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it's our business

newspad of the Employee Share Ownership Centre

Expert speaker line up for share plans symposium

Ten confirmed speakers were in place for the Centre's fifth share plans symposium, the live segment of which will take place in the London offices of global legal group **Baker McKenzie** at New Bridge Street EC4 on the afternoon of Wednesday April 6.

More than 30 participants, including plan issuers (*who are invited free of charge*) were already registered for this event as this issue of *newspad* went to press, so now is the time to book your seat to avoid disappointment, as places are limited.

The speaker list comprises senior representatives from **Baker McKenzie**, **Computershare**, **David Craddock Consultancy Services**, **Deloitte, Gannons**; **Macfarlanes**, **PwC, Sanne Group, Zedra** and **Z/Yen Group,** which operates the Esop Centre. Their presentations, which will be broadcast as webinars in the weeks leading up to the symposium, will form the basis of discussion by speaker panels and delegates during the live session.

Value for money co-sponsorship slots are on offer to members only.

Programme:

Panel 1: The new executive remuneration landscape:

- Baker McKenzie's FTSE100 remuneration review: what it shows and feedback - *Jeremy Edwards, **Baker McKenzie***
- The growing impact of ESG on executive remuneration - *Rasmus Berglund & Saba Palizi, **Macfarlanes***

Panel 2: Employee share/share option plans in SME companies:

- Using the Enterprise Management Incentive (EMI) in a volatile tax landscape - *Catherine Ramsay, **Gannons***
- Navigating valuation issues for unquoted UK companies & growth shares come of age - *Hannah Tipper & Arran Simpson, **Deloitte***
- Employee Ownership Trusts: reward and management incentives in EOT owned businesses - *Andrew Nealey & Elizabeth Bowdler, **PwC***

Panel 3: Top tips for successful share plan launches in 2022:

- Client case studies: share plan objectives, communications, data protection and retrieval, plan reach, tax issues for mobile employees and plan participation levels - *Stuart Bailey, **Computershare***
- How easy/difficult is it to use employee benefit trusts internationally? - *Shervin Binesh, **Sanne Group***

From the chairman

A remarkable new study by the National Center for Employee Ownership with the Employee-owned S Corporations of America has provided strong evidence of the financial benefits to employees and to the economy when employees have an equity stake. The clear lesson for the UK is that the Employee Ownership Trust should develop to offer direct stakes to employees rather than the warm air currently on offer. Many EOTs today benefit vendors most, leaving them in control of the trust as well as the company.

The research is the lead story in this month's World news section of newspad.

Noëlle Montaño of ESCA has written to me offering their support. Working together we have an opportunity to transform employee wellbeing in the UK. Let's seize the opportunity.

Malcolm Hurlston CBE

Panel 4: Impact of regulation/governance on all-employee share plans:

- Gig Workers –Can they be brought into shared ownership as part of inclusive capitalism? - *David Craddock, **David Craddock Consultancy Services***
- Should regulators urge companies to encourage employee shareholder voices to be heard? - *Elaine Graham & Matthew Longson, **Zedra***
- Why employee share ownership matters: the ESG perspective –with reference to issues raised by an Esop Centre booklet - Professor Michael Mainelli, ***Z/Yen Group***

Admission prices: Member delegates: £395, Non-member delegates: £595 All prices given attract standard UK VAT.

Delegates from **plan issuer companies** will be admitted **free of charge**.

The symposium will start at 13:30, concluding at 17:20 when participants will be invited to a reception, at which the *newspad* award winners will be announced. To register for the symposium, email juliet_wigzell@zyen.com, or phone the team on +44(0) 207 562 0586. For co-sponsorship opportunities, please contact Juliet.

EVENTS

Share schemes and trustees conference 2022

We shall return to the Pomme d'Or hotel in Jersey for this year's Esop Centre Employee Share Schemes and Trustees Conference, held in partnership with the Society of Trust and Estate Practitioners (STEP) Jersey and scheduled for the morning of Friday 13 May 2022.

With the international reach of trustees and the growth in the establishment of employee ownership trusts, it has never been more important for those interested in employee share schemes and trusteeship to stay informed with expert views and enjoy the continuing education which our conferences and seminars offer.

Don't miss this great opportunity to update your knowledge. Talks will cover "Catching up with HMRC and unravelling the mess left behind after Covid", as well as legal; tax; regulation; and employee share plans updates.

The programme is drafted to provide relevant technical information, which we trust will be acceptable as counting towards your Continuing Professional Development or Continuing Competence.

The presentations will run from 9:00am to 1:00pm (approx.) followed by a lunch for delegates and speakers.

Tickets: In the light of the postponement of the Centre's 2020 Conference, we are **holding our prices at 2020 levels**:

Esop Centre/STEP members: £375

Non-members: £480

You can reserve your place by emailing: events@esopcentre.com or call the Centre on +44 (0)20 7562 0586

MOVERS & SHAKERS

***Teresa James** started a new job as interim share plan specialist at Farfetch, the Anglo-Portuguese online fashion retail platform which sells products from more than 700 boutiques and brands worldwide. Though it employs 5,400 people, it does not have bricks and mortar stores.

*A new book about Mahatma Gandhi, entitled '*Gandhi's Wisdom*', and edited by Professor V K Kool and Rita Agrawal was published by *Palgrave Macmillan*. The book contains more than a dozen essays from various contributors, including the 'Psychology of Wisdom', 'Gandhi's Wisdom in the Interdisciplinary Perspective' and 'Living as Gandhi.' Graeme Nuttall OBE, partner at Centre member **Fieldfisher,** has written a chapter on *'Gandhi's Theory of Trusteeship and Its Influence on Employee Ownership in the Twenty-First Century,'* based on his 2020 Gandhi Foundation Annual Lecture. Graeme challenges the view that there is no practical way to make Gandhi's theory of trusteeship work widely for businesses.

***David Pett**'s new book, *Employee Ownership Trusts,* is launching on March 3 at the new *Chapter* restaurant in Edgbaston, Birmingham. It is published by *Claritax Books* at £85. The 300-page first edition is aimed at chartered accountants and other tax advisers. David, who practises as a tax barrister for Temple Tax Chambers, told *newspad* that the launch would be the first 'in person' business event he will have attended for almost two years, owing to Covid restrictions.

*The **RM2 Partnership** has appointed John Dormer as share incentives director. John now heads up the employee ownership team. Sarah Anderson steps back as director. John has many years of share plans experience, most recently as a partner at Midlands firm, Wright Hassall and before that working at large national law firms and as a lawyer within a "Big Four" reward practice. Mr Dormer said: "*I'm very much looking forward to working with the whole of the RM2 team and helping build the company. I'm particularly keen to be part of an employee-owned company that specialises not just in the establishment of employee incentives and Employee Ownership Trust transactions, but helps companies manage and administer their share schemes after set-up and right through to exit events.*"

UK CORNER

Questions over March mini-Budget

Share plan advisers and sponsor companies are looking nervously ahead to Wednesday March 23, when chancellor Rishi Sunak is due to deliver his Spring Statement update on the state of the UK's public finances and the economic outlook. He is obliged to publish such a report by the independent Office for Budget Responsibility (OBR) and could combine it with a mini Budget.

Mr Sunak is in a fix because although public sector borrowing was £17bn lower than the OBR had expected in the part financial year to January (April to Jan 2022), his headroom for tax leniency had all but disappeared due to raging price inflation in the economy. The interest rate he has to pay on a quarter of the UK's national debt is linked directly to movements in annual inflation, as measured by the Retail Price index (RPI), whose annual rise now stands at an eye-watering ***7.8 percent***. This alone added another *£11bn* to the government's debt interest bill, said the Institute for Fiscal Studies. Interest payments hit £6.1bn in January, the highest amount for that month since records began in April 1997 and up from £4.5bn in January last year. Since another rise in bank base rates shortly *– from 0.5 to 0.75, or even one percent* - was almost certain, pushing up mortgage interest repayment rates, the national annual debt *interest* bill was set to spiral further upwards from its current level of £69bn. The invasion of Ukraine by President Putin of Russia made things worse as stock markets worldwide took fright.

In last year's Budget, the chancellor froze not only April's Income Tax allowance thresholds pushing more employees into the higher charge bands, but also Inheritance Tax and Capital Gains Tax (CGT) thresholds and ditto the lifetime pensions allowance for five years too. The squeeze on household budgets is set to intensify next month, when the energy price cap rises 54 percent to £1,971 per year and NICs paid by both employees and their employers go up by 1.25 percentage points, raising £17bn extra every year for the Treasury coffers.

Despite this, tax experts worried that Mr Sunak could come back for more this year in order to help shore up the UK's battered finances. The Treasury said that by giving hundreds of billions in business loans or furlough jobs aid to companies and individuals during national lockdown, the chancellor saved thousands of businesses from going bust, but now, somehow, this money (*or at least most of it*) has to be repaid.

