

2010 THE NEW ERA FOR PAY?

Last year saw a number of unexpected changes with regard to reward. The UK Budget 2009 saw the introduction of the higher tax rate for individuals earning over £150,000 per annum, coupled with the loss of personal allowances affecting individuals whose total income exceeds £100,000 per annum. This was compounded by the changes in the taxation of pension contributions and the removal of higher rate tax allowances for high earners. Finally, there is the new Bank Payroll Tax with a 50% payroll tax being levied on banks paying discretionary bonuses in excess of £25,000, which is clearly having an effect on reward plans.

This has generated significant debate amongst City HR members, and the wider HR community, as HR Directors are being asked "when is best to pay our bonuses and are there steps we can take to minimise the impact of the new tax regime on our high earners?"

However, doing the 'right thing' by the employee and the government is a conundrum that many employers are facing at the present time. As at the end of January, three countries have had political intervention by their governments: the UK, France and the US. City HR has spoken to experts on these issues to capture current thinking.

Finance Act – UK Budget 2009

The new tax rate for higher earners comes into force on 6th April 2010 so the question here is what can employers do to minimise the effect on the individual?

Are base salaries being increased to improve individual's net pay status?

In principle most employers are careful to avoid any commitment to guaranteeing net pay in any form. They tend to the view that taxes are the individual's responsibility. However, there is also concern amongst members that any widespread effort to mitigate the new tax regime will create pressure to follow suit. At this stage, and

especially in light of the steps taken by HMRC in recent years to clamp down on any avoidance plans it is likely that employers will not be taking steps to mitigate this effect.

What are organisations doing on the pensions front?

This is a little less clear. Prior to the last round of changes (the A-day changes) many employers had in place arrangements to mitigate the effects of the ceiling placed on pensionable earnings. It is very likely that these established tools will be implemented so as to allow employers to continue to provide a pension plan for higher paid staff. Consideration is also being given to EBTs and EFRBs with employers speaking to their advisors about the potential benefits of introducing such schemes.

Bank Payroll Tax

Traditionally, most banks pay their bonuses between mid December and 30th April, with one UK bank known to typically pay out in June. Initially, the school of thinking was that most banks would – where possible – pick up the bill on the 50% tax levied on bonuses over £25,000. However, with the US introducing its 'financial crisis responsibility fee' in late January, will banks change their strategy?

When Is It Best to Pay?

So when you combine the issues of the new individual tax rate with the bank payroll tax, when is the best time to pay your bonuses? Unsurprisingly, there is no straight forward answer to this question.

David Clifford, the City HR Committee Member responsible for compensation, recognises that banks traditionally announce bonuses between Jan and March, with the exceptions noted earlier and – that given the highly politicised nature of bonuses – some have delayed their announcements. However, he does think that:

"Almost all banks communicate their bonus decisions in February/March and then, for ease of administration make payments in the next payroll, often in April. In many cases final eligibility to receive a bonus will depend on the individual being in service and not being in a notice period on the date of payment. As long

as there is no specific commitment (for example, where the April payroll is identified as the payment date) it could well be possible for the employer to action a special payroll run before the end of the tax year – reducing the time between commitment and payment. This would also allow for the payment to occur in the year tax to which the performance bonus relates. However, tax rates do go down as well as up so one day the reverse may be true but perhaps that is not the immediate concern.

As ever, this is never a simple issue but it is worthwhile taking advice on paying out sooner rather than later."

David also notes that a significant number of bank employees are not in the high earner bracket, nor qualify for bonuses over £25,000 particularly within the small to medium sized banks and across the retail sector. It would therefore be worthwhile for HR Directors to analyse their payroll – and the benefit, if any, of paying out early – before making a final decision.

What is City HR doing to help members?

Clearly, the issue of pay, pensions and bonuses is a moving feast, with opinions changing in light of political and media interventions of both a local and international nature. City HR will stay close to this issue through notifying members of:

- roundtable discussions and discussion forums.
- presentations and seminars, including the recent FSA: Applying the Remuneration Code and Preparing for ARROW visits
- expert responses to changing compensation, tax and pensions regimes.

