

2nd December 2017

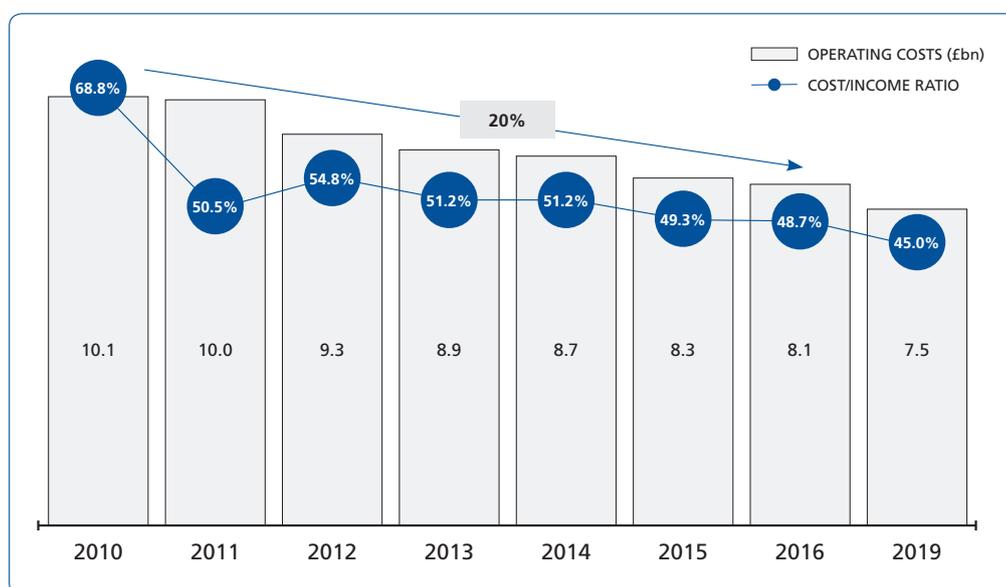
All Members Newsletter

The Dog That Never Barks

Members listening to the news over the last few days will have heard that the Institute for Fiscal Studies and the Resolution Foundation are predicting that average pay will not recover to its pre-crisis peak until 2025, 17 years after the pay squeeze began. Both of them go on to say the UK is on course for its longest fall in living standards since records began more than 60 years ago, with real incomes (which take into account inflation) now set to fall for 19 successive quarters.

Much of the debate since the budget has focused on the issue of productivity. Productivity is the amount of output the UK workforce as a whole can produce per hour of work. Productivity is essentially a measure of efficiency but it's a key determinant when it comes to wage growth. Calculating productivity for individual businesses is notoriously difficult so we have concentrated on 3 graphs: the cost income ratio (CIR) compared to operating costs, profit per employee and income per employee.

Graph 1: Lloyds Banking Group Cost Income Ratio v Costs, 2010 - 2016



The cost income ratio is widely regarded as a yardstick when comparing the productivity and efficiency of banks. A high cost income ratio is equivalent to low productivity and efficiency and vice versa. Graph 1 shows that in Lloyds Banking Group the cost income ratio has fallen from 68.8% in 2010 to 48.7% in 2016. It currently stands at 45.9% (Q3 2017) and the Bank's aim is to get it down to 45% by 2019. When contrasted with HSBC and Barclays, which both recently reported cost income ratios in excess of 60%, the productivity and efficiency of LBG staff is plain to see.

Underlying profit increased to £6.6 billion for

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the first nine months of 2017, an increase of 8%. Employee productivity in LBG has continuously improved over the last few years.

As Graph 2 shows between 2012 and 2016 underlying income per employee increased by 32% from £166,698 to £219,832 but average salaries across the Group have not increased by that amount. But let's be clear, reductions in the Bank's workforce played a much greater role in the improvements than did income gains. Over this period the Bank's workforce has fallen from 110,295 to 79,606, a reduction of 28%.

Now let us look at the profit per employee over the same period. Graph 3 shows that profit per employee has increased from £23,256 in 2012 to £98,824 in 2016, a 325% increase. So not only are staff in LBG more productive, they are also more profitable but none of that success seems to have been reflected in basic pay increases over the same period.

