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it’s our business

newspad of the Employee Share Ownership Centre

Muted Centre reactions to Budget boost for EMI

The Budget boost for Enterprise Management Incentive (EMI) scheme - aimed at helping gazelle like companies in the SME sector - was tempered with disappointment that Chancellor George Osborne merely marked time over demands for widespread reform in the employee share ownership industry.
The Chancellor *did* announce that he will more than double the limit for the value of shares over which EMI share options may be granted to any individual from £120,000 to £250,000. The legislation will not be enacted until next year but will nevertheless apply to EMI options that are exercised on or after April 6, this year.
In addition, the Chancellor will extend Entrepreneurs Relief, which brings with it a reduced rate of Capital Gains Tax (CGT), from April 6, to shares acquired on exercise of EMI options Where capital gains qualify for entrepreneurs’ relief the applicable rate of CGT will be only ten percent, rather than the normal 18 percent and 28 percent rates. The requirement, hitherto, for an individual to hold five percent of the shares in a company in order to qualify for Entrepreneurs’ Relief (ER) from CGT is removed from April 6 where the shares are acquired on exercise of EMI share options, according to a technical note issued by HMRC.
Mr Osborne has yet to clarify whether the current *overall* £3m limit on outstanding EMI options in any company at any one time will be raised in line with the increased maximum individual options allocation. If he does not raise the overall options limit, qualifying companies who incentivise staff with EMI options will be unable to extend the benefit to more than 12 individuals if the new maximum allocation is made to all.
In 2009-10, the most recent financial year for which statistics are available, 2,190 companies granted EMI options to a total 16,900 employees – on average about eight employees per participating company. They each received, again on average, £9,200.
EMIs are tax advantaged share options, designed to help small, higher risk companies recruit and retain employees who have the skills to help them grow and succeed. They are a way of rewarding employees for taking a risk by investing their time and skills to help SMEs achieve their potential.

From the Chairman

John Whiting's Office of Tax Simplification has made excellent and detailed recommendations which should improve the take up of approved share schemes. The ball is now in the court of Treasury minister David Gauke and the Centre will encourage action. We still need a beady eye on the future of CSOP: enterprise is a fine thing but true gazelle companies are rare and in a fair society it is important to include low-paid and part-time workers in the wages of capital. An important by product of the OTS work is its conclusion on the efficacy of share schemes; a practical view worth reams of academic research.

Malcolm Hurlston

The hope is that the Chancellor’s announcement will galvanise directors and other key employees in qualifying companies, whose gross assets do not exceed £30m, to work even harder than they already do to get the UK economy moving again.
The HMRC note confirmed that all the other conditions for ER will have to be satisfied. In particular, once the EMI options are exercised, the individual will have to hold the shares throughout the one year qualifying period. This means that for an EMI option exercised on 6 April 2012, the earliest time the shares could be sold and qualify for ER would be 6 April 2013. The measures will be included in the Finance Bill 2013 and draft legislation will be issued for consultation in the autumn, according to the technical note.
“This is an improvement on the current position, but in requiring the shares to be held for at least a year after the options are exercised, it does not address one of the main problems with the interaction between EMI and entrepreneurs’ relief,” said Judith Greaves, share plans partner at Centre member law firm **Pinsent Masons**. “Most people want to or, in the case of exit options, may have to, sell their shares as soon as their options are exercised and, if they do, even after the change, they will not get the benefit of the ten percent rate of CGT.”
From April 6, the Government will introduce the new Seed Enterprise Investment Scheme (SEIS), providing

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income tax relief of 50 percent for individuals who invest in shares in qualifying seed companies. The Government will also offer a capital gains tax (CGT) exemption where gains realised on the disposal of assets in 2012–13 are invested through SEIS in the same year.
But Mr Osborne did not use his Budget to respond to Centre requests for new Eso initiatives on a much wider front, particularly to benefit participants in *all-employee* share ownership schemes.
The Centre had asked the Chancellor to lift the amount employees can save, in a tax-protected approved scheme, towards acquiring shares or options in the firm they work for from the current £250 per month to around £400, to restore the real value of the £250, which has not been raised for more than 20 years.
Mr Osborne gave nothing away about whether the Treasury will buy into the recommendations (see below) of the Office of Tax Simplification's review of tax-advantaged share schemes. He said merely that he would consult on how to take these proposals forward in Finance Bill 2013.
He confirmed that the Government would conduct an internal review to examine the role of employee ownership in supporting growth and to consider ways in which barriers, including tax barriers, to its wider take-up could be removed **(see inside pages**). The review will consider the findings of the work on employee ownership being led by the Norman Lamb, Minister for Employment Relations, Consumer and Postal Affairs, due to report this summer and will conclude ahead of Autumn Statement.
Centre members reactions to all this were generally lukewarm:
"Whilst the Chancellor's response to the OTS report was underwhelming at least he hasn't rushed to announce he immediate abolition of CSOPs," said Jane Jevon of **Ernst & Young's** human capital division.
"Tax advantaged employee share ownership is a major tool for SMEs in recruiting and retaining high calibre employees, so the extension of the EMI is welcomed. The proposed changes to entrepreneurs' relief are particularly welcome and will enable all employees to benefit from a relief that has previously only benefited employees with significant shareholdings (typically directors and other senior managers)," said **Alvarez & Marsal.**
"The Chancellor has announced his intention to improve and reform EMI by (a) providing additional support to start-up companies to assist them in being able to operate the scheme, (b) consulting on extending the scheme to academics who are employed by qualifying start-up companies, (c) extending entrepreneurs' relief to shares acquired on the exercise of EMI options and (d) increasing the individual grant limit significantly from £100,000 to £250,000, subject to State aid approval. It is not yet clear how (a), (b) and (c) will work," said Robert Postlethwaite of employee share ownership lawyers **Postlethwaite.**
"From an employee share plan perspective, the top rate income tax reduction will mean that where employers pass on their National Insurance contributions (NICs) costs to employees in respect of share plan gains, the effective employees' rate of tax (taking into account the income tax relief the employees receive when they pay the employer's NICs) will fall from the current 58.9 percent to 54.59 percent. I suspect that companies will still look to structure their employee share plans so that employees pay capital gains tax rather than income tax and NICs on their gains," said Michael Deeks, tax partner at **Olswang.** He is very disappointed that the maximum fundraise per Enterprise Investment Scheme (EIS) company has been restricted to £5m from the expected £10m announced last year. "Clearly, the Government has run into some difficulties in obtaining EU approval for the £10m limit. The £5m will now, subject to state aid approval, be a general limit for EIS and VCT investment into any single company for shares issued on or after 6 April 2012. There does not appear to be any further news on the disqualifying purpose test," added Mr Deeks.
"Despite the reduction in the top rate of income tax to 45 percent there are still 22 percentage points difference between the top rates of income tax and CGT for 2012/13 and 17 percentage points for 2013/14. As a result, arrangements that allow employees to realise value as a capital gain rather than employment income remain attractive," said Bill Cohen of **Deloitte.**
"EMI is the jewel in the crown of our share scheme legislation and has rightly won praise from the European Union as a model for other countries to follow," said **Centre chairman** Malcolm Hurlston. "It allows employees of small and medium enterprises (SMEs) to share in the growth of their business. We hope that the limit for the total value of all options granted at one time for any one company will be raised from £3 million alongside this announcement to allow more employees to benefit."