Above all, as this topic is such a moving feast, City HR will track the final outcomes in terms of what firms actually did and will cover the issues of bonus payouts 2009, Bank Payroll Tax and Compensation Structures pre and post April 2010 in the City HR Benchmarking Survey, being launched in March with data provided upto the end of May.

Members should feel free to contact the City HR office if they would welcome short notice group think tanks on this – or any other – issue and the team will facilitate this process.

Inside this issue

- City HR Joins Roundtable Discussion with EHRC
- Snow White makes City HR Debut
- City HR Academy News

CITY HR JOINS ROUNDTABLE DISCUSSION WITH EHRC

The publication of the EHRC's Financial Services Inquiry on 'Sex Discrimination and the gender pay gap' caused concern amongst members and prompted City HR and Fox Williams to conduct a mini-survey to solicit views on gender diversity.

Effectively, the EHRC found that there was a mean full-time annual gross earnings pay gap of 55% (compared to a national gap of 28%) and a gender bias in bonus and performance pay of 45%. In 86% of cases, women recruits had lower starting salaries. The EHRC also concluded that career progression was slowest in the age 24-39 age bracket, primarily due to child care.

City HR asked 29 members across a range of financial service industries to comment on this and highlights of the results are shown in the graphs on the inset panel of this article.

However, a key outcome from our 29 participants was the need for City HR to formally participate in EHRC roundtables together with the development of a best practice policy and checklist specifically relating to gender issues. Both of these outcomes have been adopted by the association and will form the basis of our working parties this year. So where does City HR stand on Gender Diversity?

Priority was given to meeting with the EHRC to understand the background to the report and the analysis that led to its findings. An invitation was secured to attend their feedback meeting on 15th October. This led to a second 'one-on-one' meeting at the EHRC's offices, attended by Jane Mann, Head of Best Practice, Louise Redmond, Chair of the Diversity Working Party and Andrea Eccles, Director and Co-ordinator of City HR's activities.

The EHRC's representatives outlined their methodology and data sources in gathering and interpreting their survey and explained how their findings had led to formal recommendations. In essence, these were to:

1. Appoint a board member to set the tone, mainstream the issues and drive change.
2. Implement a staff training and communications programme on gender equality and diversity and on equal pay to influence the understanding and behaviours of decision-makers within the organisation.
3. Incorporate equality and diversity into organisational and individual objectives.
4. Develop and carry out non-discriminatory job descriptions and analytical job evaluations that are flexible enough to meet the business' needs but that set a clear framework for recruitment, promotion, pay and reward structure.
5. Undertake annual equal pay audits and publish the data.
6. Make sure maternity, paternity and parental support schemes are in place and are effective.
7. Monitor the implementation and effect of policy on gender equality.

Furthermore, the EHRC outlined its plans to establish reference groups in January 2010 with a final report to be published in March 2010. This is where City HR members can make a contribution.

Essentially, the EHRC would welcome support from City HR on the following:-

1. The review of final recommendations pre-publication
2. Co-hosting a launch event with CHR members for the recommendation publication
3. Connecting the EHRC to members that would like to be used as examples of good practice with the media campaign for the recommendations publication.

The committee has taken on board these items and can certainly help with the first two. The last presents the membership with a superb opportunity to showcase some of the best practice that goes on around promoting gender equality within organisations. The research from City HR's publication 'Diversity in the City' (published Nov 2008 and available via www.cityhr.co.uk/downloads) established that there had been significant activity in this area and City HR would like members to provide case studies for onward submission to the EHRC. These should be directed to Andrea Eccles.

At the last roundtable on 8th February, the City HR representatives learnt that there may be an alternative to the Equality legislation due before Parliament and proposed for 2013 regarding gender pay reporting for employers of 250 staff upwards. The EHRC has suggested two courses of voluntary action:

- Companies could publish
 - i) the single figure difference between average hourly earnings of men and women
 - ii) the difference between the average basic pay and total average earnings of men and women by grade and job type or
 - iii) the difference between male and female starting salaries
- Companies could subscribe to a 10 point Charter, which extends the 7 criteria outlined on page 2, which is due for consultation and launch this year. Watch this space.

