



Report of the Director of City Development

Executive Board

Date: 9 October 2008

Subject: Proposed Lloyds TSB Takeover of Halifax Bank of Scotland

Electoral Wards Affected:

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In

(Details contained in the report)

Executive summary

The proposed take-over by Lloyds TSB of Halifax Bank of Scotland (HBOS) was announced recently. HBOS has a significant presence in West Yorkshire, especially in Halifax and Leeds which together probably account for over 10,000 jobs directly and a number of jobs indirectly. In Leeds alone HBOS/Lloyds TSB provide around 4,000 jobs and HBOS injects over £70m a year indirectly into the local economy. It is also involved in a variety of community initiatives in Leeds. Little is known about the new company's future intentions at the moment. This report recommends that Leeds City Region (LCR) level discussions are started with HBOS and Lloyds TSB with a view to better understanding the current operations in the LCR, identifying potential measures to further strengthen the city-region's financial and business services sector and addressing any issues raised by Lloyds TSB/HBOS.

1.0 Purpose of report

To advise Executive Board of the potential implications of the proposed takeover of Halifax Bank of Scotland by Lloyds TSB, and of action proposed by the City Council and its partners, and to seek Executive Board endorsement of the approach.

2.0 The proposed takeover

2.1 The motivation behind the proposal is partly to bring two successful companies together to create even more success and grow the business: HBOS (Halifax Bank of Scotland) had been in discussions about merger with Lloyds TSB for some time prior to the announcement on 16th September of the proposed £12.2bn takeover.

- 2.2 The decision itself was prompted by the turmoil in financial markets in recent weeks, both in the UK and abroad, which hit HBOS particularly severely when its share price fell by 70% in mid-September. HBOS is the UK's fourth largest retail bank and although the company is profitable, the share price movements caused uncertainty and the risk of a Northern Rock-style collapse. The takeover is subject to shareholder and FSA approval. It is likely to be implemented in the first half of 2009.
- 2.3 The new organisation will be the UK's largest financial services business and control 28% of the mortgage market. The government has said it will waive competition requirements.

3.0 The two companies

- 3.1 HBOS was formed in 2001 from the merger of the Halifax and the Bank of Scotland and has a significant presence in Halifax, Leeds and Edinburgh. It has a savings balance of £139bn and 72,500 employees, of whom 17,000 are in Scotland. The Halifax arm of HBOS (Leeds and Halifax) deals with retail banking and mortgages, whilst the Bank of Scotland part is the commercial end.
- 3.2 Lloyds TSB has a savings balance of £65bn and 70,000 employees, of whom 7,000 are in Scotland. Its roots are in the Midlands and South West and its operational head office is in Bristol. It has acquired TSB, Cheltenham and Gloucester, and Scottish Widows in recent years, each of which trades under its own name. Lloyds' branch network in the north is much smaller than its competitors, so the takeover gives it instant UK-wide coverage. HBOS is the larger mortgage provider by far, with Lloyds' mortgages mainly provided through the Cheltenham and Gloucester subsidiary.

4.0 The future form of the company

- 4.1 Lloyds has said that it expects to make annual savings of over £1bn, but that it has yet to decide on job losses. It has dismissed claims that up to 40,000 jobs could be lost, but it will not rule out compulsory redundancies. Eric Daniels, Lloyds' Chief Executive, has said that maintaining jobs in Scotland would be a priority. It will keep HBOS's Edinburgh head office as the base for the new company's Scottish business.
- 4.2 The HBOS Chief Executive Andy Hornby has said that there will be job losses but that most people will stay. The changes could take 2 to 3 years to implement.
- 4.3 There has inevitably been much press comment about the future form of the company. It is possible that branch duplication in the retail arm of the new business might be eliminated, and that head office functions such as H.R, finance, legal and I.T. be consolidated. However, this is only speculation.

