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it's our business

newspad of the Employee Share Ownership Centre

Eso in the frame for public services mutuality programme

The Centre is seeking a seat at the table before the government decides what forms mutuality may take when tens of thousands of employees in the public sector take up an offer to allow them to work for themselves in newly created commercial entities.

The government is set to roll out new 'Rights to Provide' across public services so that employers will be expected to accept suitable proposals from front line staff who want to take over and run their services as mutual organisations**,** Francis Maude, Minister for the Cabinet Office, announced.

Prisons, Sure Start Children's Centres, hospitals and the civil service are just some of the services in which professionals could soon take power from Whitehall bosses and have the freedom to do things better. The Centre is suggesting share valuation staff might spin off to provide a paid-for service to SMEs.

The government will develop appropriate rights of request for staff in each department - relevant to their functions. Value for money and quality of service will be foremost in ministers' minds.

Mr Maude said ministers would encourage different forms of organisations for public sector staff taking over services, and more details are expected about the government's plans for new mutuals. An announcement of about 30 social enterprises from the public sector pathfinder programme, on top of the 30 or so organisations formed by NHS staff, is expected shortly.

Evidence shows that when employees have a stake in their organisation, absenteeism plummets and productivity can soar.

Asked about the degree of employee share ownership the government potentially has in mind for such public services, a Cabinet Office spokesman replied: "Ministers are quite open minded about the kinds of models which will be adopted - mutuality, co-operatives, joint partnerships, joint ventures (JVs) and others."

Once these rights of request are defined, staff in government departments and the public services who want to form mutuals will be awarded contracts without having to go out to tender**.**

Cabinet Office lawyers have been through the EU commercial tender regulations with a fine-tooth comb and have identified three circumstances in which the UK government could award contracts to mutualised public service employee entities without having to go through the normal open tender invitations:

1) When the proposed contract involves under-developed markets within the UK
2) If staff who work for the mutualised entity remain 'in house' then the EU open tender requirement would not apply
3) If certain public employees form JVs, then it would be their private sector partners who would have to go through the tender process and not the public services staff.

So where public procurement processes allow and

From the Chairman

David Pett has made a timely intervention as the coalition government over-eggs the undoubted potential of alternative business models.

John Lewis is a world-leading example of how workers can think like owners; much better than many companies where workers own actual stock; but model it is not, nor have the assorted co-ops, credit unions and vulnerable mutuals adduced by the Cabinet Office much of a track record as models (with notable but rare exceptions).

By contrast the most successful companies in the world vote with their time and money in favour of employee share ownership as we know it, whose scale and impact dwarf those of the fashionable alternatives.

We now plan to work with Shell and its advisers on the first of a series of booklets showing how real employee ownership works in genuinely successful companies which can serve as models not only in the UK but globally.

Take by contrast the Work Foundation of Will Hutton the state pay czar who calls for a top/lowest pay ratio of 20:1, but to impose such a prescription would bankrupt the first advanced nation to try it on, as the most able entrepreneurs would simply take their superior skills elsewhere.

Malcolm Hurlston

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savings are properly agreed, staff forming a mutual may be awarded a contract to continue providing services rather than going through the full tender process.

Mr Maude unveiled new support for public service spin-outs, building on the Government's Pathfinder programme, including: more than £10m to help the best fledgling mutuals reach investment readiness; a new information line and web service for interested staff, provided by Local Partnerships, the Employee Ownership Association and Co-ops UK; and a *'challenge group'* involving employee-ownership experts to investigate ways to improve regulation.

He announced a new member of the Government's Pathfinder programme - Circle Healthcare - an employee-owned social enterprise and Europe's largest partnership of clinicians, which will join the programme giving 900 NHS staff on secondment the chance to become co-owners of Circle without losing their NHS employment rights.

Every government department will put in place a far reaching right to for public sector workers to take over the running of their services. However, services in areas such as defence and security may be exempt. The new right will only apply if appropriate guarantees are met, mutual proposals will be expected to deliver savings to the taxpayer maintain or improve the quality of services.

Mr Maude said: "This is part of the Big Society approach to public service reform, devolving power to people on the front line who know how things can be done better. The right to provide will challenge traditional public service structures and unleash the pent up ideas and innovation that has been stifled by bureaucracy. It will also put power at a local level so public services will be answerable to the people that use them.

"When staff are given a stake in shaping services productivity and efficiency has been shown to improve dramatically. We must not be afraid to take bold decisions that will help create better public services at a time when there is less money to go round."

He thanked the John Lewis Partnership, the Employee Ownership Association, Co-ops UK, Local Partnerships and the Centre - all supporters of the mutual Pathfinder programme for the energy and vision they were bringing to this policy.

The Cabinet Office welcomed the Centre’s interest in briefing mintsers and others on the contribution Eso can bring to this mtualisation process.

