

PRESS CUTTING

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RBS may face legal action from own staff over profits pledge

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By Hamish Rutherford
City Correspondent

SENIOR RBS staff say they have effectively been given a 10 per cent pay cut after a profit-share scheme they thought was guaranteed was abolished. The bank this week ended the scheme, which had seen an extra 10 per cent paid to all eligible staff for the past 11 years.

But The Scotsman has obtained a letter to staff from the former chairman of RBS, Sir Tom McKillop, in March 2007 that suggests the payments would be made every year.

The letter could prove another headache for Stephen Hester, the new chief executive, as a leading employment lawyer yesterday warned it could leave the bank open to legal action.

Sir Tom wrote that while the payments had been at the discretion of the board in the past, the bank had decided to "remove this uncertainty" because of the confidence it had in its future prospects.

"For 2007 and future years, profit share will be set at 10 per cent of base salary and all eligible employees will receive this non-pensionable payment in March each year," he wrote.

Ronnie Fox, an employment lawyer, said the letter was "foolish" and that the bank was now committed to the payments. "The great advantage of the bonus system is that it is flexible. You can choose to reward good performance, and if performance is poor, you don't have to pay any bonus," he said.

"But I think Sir Tom took away some of the discretion and has entered into a contractual commitment to all eligible employees. If RBS takes it away, then employees can choose to treat themselves as constructively dismissed. I would say they have a legally enforceable right to 10 per cent of their base salary, in accordance with this commitment."

A staff member affected by removal of the scheme said that he was not aware of legal action being prepared: "Unless you were close to retirement, you wouldn't get involved as it would be career suicide."

Politicians have expressed outrage over bank bonuses, and last night John Mann, a Labour MP on the Treasury select committee, said RBS should not have paid any bonuses.

However, there was some sympathy, even from within the Labour Party. MSP John Park, Labour's spokesman for the economy, said middle managers had not caused RBS's problems.

"These are people who probably went into the bank after school and worked their way into a decent position. They are not the high-flyers, but earning a decent salary, and probably rely on their bonus. But they aren't the ones who were making the wrong decisions."

An RBS source said it had become clear to all senior staff in recent weeks that bonuses were unlikely, though "heads dropped" when they were told the profit-share scheme had been abolished.

An RBS spokesman said about 80,000 staff below managerial level who would have been entitled to the payments had their salary increased by 10 per cent. He declined to comment on Sir Tom's letter.