The share schemes sector's worst nightmare, thought to have receded for the time being, is that the chancellor could increase CGT rates to align them with Income Tax (IT) rates and substantially reduce the current annual CGT exemption allowance of £12,300 p.a. - as proposed by the *Office of Tax Simplification* (OTS) early last year. This would simplify the tax system and bring in £14bn extra for the Exchequer each year, if implemented in full. There had been speculation that the chancellor would announce CGT changes last autumn, but in the end he didn't and nor did he explain his thinking. Some commentators said they were worried that, to date, the chancellor has *not formally replied* to the public consultation process which he set up in the wake of the OTS report.

As a contribution to the OTS consultation, the Centre warned the chancellor that raising CGT tax bands from 20 or 28 percent max to the corresponding IT rates of 40 or 45 percent, would devastate two of the four tax-advantaged employee share schemes, namely: SAYE-Sharesave and the discretionary Enterprise Management Incentive share options based scheme for key employees in SMEs. Gains on participation in the broad-based Share Incentive Plan (SIP) are not subject to CGT charges.

The chancellor has other options to use in any emergency tax take, one of which would be to sell off another chunk of the taxpayer's remaining 51 percent holding in **NatWest Bank,** because that would come comparatively free of political repercussions, other than the embarrassing fact that its share price, currently c 235p, was not even half of what taxpayers paid (*502p per share*) to bail out RBS during the 2008 financial crisis. NatWest operates two tax-advantaged employee share schemes, traditional SAYE-Sharesave of either three or five years and BAYE – *Buy As You Earn* – whereby employees invest monthly amounts in order to buy NatWest shares.

The bank returned £1.7bn to taxpayers in dividends and share buybacks in 2021. UK Government Investments (UKGI), a Treasury-owned body that administers its NatWest stake, said it had directed Morgan Stanley to offload gradually up to 15 percent of its shares over a year-long period starting last August. It means the taxpayer's ownership stake might fall from the 51 percent it currently holds to around 40 percent, having already dropped this year following two sell-downs.

Another option for him might be to reduce the 100 percent tax relief on occupational & private pension contributions up to £40,000 annually.

Meanwhile, government initiatives to breathe new life into the ageing infrastructure of UK tax-advantaged employee share schemes, as recommended in last year's ***Social Market Foundation*** report, seem as far away as ever. One of its proposals was that a national commission/ organisation should be established solely to promote the use of employee share schemes. Centre member **Pinsent Masons**' share plans specialist James Sullivan-Tailyour said at the time in the adviser's Blog: "*There are important recommendations aimed at the government and a lot of that is aimed at improving awareness of employee share ownership schemes and the benefits of them both widely amongst the public and employees and among employer companies too, making them aware of the tools available to set these schemes up and the benefits that they can deliver. Employee share schemes are really good for well paid employees in settled jobs that tend to last a long time, for many years, but what they're not good at, what they're not currently doing, is involving people whose positions are more temporary, perhaps only for a short period of a year or 18 months. Nor are they good at including lower paid employees who, for one reason or another may feel that they can't afford to participate in the plan, or it's too complex for them to understand, or that the incentive that's available to them just isn't worth the bother*."

Blackwell's sale after EOT talks break down

Family-owned Oxford-based academic bookseller **Blackwell's** was put up for sale after failing to transition to an employee-owned company. The planned disposal comes after the group's management attempted a refinancing last year in order to fund the move towards its goal of becoming employee-owned. However, a failure to gain support from lenders, while high street trading was uncertain during the pandemic, ruled out the Employee Ownership Trust (EOT) option for the 350 employees. Corporate financiers *Begbies Traynor* were handling the sale.

Julian Blackwell, Blackwell's chairman and the great-grandson of its founder, said: *"I would have loved to have handed over the company to its staff, but I accept that in order to grow and remain competitive in the future, it is time for new ownership, ideas and investment."* Blackwell's, which began trading in 1879, is one of Britain's oldest booksellers. It operates Heffers in Cambridge as well as flagship stores in London and Edinburgh and 14 others, said underlying sales for the year to December 2021 rose 1.9 percent, a figure that suggests falling store sales and rising online trade, said the *Oxford Mail.*

Potential buyers could include *Waterstones*, which is owned by the aggressive New York hedge fund *Elliott Advisors*. It bought up rival independent Foyles in 2018 and previously took over smaller booksellers Dillons, Hatchards and Ottakar's. Blackwell's was the first to publish JRR Tolkien - before he became famous for Lord of the Rings and The Hobbit. The bookshop has hosted many famous writers and well-known figures, from Sir Roger Bannister to John Lydon and Muhammad Ali. Blackwell's ceo, David Prescott, said: "*The business has been quietly and successfully transitioning itself in recent years to establish a substantial global online presence alongside a core portfolio of iconic shops. We hope that a new owner and investment will help us to secure a long-term future for Blackwell's and its booksellers for many years to come."*

Tax barrister and Esop expert **David Pett** of **Temple Tax Chambers** wondered whether the sticking point at Blackwell's was the company valuation. He said*: "In this case it appears to have been a matter of company valuation. If neither the EOT trustees nor the company itself is able to persuade lenders that the amount sought to fund the purchase of the company by the EOT* *is an attractive financing opportunity, perhaps the value of the company or the security available (the shares or assets of the company) does not match the amount the vendors were hoping to realise."*

Charlotte Fleck, associate director, tax & legal, **Deloitte** said: *"It's difficult to say whether the transaction could have been prevented from falling over without more knowledge of the reasons, which will presumably be confidential. However, I can see why an EOT transaction would not necessarily be a solution for an already debt-burdened company – as discussed at the [January 24 Centre members'] webclave, there needs to be a business case showing that debt financing taken on by the EOT can be paid off and that can only come out of the company's future profits. I can imagine existing lenders might not be prepared to agree to add additional risk in the form of EOT transaction debt in Blackwell's context. I have fond memories of Blackwell's from my university days, so hopefully they do find a buyer!"*

Andrew Nealey, senior manager, reward & employment at **PwC,** said: "*This shows that the EOT route, while a fantastic alternative, is certainly not suitable for every company. In particular, where companies are in a turnaround situation, or require significant investment, then serious consideration should be given at an early stage as to whether the EOT sale route is the right approach.*

Esop expert **Ann Tyler** said: "*My immediate reaction, in view of the fact that a trade sale has not happened yet, is to try again to arrange an employee buyout. Interestingly, Laurie Brennan and I first spoke to Blackwell's about an Esop in the late 1980s. I've been waiting for it to happen ever since."*

COMPANIES

*Japanese conglomerate SoftBank cancelled its long planned £30bn sale of Cambridge-based microchip designer **Arm** to US technology group **Nvidia**. SoftBank plans instead to float Arm's shares, probably on the US Nasdaq stock market, before the end of this year. The projected sale faced major regulatory hurdles in the UK, US and EU. Arm's chip designs are integral to most smart-phones and smart devices worldwide. It licenses its technology to the likes of Apple, Samsung and Qualcomm. SoftBank and Nvidia agreed to end the sale process "*because of significant regulatory challenges preventing the consummation of the transaction, despite good faith efforts by the parties,"* the companies said in a joint statement. "*We will take this opportunity and start preparing to take Arm public, and to make even further progress*," SoftBank's ceo Masayoshi Son added. Arm was listed on the London Stock Exchange until 2016, when Softbank acquired it.

*Potentially good news for share schemes emerged from IAG, the Madrid based holding airline group, which includes **BA,** regarding the EU rule which requires all airlines flying between EU destinations to be majority owned by EU investors. Currently, IAG is thought to be between 10-15 percent short of this 50+ percent target; hence speculation that BA could be floated off from the group, thereby reducing substantially the number of UK shareholders on its books. Analysts at HSBC said that both KLM/Air France and Lufthansa would push Brussels hard to enforce the share ownership rule at IAG in order to boost their own competitive positions. Were this to occur, BA would be *inundated with calls from trade unions and other groups for its historically popular broad-based employee share schemes to be restored*. During annual pay rounds, unions have persistently demanded the restoration of BA's Eso schemes, but IAG has refused, stating that to do so would be too complicated legally while BA remains a mere subsidiary of IAG, which comprises Iberia, Aer Lingus and Vueling too. Meanwhile, the best BA can do is to hand over cash bonuses worth thousands of pounds each to its cabin and ground crew who will receive a '*gesture of thanks'* worth ten percent of annual salary, while pilots get a five percent payout.

*Private equity giants were given until the end of last month to put in bids for the pharmacy and beauty chain group **Boots**, whose US owner Walgreen aims to auction it off for c. £7bn. The contenders included Europe's biggest equity fund *CVC*, which joined forces with the US investment house *Bain*, in order to bid. The huge Wall Street based *Apollo* private equity fund was champing at the bit because it wants to acquire a UK household retail name. Former Boots owner **KKR** is said to be interested in re-acquiring Boots and Boston based Advent could join the bidders too. Two of the UK's largest supermarket groups, Sainsbury's and Tesco were rumoured to be watching the situation closely as their ceos were once joint coos of Boots.

