



Jessie Norman: post-liberalism and the pandemic

Esop enthusiast and Treasury minister Jessie Norman has taken the opportunity to review for *Prospect* an influential work of political philosophy - in the light of the new pandemic world. John Rawls published *A theory of justice* in 1971. For Rawls according to Norman "humans are broadly rational and reasonable beings and politics is about how they can live together in mutually respectful ways." It was published in challenging times, towards the end of the Vietnam war when the ideals both of Kennedy's Camelot and Johnson's Great Society had proved empty. The question of the day was whether politics was possible at all in the great aftermath. The book ran to 587 pages but in spite of its density it proved immensely popular, widely cited and appealing far beyond the natural audience. Norman quotes from a young Harvard student who received a call from Rawls. A hesitant voice said: This is John Rawls, R-A-W-L-S. For the student it was "as if God had called to invite me to lunch and spelled his name just in case I didn't know who he was."

Now modern circumstances, and the pandemic in particular, have placed Rawls' questions once more centre stage. Conceding its value as a thought experiment, Jessie Norman spells out three ways in which the pandemic has radically changed the game. First people are now ready to prioritise their health over their freedom, which suggests there is a limit to the primacy of rational individual choice.

Secondly inequality has changed. Norman points out that in the '70s US CEO pay was 25 times that of the average worker; now it is 280 times! Can justice be defined any more in terms of fairness? Thirdly, freedom may no

longer be a superior value in an era in which we are more likely to accord pride of place to maximal inclusion, the primacy of identity and avoiding harm or offence to others. Jessie Norman concludes by pointing out that Rawls' work provides a framework for the new discussion we all need to have. It is valuable to the Centre that we have a Treasury minister able to take the lead.

Prospect November 2020 Jessie Norman: post-liberalism and the pandemic

EVENTS

Centre webclave

The Centre hosted its first inter-active on-line members' networking event on September 25, after being forced to postpone its annual Jersey share schemes for trustees conference, due to Covid inspired travel restrictions between the UK and the Channel Islands. Instead, the 70-minute webclave, chaired by Professor Michael Mainelli, executive chairman of the Z/Yen Group, which operates the Esop Centre, provided the platform for lively debates on key employee share scheme issues, with trustees in mind.

The keynote address, *Letter from London*, was given by guest of honour the Rt. Hon. Mark Field, who was a strong supporter of the Crown Dependencies when a Minister of State at the FCO. Delegates broke out into discussion groups and questioned the participating experts.

There were discussions on: The response of employee share schemes to Covid-19; Recent cases in Esop Law and problems with EOTs; How were we going to pay for the pandemic? - and Trust issues during the pandemic.

The debates were led by David Craddock, director and founder of his eponymous consultancy; David Pett, barrister, Temple Tax Chambers; tax adviser Paul Malin and Katherine Neal, Head of Employee Incentives, Ogier (Jersey).

Our aim was to bring Centre members together to discuss areas of common interest on reactions to covid-19, adjusting strategies and renovating employee share ownership for the next decade, while ensuring that the spirit of our annual share schemes seminars in both Guernsey and Jersey lived on in the webclave. We shall judge the quality of this experiment on the amount of interaction and members' satisfaction. We have some thoughts on other approaches as well that we hope to explore. We thank members for their participation and look forward to comments and suggestions for improvement.

The Jersey event will be re-scheduled for late spring 2021.

WEBINARS

Employee share schemes: innovative communication strategies guaranteed to increase employee take-up

October 21, 12:00 noon

Employee share schemes expert David Craddock will present strategies and techniques that have proved by experience to **increase employee take-up**, thereby securing involvement in the employee share scheme for employee motivation purposes with the consequential impact on company productivity. When all the legal work has been completed the success or failure of the employee share scheme launch will depend upon the quality and the sensitivity of the employee communication process. In this webinar David will explain advanced employee communication strategies based on cultural indices that provide an understanding of national cultures and enable bespoke solutions to issues that need to be addressed when formulating the employee communications.

Lessons from lockdown: re-assessing how you manage share plans in a digital way

November 6, 11:00

In this panel discussion, ShareForce global manager Adva Lewitte and guests Graeme Cook of Eximia and Lynette Jacobs of Pinsent Masons explore how the latest specialised technologies give businesses the flexibility they need to adapt in a thought-out and compliant manner.