OTS proposals on approved share scheme reform
The Office of Tax Simplification published its final report on the first stage of its review of employee share schemes, which concerns tax-advantaged schemes. The second phase, looking at unapproved arrangements, will be conducted later this year.
The 94 page report from the OTS, which was set up in 2010 to provide tax simplification advice to the Chancellor, found "unanimous agreement" that the current process caused lengthy delays and generated excessive paperwork for employers.
Newspad is grateful to Centre member **Pett, Franklin & Co. LLP** for its comprehensive summary of the recommendations.
Main recommendations
*that HMRC's Small Companies Enterprise Centre and stakeholders discuss the design of a self-certification process to replace the current prior approval process for SIPs, SAYE and CSOPs. This will require consideration of how HMRC would recover tax if such a scheme is wound-up or how a company would recoup from participants any payments it had to make to HMRC

because such a scheme had failed. Generally, the remedy should be payment by the company and not the employees, unless they were knowingly involved in the default;

*the creation of a single tax regime governing all tax-advantaged discretionary share option grants, but with differential limits for smaller higher-risk companies. A phased introduction is recommended, merging the current CSOP into the EMI regime.

As a ***first step***, EMI and CSOP would be merged, with the existing differential limits continuing to apply. However, as for EMI, restrictions on option shares would be permitted, as would discounted exercise prices. For non-EMI qualifying companies, the current CSOP 3-year exercise period normally required for income tax relief would still apply and a 'bad leaver' provision should apply. Disqualifying events would be simplified and the period within which EMI qualifying options must be exercised upon a disqualifying event would be increased to 6 months. Option grants would be notified to HMRC only by way of an annual return.

As a ***later step***, the 3-year exercise period for non-qualifying EMI companies would be removed, as would the requirement for 'leaver provisions'. The respective individual limits (of £120,000 and £30,000) should apply on a 3-year rolling basis so that subsisting options granted more than 3 years previously may be left out of account. To take advantage of the higher limit, the company would need to satisfy the existing EMI requirements relating to (i) 'qualifying subsidiaries', (ii) having less than 250 employees and (iii) gross assets of less than £30m, and must carry out only qualifying trades. A company not meeting these requirements could only grant approved options over shares with a maximum value of £30,000 for each option holder over a rolling 3-year period. The existing overall £3m on EMI options would disappear.

Supplementary recommendations

Common to all schemes

*the creation of a single annual return form notifying HMRC of awards under all tax-advantaged schemes;

*the introduction of online filing of share plan returns and, in due course, with real-time recording;

*the removal of prescriptive rules relating to the operation of schemes and the provision of information to employees so as to allow more administrative flexibility in scheme operation;

*the creation of a single definition of "retirement" – although, if the recommendation relating to 'good leavers' (see below) is accepted, this falls away;

*setting a presumption that any leaver is 'good' unless they are a 'bad leaver', meaning they voluntarily resign or are dismissed with cause. In all other circumstances, options may be exercised within 6 months of leaving (or 12 months of death) if favourable tax treatment is to be available. This would, for example, remove existing inconsistencies under SAYE as between a business or a subsidiary being sold outside the group;

*allowing tax-free early exercise (or withdrawal from a SIP) upon cash takeovers (if an option exchange is not feasible);

*removing the existing prohibition on "*features not reasonably incidental*" and replacing with targeted prohibitions against specified features (eg operating in conjunction with salary sacrifice);

*removing altogether the "*material interest" provisions* for SIP and SAYE and aligning the threshold limit for CSOP at 30 percent (as for EMI)

*removing altogether the prohibition on shares used for a SIP, SAYE or CSOP being subject to restrictions other than "permitted restrictions." Rather, award documentation should contain details of any restrictions (as per EMI). In determining the market value of shares for the purposes of the individual limits, any such restrictions should be ignored (as per EMI);

*permitting companies with more than one class of shares to operate SAYE and CSOP without requiring compliance with special requirements that do not apply to a company with only one class of ordinary share;

*permitting associated companies to participate in approved schemes if they are subsidiaries of the company whose shares are being acquired. This would bring the scheme requirements into line with the Companies Act definition of an "employees' share scheme".

SIP only

*permitting companies to specify that, if there is to be an accumulation period, the number of partnership shares acquired may be determined by reference to (a) the share price on the award date; or (b) the share price at the start of the accumulation period; or (c) (as now) the lower of those two prices. Whichever such method is chosen must be specified in the partnership share agreement;

*amending the PAYE penalty regime so that penalties are not chargeable on late payment of PAYE if the taxable event relates to shares leaving the SIP and the PAYE is paid within 90 days of the due date;

*reducing the tax-free holding period for all SIP plan shares to 3 years (rather than the confusion of different holding periods which currently apply);

*if the recommendation above is not adopted, changing the basis for calculating the taxable value upon a cash takeover so that IT and NICs are charged on the lower of the initial market value of the shares awarded and their value when the shares leave the SIP. This would remove the risk for private companies which fear a possible substantial liability to employer's NICs in an amount greater than if shares had first been gifted otherwise than under a SIP in the event of a cash takeover within 3 years;

*removing the cap on reinvestment of dividends and the 3-year limit on the carry forward of cash dividends to be reinvested in Dividend Shares.

SAYE only

*removing the SAYE 7-year savings period;

*expanding the circumstances in which savings can be made otherwise than from salary, allowing the company to agree when such contributions may be accepted;

*that the Department for Business, Innovation and Skills (BIS) review the requirement that only an approved SAYE savings carrier may be used (so that smaller

companies may self-administer the scheme using a separate bank account);

EMI share options

*extending the 40-day exercise period following a "disqualifying event" to 6 months;

*amending the Working Time Requirement so that it applies only to directors (as for CSOPs);

*(subject to the need to comply with EU State Aid Regulations) reducing the list of excluded activities so as to permit: "*other financial activities*, *legal or accountancy services*, *shipbuilding*, *producing coal*, *producing steel*, *operating or managing hote*ls and *operating or managing nursing homes or residential care homes*."

Other issues

The report refers to the advantages of, (but as it would involve additional cost, does not actually recommend,) amending the EMI rules to allow option holders access to the reduced rate of CGT available under Entrepreneur's Relief without the need to hold five percent, and with the shareholding treated as if held from the date of grant of the option.

Other points made include:

*highlighting the fact that SIP, SAYE and CSOP scheme limits have not been increased over very long periods;

*the fact that certain companies (eg VC-backed companies and mutual societies) do not qualify (although certain co-operatives may qualify for SIPs); and

*the fact that the accounting treatment of the cancellation of an SAYE contract is currently disadvantageous for companies.

As a separate exercise, the OTS will shortly embark upon a review of unapproved share schemes.