*Oil and gas giant **BP** announced plans to "accelerate the greening" of the company while revealing its highest annual profits for eight years. The firm said underlying profits rose to ***£9.5bn*** last year, a turn-around from its £4.2bn Covid-affected loss during the previous year. Ceo Bernard Looney admitted last autumn that BP had become a "*cash machine,*" thanks to much higher oil and gas prices. The company reduced its workforce by 10,000, to 60,000, in a major reorganisation. Mr Looney received a £2.4m annual bonus, more than doubling his total reward package, which included a salary of £1.3m. BP did not pay any annual bonuses in 2020 after the collapse in oil prices sent it to a record loss. Looney's 2020 reward package of £1.7m was the lowest for a BP ceo in at least 18 years.

*On February 27, BP announced that it was offloading its near 20 percent stake in the Kremlin-controlled energy giant Rosneft and that Mr Looney, would resign from the Rosneft board "*with immediate effect*". Helge Lund, the BP chairman, said Russia's invasion of Ukraine was an "act of aggression which is having tragic consequences across the region".

The UK energy company said that divestment could lead to a $25bn write-down in its first quarter results. That's nearly twice as much as the full-year profits it made last year that led to calls in some quarters for energy giants to face windfall taxes.

It's still not clear how BP will sell its stake or to whom. But its decision is likely to heap pressure on other western companies with Russian interests - including Shell, Total and ExxonMobil. Over that weekend, Norway's $1.3 trillion sovereign wealth fund announced that it is going to dump all of its Russian holdings.

*British Gas owner **Centrica** consulted merchant banker advisers after large stakes in its shares were bought successively, probably by hedge fund raiders, who hid their identities behind investment bank accounts. First, a five percent chunk of Centrica's equity was acquired through a nominee account and that was followed a fortnight later by hundreds of millions more worth of its shares suddenly changing hands.

*About 2,500 **Credit Suisse** bankers were told that their employer would demand part-repayment of their bonuses by claw-back, if they leave their jobs within the next three years. Bonus claw-back will apply to back office staff, rather than traders.

*More than a quarter of **easyJet**'s voting shareholders (26.6 percent) at its agm gave the thumbs down to the airline's remuneration *policy* because they opposed its plans to change its executive bonus schemes. This was painful because adverse shareholder votes against a company's remuneration policy cannot be brushed aside, unlike votes against remuneration *reports,* which can be ignored by boards. Ceo Johan Lundgren and cfo Kenton Jarvis will participate in a new *restricted shares* scheme, in which smaller share awards (up to a limit of 125 percent and 100 percent of salary respectively) will be received, but with easier performance targets to achieve before they can vest. Listed companies are turning increasingly to restricted shares schemes to incentivise top executives because many long-term incentive plans (LTIPs) have complex targets which can produce unexpected results. However, critics say that targets set in restricted share schemes can be too easy to meet. In addition, Lundgren and Jarvis will be entitled to cash bonuses of 200 percent and 175 percent in cash if targets are met, reported *The Telegraph.*

***Freshfields** is awarding a £50,000 retention bonus to its private equity lawyers, to stop them defecting to US rival firms as the boom in private equity takeovers of UK companies showed no signs of abating. The *FT* reported that US law firm *Goodwin Proctor* was paying newly qualified lawyers working in private equity base salaries of £161,000, as top London legal firms struggled to hang on to their best talent. Several months ago, two Freshfields partners defected to the US legal firm Kirkland & Ellis, having worked on buy-outs for private equity giant CVC. The new bonuses at Freshfields come on top of standard end of year 10-30 percent 'top-ups' to their private equity teams salaries. The same firm is offering its employees up to £44,000 worth of fertility treatment. However, the US legal firms in London have an even more demanding working culture than their UK counterparts – with employees, particularly in private equity, putting in shifts of up to 14 hours per day.

***Future,** the UK's biggest magazine publisher, which owns *Country Life*, *The Week* and *Metal Hammer*, was forced to re-consult investors after a major shareholder revolt in which 60 percent of its voting register did not support the annual remuneration report. Shareholders and proxy adviser agencies saw red over Future's *all-employee Value Creation Plan* (VCP) scheme in which its ceo Zillah Byng-Thorne could be awarded *£40m* in total if all targets are met. Other value creation plans, such as those seen at Persimmon and Ocado, have resulted in significant shareholder dissent too, said the e-magazine *Professional Pensions.* Future's board started a new consultation with shareholders after failing to gain the 50 percent support required to pass its remuneration report at the agm. Only 44.5 percent of 100m shareholder votes cast were in favour, while 55.5 percent rejected it. A further five million votes (five percent) were withheld. Staff and executives, including Byng-Thorne, could collectively get up to £95m in share bonuses over three years provided shareholder return tops ten percent and the share price exceeds £19.42. The scheme proposes that all 2,300 employees will share in an annual pot of shares, of which Byng-Thorne is entitled to 14.3 percent, up to an annual maximum of £13.6m. One-off units will be awarded to employees which will allow them to share 3.3 percent of the value created in terms of *total shareholder return (TSR),* being the growth in Future's market capitalisation plus net equity cash-flows to shareholders, over and above a hurdle rate of return of ten percent pa. The units to be awarded under each segment total 980,000, of which Byng-Thorne will allocate 140,000 and the cfo 63,000 (6.4 percent). The units will vest in three equal segments over five years and the aggregate value to be allocated to participants is capped at £95m per segment. Critics said that the use of TSR in isolation has the potential to create a disproportionate focus on share price at the possible expense of other aspects of financial performance. Share prices can be impacted by factors beyond executive control; for example, if the market as a whole recovers post-pandemic, then the executives could receive windfall gains achieved by a shift in the market, rather than through the board's actions. The first vesting date is September next year.

Glass Lewis told shareholders that Future's pay policy had '*potential for excessive pay-outs'*. Byng-Thorne has received almost £34m in reward over the last five years amid a turnaround in the company's fortunes. Its market cap has risen from £30m to £3.75bn since her appointment. The *FT* explained that Byng-Thorne's growth strategy involved bolt-on acquisitions, turning poor-performing magazine titles into successful digital sites which earn commissions by directing online readers to e-commerce partners. However, Future's shares fell nine percent after the revolt, making Future the biggest faller on the FTSE 250. Future said the shareholder revolt was against the VCP, *as well as* the terms of a payout to the former cfo Rachel Addison, who received a £532,875 *cash* bonus, rather than deferred shares, when she left the company last October. Proxy adviser ISS told investors that the company's decision to pay Addison's cash bonus "*is not aligned to good market practice."* It said there was no "compelling reason" not to make her performance share plan awards on a pro-rata basis, taking into account the mere 18 months she spent at Future and her performance. Future told the LSE that its VCP reward plan was directly aligned with shareholder interests and would only vest if the company delivered exceptional performance. It had no intention of changing its mind. The shareholder vote result was merely advisory and not binding – meaning the VCP, which was passed by a separate vote in February 2021, could not be unwound.

*Irish based sandwich-maker **Greencore** suffered a major shareholder rebellion over plans to pay out large executive bonuses, despite failing to refund any of the near-£30m it received in taxpayer Covid support during the pandemic, reported *The Guardian.* More than ***46 percent*** of voting shareholders went against Greencore's remuneration report after shareholder proxy adviser firms Glass Lewis and ISS both advised shareholders to oppose the resolution. The company promised to re-engage with shareholders who voted against the executive reward package. Accordingly, Greencore announced immediately after the rebellion that it was initiating an *all-employee share ownership scheme,* which would allow almost 12,000 employees to receive shares worth almost £250 each. A Greencore spokesman claimed that the scheme had been planned for months, well before the furore over executive rewards.

Under the terms of the executive bonus package, cfo Emma Hynes was awarded €343,000 worth of deferred shares under the scheme, while ceo Patrick Coveney was awarded €612,000 in deferred shares too, though he won't collect them as he is leaving this month. Glass Lewis and ISS advised investors to reject Greencore's remuneration report because of concerns over the "*appropriateness*" of the bonus payments, given its reliance on cash from the government furlough scheme, which subsidised staff salaries with state funds during the Covid outbreak. The company defended its use of government funding, noting the severe drop in profits it suffered at the height of the pandemic, when lockdown orders hit food-to-go sales at some of its biggest customers, including the supermarkets M&S, Sainsbury's and the Co-op. Greencore subsequently tapped the state furlough programme for £21.3m in 2020, and a further £8.7m in 2021. None of that taxpayer-funded cash has been repaid and Glass Lewis said it was concerned about Greencore's decision-making in light of the Covid-pandemic, "*particularly the payment of a deferred bonus award to the executives in the context of the stakeholder experience, and the company's receipt of furlough money from the UK government. We are unable to recommend that shareholders support this proposal.*" Greencore said that no bonuses were paid in 2020, when its board took a temporary cut in fees and salaries. However, it said that improving finances in 2021 and the "outstanding contribution of the management team" meant that the executive bonuses were "*considered by the board to be appropriate*. We are hugely grateful for the liquidity support that we have received from our investors, and for the UK government's furlough scheme which helped us navigate our way through this challenging period with minimal redundancies," Greencore added. It stressed the bonuses were only paid out in deferred shares, rather than cash, which would only be distributed after five years and said it would conduct a review before doing so.