5.0 Current economic impact and jobs in the Yorkshire and Humber region, West Yorkshire and Leeds

- 5.1 The most significant presence in the region is on the HBOS side. It has 14,000 employees in the region and a 2005 LeedsMet study estimated that it contributed at least £2bn or 2.5% of the region's GDP.
- 5.2 The largest proportion of employment in 2005 was in West Yorkshire on six in sites, which deal with collections, mortgages, insurance, I.T. and customer services.

- 6,300 in Halifax, on four main sites, including the head office function split with the Edinburgh site
- 3,500 in Leeds, also on two main sites (Lovell Park Road and the Halifax Direct contact centre at West Bank, Water Lane)

The HBOS presence in Halifax is such that it accounts for 36% of the town's output.

- 5.3 In addition there are branches and estate agencies. In Leeds' case an estimated 24 HBOS and 15 Lloyds TSB. Total HBOS/Lloyds TSB employment in Leeds could be in the order of 4,000. Annex 1 gives details of these.
- 5.4 Finally, spending on suppliers in 2005 was estimated to inject £72m into the Halifax economy and £72m into the Leeds economy, and to support 3,650 additional jobs in Yorkshire.
- 5.5 Lloyds has an estimated 2,000 employees in the region.

6.0 Community involvement

- 6.1 Across the UK HBOS makes a contribution to community development through:

HBOS Foundation

HBOS donates £8m a year to this independent charity which invests in communities across the UK, with a particular focus on Scotland and Yorkshire. In 2007 it donated nearly £11m to charity. Over 400 organisations got grants of over £4m, and charities also get support from over 10,000 volunteers.

HBOS Group Sponsorship

Invests £4m a year in sport and the arts in Scotland and Yorkshire. In 2007 over 75,000 young people, of which 65% were from disadvantaged areas, participated in events.

Financial inclusion

Including piloting the Savings Gateway with the Treasury, and installing free ATMs in deprived communities in Scotland and the North.

- 6.2 HBOS has said that its largest project is based in Leeds: "Reach for Excellence" is a £1m project over three years in association with the University of Leeds. It will work with 360 sixth form students from disadvantaged backgrounds to help them get into university.
- 6.3 Business in the Community in Leeds says that HBOS do a huge amount of work with them. HBOS have 5-6,000 volunteers a year undertaking community based activity in Leeds, the largest number of volunteers of any company under the "Cares" scheme. In 2007/8 the company was involved in 23 BITC projects in Leeds e.g. painting walls, environmental improvements, mentoring school children.

7.0 Proposed action

- 7.1 It is very early days in the process and, from a Leeds and Leeds City Region perspective, much remains to be learned about the nature of the existing HBOS operations in West Yorkshire and emerging thinking about the new company's corporate strategy.

- 7.2 Yorkshire Forward has had initial discussions with the Yorkshire minister, Rosie Winterton, and the Chair of the LCR Partnership Leaders' Board has issued a press release emphasising the assets of the financial and business services sector in the LCR.
- 7.3 It is now important to open a formal dialogue with HBOS. It is suggested this approach should be made at a LCR rather than local authority level. Around 10,000 jobs are located in two centres only 14 miles apart, and each is likely to draw some staff from other West Yorkshire Districts and parts of North Yorkshire. The participation of Yorkshire Forward and Leeds Financial Services Initiative (LFSI) should also be sought. To this end the Council has written to Yorkshire Forward and discussions with LFSI taken place.
- 7.4 The discussions will have three aims:
- to learn more about the current operations in West Yorkshire (role of the main sites, number and type of jobs, skills etc).
 - to ensure that HBOS and Lloyds TSB are fully aware of the extent and depth of the financial services sector in the Leeds City Region – the largest sector outside London - and plans to strengthen it through, for example, the enhancement of skills.
 - to identify any issues that HBOS might raise that the partners might be able to address.

8.0 Recommendation

- 8.1 Executive Board are asked to endorse the action detailed in 7 above

Background Papers

None