Insights into Share Valuation for Employee Share Schemes: Revealed through Dynamic Case Studies

November 17, 15:00

Share valuation is a key step in the **design and implementation** of an employee share scheme for an unquoted company. Tax or fiscal valuations in the UK are subject to special rules which have evolved over time out of a combination of case law and legislation. Whether a valuation is acceptable for tax purposes is ultimately a matter for HMRC. Following up his "wisdom of price setting for your employee share schemes" webinar in July, David Craddock, who is technical secretary as well as a member of the Share Valuation Worked Examples Group, will guide us on share valuation for Esops through a series of case studies.

Here is our library of broadcasts:

Selling Your Company To An EOT - How It Differs From An MBO; Institutional Investors' Views On The Use Of Share Plans; Esop Sofa – Hot Topics; Employment-Related Securities: The Complexity Unravelling Into Practical Application; Employee Ownership & The Future Of Capitalism; Could Equity Be Used To Replace A Portion Of An Employee's Salary?; The Case For Employee Share Ownership: The Heart Of The Matter Revealed; Esop Sofa Lockdown Stories; Share Valuation: The Wisdom On Price-Setting For Your Employee Share Schemes; Tools Of Engagement: The Power Of All-Employee Plans; Awarding Shares To Employees In A Covid-19 World; The Employee Share Trust: Establishing A Dynamic Market For Your Employee Share Schemes; How To Ensure All-Employee Share Plans Remain Relevant;

Esop Sofa - What Are Today's Big Employee Share Ownership Questions?; Enterprise Management Incentives (EMIs) – Powerful Lessons From Five Practical Case Studies; Enterprise Management Incentives (EMIs) – Igniting Your Business By Sharing Success; Esop's Tales; The Foundation Of The Esop Centre.

Broadening horizons, Z/Yen Group Limited is hosting a range of webinars over the coming weeks. For a full listing of Z/Yen, Long Finance, FS Club, and Esop Centre webinars look here - <https://fsclub.zyen.com/events/webinars/> - or sign up for mailings - <https://fsclub.zyen.com/#Subscribe>

CENTRE AND MEMBER NEWS

White & Case Insights: Replacing pay with equity to preserve cash in a Covid economy

In August 2020, the United Kingdom began winding down its Coronavirus Job Retention Scheme, which provides direct support to UK companies to keep furloughed workers on the job. On October 31, that programme ends. In March 2020, the United States Congress enacted the Coronavirus Aid, Relief, and Economic Security Act, which delivers financial support to companies and individuals, portions of which continue to remain in effect. But with a divided Congress, the United States has been unable to enact a second coronavirus stimulus package.

As companies look for ways to survive until the economy recovers, they are coping with dwindling government support, stagnant revenues and the inevitable pressure to slash payroll.

Having long since exploited redundancies and cut staff as deeply as they could, some employers are turning to a creative strategy for preserving cash while maintaining a productive, motivated workforce at the same time: **replacing a portion of workers' pay with equity compensation**, such as restricted shares in the company, stock options or restricted stock units (RSUs).

RM2 Blog: Difficulties with share plan valuations during Covid-19.

There is a strong argument for **issuing shares to employees or granting them share options** during the current Covid-19 pandemic, as the value of shares may be relatively low. However, there are practical difficulties regarding share valuation to consider.

For tax-advantaged share plans, the valuation methodology HMRC would most commonly expect to see would be a “weighted average profits” approach. This approach involves working out a figure that represents a weighted average profit/earnings figure which is likely to be sustainable in the future.

Government intervention has destroyed enough jobs – now the state must take a step back

We inevitably face much higher unemployment over the coming winter, but the government **“can't keep businesses on life support indefinitely”**, writes the Institute of Economic Affairs' editorial and research fellow professor Len Shackleton.

In an article for *CapX*, Prof Shackleton argues that while measures such as the Coronavirus Job Retention Scheme and the Self-employment Income Support Scheme served a useful purpose when it looked as if the restrictions on our economic life would be temporary, the government now needs to “restore and enhance the conditions under which job creation is maximised, which means allowing markets for goods and services to operate freely.”

Further to this article, Prof Shackleton's briefing paper **“How to create new jobs”** is now available from the Institute of Economic Affairs.

Working from (a holiday) home: tax challenges from the "new normal"

Macfarlanes' Gregory Price writes in *Lexology*: With governments encouraging workers to stay away from the office to help limit the spread of Covid-19, many employers have found that remote working means employees logging on from further afield than the suburbs.