*Mutual insurer **LV** (formerly Liverpool Victoria) faced an uncertain future after talks about a tie-up with rival mutual insurer **Royal London** collapsed. The group, based in Bournemouth, said that it had become apparent that "*our different mutual models mean such a merger would not be in the best interests of LV members"*. The failure of the talks came two months after a proposed £530m deal to sell LV to *Bain Capital*, a US private equity firm, came unstuck after LV's members rebelled against a takeover offer, which would have given most of them a honeymoon present of only £100 each. The customer-owned group is a leading provider of life assurance and pension products. It has almost 1.2m members and 1,300 employees.

***Shell** ceo Ben van Beurden sold £3.9m worth of shares days after it reported a quadrupling in annual profits. He cashed in on the recovery in the oil major's share price to sell 190,000 shares at £20.40 each in a deal that the company said was a *private matter*. The share sale came as Van Beurden, 63, and his family relocated to Britain from the Netherlands, coinciding with Shell, which is Europe's biggest oil and gas group, moving its HQ from The Hague to London.

*Another company, which plans to dish out executive bonuses before repaying taxpayers' Covid recovery loans, was pasted by leading proxy voting agencies – *ISS* and *Glass Lewis*. Step forward **SSP,** the owner of Upper Crust and Ritazza, which wants to award its cfo Jonathan Davies a £187,000 bonus for last year's work, revealed its annual report. This was despite the company receiving £71m in taxpayer grants, including furlough payments, last year and £794m in 2020. Accordingly, both proxy agencies advised SSP shareholders to vote down its remuneration report at the agm. SSP has not paid out executive bonuses yet because it is legally bound by the rules of the separate Bank of England's Coronavirus Corporate Financing Fund from doing so until the company has repaid money borrowed under that scheme. The company defended its bonus award plan, saying that the sum proposed had been reduced and would be paid in shares over three years.

*Private equity firms *Advent International* and *Leonard Green* are understood to be exploring a buyout of the beleaguered online retailer **The Hut Group**. Executives from Advent are believed to have visited THG's offices in Manchester with Los Angeles-based Leonard Green examining the company. Shares in THG, led by co-founder Matt Moulding, jumped 16 percent after news of the private equity interest surfaced in a speculative blog post on the *Betaville* website. THG's shares have slumped 82 percent over the past year amid concerns over its corporate governance and cash flows.

***WH Smith** was a big beneficiary of taxpayer funds throughout the pandemic, having taken

£40m in business rates relief and £11m in payments from furlough schemes in the UK and elsewhere in the year to September 2021. That was on top of £20m in business rates relief in 2020. The move prompted a shareholder rebellion in January this year, with more than half its investors failing to back a £550,000 bonus payment for the retailer's ceo, Carl Cowling, as a result.

*The retailer JD Sports raised eyebrows by restarting dividend payments to shareholders last April, after profits were shored up by bumper lockdown demand for trainers and hoodies, without returning to the Treasury either furlough money or business rates relief, which was worth £38m to company, said property advisers Altus Group.

*Similarly**,** Vertu Motors, the Gateshead-based car dealership group, re-launched its interim dividend in October despite receiving significant government support, including £22.8m from the furlough scheme and £4.3m in business rates during the first half of 2020. It has claimed a further £5.2m in business rates relief and £400,000 in job support payments since. The company defended the move, saying it had held off from offering shareholder payouts over the past two financial years "in acknowledgement of the level of government support received".

*Lord Drayson, **Sensyne Health** ceo, agreed to cut his base salary from £500,000 to just £1 in return for a £6.5m cash injection of investor funds, with a potential £5m more to come, to save the AI company from running out of money. Sensyne, which helps the NHS to improve its use of data, is seeking a buyer after spending three years on AIM. It was worth £225m when it floated but only £31m nowadays.

EOTs

*Centre member **Fieldfisher** advised leading global legal recruiter **Shilton Sharpe Quarry (SSQ),** on its transition to employee ownership. The Fieldfisher team was led by partners Mark Gearing and Neil Palmer. The SSQ management team championed the change in ownership structure, which will support the next phase of growth worldwide in a way in which all team members are enthused and rewarded. Founded in 2003, SSQ now employs more than 140 staff in 13 offices worldwide. It works with law firms as well as leading brands within commerce and industry and financial services in order to build legal teams at all levels of seniority.

*Ownership of Edinburgh-based childcare business **Kidzcare** was handed to its 150 employees. All shares in the company, which operates four nurseries and six after-school clubs in the Scottish capital, have been placed into an EOT by co-founder Anne-Marie Dunn. She wanted to find an option that rewarded and empowered staff as she looked to withdraw from the business. HR manager Julie MacKenzie, who has been with the business for more than eight years, will take on the md role as Ms Dunn gradually steps back.

*Marketing and communications agency **Newhall Publishing** transferred its ownership to staff as it marked its 60th anniversary. The agency, which re-branded from a magazine publisher to multi-channel content publisher in 2014 transferred 100 percent of its shares to an EOT.

*James Grenfell and Chris Gregory, owners of Birmingham-based corporate finance business **Orbis Partners** sold the majority of their shares into an EOT. The company, which employs 17 people, was launched in 1999 when the duo set up Invex Partners, before being sold to Kroll in 2003 and re-acquired by Grenfell and Gregory in 2006, when the partnership took on the new name of Orbis Partners.

*The directors of **Terence O'Rourke** handed ownership of the planning and design consultancy to its staff, via an EOT. The firm, which has offices in London, Birmingham and Bournemouth, has been in private ownership for 36 years, but its board wanted to secure a sustainable succession strategy. Directors decided an EOT was the best way for the consultancy to remain independent; better reward staff; maintain standards and ethics and offer best possible client care. While the new structure will not alter the day-to-day management, which will continue to be run by its board of directors, it is hoped it will remove financial barriers for future leaders.

*It is unclear at this stage how the trustee boards are composed and whether they comply with best practice of having an employee majority.

ESG Corner

*The number of women in top FTSE 100 boardroom roles has jumped to 39 percent from only 12.5 percent a decade ago, the global data company *BoardEx* revealed, but equality charities said women's progress in the very top leadership roles was severely lagging. In 2020, 36 percent of boardroom roles on the index were held by women, climbing dramatically from 26.6 percent in 2016, it found. Only 30 percent of directors on boards are women in all UK quoted companies, compared to 43 percent in France and 36 percent in Italy, revealed a **Deloitte** global report. Ms Jackie Henry, a managing partner at Deloitte, said that though more UK companies were taking diversity targets seriously, more needed to be done in improving disclosure and transparent reporting. More than one third of FTSE100 boards now comprised women, compared to only 12 percent a decade ago, but there were only 15 female board chairs in the FTSE100 and just eight female ceos, the report said. The *Fawcett Society* said the figures did not capture the "shocking lack of diversity" laid bare in its 2022 *Sex and Power Index*, with "women of colour, disabled women and LGBTQ people missing from positions of power". Jemima Olchawski, the Fawcett Society's ceo, welcomed the progress but said: "*The devil is in the detail here. In the majority of boardrooms men continue to be over-represented. When we look at the most senior positions of ceo and chair the progress is painfully slow*."

*UK non-executive directors (NEDs) are mostly men, older than 55 and are usually paid in cash, said a report entitled 'Life in the Boardroom,' produced by remuneration consultants **MM&K**. Only seven percent of NEDs are under 50 years old and 80 percent are more than 55, Centre member MM&K uncovered after receiving info from 358 directors, representing 885 job roles. Many of the findings are of concern on the ESG front and only 60 percent of survey correspondents said that their companies had developed ESG policies. Only 30 percent of these NEDs are women and only eight percent of committee chairs are women. Furthermore, fees for male NEDs were found to be on average 27 percent higher at the median than fees for female NEDs. Almost half of those NEDs, whose details were in the survey report, were appointed via personal contact and almost 30 percent of these appointments were made without consulting shareholders. More than half the NEDs surveyed said that they were spending more time than before attending board meetings, often due to increased regulation, but few were paid more than before for their increased commitment, added MM&K.

*There are only 23 female partners at the top 22 venture capital funds in Europe, and only one woman was made a partner last year, reported *Sifted,* the FT-supported FS website. Meanwhile, there were nine male partner appointments by these funds over the same period.

*Two executives from **Anglian Water** were paid almost £1m in special bonuses last year, despite their employer polluting rivers with sewage, as a reward for their performance in dealing with the pandemic lockdown, flooding and higher demand for water. At the same time, however, they were docked a total £200,000 from their 'normal' bonuses for poor environmental performance. Anglian Water's ceo Peter Simpson and cfo Steve Buck were paid collectively more than £2.2m in bonuses last year when their combined base pay topped £900,000. Yet the company spilled untreated sewage thousands of times, mostly in rivers and coastal areas, last year.

