a bit of showmanship. It wouldn't help us to get the pay and conditions improvements for our members—greater job security and better conditions at work—which are our priorities, based on what members have asked us to do.

Q94 **Ruth George:** Is there less disquiet this year than there was in 2018?

Dominic Hook: I think that difference is probably only a handful of institutional investors deciding to vote in a different way, for whatever reasons they have. I suppose the bank is looking better than it was then and that is perhaps part of the reason.

Chair: Final question from Steve.

Q95 **Steve McCabe:** Can I just check, does the group sell pre-retirement advice to its customers?

Ged Nichols: Do they sell it? There is a wealth management function in the business. People have recently been TUPE-d out in the new joint venture with Schroders. That's for wealthier customers, who can have access to those facilities, but generally I don't think there is a service or product that is pre-retirement planning for customers.

Q96 **Steve McCabe:** Just looking at the advertising, Lloyds suggest that other employers should give their employees quite a lot of help and support in planning for retirement. Do you do that yourself for your members?

Ged Nichols: I am trying to understand the question, because part of Lloyds Banking Group is Scottish Widows. A lot of pension and retirement planning may be provided through the Scottish Widows business; I am not as familiar with that as I am with some of the core banking areas. It may well be that that is where that recommendation comes from, either the wealth business with Schroders or with Scottish Widows.

Pre-retirement counselling for staff doesn't exist. There are information sources; there is an organisation called Validium that provides an employee assistance programme and gives advice and guidance on a whole range of issues. They provide online and other resources for staff to use, but it is definitely not pre-retirement counselling.

Q97 **Steve McCabe:** If I am one of your members and I am thinking about retiring, there isn't any obvious person or place to go to within the group, who would say, "This is what we advise."

Dominic Hook: There is a network called Stages, which is about stages of life. People get support from other staff members through that network; there is that kind of thing. There is the employee assistance programme that Ged mentioned, which is available to employees for advice, counselling, information and stuff like that. It is a specific service.

Ged Nichols: For Accord members, we pay for a tax and pensions advice service, so that if members need help with their pre-retirement planning and they can't access it at a reasonable cost through any other available



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means, then the union funds that service, which is free for members to use anyway. I guess we have identified a gap in the overall proposition, so that as a trade union, which is responsible for people when they leave the business as well, we have got an ongoing relationship. We fund that service.

Q98 **Steve McCabe:** And that is a union-provided service?

Ged Nichols: Yes.

Q99 **Steve McCabe:** I don't want to overdo this, but if you look at the Lloyds Banking Group's advertising overall, the impression that you would be given is that it is an organisation that believes people should be prepared for retirement, and given advice and support to help them prepare for it. It sounds a touch like, "Do as I say, but not as we do ourselves." Am I being unkind?

Ged Nichols: I am not here to defend Lloyds Banking Group. They have enough resources to do that for themselves. I am here to give an insight into industrial relations in the group, and particularly to help the Committee in relation to the questions about executive pensions and reward. As far as the brand issues and its propositions to customers are concerned, that isn't within our bailiwick.

Steve McCabe: Okay, fair enough. Thank you.

Dominic Hook: There is a pensions team, of course, in the bank that will provide information to people coming up to retirement. If you want to go early, we have to answer those questions. It is not like they are doing nothing, of course, but they won't be giving people advice—"This is a better option than that option." There is perhaps a gap there.

Chair: Thank you. Just before we close this session, Frank, is there anything you would like to ask?

Q100 **Frank Field:** I am sorry I was late getting back from Liverpool. Have you answered a key question about how the workforce received the news about chief executive pension contributions, which are way out of line with everybody else's? Has that been covered?

Chair: We have, but it is worth hearing again.

Ged Nichols: The chief executive is paid about 240 times more than the workforce at the lower quartile. Clearly, from our point of view, the way to close that gap is to bring up the pay rates for the majority of the workforce. The objectives set by our members for the union are not to campaign against executive pay or executive pensions, even though many people have their own views on those things. What they want us to spend our time doing is trying to make sure that their jobs are secure, that they are well paid, and that their conditions at work are as good as they can be.

Dominic Hook: Were we contacted by people saying, "Yes, it's quite right. We support how much the chief executive is being paid and his



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pension arrangements. We think it is a jolly good thing"? Of course, we weren't. In fact, people contacted us in the opposite way to say, "We haven't been asked this question." That is not what they think. Whether it is 200 or 400 times the pay of the lowest-graded people in the bank, it is a considerable amount. People accept that the chief executive should be paid more, and perhaps a considerable amount more, but the kind of gap we have got is immense. That is not something about which people are saying, "Yes, it's the right thing to do." They don't dislike the chief executive. They think he has done a good job. Equally, people have been working for the bank for a long time and, frankly, chief executives come and go.

Q101 Frank Field: When they appeared before us, it was presented as though this went down perfectly all right among the workforce. They have tried to wriggle since, and we have refused to accept their wriggling.

Ged Nichols: I did say that I was surprised by the statement that was made by the chair of the remuneration committee. I don't know what evidence he had to base that statement on, other than anecdotal stuff. We did get some reaction to that from union members, who were saying, "Well, it would have been nice to be asked before my view was put forward to the Select Committee. Frankly, we don't support the view that all the workforce are entirely happy with the chief executive's pay and pension." As Dominic said, he is not an unpopular chief executive. He has done a good job of bringing the bank to where it is now, compared with where it was when he took over, but there is a difference between that and saying that they therefore support the remuneration policy.

Dominic Hook: We would be quite happy to organise our members to vote for a motion on a proposal for the chief executive's pay and pension.

Q102 Frank Field: I described it as an example of greed at the very top, which is actually undermining capitalism. Would that be a view that you personally share?

Dominic Hook: There is such a problem with executive pay in this country. There is no need for somebody to be paid 400 times more than the lowest paid person in their employment. That is just wrong. There is a lot to be done about that, and a lot that could be said—it is not just Lloyds; it is lots of organisations.

Q103 Chair: Is it institutional?

Dominic Hook: Yes.

Q104 Frank Field: In creation nobody, generally speaking, is five times taller than anybody else, and very few people are five times more intelligent. It is a matter of taste, but most people aren't five times better looking than the least good-looking person, yet we look at this rewards package, which I thought was grotesque.

Dominic Hook: Yes, the Equality Trust has done good work on this recently—it did a report in May that shows that gap between the basic



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salary and the chief executive salary. There is good stuff in there that answers that question. It is a very big gap, and frankly it is wrong.

Ged Nichols: My final comment is that I think it's a fair reflection—if you think about pre-2008, and the bank chief executives who were all masters of the universe and had eye-watering remuneration packages, we were told that was because they were in international demand. They were the rock stars, and we have seen what happened to many of them. Since then, and even throughout the financial crisis, I don't think reward levels for senior executives have pegged back to what they were before the pre-boom levels. Perhaps that is something that needs to be addressed societally, and therefore we welcome and support the Committee's inquiries into this.

Q105 **Frank Field:** Small investors who put money in Lloyds shares, because it was one of the safest places to put money, were disabused of that fact, were they not?

Dominic Hook: Yes, and we have members with the Royal Bank of Scotland, for example, who were encouraged to buy shares as employees and lost a fortune. It was meant to be such a safe way of doing it. That is correct.

Frank Field: Thank you, and I am sorry I was late—I would love to have heard you.

Chair: Thank you both very much indeed.