The *Financial Times* reports that city banks are becoming uneasy about potential exposures to overseas taxes (as well as regulatory concerns) linked to employees working from holiday homes outside the UK. This issue likely goes beyond financial services to other industries where a valuable contribution is being made by employees currently working outside their company's home jurisdiction.

Early in the pandemic, tax authorities (including HMRC and, at an international level, the OECD) made reassuring noises about the temporary nature of disrupted work patterns connected with lockdowns and travel restrictions. The idea being that companies ought not to become taxable overseas by default simply because employees were stuck in the wrong place.

But the key point back in spring was that disruption was expected to be "temporary". Several months in, with many firms pushing a return to the office into early 2021 or beyond, it is worth reassessing whether changed working patterns really do count (from a tax perspective) as a temporary response which will be unwound once the pandemic is under control and things go back to normal.

UK NEWS

Frasers Group investors approve 'fearless' £100m bonus scheme

The Board of Frasers Group urged shareholders to vote at its October 7 agm in favour of a company bonus scheme that could be worth in excess of £100m.

The bonus scheme would be open to the vast majority of workers, who would potentially receive either cash bonuses or share awards if the company's share price hits a specified target within a certain period.

A simple step by step guide to equity sharing

Research from Vestd, the share scheme and equity management platform, has revealed that a quarter of small companies in the UK

share ownership with their employees. The pandemic and remote working has forced companies to look at new ways to build trust and a shared sense of purpose between employer and employee. Many businesses are also struggling to pay competitive salaries. They don't want to lose people, but they can't afford to pay the same the salaries they used to pay. This has led to a rise in the number of employers looking at this as an option.

Issue of shares to Employee Benefit Trust

Acacia Pharma Group plc, a hospital pharmaceutical company, was notified on October 8 2020 that the company's Employee Benefit Trust ("EBT") intends to subscribe for 2,218,264 new ordinary shares in the company at their par value of two pence each and at an aggregate cost to the EBT of £44,365.28. ("New Ordinary Shares"). The Company has agreed to lend £44,365.28 to the EBT to fund its subscription for the New Ordinary Shares. The New Ordinary Shares to be held in the EBT are intended to be used to satisfy previously announced awards arising from the company's employee incentive schemes.

Pandemic "presents opportunity to transform Scotland's economy with more employee-owned businesses"

New research suggests that almost half of Scots (48 percent) agree the pandemic has provided an opportunity to make Scotland's economy stronger and fairer.

The survey suggests that under 35 year olds more even more likely to agree (59 percent), while 64 percent said that the pandemic has already made their business more socially responsible. The survey, which had more than 1,230 respondents, was commissioned by Co-operative Development Scotland (CDS), the arm of Scotland's enterprise agencies that supports company growth through employee ownership and co-operative business.

Coronavirus will fuel rise in employee ownership in Wales

A boost to employee ownership in the wake of the coronavirus crisis is being predicted by some of the leading experts in the field as firms throughout Wales look to build back better and ensure greater resilience.

Nicola Mehegan, from the Employee Ownership Wales team at Social Business Wales, said: “The impact of coronavirus has exposed the need for businesses to take a long hard look at their structures and practices, to ensure they are more resilient and working as efficiently and as smartly as possible, and that they have a business model that protects their firms and their workforce. Employee Ownership provides just that, meaning it will undoubtedly become even more prevalent as the Welsh economy is reset to ensure its fit for purpose and resilient. We are expecting enquiries about Employee Ownership to increase over the coming weeks and months.”

WORLD NEWS

Cayman Islands government welcomes EU listing decision

Commenting on the EU’s decision to **remove Cayman from its list of non-cooperative jurisdictions** for tax purposes, Cayman’s premier, the Hon. Alden McLaughlin, said the February 2020 listing was in relation to investment funds supervision:

“Cayman responded positively by expanding the scope of our funds regime to ensure that the Cayman Islands Monetary Authority, our financial services regulator, has the legal mandate to supervise all Cayman-based investment funds,” he added.

OECD to release crypto tax-reporting framework in 2021

The Organisation for Economic Cooperation and Development is next year planning to release a tax-reporting framework for crypto-assets based on the common reporting standard (CRS) - the global standard for the

automatic exchange of tax information related to financial assets and income.

The **OECD aims to ensure tax transparency with respect to crypto assets** and the income derived from the sale of these types of assets. Building on the existing framework for the exchange of financial account information would help ensure consistency between the reporting on traditional financial assets and crypto assets, the OECD said in a report to G20 finance ministers and central bank governors. The information flows will follow the same architecture as the CRS. This means in practice that the collected information will be reported by intermediaries to local tax authorities, which will then automatically exchange the information with the jurisdictions in which the relevant taxpayers are resident.