"We welcome these proposals, which, in our view, are, in the main, practical and helpful. For a Government that has announced its desire to see a growth in employee share ownership, they are a good first step, said employee share ownership lawyers **Postlethwaite**. Although it is expected that the Government will respond to the OTS report as part of the Budget 2012 process, it is unlikely that any legislation will be introduced before Finance Bill 2013. There is likely to be a formal consultation period if any of the proposals are adopted, but the OTS is interested to receive feedback on its proposals at this stage. The e-address for comments is **ots-ess@ots.gsi.gov.uk** Contact: Robert Postlethwaite *rmp@postlethwaiteco.com*

Chairman Malcolm Hurlston, said the **Centre** would fight any attempt to abolish the CSOP scheme, which he said was a "window of hope" into employee ownership for the lowest-paid and part-time workers and an essential part of "fair society".

Other reactions: "The OTS report is thorough. Besides the key points described above, it addresses several practical difficulties which currently deter employers from offering approved plans, or employees from realising their share or option awards in the way anticipated, said **Deloitte**. As the OTS admits, though, some of its recommendations would carry an Exchequer cost – for instance, the recommendation for simplifying the grant limits for CSOPs and EMIs. Overall, the report does not seem cost neutral."

Judith Greaves of **Pinsent Mason** said: "The report includes recommendations in a number of areas which companies and advisers alike have identified as giving rise to unnecessary complications in operating employee share plans. There are further technical recommendations for the individual schemes, such as replacing separate annual returns for the four schemes with a single requirement, streamlining the existing 'good leaver' rules so that employees receive more favourable tax treatment by default and harmonising certain definitions. Perhaps of more interest will be to see which of these recommendations the Government is minded to take forward."

David Pett, partner at **Pett, Franklin & Co. LLP** said: "All of the recommendations are to be welcomed, although there is "many a slip 'twixt cup and lip" and HM Treasury may have a view as to the extent to which many of the changes proposed will result in a loss of tax. It is frustrating for many companies that such changes are unlikely to take effect for at least a year (if at all), and then possibly only in relation to awards and options made thereafter. As was pointed up in submissions to the OTS, there are other changes needed to other provisions (such as a relaxation of the charge on loans by a close company to an EBT and the application by HMRC of the "transactions in securities" rules) which, whilst not directly relating to HMRC-approved plans, can often prove to be a barrier to their adoption."

John Whiting, tax director for the **OTS,** said: "We have looked hard to see whether the approved share schemes are still valid, given their decline in usage. Accordingly, we spent a lot of time gathering the views of the people that use them, and found that employers saw real benefits, citing greater commitment from employees, and better engagement across all employees. We think the way forward is to improve the current schemes and this has led us to recommend a number of technical and practical changes."

Awards 2012

Entries are invited for the Centre's annual awards 2012– this year expanded by a new award – for best plan communications. Entrants and/or their advisers have until **noon on June 5** to send their submissions to UK Director, David Poole at Centre HQ dpoole@hurlstons.com 0207 239 4971.

There are three categories:

*best employee share ownership plan for a company with more than 1,500 employees;

*best employee share ownership plan for companies with fewer than 1,500 employees; and *best communications supporting an all-employee share plan.

The criteria for entering are explained in full on our website. http://www.esopcentre.com/awards-2012

The winners will be decided by a panel of three impartial judges who are experts in the area of employee equity. These judges include Malcolm Hurlston, chairman of the World Centre. The finalists will be announced during the Centre's 24th annual conference in Paris on June 21 & 22 and the awards will be made at the annual Centre dinner in London in October.

Bank discrimination against Eso companies, claims Clegg

Successful companies which use golden shares to protect their employee shareholders from outside takeovers are being refused bank loans, Deputy Prime Minister Nick Clegg revealed in a keynote speech.

Mr Clegg told the annual conference of the British Chambers of Commerce that the Coalition is considering taking steps to outlaw such behaviour by finance houses.

"One of my constituents told me that his business, where every employee owns shares, was recently refused a loan. This is a successful, multi-award winning company, looking to invest in a dozen new products this year, as well as open offices in India and Brazil. Why was their loan application rejected?

"They were told it was because they don't have an exit strategy because the business has golden shares to keep it employee owned, and so can never be sold," Mr Clegg told his audience. "You hear similar stories time and time again, so I've asked Graeme Nuttall (partner at Centre member law firm Field Fisher Waterhouse), the government's share schemes adviser, to look at these issues in his review of employee ownership, which will report back in July.

"Where are there barriers to – and prejudices against – employee-owned firms? How do we encourage greater take up? And we're not just talking about a few members of staff owning a few shares. We're talking about a big chunk of the company belonging to a significant number of staff.

"Alongside that work, the Treasury will be looking across the tax system to make sure our tax rules are not a barrier to employee ownership," said Mr Clegg.

He then hinted that the government could offer tax incentives to SME owners to pass on their businesses to their employees, rather than go through a trade sale, if there was a succession crisis.

"I think it's high time we encouraged more British firms to keep it in the wider family – selling shares to their staff, especially at the point of succession. A significant proportion of SME failures happen around the time a business changes hands.

"Perhaps a parent hands down the family business, but their children have neither the experience nor inclination to make it work. Perhaps they sell to bigger firms only interested in stripping assets or short-term gains. Perhaps the new owners have the best intentions, but don't understand the client base, or have no relationship with suppliers and the company falls apart.

"That is a tragedy for the men and women who build up these businesses, a legacy lost, and a huge loss to our economy too. I believe if we moved more companies into employees' hands at the point of succession we'd see more survive, rather than fall. To do that, we need to increase awareness. Much of the time, employee ownership isn't even considered. That's why minister Norman Lamb is driving an awareness campaign among lawyers, accountants, business advisors and business schools. Too many of the experts still feel uncomfortable on this ground. But this is also about our deeper reflexes. We have a corporate culture that actively encourages owners to sell up, to have one eye on the door."

The John Lewis department store and other employee-owned companies could be given capital gains tax breaks, he added. These plans are part of a bid by Mr Clegg to encourage more employee-owned companies to be set up because the Government regards them as being well-run. Fiscal changes could include new capital gains tax breaks to get people to sell their companies to their staff rather than to another firm, he disclosed.

Mr Clegg said he had asked the Treasury to examine the possible promotion of employee benefit trusts, which were attacked under the previous Labour Government because of abuse by company directors who used them to lessen their tax bills. Chancellor George Osborne will report back with the results in the Autumn Statement. Clegg told the BCC: "The Treasury will be looking across the board at the tax system to make sure our tax rules are not a barrier to employee ownership.

"We have inherited a system where £650m is spent on tax breaks for this every year. That is no small amount. But are those incentives working? How do the rules impact on decision-making at succession?

"Are we incentivising genuine employee ownership? So not just putting tax breaks on Director's profits, but providing benefits that are felt across the shop floor? When profits are distributed, are we really encouraging employees to look at taking shares, rather than automatically opt for cash bonuses?"

Mr Clegg added: "Of course, we need to make sure any reforms aren't open to abuse and the Chancellor will report back in this year's Autumn Statement."