In the meantime, Louise Redmond has agreed to Chair an update to the Diversity in the City Best Practice Guide and City HR and has recently published the scope of her gender equality review in order to set up a new working party comprising line HR practitioners and market experts. It will clearly address most of the issues covered in the EHRC's recommendations as outlined above.

Jane Mann will Chair a subcommittee to look at the underlying legal issues and it is hoped that a number of the member City

Law Firms will participate in this review. This group will join forces with Louise Redmond's working party.

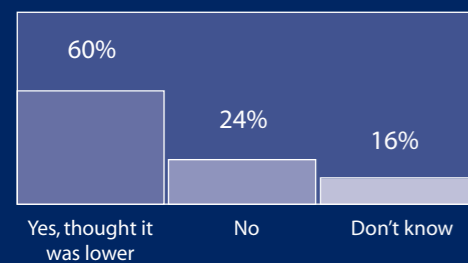
According to Mann, there are a number of legal questions that must form part of the review and to which further member input is required. These are:-

1. What is your reaction to the EHRC's proposal that employers undertake an annual pay audit and publish the data? Would companies be concerned that this might prompt equal pay litigation? Is there a risk that the figures could be misinterpreted?
2. Have you carried out an objective job evaluation exercise? Do you already have job descriptions for all roles supported by the competency framework?
3. Does your company already have a board member responsible for diversity?
4. How would your company react to more transparent pay structures including for bonuses?

The results of the EHRC Financial Services Investigation leave the industry with much to prove on the topic of gender equality. City HR is prepared to take on this mantle if the membership is prepared to provide best practice input and case studies or share their views. Please don't be shy in jumping on board – oh, and mind the gap please!

Louise Redmond is now recruiting volunteers to progress our study with the first meeting scheduled for 22nd April. Please contact City HR for her programme outline.

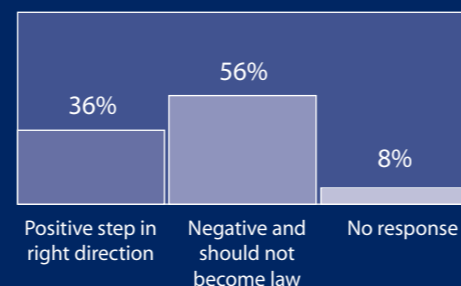
Were participants surprised by the size of the gender pay gap?



What factors might impact these results?

Few senior women in top jobs	96%
Flexible working/part-time contracts	76%
Career choice	56%
Few women in revenue generating jobs	68%
Job that fits looking after family	60%

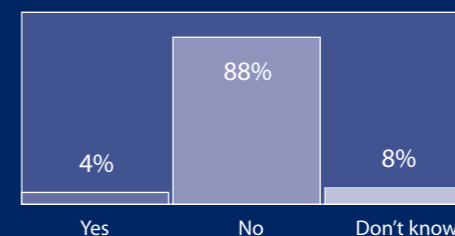
Transparency: should employees have relevant pay discussions?



What are the main Female Support Tools?

Enhanced flexible working practices	44%
Mentoring of Female Staff	24%
Monitoring of all gender data	20%
In-house Women networking groups	16%
Maternity leave mentoring	16%
External Women networking groups	12%
Career coaching for female workers	12%

Has there been a increase in female volunteers for redundancy?



What do you want from City HR?

Participation in EHRC roundtables	52%
Development of Best Practice	52%
Events with expert speakers	40%
Seminar on Compensation Issues	36%
HR training programmes on gender	32%

Snow White Makes City HR Debut

The usual tools of the HR and legal profession were swapped for panstick, false eyelashes, wigs, scripts, tiaras and tantrums for the City HR Pantomime 'Snow White and the 12 Months of the Year'.

Representatives from numerous City firms delivered a hilarious programme full of the usual panto twists, turns, humour and pathos. Hosted by Hammonds, David Whincup narrated a witty tale based on Snow White's year as an HR Director in the City, ably backed by the tuneful tones of the City HR Committee Singers.



