

**RECEIVED 24 FEB 2010****HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ**

The Rt Hon Tessa Jowell MP
House of Commons
London
SW1A 0AA

Your ref: 01100626

22 FEB 2010

A handwritten signature in black ink, appearing to read 'Tessa'.

Thank you for your letter of 17 February on behalf of your constituents, about a High Pay Commission.

In general remuneration is a matter for companies, their employees and their shareholders to determine. We do however have a role to play in preventing undesirable practices, such as remuneration policies in the banking sector which encourage excessive risk-taking. We have therefore laid out four basic principles in respect of the banking sector: there must be no rewards for failure; bonuses must be based on long-term sustainable performance; bonuses should contain clawback provisions for poor performance in the future; and the regulator will set out guidelines and will take remuneration policy into account when regulating a bank. The Financial Services Authority has therefore published its remuneration code of practice which came into force on 1 January 2010.

We have introduced the Financial Services Bill to Parliament which contains measures to implement Sir David Walker's proposals to improve corporate governance. We will however go further than Sir David has recommended in certain areas – we will be consulting on regulations which will require banks to disclose remuneration information in narrower salary bands than he proposed, starting with remuneration packages below the £1 million threshold he suggested.

In the Pre-Budget Report 2009 on 9 December, I announced that where bank employees are awarded discretionary bonuses above £25,000 in the period from 9 December until 5 April 2010, the banks paying these bonuses will pay an additional payroll tax of 50% on the excess bonus over £25,000. This is the level of median earnings in the UK. If banks choose to make awards that are not consistent with a prudent approach to risk, it is only fair that they contribute more to the public finances, in a year when profits have been facilitated by significant taxpayer support for the banking sector as a whole.

However, high pay is not an issue exclusive to the financial services industry. Throughout the wider economy highly paid individuals make a valuable contribution in income tax and we are committed to a progressive tax system where higher income individuals pay proportionately more tax. At the 2009 Budget, I announced that a new additional higher rate of income tax of 50% will apply to individuals with incomes above £150,000 from April 2010. We have also addressed a long-standing unfairness in the tax system where the personal allowance was worth twice as much to very high-income taxpayers as it was to those taxed at the basic rate. From April 2010 the personal allowance will be gradually removed for those with incomes above £100,000.

We are also committed to restraint in pay setting for senior public sector staff. The 2009 Pre-Budget Report announced a set of fundamental reforms, aimed at increasing the robustness, transparency and accountability of decision making across the public sector.

Our approval will now be required where a salary in excess of £150,000 is proposed, for any civil service appointment or appointment to a public body which is subject to ministerial approval. Alongside this measure, we announced that all public sector bodies subject to direct Ministerial control will be required to publish the salary, including benefits in kind and the level of any bonus, of named individuals paid more than £150,000 to the nearest £5,000 and the number of staff paid more than £50,000 in £5,000 increments. The Prime Minister will also ask the Senior Salaries Review Body to review senior pay across the public sector and report by Budget 2010.

Yours sincerely
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ALISTAIR DARLING