The review sits alongside a wider study of barriers to wider employee share ownership, which is being carried out by Graeme Nuttall.

Employee-owned businesses are a significant and growing part of the UK economy, estimated to be worth £25bn. Alongside John Lewis, well known examples include Waitrose, the Baxi group, Arup and, until recently, Loch Fyne. However owning shares carries a risk. More than 80 per cent of Northern Rock's staff signed up for shares that became effectively worthless when the bank was nationalised.

"We don't believe our problem is too much capitalism: we think it's that too few people have capital. We need more individuals to have a real stake in their firms," said Nick Clegg.

But Clegg's ideas ran into media criticism: "Unfortunately, other parts of Clegg's speech – notably when he argued for a decade of employee share ownership – raised more questions than answers, said Nils Pratley, of *The Guardian* newspaper. "Take the idea of giving employees a 'new, universal 'right to request' shares' As Clegg put it: 'Imagine: an automatic opportunity for every employee to seek to enter into a share scheme, enjoying the tax benefits that come with it, taking what for many people might seem out of their reach, and turning it into a routine decision'

"But how would this automatic right work? Would the owner of a private business – say, an entrepreneur with 20 staff – be obliged to allow his employees to buy a few shares from him or her every year? If so, what would be the pricing mechanism in such a sale? When there's no public market in the shares, would an external auditor be brought in to offer an opinion? What if the entrepreneur doesn't want to dilute his holding? Would he or she be obliged to sell? If so, what percentage would have to be released? Entrepreneurs, one suspects, would smell a disincentive to start a business in the first place.

"Let's not get carried away and think, as Clegg seemed to, that greater share ownership by employees would act as a brake on 'crony capitalism' and egregious boardroom pay. It would be a tall order, even with lavish tax breaks, for staff to save enough to assemble a collective five percent stake in most multibillion FTSE 100 companies. Boardroom directors will not quake at that prospect. If you really wanted to shake things up, stick an employee on the pay committee.

"Then there's the question of how much it is healthy for staff to invest in their employers. Stories of shop-floor workers getting rich as their companies succeed are uplifting. But ask the many thousands of staff at, say, HBOS, Lloyds TSB and Royal Bank of Scotland how they feel about the savings they invested in those supposedly solid banks: there are many, many stories of substantial savings pots evaporating with the share prices," added Pratley.

Minister for employee share ownership?

The Centre called for the appointment of a dedicated minister for employee share ownership. The idea was tabled in a Centre Forum publication launched at the Lib Dem spring conference in Gateshead. Centre chairman Malcolm Hurlston said: "A dedicated minister would push employee share ownership into the mainstream and keep it there.The minister would be able to coordinate the work done by HMRC, the Treasury and the BIS Department in this area. At the moment the Enterprise Management Incentive, which is a fantastic scheme and has helped over ten thousand businesses to grow, isn't properly promoted by BIS because it was invented in the Treasury. Because of this thousands more businesses are missing out."

The paper, to which the Centre contributed, proposed a combination of more rigorous promotion and some technical changes to the rules governing share schemes, alongside more radical measures such as a right to request up to five percent of share capital for a broad-based employee share scheme in firms with more than 250 employees.

"The more technical suggestions are in line with our own lobbying agenda which has recently been looked at by the Office of Tax Simplification. A right to request would mean that companies would have to take employees seriously if they wanted a share plan. Employees deserve a share of the capital to which they contribute so much," Mr Hurlston told HR magazine. The proposals are:

- Give employees working for a firm that employs more than 250 people the 'right to request' a broad based employee share scheme and create a 'right to request' employee ownership on business succession.
- Set a norm that companies and employees should aim for at least a five per cent stake in the business either through gift or shares, or by providing facilities for employees to buy a stake.
- Consider further fiscal measures such as a discount on capital gains tax for owners transferring firms to employee ownership
- Give a single minister responsibility for promoting employee ownership and share ownership, within government and outside.
- Take steps to simplify the tax and legislative systems to boost employee ownership

Most of these ideas were mentioned positively by Mr Clegg during his speech to the BCC (see above).

Posties on shares notice

On 21 March, the European Commission announced that it had approved the UK government's plans to relieve the **Royal Mail Group** (RMG) of excessive pension costs and to provide restructuring aid consisting of a debt reduction of £1bn. The plan includes operational modernisation, the offset of the remaining pension deficit of the RMG pension plan, which falls outside the legacy costs relief, and a reduction in the number of mail centres. RMG will finance 50 percent of the restructuring costs through measures such as asset divestment. In addition, the Government will provide the operator with a re-structuring aid package, which should enable the national operator to eventually be sold to a private investor. This should mean that the government can at last flesh out ways in which the partial privatisation of RMG should occur, including the offer of at least ten percent of the equity to postal workers, through the issue of shares. In his Budget speech, Chancellor George Osborne confirmed that the Treasury would put the scheme's £28bn assets towards its national debt. The scheme's liabilities, worth an estimated £37.5bn, will be absorbed by taxpayers. "The transfer of the £28bn assets from the Royal Mail pension fund to the Exchequer will free it from its crippling pension debts, ensure the pensions of hard-working staff are paid and help to bring in new private sector investment," he said.

Public sector pensions expert John Hanratty of **Pinsent Masons**, the Centre member law firm, said that the Commission's announcement freed the way for the Government to increase its public service pension liability by a net amount of c.£9.5bn. "Mr Osborne clearly sees the acquisition of the deficit as a reasonable price to pay for releasing £28bn of assets to the Treasury which will, we are told, be used to pay down current Government debt, but the £9.5bn deficit will become an unfunded public pension liability of £37.5bn once the assets have been distributed but the liabilities remain," said Hanratty.

Centre Financial education seminar

"In an increasingly complex world, where even seemingly simple decisions can involve weighing up dozens of options, the best we can aim to do is to enable consumers to take their own decisions better," said chairman **Malcolm Hurlston**, opening the Centre's seminar on financial education in London.

"Because employees are now changing career frequently, it is no longer possible for employers to play a paternalistic role. Employees must be equipped to plan their finances, not just over the short term but with an eye on retirement too. When share schemes were first introduced, Margaret Thatcher made it clear that pensions were sacrosanct and Eso must in no way impinge on its territory. Now, however, the situation has changed and our industry has a great opportunity to help employees plan for long-term security."

Malcolm thanked Money Advice Service (MAS) for its support and Computershare for hosting the event.

Stuart Bailey, of MAS, said that providing financial education in the work place had been the next big thing for a long time. Now though, the industry had reached the stage where, due to advances in the available technology coupled with stretched domestic budgets, it had become a mainstream concern for all employers. There were many incentives for employers in helping employees to manage their money better - stress caused by financial worries was now the number one cause of absence and hours are fretted away worrying about making ends meet. In addition recent evidence from a survey conducted by *YouGov* for *Employee Benefits* linked provision of financial advice/education with increased job satisfaction. The availability of sophisticated online products, which could be tailored to life-stages meant that cheaper and more personalised solutions would become more prevalent.