The role of Snow White was played by Marlo Haas (Steps Drama), our pantomime dame was beautifully played by Richard Wilkes (also Steps Drama and pictured above with Marlo) and the Wicked Queen was played with suitable menace by Julie Skinner (JJ Associates). Our charm offensive was led by Dr. Charlie Easmon (The No 1 Health Group) as the Prince and Matthew Chester (Digby Morgan) as the faithful Huntsman.

The party morphed into the City HR Christmas Party, as we were joined by revellers who were happy to forgo the production but to join in the Christmas atmosphere.

Our thanks go to the event's hosts – Hammonds – and to the players, singers, producers and scene changers who made the evening so memorable. The programme and party for this Christmas will be a hard act to follow.

The City HR Academy – Important News

Current members of the CIPD will have recently received a letter which explains changes to the membership structure. This will be followed in April by the launch of a new syllabus and is part of the CIPD's overall plan to implement new professional standards and learning styles.

This has positive implications for our own City HR Academy in terms of programme content and delivery. In essence, our training provider, MOL, has provided an overview of the proposed changes and has developed two excellent plans.

The first plan is how to transition our current intake into the new syllabus, and the delegates concerned have been fully briefed by MOL in this respect.

The second plan is the implementation of the new programme for our September 2010 intake. These delegates will go straight into the restructured programme. Full details on the structure, content and style of the new programme will be on the website in mid April, following the formal launch by the CIPD.

Please contact the City HR office with any questions or to express provisional interest in the September 2010 programme.

High 'No Show' Rate at Free Events

Over the past nine months City HR has experienced a high incidence of 'No Shows' at free events. Naturally, we understand how busy HR professionals have been during this turbulent time and also know that sudden operational issues must take precedent.

However, there are catering costs to the Association and our Hosts that have to be absorbed and which either come out of your subscriptions or the generosity of the event sponsor.

In order that City HR does not waste membership money or lose the goodwill of our gracious hosts, could we please ask that you let us know if you wish to cancel. We do, of course, realise that emergency situations will still preclude some arrivals but at least we can be more prudent with your money.

Thank you – and we do still hope to see as many of you as possible at our events.

New Members

The following new members have joined City HR this year:

Hays Specialist Services

Linklaters

Heartwood Wealth Management

Forthcoming events

30 March Immigration: Update and EU Social Security Changes Breakfast Seminar
Charles Russell – £75 + VAT

21 April International HR – Change Management and Outsourcing Afternoon Programme
Eversheds and Orion Partners – £165 + VAT

22 April EHRC Project Working Party's inaugural meeting.
Chaired by Louise Redmond at 27 Austin Friars

25 May Member Forum – 4.30 to 6pm then Networking Reception
Charles Russell – Free

About to Commence

March to May
City HR Policies Benchmarking Study
Covering all aspects of HR (including responses to Reward issues re New Tax Rates, Pensions, Bank Payroll Tax, Changing Comp Structures, Bonus Payout 2009 vs 2008/7).

Results Due 1 August 2010

April to Sept
Response to EHRC finding on Gender Equality – What next for City HR Members?
A cross-market working party led by Louise Redmond to produce a response and guidance on this issue.

Call City HR now for further details



Supporting
City HR professionals

Committee Members

President, Stephen Sidebottom, *Nomura* • Chairperson, Robert Potter, *Jardine Lloyd Thompson*
Vice Chairperson, Nigel Holmes, *Societe General Corporate and Investment Banking*

Hon. Treasurer, David Barnett, *Mitsubishi UFJ Trust & Banking Corporation*

Members - Sheena Gibson, *Hermes Fund Managers Ltd* • Faith Jenner • Ian Nash, *Punter Southall Group* • Karin Rehacek, *Erste Bank*
Jane Mann, *Fox Williams* • Louise Redmond, *Bank of England* • Marc Hoodless, *Arqaam Capital*
Meena Anand, *Standard Chartered Bank* • Andrew Pullman, *People Risk Solutions* • David Clifford, *Fidelity International*

Published by

City HR Association, 27 Austin Friars, London EC2N 2QP • Telephone: 0207 670 1932/3/4 • Fax: 0207 670 1717
E-mail: info@cityhr.co.uk • Website: www.cityhr.co.uk