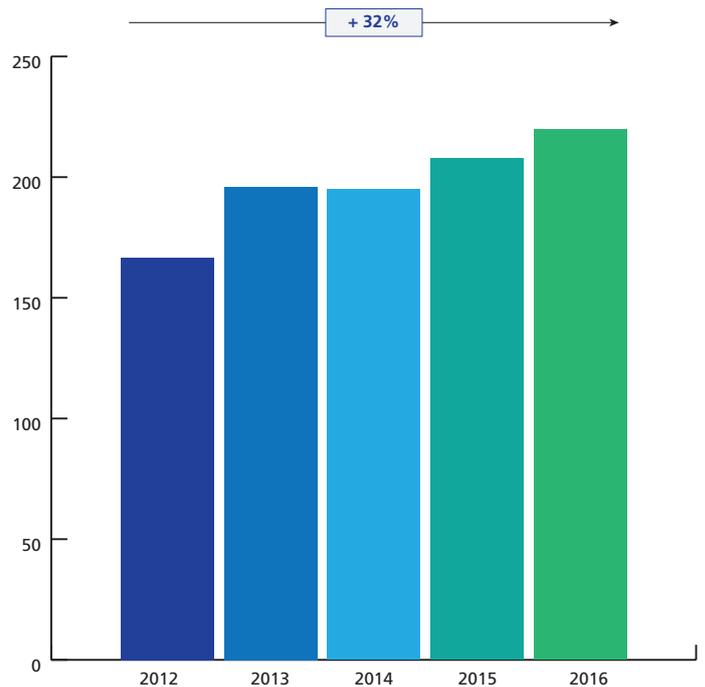
Against that economic and performance backdrop we believe LBG is going to try and get away with a 2.5% pay pot next year. Whilst a small minority of staff will get above inflation pay increases, the vast majority of staff won't and their living standards (adjusted for inflation) will be reduced yet again. Anything less than a 4% pay pot should be unacceptable to any trade union.

Sherlock Holmes famously talked about the significance of the dog that did not bark. If there is no loud barking when the Bank offers a pay pot of 2.5% again that's all the proof Lloyds staff need about the independence of Accord and Unite and the value of their so-called partnership agreement.

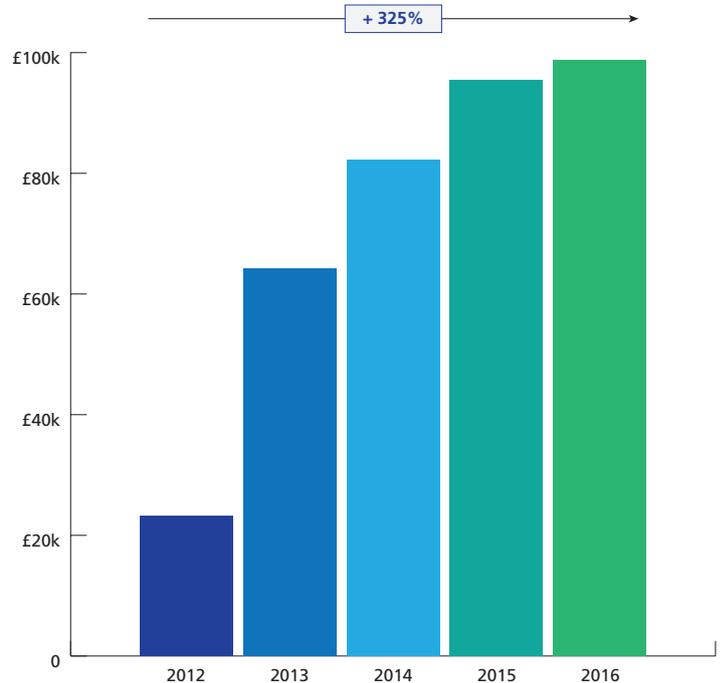
Moreover, Lloyds staff will not be fobbed off by a Zimbabwean style pay ballot in which nobody but a small cadre of zealots vote and the results, assuming they exist, are never published.

Mark V Brown
General Secretary

Graph 2: Lloyds Banking Group Income Per Employee 2012-2016.



Graph 3: Lloyds Banking Group Profit Per Employee 2012-2016.



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