“I believe that in a decade's time employee-owned mutuals will be one of the major types of organisation providing excellent public services," Mr Maude added. As chairman of non-profit Registry Trust, Centre chairman Malcolm Hurlston offered support to spin-off teams in the Ministry of Justice with which the Trust has enjoyed a 25-year contractual relationship.

“Successful spinouts from the public sector tend to be led by outstanding individuals,” said Mr Maude. “It takes people who are willing to do two jobs at once (business as usual; plus, leading the divestment) and can see future benefits in terms of better, more flexible services, an engaged workforce and user community. They can recognise the hidden social and commercial value of a great business locked inside a large, cumbersome public body,” said Craig Dearden-Phillips, founder and ceo of Stepping Out, a business helping parts of the public sector become a social enterprise. “Within the current health and social care economy, the costs and risks stack up more comfortably if ventures are of a reasonable scale. In addition, the spinouts are all relatively specialised. In areas such as mental health services, domiciliary services and community health services, specialism gives these new ventures a clarity of focus that, in time, will allow them to compete and expand into new places,” he added.

Hundreds of public service staff have already contacted the hotline on: **0207 296 6705** either wanting to set-up their own sub orgs or seeking more info about how to go mutual etc, said Cabinet Office sources.

John Lewis Eso link queried

A leading Centre member has spoken out against the misconception – common among politicians and the public alike – that retail store group John Lewis Partnership is a beacon for the employee share ownership world.

The John Lewis Partnership is a unique and misunderstood model, said David Pett, partner at Pett, Franklin and Co, He was commenting during a City debate on the social benefits of Eso, organised by bank Kleinwort Benson.

"David Cameron himself has been heard to expound on the virtues of the John Lewis Partnership model for employee share ownership, to which I would respond ‘there is only one John Lewis partnership,’" said Mr Pett, who was unaware that his remarks were being written down by journalists. "Why is that? It is a unique structure. John Lewis Partnership is extremely successful and I’m not casting aspersions on it at all. But it’s not an employee run company. Employees do not own shares in JL Partnership. It is controlled by a trust that owns virtually all of the shares in the partnership.

"It is very difficult to discern who has responsibility for the appointment and removal of directors of the trustee company. Employees simply don’t get a look in and in fact employees received the dividends—so called—in the form of a cash bonus fully subject to tax."

The Centre too, over the years, has been at pains to point out that, whereas John Lewis leads the world in employee motivation, it is not technically a true Eso company, even though it does have one of the earliest known employee benefit trusts. As Mr Pett explained, it does not operate employee share schemes and pays all annual bonuses to employees in cash and not equity.

However, companies had come to Mr Pett, saying they would like to replicate the John Lewis model. "What we have ended up with is something that is very different from the JL model as it stands," he said. "Yes, it involves a trust. It has a trust that may have a controlling shareholder in the company, but we also put in place mechanisms whereby employees do have rights to select and appoint directors of the trustee company. More often than not, there is a market in shares created so that employees can obtain shares, which usually grow in value and when employees leave, they able to realise the value of those shares, and sell them back in that market."

Natalie Merrens, the head of strategic wealth at Kleinwort Benson, outlined the benefits and disadvantages of employee-owned businesses (EOBs). "EOBs' profits experienced greater resilience in the 2008-9 recession," Merrens said. "However, they have difficulties obtaining favourable financing from institutions used to dealing with listed companies." By a show of hands, attendees voted overwhelmingly in favour of the notion that "employee share ownership is beneficial to society."

Regulation hits costs, but not bonuses

Increased regulation in the UK financial services industry will have a significant adverse long-term effect upon profitability and will force changes in business models, said an Economist Intelligence Unit survey and report for Centre member **Ernst & Young.** More than half those polled in the survey said they would have to change their business models fundamentally in the long-term, due to increased regulation. Already, costs had risen, especially on compliance, as a result of the extra regulation, said 69 percent of the UK respondents. There will be a flight of talent abroad if bonuses are restricted by the imposition of caps, predicted 63 percent of those polled, but 75 percent of those polled agreed with the proposition that bonus culture in the UK financial services industry remains the same, regardless of efforts to curb it. Although the former UK government's one-off 50 percent tax on all bonuses above £25,000 was either taken on the chin or mitigated by advance planning, new draft regulations from the Committee of European Banking Supervisors may require banks to cap bonus payments at a muyltiple of annual salary and limit the cash component to just 20 percent of the bonus award, the report warned. Regulation must be harmonised on a global scale in order to prevent certain markets from gaining unfair advantages, 76 percent of those executives polled warned.