In the past five years alone, the ceos of water companies have been paid £65m between them; one earning £2.8m in 2020, while at the same time polluting every river in England with sewage dumping and overflows, reported *The Telegraph.* Meanwhile, the companies have paid out £72bn to shareholders, said Feargal Sharkey, former lead singer of the *Undertones* and chairman of the oldest fly-fishing club in England. "*It is time that water companies were properly held to account and payments to shareholders and executive bonuses were linked to performance, investment and environmental targets,*" he told the newspaper. "*It is time our regulatory system is overhauled, replacing years of compliance and incompetence with regulators that are capable and willing to act and, most important of all, that political leadership has the courage, vision and ambition to deliver*."

Centre member Damian Carnell, ceo and founder of CORPGRO - reward experts who help businesses build sustainable growth by fair and effective use of human capital - accused the water industry regulator Ofwat of having been '*asleep at the wheel'* for almost four years over failing to rein in water companies' propensity to extract maximum profits from their businesses without prioritising the quality of their services to customers. Damian unearthed an Ofwat media notice of 2018 in which it had sought public views on proposals that would '*require water companies to be more transparent about their dividend policy and explicitly set out, in their business plans for the forthcoming price review, how their approach to paying dividends relates to the service they provide to customers.*' It had proposed too '*more openness about the performance related element of executive pay, with companies needing to demonstrate how any performance related component of executive pay is a reward for delivering in customers' interests, not just shareholders',* though in practice very little was done, said Mr Carnell. Ofwat had woken up after public outrage over the constant fouling of England's rivers by the water companies. It is now proposing that water company senior executives should have their annual reward linked to water pollution levels in their areas and that is a good idea, said Damian. The culture of some water companies is '*unbalanced*' in that they need to embrace properly the concept of stakeholder capitalism. As they are regional monopolies, they have to acknowledge their social purpose. Their executive variable pay has to be driven by both *malus* and *bonus,* preferably with increased use of deferred share awards. He said: "*Pay should be fair all round on a risk adjusted basis. Water company executives should not be looking for the riches of Crassus."*

David Black, interim ceo of Ofwat, said that 'excess' levels of reward had to be stopped and action taken to clean up sewage in rivers, he told the newspaper. Ofwat is considering changes that could require companies to link their environmental performance to payouts, or risk fines from the regulator. He said he understood the frustration of customers when large dividends and bonuses were paid out to under-performing companies, so they needed to 'step up and act' over water pollution. He warned: '*If we don't see the kind of action we're expecting in terms of linking dividends and pay to performance, then we will make licence changes to bring to force."* Ofwat can fine companies in breach of their operating licences, which could be changed to require a link between environmental performance and payouts.

Decades of regulatory failure and major under-investment by the water industry, topped up with years of political buck-passing had created a situation in which water companies had been allowed to pay out £72bn to shareholders, added Mr Sharkey. A chalk stream he knew of in the garden of a Hertfordshire retirement home is now a foul-smelling sludge, devoid of life, after suffering more than 30 episodes of sewage dumping in the past year alone. The Hitchen sewage works had used almost 5,000 hours in 2020 dumping sewage into the River Hiz. *The Telegraph,* which launched a *Clean Rivers* campaign, said that water companies were releasing raw sewage into British rivers more than 1,000 times per day, quoting the Environment Agency, despite being under orders not to do so unless there was heavy rain. Yet more than one third of the sewage discharges took place when there was no heavy rain, it added. Thames Water was the worst culprit, followed by Severn Trent and United Utilities, it added,

Barclays** revealed that share awards worth ***c.£22m to former ceo Jes Staley have been frozen, as he contests the findings of a regulatory probe into his relationship with the late sex trafficker Jeffrey Epstein. The bank said: "*In line with its normal procedures, the remuneration committee exercised its discretion to suspend the vesting of all of Mr Staley's unvested awards, pending further developments in respect of the regulatory and legal proceedings related to the ongoing Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) investigation regarding Mr Staley."* However, the board has not ruled out their vesting at a future date. Mr Staley holds nine million unvested shares, which are subject to performance targets, and an additional 2.1m unvested shares not subject to targets. Based on Barclays' latest share price, Mr Staley's package is worth £21.9m. He holds an additional 6.7m shares that he owns outright. These are worth £13.1m. Mr Staley quit Barclays in November last year after he and the bank were made aware of the preliminary conclusions of the investigation by the FCA and the PRA. The probe examined how Mr Staley had characterised his historic business relationship with Epstein to Barclays from the time he ran the private banking arm at JP Morgan. It was launched after Epstein's death while awaiting trial in 2019, but made no findings that Mr Staley saw, or was aware of, any of Epstein's sex crimes.

*Ex Lloyds ceo **Antonio Horta-Osorio** was knighted by the Princess Royal on the same day that his former employer **Credit Suisse** fined him CHF2000 for breaching Covid regulations in Switzerland. Sir Antonio resigned as Credit Suisse chairman after it was discovered that he had attended the Wimbledon tennis finals and the Euro football finals too, without going into quarantine.

***HSBC** ceo Noel Quinn was paid £4.9m (*including his reinstated cash bonus*) in total reward last year. Like many ceos these days, showing they are *socially responsible* is a very important part of the job, reported *The Times.* In HSBC's latest corporate social responsibility report, Quinn was unequivocal, talking about how the bank wanted to do business in a responsible way and "*meet (its) responsibilities to society."* He said: "*Our business has an impact on people worldwide – including customers, employees, suppliers, regulators, investors, and the wider communities we serve. Being sustainable means building strong relationships with these stakeholders and taking into account the issues that matter to them."* Throughout the UK, however, small charities and community groups were accusing HSBC of hypocrisy as they were being charged for banking services which used to be free.

*Efforts to force companies to pursue a social purpose, instead of focussing on profitability, are going too far, believes Dame Sharon White, chair of the employee trust-owned **John Lewis Partnership.** She said in a speech at the

Resolution Foundation that she was opposed to potential new legislation which would compel companies to act in the interests of society and the environment, as well as delivering shareholder returns. However, that should not stop them from pursuing an ethical agenda. Dame Sharon asked her audience: '*Is there a case, as some have argued, for companies to change their fiduciary duty to extend not only to shareholders but to workers and society? My own view is that that is a step too far."* She added: "*There are some who talk about business being involved in social missions as 'woke capitalism' or 'virtue signalling.' Critics argue that companies should focus on maximising shareholder returns, creating wealth and growing jobs. Proponents, me included, argue that doing good and doing well should, must and can go hand in hand*." Earlier, JLP was criticised for failing to repay more than £190m in business rates relief and furlough support. While JLP has not offered bonuses or dividends, its *Waitrose* supermarket chain took at least £85m of Coronavirus business relief at a time when grocers were still able to stay open and serve customers even during Covid lockdowns. Dame Sharon said the group would hold on to the taxpayers' cash, which had "helped to keep us running and avoid more severe restructuring". Loyal customers will shortly share the pain when the firm ditches its "Never knowingly undersold" pledge.

*A woman is to run a FTSE 100 house-builder for the first time after Jennie Daly was appointed to the top job at **Taylor Wimpey**. The company had been searching for a new ceo since December, when its long-time leader, Pete Redfern, announced his departure after 14 years. Taylor Wimpey chose Ms Daly, who has sat on the board for the past four years as group operations director. She joined Taylor Wimpey in 2014 as UK planning director from Redrow, another house-builder. Insiders said that Ms Daly had demonstrated exceptional leadership and a razor-sharp operational focus.

*The government was urged to take measures to restore fairness to employees, including having them on boards and reforming company law. A report by the **TUC** and two think tanks said the balance between the interests of a business's workforce and its shareholders had "tilted" too far towards investors and away from the people who created wealth. For almost 20 years from 1981, UK pension funds had accounted for more than a quarter of the total market value of UK-listed shares, but this ratio steadily declined to just under 13 percent before the financial crisis in 2008, the report said. UK pension fund share ownership now stood at around only 2.4 percent for direct ownership and six percent with indirect ownership included, research indicated.

*The UK Companies and LLP's climate-related **Financial Disclosure Regulations 2022** were published, applying to fiscal years from April 6 2022, reported **EQ**'s latest client bulletin. The regulations apply to companies currently required to produce a non-financial information statement, including: •Companies having more than 500 employees and which have transferable securities on the UK regulated market, banks or insurance companies; •UK registered companies with securities admitted to the AIM market with more than 500 employees; •UK registered companies which are not included in the categories above, which have more than 500 employees and a turnover of more than £500m; •For limited liability partnerships, the regulations apply to LLPs which have more than 500 employees and a turnover of more than £500m. The companies in scope of the regulations will need to report climate-related financial information in a *Non-Financial and Sustainability Information* statement which forms part of the Strategic Report. The information needed will be descriptions of the climate-related risks and opportunities identified as material for their business; its governance and risk management approaches to these; how these risks and opportunities impact its strategy and business model; and the targets and performance indicators it applies to managing them.