Ann Govier of Marks & Spencer delivered the first of two case histories: M&S's 70,000 employees are spread over 700 stores and five head office locations. Of these employees, 77 percent are female and 71 percent are part time with an average salary of around £9,500 pa. Marks & Spencer had introduced financial education because it found that it was spending money on providing benefits, but not achieving the results it expected (share schemes alone cost around £40m pa on its P&L). Only five percent of its workforce has access to the internet at work and in employee surveys, internet competence was lower than expected, so different approaches were taken to ensure as many people as possible were reached. M&S worked with MAS for stored-based assistants and WEALTH at Work for its management. It provided information through seminars, emails, elected employee champions, interactive podcasts, written booklets and fact sheets, table talkers, totem poles, pod casts and team briefings. Every possible opportunity to educate employees was taken. Since 2009 SAYE Sharesave participation had risen from 19 percent to 25 percent. At maturity time this year M&S had one five-year scheme, which was underwater and one three-year scheme, which was 60 percent above the option price. Two courses of action were taken. The underwater scheme participants were reminded that they could take their money back and in addition M&S provided a service at its expense so that employees could buy market price shares with their savings – an option 1,700 employees took. For the successful three-year scheme a series of lunchtime seminars were held to make sure employees knew their options with ISAs, CGT, transferring to a spouse or a SIPP etc. Employees were encouraged to think about what they needed the money for and take the step most suitable for their longer-term planning beyond the initial decision of sell or keep.

Martin Osborne-Shaw of Centre member Killik Employee Services presented shocking statistics about the current level of financial capability in the UK, where more than half of all employees lived within a £100 per month margin of ruin. 75 percent of employees would appreciate more help with financial planning from their employers, unsurprising in light of the fact that 28 percent of over 50s plan to delay retirement by 6 years; 38 percent of adults don't have a pension and only 36 percent understand that APR relates to payments. This parlous state of the nation's personal finances was affecting economic performance – almost one in ten people had taken time of work because of money worries according to a *YouGov* survey. The encouraging news was that companies were beginning to listen. More than two-thirds of HR professionals accept that financial worries affect performance, with 62 percent seeing the forthcoming pensions changes as a good opportunity to introduce a form of financial education programme. Martin concluded that providing support around share scheme decisions was important for those who were confident enough to join the scheme in the first place, but employers had to work to ensure basic competence was in place before expecting more complicated products to be used more widely. *MoneyinMind* had been designed by Killik to take employees on a step-by-step guide through their finances beginning with the basics, like budgeting, and working through to more complex products. This drip-feed approach means that employees can learn a bit at a time at their own pace rather than receiving information overload. Each stage finishes with a test, which ensures students have absrobed the material. Employers could provide a bonus to each employee completing the course of say £250 as part of their CSR policy. Martin suggested that employers who offered financial education courses could be given a tax break. Government savings to the NHS for stress treatment and BIS in stimulating growth should compensate for any lost revenue.

FirstGroup, which runs buses and trains across the UK and well as Greyhound coaches in the US, was the second case study, given by **John Chilman**. He said the company faced challenges in that employees were mainly weekly paid and lived a hand-to-mouth lifestyle. Longer-term budgetary concerns were hard for them to grasp. Overcoming an average literacy age of seven years meant that discussing issues such as CGT liability was the least of his worries. Because the workforce was rarely in an office, John decided that an intuitive and interactive website was the best way to provide his

employees with information. Each individual could see details of their pay, pension, benefits and shares in one place when they logged on with no jargon and a video tutorial if they need more information. Automatically updated sliders mean employees can see what they might get out of a Sharesave if the share price rises or falls. Similarly for the SIP they can see how much their £30 a month investment is worth once they receive the tax advantages and the matching shares. When the schemes approach maturity, employees receive alerts setting out the options available to them in a simple 1,2,3 format. The key lessons to take were to simplify language as far as possible and instead provide tools so employees could see the real affects of different choices on their bottom line.

Geoff Price of hosts Computershare introduced and chaired the panel debate to conclude the seminar. Delegates were able to quiz the speakers in more depth. Linda Jack, in the audience, representing the Lib Dem working group on employee ownership, was told that making transfers from share schemes to pensions and changing the accounting rules for share options would be very beneficial for the industry.

Centre UK Director David Poole said: "Educating employees about their benefits should be seen as an extension of good communications. If employees don't understand what they are being offered they won't use it and companies end up wasting money. Share schemes are particularly susceptible because of the complicated terms and concepts involved. We will look to take forward the main points raised today on our lobbying agenda and to raise awareness among our members."

On the Move

Colin Kendon of Centre member law firm Bird & Bird contributed to the second edition of 'Internet Business Commerce and Tax,' published on 17 March by Jordans. The book includes a substantial section on employee incentives for private technology companies and the tax issues arising for employee and director shareholders. It covers growth shares, nil paid shares, JSOPs, EMI, the mechanics of imposing vesting and forfeiture, tax efficient structuring of exits, disguised remuneration and some suggested reforms. Web: http://www.jordanpublishing.co.uk/publications/commercial/-internet-business-commerce-and-tax-#overview

Global Equity Organization (GEO) announced the appointment of **Danyle Anderson** as its new executive director. Prior to joining GEO, Danyle was programmes director for the National Association of Stock Plan Professionals (NASPP) where she was responsible for its industry surveys, annual conference speaker selection, annual conference materials publication, group membership and group education programmes.

COMPANIES

Employee share ownership poster boy **Admiral,** the car insurer, reported a 13 percent rise in profits but admitted it had been a disappointing year because of the cost of bodily injury claims. The group, which is the second largest insurer in the UK with 2.9m customers, saw shares slump by a quarter in November after it warned the results for 2011 were likely to be at the bottom end of hopes. The Cardiff-based owner of Elephant and Bell and the comparison website Confused.com revealed a figure of £299m, which ceo Henry Engelhardt admitted was far less than he thought it would be. The slump in Admiral's share price has been felt by staff as they receive free shares under an employee share scheme. Admiral said around 5,500 staff will pick up free shares worth £3,000.

Asda employees have received £515m since 1982 through the retailer's SAYE-Sharesave scheme. More than 25,000 employees take part each year, reported *Employee Benefits*. At the end of the three year contract, participants have the opportunity to buy parent company Walmart shares at a 20 percent discount to market price. Hayley Tatum, people director at Asda, said: "Our in-store and depot employees work extremely hard to serve the 18m customers that come through our doors each week: The Sharesave scheme is just one of the ways we want to thank them for their efforts. It gives our colleagues the opportunity to save each month, risk free, and also reap the rewards of their hard work."

BT has reminded some employees of their potential Capital Gains Tax (CGT) liability because its share price, relative to option price, has almost quadrupled since the internal SAYE-Sharesave scheme was launched three years ago. The contract, which matures in August, had an option price three years ago of 58p, compared to the current share price of around £2.25. Francis O' Mahony, head of BT employee share plans and share registration, said: "What I don't want is an employee coming back to me and saying '*Why didn't you tell me that I would have to pay CGT. I have already spent the money on my daughter's wedding or university education or the holiday of a lifetime."* BT's recent survey showed that 73 percent of its employees who participate in a share scheme said they are now *more* interested in the organisation's business performance as a result. BT offers other share schemes, including a Share Incentive Plan. It offers free shares in 60 countries, executive plans, and a share purchase plan for employees in the US. Mahony said that clear communication was essential to successfully engaging employees with share schemes. BT promotes its schemes in different ways, including personalised emails, webcasts, podcasts and online discussions.