Meanwhile, the G20/OECD Inclusive Framework on BEPS adopted a report on ‘Taxing Virtual Currencies’. The report analyses existing approaches and key policy gaps in 50 jurisdictions, by looking at the definitions, legality and valuation of virtual currencies. It analyses the tax consequences across the different stages of the crypto lifecycle from creation to disposal.

The Esop Centre is a member of the OECD’s International Business Advisory Group, the best channel for drawing OECD’s attention to member states whose compliance is unsatisfactory.

France: Michelin launches BIB Action 2020 employee share ownership plan

Michelin has **introduced an employee share ownership plan**. Bib Action, as the plan is known, gives Michelin group employees the opportunity to subscribe to a rights issue reserved for them under preferential terms – namely at a discount. Michelin’s managing chairman decided to carry out the rights issue in order to “more deeply involve employees in the group’s growth and development through a dynamic relationship built on mutual commitments”.

France: Capgemini announces transaction to neutralise the dilutive impact of seventh Esop
Capgemini will allocate in advance the proceeds of this Esop, which takes the form of a capital increase reserved for employees, to the repurchase of existing shares. This will neutralise most of the shareholder dilution resulting from the capital increase. This share buyback operation will take place before December 17 2020, the date on which the capital increase will become effective. At that date, the employee shareholding will be increased by a maximum of 3,000,000 shares (representing 1.77 percent of the existing share capital) without any material impact on the Group's cash position or significant dilution of existing shareholders.

The new employee share ownership plan is being offered to over 96 percent of the employees (around 200,000 employees) as this is part of the Group's policy to associate all employees with the company's development and performance.

India: Startup ecosystem sees surge in Esops in 2020

Entrakr reports that the Indian startup ecosystem has seen a surge in adoption, allotment, expansion and buyback of employee stock option plans in 2020. While over a dozen successful and growthstage startups have rewarded their employees through stocks in the ongoing calendar year, earlystage startups are also introducing an Eso scheme to retain their workforce.

Joining the likes of Simsim, Fleetx, MaxWholesale, Zetwerk and WMall, early-stage fintech startup Jodo has also introduced Esops.

India: Sharechat announces 50 percent additional employee shares to reward staff

According to *ET Tech.com*, social media platform ShareChat has added \$14 million to its employee stock ownership plan (Esop) pool, taking the total to \$35 million. Currently,

it employs over 400 people and the scheme would apply to existing staff members on the firm's payroll as on June 30. "Our growth since inception has not been without challenges, but we have always managed to come out of these challenges unscathed just on the strength of our people. The additional Esop is a measure of small appreciation for this commitment and a recognition of our team's efforts. The new pool will keep us well placed for rewarding our teams in the future as well," Ankush Sachdeva, ceo of ShareChat, said.

USA: Eastern Bank in \$1.8bn IPO

The US's oldest mutual bank gave up its mutual status on Wednesday October 14 and began trading on the Nasdaq Global Select Market. Eastern Bankshares Inc, the proposed holding company for Massachusetts-based Eastern Bank, announced on October 9 that it had received regulatory approvals for the IPO. Shares will be launched to the market at an initial price of \$10 each, valuing the company at just under \$1.8 billion.

Approximately 8.3 percent of the shares issued will be sold to the bank's employee stock ownership plan, while 4.2 percent will be donated to its charitable foundation.

USA: A more equitable and just recovery with employee ownership

In a piece for *CitiesSpeak*, a National League of Cities partner writes: As 2020 year-end comes into focus, small businesses are running out of options. By December, a meaningful segment of business owners is likely to seek a way out, resulting in a flood of businesses being put up for sale with no clear buyers and even more shutting down for good. Regrettably, many of the businesses that will close are viable high-quality firms that would have recovered post-crisis. They were simply victims of a global crisis that froze demand and stalled cash flow. For businesses looking to sell, the best — and sometimes the only — buyers are their employees. At the same time, laid-off workers

are using shared ownership forms to start new enterprises together. **Employee ownership can be a powerful tool** to accomplish equitable business development and retention goals. Employee-owned firms provide their employees with stable incomes and jobs. They also give employees the opportunity to build wealth that increases alongside business growth.

EOT NEWS

Cambridge Pixel switches to employee ownership model

Radar technology company Cambridge Pixel has **moved into employee ownership**, which co-founder and ceo Dr David Johnson says “will secure the long-term future of the firm... and will benefit the founders, the employees, and the company’s customers”.