***Blackrock** published its 2022 proxy voting guidelines. For the UK, the following were identified as priorities for this year: •Companies to have at least 33 percent female directors and at least one director of colour; •On climate risk, companies should disclose a net-zero-aligned business plan consistent with their business model and sector. Further reading: •Black Rock Proxy Voting Guidelines 2022; •Black Rock Engagement Priorities 2022.

***Aviva** published its annual letter to the chairs of the companies in which it invests and issued its 2022 global voting policy. The focus is on: •Climate change - there is an expectation that companies will develop transition plans which include net-zero objectives by 2050 or earlier supplemented with details on halving emissions by 2030; •Companies to develop biodiversity action plans, considering emerging best-practice guidance frameworks, such as the science-based target network for nature and the task force on nature-related financial disclosures; •On human rights - companies to publicly state their commitment to this issue to include human rights due diligence through the value chain and public reporting of salient human rights issues, actions and targets, including evidence of engagement with affected stakeholders and remediation action taken; •On executive pay - executive compensation structures and performance targets meaningfully reflect sustainability goals, particularly where management is required to take actions that are a significant departure from the business-as-usual environment. Further reading: •Aviva 2022 Global Voting Policy.

*The Financial Reporting Council (FRC), which regulates City governance standards, was accused by its incoming chairman of having inadequate governance! Jan du Plessis said that governance standards on the FRC's board were "*really not good enough.*" He attacked the fact that FRC's board had only three non-executive directors after ministers rejected the reappointment of two other directors. It has been without a permanent chairman for 18 months and without an interim chairman since last October. Mr du Plessis told a Commons committee that "*The governance situation at the FRC is in a pretty poor state. It hasn't had a permanent chair for goodness knows how long. It's got three non exec directors. It's really not a way to run a regulator that should be setting the tone for the whole of British business.*"

*FCA employees voted in favour of industrial action against proposed changes to pay and conditions. Trade union Unite said a vote it held at the end of January, resulted in 87 percent of voting members supporting a strike if their demands are not met by the financial services regulator. Unless a negotiated settlement is reached, the union said that it would proceed to a full industrial action ballot. The FCA last year proposed increasing base pay by two percent from April for those employees who were "*clearly meeting or exceeding their objectives*". It consulted on scrapping annual discretionary bonuses from that point and introducing changes to benefits packages. Ceo Nikhil Rathi lit a match to the gunpowder earlier by telling staff that they could not, in all honesty, expect bonus payments to continue on an annual, almost routine, basis, when the FCA had been perceived to be awol over the huge business failures of Carillion, which in January 2018 went into compulsory liquidation with almost ***£7bn*** in liabilities and Patisserie Valerie, among others. An FCA spokesperson insisted that under the proposals, most staff would receive base salary rises of at least five percent this year and four percent in 2023, with many receiving "significantly" higher amounts. "In particular, around 800 of our lowest paid colleagues would receive pay rises this year of, on average, £3,800," the spokesperson added. Key concerns raised by the union include pay inequality, with 40 FCA executives allegedly earning more than the PM; an allegedly "unfair" appraisal system requiring managers to "arbitrarily downgrade" employees; and the loss of bonuses that Unite said account for ten percent of some employees' incomes.

*£23bn of taxpayers' cash was spent on Dido Harding's abortive 'track and trace' system, which included pinging iphones, but there was no clear measurable return for the money, according to statisticians' reports. Around £9bn disappeared on personal protective equipment which did not work according to plan.

BoE tells employees to moderate pay demands

The governor of the **Bank of England** was criticised by trade unions and earned a rebuke from 10 Downing Street for suggesting employees should not ask for big pay rises to help control inflation. Andrew Bailey said he wanted to see "*quite clear restraint*" in the annual wage-bargaining process between staff and their employers to help prevent an upward spiral taking hold. However, his remarks drew angry responses from union leaders, as households faced the worst hit to their living standards in three decades with soaring energy prices causing inflation to outstrip wage growth. Sharon Graham, general secretary of Unite, said workers did not create Britain's cost of living crisis and should not be asked to pay for it. "*Why is it that every time there is a crisis, rich men ask ordinary people to pay for it*?" she said. "*Enough is enough, we will be demanding that employers who can pay, do pay. Let's be clear, pay restraint is nothing more than a call for a national pay cut.*" Garry Smith, general secretary of GMB, said that the governor's comments were – '*A sick joke. His nerve is scarcely credible.*" Mr Bailey was paid £575,538, including pension, in his first year as the Bank's governor from March 2020; more than 18 times the UK average for a full-time employee. In a sign of a rift between the government and the Bank, the PM's official spokesperson said pay restraint was not something he was calling for. "*We want a high-wage, high-growth economy, and we want people's wages to increase*," he said. "*We recognise the challenge of the economic picture which Andrew Bailey set out; but obviously it's not up to government to set wages or advise on the strategic direction or management of private companies*." Former Treasury minister Lord O'Neill, an ex Goldman Sachs banker, said that current interest rates were "*ridiculous*" and that the bank base rate should be close to four percent, instead of 0.5 percent as at present. He told the Treasury Select Committee that the UK would be better off with higher public spending and tighter monetary policy.

Consumer confidence fell to record low levels during January, revealed grocery analyst IGD, as high street retail sales fell by *8.5 percent.* Struggling households were cutting back on consumer spending already last month as they faced a tsunami of price increases including petrol & diesel, electricity & gas, fruit & veg and packaged food. Higher clothing and footwear prices pushed living costs up again, with inflation hitting a 30-year high. Inflation outstripped wage growth, squeezing household budgets and was expected to climb even higher this year, the Bank of England said. The ONS said electricity bills were up 19 percent in the year to January and gas bills up by 28 percent, even before the Ukraine crisis.

On top of that, council tax will go up, in some areas quite substantially. Since pandemic restrictions were eased, companies have faced higher wage, shipping and energy costs which they have passed on to customers.

Meanwhile, the ONS said early estimates suggested that employers were starting to push up wages further and faster in response to the steady rise in job vacancies. It said that for employees on payrolls in January, ***median*** monthly wages increased by *6.3 percent* compared to the same month last year. The ONS said that employees' regular pay, *excluding* bonuses, grew by 3.7 percent between October and December compared to the same quarter a year earlier –way behind the rate of price rises. However, some employees were doing well, largely due to labour shortages: 3,500 employees at the BMW Mini vehicle plant in Oxford got an immediate 5.5 percent increase in basic pay.

All this put pressure on employee shareholders in both the SAYE-Sharesave and Share Incentive Plan (SIP), as *newspad* explained in the February issue. In both cases employees have to put money on the table, either via a monthly SAYE savings contract, or contributions to buy their employer's shares regularly in the SIP. However, rapidly rising household costs, which are out-stripping line worker wage rises, make it more difficult for many share plan participants to keep investing in the two all-employee share schemes.

There was no respite for employees, as the high street banks refused to raise their customer deposit interest rates, despite the belated rise in the BoE's base interest rate to 0.5 percent. In mid-February, 18 banks were offering savers 0.01 percent interest in easy-access accounts, so typical savers, who hold £11,700 in these accounts, were earning only 10p per month in interest.

However, the discretionary Company Share Option Plan (CSOP) could become attractive for hard-pressed companies and their employees, because it does not require employee participants to invest any money upfront. The CSOP option price is fixed at market level and so, to make money for the participants, the share price must be higher *than the original strike price* at vesting three years down the line.

Similarly, the share options based Enterprise Management Incentive (EMI) will become even more highly prized as it too requires no employee money upfront. However, once a company's GAV (gross asset value) exceeds £30m, or when its payroll reaches 250, it no longer qualifies for the EMI tax advantages. So despite EMI's enormous popularity, increasingly – as prices across the board rise sharply and ministers fail to increase the scheme's tight financial rules in line with inflation - its use will be confined to only the smaller end of the SME population.

Count your blessings…

A trustee worried about a decision taken in a complex trust matter can always seek a blessing in **Guernsey**, but from a court and not from a priest! A *blessing* of the *Royal Court* can provide comfort to a trustee that it has exercised its decision-making appropriately and that it has taken into account all of its fiduciary and legal obligations, reported Centre member **Ogier**. A blessing confirms that the trustee has the legal power to make a particular decision, ensuring that the trustee will be protected from challenges to the decision. Most applications seek the Court's blessing of a particularly momentous decision. Though there is limited guidance as to what a momentous decision is, it is usually a decision of real importance to the trust, such as excluding a beneficiary, a substantial restructuring or selling key family property owned by the trust. A decision will only be blessed if: -the relevant power is provided for in the trust instrument or the trusts law; -the decision was made in good faith and was desirable and proper in the circumstances; -the trustee's opinion was one that a trustee properly informed could have arrived at and -the decision making was not influenced by any conflict of interest. The Court considers each document in making its decision as to whether the overall impact is in the best interests of the beneficiaries. In some cases, the Court may bless some elements of the decision but not others.