The **eircom** employee share ownership trust (ESOT), which owns 35 percent of the company, faced near wipe–out as Irish telecoms company went into examinership, the Irish equivalent of administration, to protect itself from creditors for 100 days.

A sad fate awaits what has been Ireland's most famous ESOT, which has distributed more than €750m to employee share scheme participants since its inception in 1999. The outcome of the examinership is almost certain to see yet another change of ownership as the current shareholders, STT of Singapore and the eircom

ESOT, are obliterated. More than a decade after flotation, Eircom has had six owners in 13 years. Repeated changes of ownership have left it with a crippling debt burden. Its barrister Maurice Collins told the High Court that the company had gross debts of €4.1bn. Eircom, he told the Court was "clearly insolvent".

In 1999 Telecom Éireann, a State monopoly, moved from public to private ownership via a stock market flotation and became Eircom. It was the largest privatisation in the State's history, raising €6.3bn for the exchequer. Eircom was then a profitable and debt-free company with a promising future. In 2001, after first selling its mobile arm Eircell to Vodafone, Eircom was sold to the Valentia consortium in a deal which saw shareholders lose about 20 percent of their investment. Three years later Valentia cashed in its chips by refloating Eircom. Then in 2006 Eircom was taken private once more when Babcock & Brown and the Eircom Employee Share Ownership Trust (ESOT) paid €2.4bn for the company. When Babcock & Brown went bust three years later, Eircom was put on the auction block again. This time STT of Singapore paid just €40m for a 65pc stake with the ESOT purchasing the remainder of the firm.

Each time Eircom changed hands, it was loaded up with ever more debt. As Mr Justice Peter Kelly remarked in the High Court, Eircom was the subject of a "corporate game of pass-the-parcel" and that in this case "the parcel lost". Eircom lenders are split into three different, competing groups. The first lien lenders are owed €2.7bn. These have first charge on the group's assets and are in the strongest position.

Eircom made insufficient capital investment in its fixed line business to meet rising public demand for better broadband services – which would allow users faster internet access, via high-speed fibre networks. Companies such as UPC, that offer customers a triple play service – combining phone, internet and television – have made it harder for Eircom to compete, either on cost or service.

Harmony Gold Mining Company, South Africa, launched its Esop, which will see 33,000 employees participating in direct part ownership of the company. The Esop is an equity-settled share incentive and share appreciation rights scheme, in terms of which 4.3m ords in the share capital of the company at par value and 8.6m share appreciation rights have been offered to 33,000 Harmony employees. Ceo Graham Briggs said the Esop recognises the importance of the employees who sustain its business. "They are, in essence, our `human gold'. This plan not only benefits our employees, but has also demonstrated and enhanced the Company's close relationships with our unions. We look forward to reporting on the success of the plan, as we share a common interest in delivering returns to all stakeholders." Frans Baleni, National Union of Mineworkers general secretary, said: "NUM believes each and every employee at Harmony deserves part of the success to which they contribute. I'm pleased at the company's acknowledgement of this fact." The Harmony Esop may account for almost three percent of the total equity. Harmony's black economic empowerment (BEE) status was further enhanced.

Centre member **Norse Solutions** announced full capability for handling deferred equity compensation, following the requirements set forth under the EU's Capital Requirements Directive III, CRDIII. Norse Solutions early on identified that remuneration in the form of deferred equity and cash compensation was a natural fit with its core competences. It decided to develop the functionality needed to position Norse Solutions as a trusted provider, and become the preferred choice for contracts handling these instruments. As a result, DNB Bank ASA and Gjensidige ASA, two of the largest financial institutions in the Nordic region, are already using Norse Solutions for efficient administration, reporting, accounting and disclosure of their deferred equity compensation following CRDIII. Ceo & President, Arne Peder Blix said: "The need for an advanced and fully transparent system, enabling the client to get a complete overview of these rather sensitive compensation instruments became clear to us when we saw the early drafts of CRDIII. Being able to report with precision and to have transparency readily available to the various stakeholders and the public at large, and compliance with all forms of reporting and disclosure with complete confidence in the accuracy of the figures, is a 'must have' for financial institutions."

The Zimbabwean Government agreed in principle that the plan presented by **Impala Platinum Holdings Ltd (Implats)** was compliant with the law and acceptable. No agreement was reached on timing, nor valuation other than that the share sales would be at appropriate value. The proposals made by Implats to the Government are: ten percent of Zimplats will be issued to the community trust at the independent valuation previously submitted to the Government. Zimplats Holdings will provide an interest free loan to the community trust to fund the shares and the loan will be repaid from dividends. This stake would be non-contributory. Ten percent of Zimplats will be sold to an employee share ownership trust for the benefit of all full time employees of Zimplats. The shares will be sold at the same independent valuation and Zimplats Holdings will provide an interest- bearing loan to the EBT to fund the purchase of the shares. The loan will be repaid from dividends and will be contributory or dilutive.

CONFERENCES

Jersey April 27: The future of EBTs

Employee Benefit Trusts have been in the headlines an unprecedented number of times over the last year thanks to their role in some disguised remuneration schemes and the ensuing Rangers tax case. Companies are now winding down even legitimate structures to avoid scrutiny during a sale. This year's joint ESOP Centre/STEP Jersey conference will look at the future of EBTs and share schemes. It takes place on **Friday, April 27** from 8:45 – 13:00 at the Royal Yacht Hotel, St Helier. The conference is CPD accredited for 3.5 hours of professional development by the Solicitors Regulation Authority. To reserve your space email

esop@hurlstons.com - £295 for STEP/Esop Centre members £425 for non-members.

In the programme, **Amanda Flint** of **BDO LLP** will give a run through of all the recent developments affecting EBTs and will consult the crystal ball about their future. **James Hodgson-Barker**, **nondom.com** and **Mark Davies & Associates Ltd**, will discuss the impact of the new rules on share plans and EBTs and give some practical guidance on how trustees and administrators should operate share plans in the light of the legislation. The presentation will cover how the legislation works, hedging arrangements and earmarking, exclusions where there has been earmarking, transferring shares to employees, deferred remuneration cashless option exercise facilities and employee loans, payment of tax due under Part 7A and remaining problems. In June last year, HMRC announced a fresh approach to continuing investigations into EBTs and similar arrangements. For a variety of reasons, taxpayers have sought to 'collapse' such structures. **Paul Malin** of **Haines Watts** will outline why some clients now find this settlement opportunity attractive and will highlight some of the difficulties that need to be overcome. **William Franklin, Pett, Franklin & Co. LLP** will cover IFRS 10, a new standard which will apply from January 1 next year and which is expected to catch EBTs, which will engender changes in accounting for EBTs. Ensure you are prepared for this and other accounting developments. **George King IV**, Head of Portfolio Strategy, **RBC Wealth Management**, will present an overview of the economic situation in Europe - the euro situation, impact of the US economy, China etc and tie this in to individuals participating in share arrangements. What will 2012 bring and are there bright spots on the horizon? **Rosemary Marr** of **STEP Jersey** will give a round up of issues affecting offshore finance and trust administration. Breakfast will be served with registration from 8:45 – 9:15 and a networking lunch will follow the conference from 13:00 – 14:00.