The move involves setting up an Employee Ownership Trust (EOT) and also provides job security for the company’s 12 employees using the model that has rocketed in popularity in the last decade. “We’ve been looking at various options for a transition for a number of years,” David told the *Cambridge Independent*, “and we discovered the EOT is a good mechanism. “The original shareholders wanted some exit benefit – capital – and the employees wanted protection for future success. This has been a good overall compromise. The EOT is very relevant to us as the people employed by the company will have a share in profits and growth. Everybody has signed up.”

Seetec elects EOT rep

Seetec has marked a **milestone in its transition to an Employee Ownership Trust** by appointing its first employee trustee director. Essex-headquartered Seetec became employee owned in January 2020. Karen Palfreyman has been elected as its employee trustee director, with the new role

representing the views of its 2,300 employee owners.

"Now more than ever, the collective voice of employees needs to be heard at board level," Palfreyman said.

Heron House snubs sale for Employee Ownership Trust

Welsh advice firm **Heron House Financial Management is the latest firm to become employee-owned**, after the founding directors Saran Allot-Davey and Christopher Jordan set up an Employee Ownership Trust. The business, which was named best in Wales at the *New Model Adviser* Conference & Awards in January, started to explore succession planning options several years ago, but found none that suited.

“When we started to explore various succession planning options, a trade, sale or merger simply did not fit in with our plans to remain independent and protect clients and staff,” Allot-Davey and Jordan said.

Sale to employees gives analytics company the edge

Edge Analytics Limited **has been sold to an Employee Ownership Trust** by its founder, Dr Peter Boden. The Leeds-based data science business that specialises in demographic data analysis and forecasting has been sold for an undisclosed sum to its employees. Its team of 17 will take full ownership of the company.

Design company Shore makes switch to employee ownership

The Scotsman reports that Shore, which was founded in 2003 and operates from Leith is to adopt **employee ownership**. It designs, engineers and develops drug delivery products, diagnostic devices and medical training products.

The move comes after owner and managing director Nick Foley eyed options for his eventual exit by considering succession

options early. Employee ownership was suggested by Scottish Enterprise.

Foley said: "In due course I will want to exit the business, however having founded and developed it into a market leading company over the past 17 years, I didn't want to sell to a third party and see the team's hard work absorbed into another organisation with different values or a long-term strategy that might not match ours.

"We have developed a strong team ethic and a culture based on collaboration, support and respect."

Engineering firm Finesse now employee owned

Electrical and mechanical engineering company **Finesse Control Systems**, has become an employee-owned business.

The Arbroath-based designer and manufacturer of industrial automation and process control systems, made the change to an Employee Ownership Trust as owners Fraser and Sheila Dunphy began to consider their retirement plans.

Sheila Dunphy said: "We didn't want to sell to an external buyer. The employees of Finesse have been loyal to us over the years, and we wanted to repay that loyalty."

Architecture firm moves to EOT

BPG Architects and Surveyors, a Dorking-headquartered architecture firm which has been operating since 1988, said **the move to an Employee Ownership Trust** was a "natural decision".

Robin Goddard, Chris Bula and Roger Mahoney will remain as directors, but the EOT model will allow new directors to be appointed from within the practice.

Fabrication firm moves to EOT

Tri-Fab which manufactures and supplies sheet metal fabrications to the roofing, cladding and façade markets and employs a **30-strong team, has moved to an EOT.**

Managing director Kenny Walker said: "The opportunity to sell the company to a trust which is run for the benefit of the employees was very attractive to us.

"It allows us to remain involved in the business whilst giving members of the junior management the opportunity to come through and share in the ownership of the company in the future."

ADLIB becomes 100 percent employee-owned

ADLIB, a B Corp certified recruitment business based in Bristol, has become one of a handful of recruitment agencies in the UK to **transfer 100 percent of its business to its employees.**

The employee trust will work alongside ADLIB's Directors, to oversee strategy and growth, with an emphasis on ensuring that the business's sense of purpose and values remain paramount. ADLIB's major shareholder, Nick Dean, will remain part of the trust for the foreseeable future, and staff will play an increased role in directing business profits and inputting into the running of the business via the trust.

ABOUT NEWSBRIEF

newsbrief is the Employee Share Ownership Centre's members-only mid-month publication.

To submit a story for the next issue of *newsbrief*, sponsor the publication, or to propose someone for a member profile, contact Juliet Wigzell:

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