Vintage champers all round

There was a run on vintage champagne in the City after London's big four banks – **HSBC, Barclays, Lloyds** and **NatWest** – paid out bonuses totalling more than ***£4bn*** as they reported their annual results. Combined, the banks' annual profits were expected to exceed £34bn – the most since 2007 in the boom before the financial crisis. NatWest planned to pay staff almost £300m in bonuses this year – 44 percent more than last year - but it will retain its long-standing £2,000 per head cap on cash bonuses, which it felt obliged to impose after its £45bn rescue by UK taxpayers. Ceo Alison Rose plans to accept her annual incentive reward this year, after having refused it last year, together with a 25 percent voluntary pay cut, during the height of the pandemic. Ms Rose said NatWest had shown "*significant restraint*" with its bonus pool compared to the rest of the banking industry and added that the bank was "acutely aware of the challenges that many people, families and businesses continue to face up and down the country", amid the cost of living crisis. She said: "We operate in a competitive market and we have to pay fairly and competitively for the skills we have." A majority of NatWest's staff, including its executive team, do not receive bonuses, she added. Her total pay for 2021 was £3.6m, up from £2.6m a year earlier. The bonuses news came as NatWest reported pre-tax profits of £4bn, a return to profitability after a £351m loss a year earlier, as the bank benefited from the UK's economic recovery from the pandemic. This looked like chicken-feed compared to the $3.5bn ***(£2.6bn)*** banker bonus pool dished out by HSBC, almost a third more than in 2020 after recovery from the Covid crisis helped profits more than double last year. The bank said the jump in bonus awards was justified due to its strong financial performance and the need to compete for bankers in an "extraordinarily competitive labour market". HSBC said that it had paid 451 of its bankers €1m (£832,000) or more last year, marking a 40 percent increase on the number of staff with such payouts. That list included 15 bankers earning more than €5m, including one who was handed €11-€12m. **Standard Chartered**, a UK based bank which makes most of its profits from business in Asia, was more modest, awarding only ***£1bn*** in bonuses – 38 percent more than in the previous year - while profits of £8.4bn were announced at Barclays, where bonuses jumped by £300m to ***£1.9bn***. The bank said it would launch a £1bn shares buy-back programme. Bonuses were back for Lloyds bankers too, after annual profits jumped more than fivefold last year. The banking group said it was reintroducing bonuses for staff with a pool worth *£399m*, having scrapped payouts due to the impact of the pandemic a year earlier. Lloyds said.that higher bonuses would be handed to staff who deal with customers. Meanwhile, the bank revealed that it had 21 bankers on its payroll earning more than €1m (£835,000) a year, up from 17 staff a year earlier. One unnamed banker earned between €4.5m and €5m last year, more than the £2.5m paid to ex-ceo António Horta-Osório, who stepped down last April. Its new boss, Charlie Nunn – who took over in August – was paid £1.3m, including a £349,000 bonus. Lloyds said it had frozen unpaid bonuses for a trio of former bosses over charges linked to the HBOS Reading scandal, given they were in leadership positions during a failed compensation scheme that was later deemed "*neither fair nor reasonable"*. It resulted in a re-reviewing of compensation for victims in a scheme known as the Foskett Panel.

London's mergers and acquisitions (M&A) bankers earned total fees of £2.6bn in 2021, according to research by financial data provider *Refinitiv* for the *Guardian*. It was the highest annual total for M&A banker fees paid since

Refinitiv's records began in 2000, fuelled by a flood of corporate takeovers sparked by piles of private equity cash and other acquisitive US buyers preying on undervalued British targets. The bumper bonuses tipped several hundred more UK bankers into the EU's "high earners" warning report which details every banker earning more than €1m (£835,000) a year. The European Banking Authority (EBA) found that *3,519* bankers working in the UK earned more than €1m-a-year last year – more than seven times as many as those working in Germany, which has the second highest number of €1m-a-year bankers.

Meanwhile, corporate ceos received an average bonus of £172,897 in the year to October 2021, new data revealed, while entry level employees and routine task providers were awarded on average only £642 and £643 respectively. Research from Cendex, the rewards analytics arm of HR resource provider *XpertHR*, found that only 25 percent of ceos were awarded a bonus during the 12 months, while routine task providers fared even worse – just ten percent of them got bonuses. Overall, bonuses rose by more than £9,000 from the previous year, reported *Employee Benefits.* Just under one-third of managers got a bonus, with the average payment at £10,408, while 22 percent of remaining staff received one, with their average payment rising by £61 from last year to £1,418. In the chemicals; utilities; food & drink; and transport industries, the proportion of employees with bonuses increased significantly, although the value remained largely unchanged. Conversely, there was a reduction in the number of employees receiving payouts in the hotels; catering; and leisure sectors. Inner London employees received by far the highest average bonus at £8,236, while those in Northern Ireland saw an average of just £3,266. Employees in Scotland and Wales had significantly lower average bonuses of approximately £1,500. *XpertHR* pay and benefits editor Sheila Attwood explained that it was crucial that businesses paid salaries and bonuses at the right level, to achieve a balance between making an employee feel valued and remaining competitive in the market. "It's critical that businesses remain competitive to get the right talent leading their organisation, and the salary and bonus awarded plays a huge role," she said. "However, for the rest of the staff, hearing about the big end-of-year bonus [for executives] can cause tension. Businesses should leverage data and build effective and fair reward strategies that enable them to recruit and retain talent across all levels."

Public sector pay troughing

*More than 330 civil servants are now paid more than the Prime Minister, who earns £161,000 per year, official statistics revealed. Top of the tree is Mark Thurston, ceo of HS2, whose reward is £620,000 pa. Six senior executives who work for Network Rail are paid between £330,000 and £585,000.

***NHS trust** managers went on 750 expenses paid trips abroad in three years to recruit foreign doctors and nurses at a total cost of £3.3m to taxpayers, a *Freedom of Information* probe revealed. The 'jaunts,' involving up to nine NHS staff at a time cost up to £9,000 for every medic sourced abroad, said *The Telegraph.* The Philippines, India and the UAE were the most frequent destinations of the recruiting teams, it added. Kings College Hospital NHS Foundation funded 107 trips at a total cost of £166,000, but refused to say how many extra staff those on the trips had managed to recruit.

*GPs were overpaid £28m in bonuses, said outsourcing company Capita and so NHS England is demanding that the doctors repay the excess sums they received in 'seniority payments' from the age of 29 until retirement. Although the bonus scheme was stopped for new entrants from 2014, it continued to hand out some bonus payments to doctors until March 2020.

WORLD NEWSPAD

USA: EO provides resiliency during crisis

Employee ownership of private businesses through employee stock ownership plans (Esops) has provided exceptional resiliency and financial security in the face of pandemic-driven economic challenges. This was the conclusion of a study by the California-based **National Center for Employee Ownership (NCEO),** conducted on behalf of the **Employee-Owned S Corporations of America (ESCA)**. It found strong evidence that having an Esop in place before the worst of the crisis helped employee-owned businesses not only to survive but to take better advantage of growth opportunities than conventional non-Esop counterparts.

Drawing on objective data from *310,857* plan filings, NCEO analysed retirement plan data from 2019 and 2020 from S corporation Esops and a comparison group of companies offering a 401(k) plan. Its analysis found that employee ownership provided critical financial and retirement security for employees and resilience for these S Esop businesses when compared to non-Esop companies.

NCEO's key findings include:

- Businesses with an Esop in place provided greater financial security for employees heading into and during the pandemic and job retention at the firm level compared to comparable conventional firms.
- The average Esop account balance going into the pandemic was dramatically higher – more than double – than the average 401(k) account balance ($132,000 vs. $64,000) at a non-Esop company. The S Esop advantage is an estimated $67,000 more in retirement security– especially remarkable, given that only 50.5 percent of US families have a retirement account at all. Among those that do, the median account value was $65,000.
- The average employer contribution to the S Esop was more than 2.5 times that of companies offering only a 401(k), and 94 percent of total contributions to Esops came from the employer, compared to 31 percent for 401(k) plans.
- Notably, most Esop companies also offer traditional retirement benefits such as a 401(k), in addition to providing employees with an ownership stake in the business as a benefit of employment.
- Using active participants as a proxy for employment, and controlling for company size, industry, and region, being an Esop is associated with retaining or adding an additional six employees from 2019 to 2020, compared to non-Esop employers.

"*The findings of NCEO's new study build on a growing body of data and research demonstrating the valuable benefits of employee ownership to American workers, companies and our economy – particularly in times of economic crisis*," said ESCA's ceo Stephanie Silverman. "*From exceptional retirement savings to outstanding job security, productivity and growth, the S Esop structure has a proven track record of helping employees and businesses thrive. As Americans continue to prioritise economic recovery, financial security and retirement savings, the time has never been better for elected leaders to encourage the creation of more S Esop companies to make these substantial benefits available to more hardworking Americans*."

A recent survey by John Zogby Strategies finds that workers at employee-owned S corporations (S Esops) report being on significantly more stable financial ground than other US workers during the Covid-19 pandemic, building on previous research showing that employee-owners are more confident about their job security and less anxious about their financial futures.