Centre-IoD share schemes for SMEs: May 15

The increase of limits and extension of Entrepreneurs' Relief was a welcome boost for SMEs considering the installation of an employee share scheme. The Centre's joint conference with the **Institute of Directors** on **Tuesday May 15** will focus on the options available in Esos for small and medium businesses. This full-day conference will take place at the Institute's HQ at 116 Pall Mall in London. Tickets are on sale now for £360 + VAT for members or £460+VAT for non-members - email dpoole@hurlstons.com to reserve a place. A comprehensive agenda will take directors of smaller companies through a step-by-step guide to what employee share incentives could do for their business and how to implement such a scheme. Introductory speeches will be given by **Malcolm Hurlston** and **Roger Barker**, Head of Corporate Governance at the IoD. **Ian Murphie** of **MM&K** will give an overview of *the pros and cons of share schemes*, **Guy Abbiss** of **Abbiss Cadres** will present on *how to design the right plan for your business*. **David Pett** of **Pett, Franklin and Co. LLP** will kick off the session on *EMI with an overview of the scheme and its rules*. **David Craddock** will present *Enterprise Management Incentive case studies* and then **Amanda Flint** of **BDO** will ask: *What the options are if a company does not qualify for an EMI plan?* **Matthew Findley** of **Aon Hewitt** will cover *Plan implementation nuts and bolts* in his presentation, followed by **Catherine Gannon** of **Gannons Solicitors,** speaking on *How to implement a share scheme without racking up legal costs*. **Colin Paterson** of **RM2 Partnership** will explain *Accounting for share schemes* and **Colin Kendon** of **Bird & Bird** will discuss *Exit solutions*. **Robert Postlethwaite,** of his eponymous share schemes advisory & legal practice, will run through *the options for using share schemes in succession planning* and finally **Ron Forrest** will deliver a case study about **Perkins Slade Ltd,** *where there is an EMI scheme, a SIP and an element of succession planning to bring the theory to life*.

PARIS: June 21 & 22

Delegates at the Centre's 24th annual conference at the four-star Millennium Paris Opera Hotel on **Thursday June 21 and Friday June 22** (2012) will hear and be able to comment on final proposals being put to the UK government for major legislative and regulatory reform in the employee ownership sector. Speaker **Graeme Nuttall**, share scheme adviser to the Coalition and partner at Centre member Field, Fisher Waterhouse is working directly with Norman Lamb MP, the minister who has succeeded Ed Davey as having responsibility for getting at least ten percent of the Royal Mail equity into the hands of 160,000 postal workers. His audience will include a senior civil servant from the BIS Department. Graeme's slot title is: *Driving employee share ownership into the mainstream British economy.*

Henri Malosse, president elect, European Economic & Social Committee and international director of the French Chambers of Commerce will discuss employee share ownership (or financial participation, as it is called in Brussels) as a means of developing corporate social responsibility and as a moral code of conduct applied to the strategic and operational management of a business, with examples from French companies.

Leslie Moss, Practice Leader, Human Capital Consulting, Aon Hewitt, will launch the executive reward segment by discussing: '*What's happening to executive pay?'* He will be followed by **Joe Saburn,** of New York law firm Norris McLaughlin & Marcus, with his slot entitled: *'Shareholders finally get to speak - the practical impact of 'Say On Pay' in the US'* while **Patrick Neave** of Investment Directorate, Association of British Insurers, will tackle: *The new parameters of executive remuneration.* Centre international director **Fred Hackworth** will moderate a wide-ranging delegate debate on key issues, including *executive reward, tax incentives and plan participation rates*.

Eric S Smith of Consulting Services Support Corporation and **David Hildebrandt** of Kirton &

McConkie (both USA) will discuss: *The 'Perfect' Global Share Plan: Opportunities and Obstacles*; **Alasdair Friend** of Baker & McKenzie LLP will speak about: *The use of Employee Benefit Trusts and Disguised Remuneration*; **Sara Cohen** of Lewis Silkin LLP will speak about *a John Lewis type employee benefit trust*; **David Craddock** of David Craddock Consultancy Services on: *The Third Way: Eso is beneficial to all and it works*; **William Franklin** of Franklin, Pett & Co. LLP on: *Share Based Payments Revisited*; **Colin Kendon** of Bird & Bird will outline: *The Impact of the revised Prospectus Directive on employee equity issuers within the EU*; **Prof. Jens Lowitzsch** of the European University Viadrina, Frankfurt, on: *EU institutions promote Employee Share Ownership/EFP and launching an EU-wide Esop model* and chairman **Malcolm Hurlston** on: *The increasing involvement of trade unions in employee share ownership*. **Sami Toutounji** and **Katia Zaboussova** of Shearman & Sterling, Paris office, will deliver a topic presentation too.

Our special package deal permits members to extend their stay in Paris over the weekend at the same discounted room rate that the Centre has obtained. The daily room supplement for double person occupation is only **€20,** so bring your partner or friend. The hotel is in Boulevard Haussmann, a stone's throw from the Place de L'Opera (see hotel website at: http://www.millenniumhotels.com/fr/fr/millenniumparis/gallery/index.html)

Registration will secure two nights half-board accommodation in the conference hotel, as the Centre block books rooms, to make things easy for all.

The package deal prices for this conference (no VAT is charged on fees) are:

	Centre members	Non-members
Practitioners	**£999**	**£1,450**
Plan issuers	**£675**	**£799**

There is a reduced price **conference-only** option this year, which may appeal to those who do not require accommodation during the conference.

We have room (just) for two late speaker slots: speakers benefit from a package deal price reduction, subject to agreed topic content. If you want to book a speaking slot at this event, you should do so now. Whether you plan to attend as a speaker or as a delegate, please contact international director Fred Hackworth at: fhackworth@hurlstons.com asap.

DAVOS 2013: The Centre's 14th Global Employee Equity Forum will take place on **Thursday Feb 7 and Friday Feb 8** at the five-star Belvedere Hotel. The Steigenberger Group's MD for Switzerland, Conrad Meier, has assured the Centre that service standards at the Belvedere will be impeccable. Mark these dates in your diaries and get sign-off to attend.