In a study released last January, economist Jared Bernstein, now a member of the White House Council of Economic Advisers, affirmed the benefits of Esops and urged lawmakers to explore ways to encourage the formation of more employee -owned private businesses. In an earlier study, Dr Bernstein demonstrated that employee ownership helps to close the wage and wealth gap between managers and workers in Esop-owned companies. He concluded "Because Esops provide equity to working-class people who increasingly lack such assets, they are a potentially useful tool in pushing back on our historically high levels of wealth concentration."

***Canada**'s top executives reaped windfall gains from selling shares in their companies last year, taking well-timed advantage of soaring market valuations before the recent sell off. A *Globe and Mail* analysis of insider stock sales in collaboration with INK Research found 10 Canadian executives or directors sold C$100m (£58.5m) worth of shares or more in 2021. Four of those sold shares worth C$250m or more – led by Shopify founder Tobi Lutke at $623.3m (£364.6m). The research found 37 insiders at 23 companies sold $25m worth of stock or more, earning total proceeds of nearly $3.6bn (£2.1bn). About 100 executives and directors sold $10m or more. The sales bonanza reflects years of rising stock prices, coupled with heavy equity ownership by company leaders. Stock markets were buoyed by low interest rates and generous government support throughout the pandemic, allowing executives to reap large profits from selling shares in 2021 while many lower-income workers did not share in the gains. The sales proved to be timely: The 23 companies that employ the top sellers have seen the prices of their shares fall by an average of *22 percent* since mid-November, the high point for the S&P/TSX

Composite index of major Canadian stocks. Since that date, three of the companies are among the ten worst performers of the 241-member index, which has fallen only about 3 percent over that period. The biggest sales numbers come from founders of companies. Some have led their companies to years of gains, such as the four founders of Alimentation Couche-Tard, all of whom sold between $50m and $300m of stock in 2021. Others are founders cashing in part of their stake upon successful debuts in public markets, such as Nuvei Corp ceo Philip Fayer, who sold C$455.8m worth of shares as part of two stock offerings not long after a 2020 IPO. (C$1 = 0.585p GBP).

*The US has penalised many employee shareholders in China by adding sites operated by **Chinese** technology giants **Alibaba** and **Tencent**, both keen advocates of broad-based plans, to its *Notorious Markets List* of businesses it believes are involved with trading counterfeit goods. The list identified 42 online sites and 35 physical stores, including e-commerce platforms, run by the firms. The US trade agency said they "engage in or facilitate substantial trademark counterfeiting or copyright piracy". The US and China are in a long-running dispute over trade and technology. "The global trade in counterfeit and pirated goods undermines critical US innovation and creativity and harms American workers," said US Trade Representative Katherine Tai. The Office of the US Trade Representative (USTR) said its list had for the first time included AliExpress and WeChat e-commerce sites. AliExpress is owned by Alibaba and WeChat is operated by Tencent. It called the sites "two significant China-based online markets that reportedly facilitate substantial trademark counterfeiting". China-based online markets **Baidu Wangpan, DHGate, Pinduoduo** and **Taobao** continue to be listed, it added, "as well as nine physical markets located within China that are known for the manufacture, distribution, and sale of counterfeit goods".

*The **EU Commission** increased the pressure on UK banks to transfer their inter-bank derivatives trades to the EU mainland within the next three years. Brussels aims to improve alternative trading platforms in Amsterdam, Frankfurt and Paris for London based banks to use, but threatened them with high financial charges should they fail to comply. Currently the City of London handles 90 percent of euro interest rate derivatives trading.

France: TotalEnergies is implementing its annual capital increase reserved for employees and former employees. Via this operation, TotalEnergies intends to continue involving its *105,000* employees in the company's growth. Employee shareholders held 6.8 percent of TotalEnergies' share capital as of December 31 2021. Shareholders last year gave directors the authority to decide to carry out one or more capital increases of ordinary shares without preferential subscription rights, not to exceed 1.5 percent of the share capital and reserved to members of a savings plan. The board decided to initiate this year a new share capital increase reserved for employees and former employees, under the following rules: -Maximum number of shares to be offered - 18m shares with a nominal value of €2.50 each, representing a nominal amount of €45m, the equivalent of 0.68 percent of the share capital; -The newly issued shares will have same category as existing TotalEnergies shares with immediate dividend rights. The new share rights are the same as the rights attached to the existing company shares; -The share subscription price will equal the price based on the average of the last listed prices of the TotalEnergies shares on Euronext over 20 trading sessions preceding the date of the decision setting the opening date for subscriptions, reduced by a 20 percent discount; -Subject to the chairman and ceo's decision: the price per share will be fixed on April 27, with the subscription period running from April 29 to May 13.

***India:** Finance minister Nirmala Sitharaman capped the surcharge on long-term capital gains from shares of unlisted companies at 15 percent in the Union Budget 2022-23. This will promote further direct investments in start-ups by high-net worth individuals and VC firms as well as boost the use of Esops (of mainly the employee stock option variety) by start-ups to remunerate top talent, said finance experts. "*The long-term capital gains on listed equity shares, units etc., are liable to maximum surcharge of 15 percent, while the other long term capital gains are subjected to a graded surcharge which goes up to 37 percent. I propose to cap the surcharge on long term capital gains arising on transfer of any type of assets at 15 percent*" said the minister in her budget speech.

Taxation experts said that the impact of this move will be greater for individual investors and start-up employees holding shares of a company and there will be a lesser impact for VC firms, and companies that invest in start-ups. "*The slab of 25-37 percent surcharge was introduced a couple of budgets ago. The change announced today will help start-up founders, employees and domestic VCs selling unlisted shares which in turn will set* *off a virtuous cycle of more investments in the start -up ecosystem*," said Siddarth Pai, managing partner of VC firm 3one4 Capital. *"For Esop holders, this change is a step forward to the long-awaited ask of tax parity between listed and unlisted securities. This will boost* Esops *as a means of attracting and retaining talent and increase rupee capital participation in the Indian start-up ecosystem*," he added. Another tax benefit given to the start-up sector in the Union Budget was that the eligibility criterion for start-up tax incentives was extended by one more year. However, the issues that exist with the current framework of tax incentives do not seem to have been addressed yet, said experts "*Eligible start-ups established before March 31 2022 had been provided a tax incentive for three consecutive years out of ten years from incorporation. In view of the Covid pandemic, I propose to extend the period of incorporation of the eligible start-up by one more year, that is, up to March 31 2023 for providing such tax incentive,"* said Sitharaman in her budget speech.

***Ireland: share incentives reporting deadlines**. March 31 is the mandatory annual filing deadline for employer returns of information about employee share incentive schemes operated in 2021. Employers may be subject to financial penalties if they do not comply with their reporting obligations, warn Dublin based lawyers *McCann Fitzgerald*.

Form RSS1- Employers must report the grant of unapproved share options to directors and employees in 2021, as well as the release, assignment and exercise of unapproved share options by directors and employees in 2021.

Form KEEP1- Employers must report the grant of options under the Key Employee Engagement Programme (KEEP) to directors and employees in 2021, as well as the release, assignment and exercise of KEEP options by directors and employees in 2021. Failure by the employer to file the Form KEEP1 can result in serious consequences for employees, who may no longer be entitled to avail of the favourable tax treatment under the KEEP regime.

Form ESA- Employers must report the award in 2021 of certain share-based remuneration such as restricted stock units, restricted shares, convertible shares, forfeitable shares, discounted shares, phantom shares, stock appreciation rights, growth shares and other cash awards whose value is based on share value. The reporting of the grant of restricted stock units is currently optional. The requirement to file a form ESA is in addition to employers' PAYE reporting obligations.

The filing deadline for returns of information applies to Irish Revenue-approved share incentive schemes; Approved Profit Sharing Schemes (Form ESS1), Save As You Earn Schemes (Form SRSO1) and ESOTs (Form ESOT1). Based on information provided by employers in the annual returns, the Revenue is undertaking compliance reviews to ensure that employees are adhering to their own tax compliance obligations, and in particular, in relation to taxes arising on exercise of options and on the disposal of shares acquired under the various schemes. It is communicating with both employers and employees on this matter.

Employers must review their share award activity during 2021 and prepare the relevant reporting return. Employers must ensure that they are registered for share scheme reporting prior to submitting any returns. In light of Revenue's compliance reviews, employers should consider reminding their employees of their personal tax obligations with share options and share awards.

US: Amazon more than doubled its salary cap for white-collar staff to $350,000 (£258,000) globally, as the battle to attract technology employees intensified. Hitherto, its base salary offer for US employees was $160,000. Amazon has underpaid relative to its Silicon Valley peers but has more than made up for that by awarding staff throughout the company large amounts of stock options which have soared in value in recent years. However, Amazon felt obliged to react on the salary front after its stock price fell back last year. These salary cap rises do not apply to Amazon's warehouse staff, who comprise the majority of its payroll.

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e-mail your latest news - new share schemes, vestings and appointments - to Fred Hackworth, editor, *newspad,* at: fred_hackworth@zyen.com

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The Employee Share Ownership Centre is a membership organisation which lobbies, informs and researches on behalf of employee share ownership.