Bonus corner

Barclays kicked off the banking bonus season with the publication of its report and accounts, showing that its ceo Bob Diamond received £6.3m for his performance in 2011, including a bonus of £2.7m, and its highest paid executive received £6.7m (another unnamed banker received £6.5m in total). On top of Mr Diamond's reward for 2011, he received a one-off £5.7m benefit, which relates to a tax liability created for him when he moved back from the US to the UK to take over as ceo of Barclays. This is mostly due to the crystallisation of a CGT charge incurred by his relocation to the UK - and that money goes to tax authorities here and in the US. Another wrinkle is that although Mr Diamond has been awarded the opportunity to earn £6.75m from the group's long-term incentive plan, Barclays values this LTIP award at just over £2.2m - on the assumption (based on historic performance) that ultimately his performance will only see him receiving a third of the potential payout. Some analysts will argue that Barclays is understating what Mr Diamond and others may end up earning. None of Barclays top bankers will get any of their bonuses this year. They will have to wait a year to get any payments, which will be paid by instalments over three years. Bob Diamond will not receive anything in cash, and nor will the group's fd Chris Lucas. Other top executives will receive some of the bonus in cash.

BT ceo Ian Livingston is thought to be in line to receive a £5m long-term bonus pay out after overseeing a turnaround at the telecoms giant. BT gave out tens of millions of shares to top staff at a time when the company reported its first ever loss, reported the *Sunday Times*. Mr Livingston reportedly received two million shares, which were deferred for three years with the condition that they would only pay out if all its financial targets were met. Since then BT's share price has more than trebled after the ceo cut 30,000 roles and turned around the problematic IT services division. The bonus scheme is reportedly tied to cash flows and the share price and will pay out in full - delivering huge payouts to Mr Livingston and his executive colleagues. The 47-year-old Scot will receive 2.13m shares at the recent closing price of 226p, while head of retail Gavin Paterson and Tony Chanmugam, BT's finance director, should receive bonuses of £2.4m and £2.2m a piece.

In the past six years Bart Becht, who led household goods company **Reckitt Benckiser** maker of Cillit Bang, Durex condoms and Nurofen, has received more than £200m in cash and shares and despite stepping down as ceo last September, he looks to be in line for about £45m more, reported *The Guardian.* For many City investors, however, these huge payouts are not troubling. Like Becht, some institutional shareholders have done well out of the company's success too. Even following his record-breaking £91.5m cash and shares payout in 2009 alone, the subsequent agm saw only 16 percent of shares voted against the pay policy. Behind the scenes, shareholders did encourage Reckitt to tone down Becht's rewards in 2007. As the annual report put it, "current total remuneration is moving ahead of the stated policy". Had the remedial action not been taken, Becht would have earned many millions more.

Investors will have their chance to register their views

on executive pay through the ballot box, with the approach of the agm season. Not in a long time has there been such a level of chatter about radical change. Colin Melvin, ceo of **Hermes EOS**, which speaks for the BT pension fund and others, has some interesting ideas about ending 'jackpot' payouts. Meanwhile, former **Greggs** ceo Sir Mike Darrington said that the problem is no longer just about aligning bonus plans with the interests of shareholders. It is about excess too. *"If current packages were halved, senior executives and bankers would still be overpaid,"* he said. Darrington dismissed the argument that top executives require increasingly astronomic sums to ensure they do not leave. He suggested prices for executive labour should be set just as a buying team might set any other cost to the business – seeking to drive the price as low as possible without repelling all suppliers. "If you don't start to lose people, we have not gone far enough." Executives say that they are prized corporate assets, not commodities: They are compared to talented Premier League footballers, not replaceable worker drones.

Ireland: Secret top-up payments to disability charity chiefs on salaries up to €150,000 are being investigated by the Irish Department of Health. Officials are conducting a high-level probe into how the charities are spending €1.5bn in state funding. They believe some senior executives are getting extra payments on top of their salaries. But a number of the charities are refusing to divulge details of any bonus or top-up payments, which are suspected to range between €22,000 and €43,000. Despite the huge amounts of state funding they receive, Health Minister James Reilly cannot compel charities to give details of salary and top-up payments if these are paid for by fundraising or donations. Suspicions about the extra payments were outlined in an internal Department of Health memo obtained by the *Irish Independent* under Freedom of Information rules. Although the charities were not named, the memo criticised the lack of transparency over how much ceos were being paid. It pointed out that while the charities said the salaries were in line with comparative public service pay scales, "we know that they are most likely topped up from other funds". Concern about the lack of cooperation on executive packages emerged during an overall value-for-money review.

US: The pay package for **Ford** CEO Alan Mulally rose 11 percent last year to $29.5m (£18.4m), or a little more than $5 for every vehicle sold. Mulally earned $2m in salary, up 43 percent from 2010 and stock awards valued at $13.9m, up 86 percent from the previous year. However, his performance bonus dropped 42 percent to $1.8m because Ford fell short of market share and quality targets in some areas. Mulally received $612,587 in perks and other compensation - for the use of a private jet, a personal car and driver and security. Despite rising commodity costs and charges for a big expansion in Asia, 2011 was Ford's third successive profitable year. There were problems. Ford's U.S. quality ratings were tarnished by glitches in its touch-screen dashboard systems and shifting problems in some automatic transmissions. And while the company gained market share in Europe, its share was flat in other regions.

Salaries of 70 **Fannie Mae** and **Freddie Mac** executives will be limited to $500,000 per year and their annual bonuses eliminated amid pressure from Congress to stop the big payouts. The pay and bonus structure of the government-controlled mortgage giants came under fire after it was revealed that 12 executives got $35.4m in salary and bonuses in 2009 and 2010, despite having to be bailed out by US taxpayers. Fannie's ceo, Michael J. Williams, received about $9.3m for the two years. Freddie's ceo, Edward Haldeman Jr., was paid $7.8m. The government rescued Fannie and Freddie three years ago after they nearly folded because of big losses on risky mortgages. Taxpayers have spent about $170bn to prop up the two companies, the most expensive bailout of the 2008 financial crisis.

Facing a slump in revenue from investment banking and trading, Wall Street firms have trimmed 2011 discretionary pay. At **Goldman Sachs** and **Barclays Capital**, the cuts were at least 25 percent. **Morgan Stanley** capped cash bonuses at $125,000, and **Deutsche Bank** increased the percentage of deferred pay. Median household income in 2010 was $49,445, lower than the previous year and less than one percent of Goldman Sachs ceo Lloyd Blankfein's $7m restricted-stock bonus for 2011. The percentage of Americans living in poverty climbed to 15 percent, the highest in two decades.

Six of the eight **Finnair** board members faced the sack at the company's agm after it emerged that they had paid senior executives $3.5m in bonuses last year, despite forcing rank-and file employees to take pay cuts. The airline is government-owned.

New EO association Down Under

Employee Ownership Australia and New Zealand (EOA) was recently formed and is a not for profit company created to foster broad based employee ownership, provide education and information to companies with employee share plans, lobby for change and be a forum for companies to share information in this space. The annual conference will take place on Thursday 10 May 2012, at the Sofitel in Melbourne. Keynote speakers include the former chair of John Lewis, Sir Stuart Hampson. The day will conclude with an awards night/function. The awards will recognise companies that embody employee share ownership principles Please use the link below for further details, including how to register your attendance online http://employeeownershipconference.com.au/ Contact: **Angela Perry** chair Employee Ownership Australia E: angela.perry@employeeownership.com.

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