The **Audit Commission** appointed its local government chief Gareth Davies to oversee a bid to transform the watchdog into an employee-owned co-operative or mutual. Davies will begin his new post as md of audit. The appointment came after Communities Secretary Eric Pickles said that the £200m-a -year quango would be abolished in 2012/13. He urged the Commission to establish its audit function as an independent body, ready to compete in a new open market. Davies, a CIPFA member, will now develop a business case for an employee buy-out, to put before the Audit Commission board, which has also been approached by other interested parties. It will be subject to government approval. He told *Public Finance* he had received an overwhelmingly positive response to the idea of an employee-owned business from the 900 staff employed in the audit function.

COMPANIES

More than 14,000 current and former **Eircom** staff are set to net a pre-Christmas, tax-free windfall from the company's Esop. Members were told that the Esop had decided to distribute 13.5m Vodafone shares that it owns to members. Vodafone's shares are priced at c £1.74 each, valuing the distribution at £23.5m. Esop members with a full allocation of shares from the trust will earn about €2,500 tax-free under the terms of its approved profit sharing scheme agreed with the Irish Revenue Commissioners. This scheme dates back to the privatisation of Eircom in 1999 and members of the Esop have so far received more than €600m in tax-free cash. Individual holdings in the Esop depended on when employees joined the scheme. It was closed to new entrants some years ago and the majority of members have left Eircom. The Esop members are allowed to receive up to €12,700 a year tax-free under the terms of the scheme. This is the first payout to the 14,227 Esop members since June 2009.

More than 10,000 current and former **Electricity Supply Board (ESB)** employees in **Ireland** have enjoyed a windfall worth around €1,200 each under an Eso scheme.They received up to €1,282 each out of a €10.5m fund, thanks to exceptional profits. The pay-outs came after the semi-state electricity supplier paid an average of €3,200 to thousands of staff under separate profit-sharing schemes.In a letter to members of the ESOP, seen by the *Irish Independent*, the scheme's trustees said it was felt it was "appropriate to make a substantially increased cash distribution" as a result of a special dividend paid by the ESB last year. "It continues to be our policy to distribute the maximum amount to you that we responsibly can," said the letter. The payment was made last month after the semi-state's profits more than doubled to €580m last year. This was mainly due to the sale of two older power stations and other assets to Spanish utility Endesa, which raised €265m. The ESOP payment was in addition to two other recent profit payments, meaning some employees got over €4,000.

Employee shareholders who work for UK budget airline **Flybe** will be hoping for a bonanza when it achieves a planned £60m new share issue and stock market listing. The carrier would use the proceeds to fund an expansion programme that may include the takeover of two rivals. Industry sources said the two potential takeover targets were Flybaboo, a Swiss regional carrier, and an unidentified Finnish airline. Flybe could not be contacted immediately for comment. A post on the company's website said the carrier is 69 percent owned by Rosedale Aviation Holdings Ltd and 16 percent is held by staff through an employee share scheme. Another 15 percent of the equity is owned by BA, as a consequence of Flybe's acquisition of BA Connect. In July, Flybe announced it had struck a deal with Brazilian planemaker Embraer to buy 35 aircraft as part of an expansion drive in continental Europe.

Mobile phone giant **O2** is giving participating employees up to £1,000 worth of free shares in a new Share Incentive Plan. The firm's Spanish owner Telefonica has launched a global Eso designed to reward loyal staff. Nearly 5,000 of the firm's 13,000 employees in the UK and Ireland have signed up for the scheme. They will set aside between £23 and £90 to buy Telefonica shares each month for a year. For each share an employee buys, the company will buy another. To receive the free shares, worth up to £1,080 at current prices, they must keep the shares they buy for a year. The scheme's launch coincides with a technical change which will see staff switch from being employed by O2 to Telefonica. A spokesman said: "This will recognise the part staff play and align their interests with those of shareholders."

Société Générale is granting 40 free conditional performance shares to its 161,000 employees in 60 countries. Every employee will get 16 shares if the group's return on capital is ten percent or more in 2012. The remaining 24 free shares will be handed over to employees provided the bank's customer satisfaction indices improve across its business lines between this year and 2013. Soc Gen is the first French bank to implement this type of share plan.

Eso in Parliament

The employee share scheme industry celebrated major Eso milestones at the **House of Commons** on Nov 11. This function took place in the same week in which a parliamentary committee discussed the Bill that will lead to at least ten percent of shares in Royal Mail going to staff when it is privatised. Greg Hands MP (Tory) said: "This will be the biggest employee ownership plan of any privatisation." Lord Newby (Lib-Dem) added: "That sends out an important message of what type of organisation the Royal Mail will be." It is 30 years since Sharesave schemes were launched, and ten years since Share Incentive Plans (SIP) and the Enterprise Management Incentive (EMI) were launched. Thirty years ago just four percent of shares were in employee hands, now it is the norm among FTSE 250 firms to offer employee schemes. Speaking at the celebratory event, the Rt Hon Stephen Timms MP (Lab) who was involved in the launch of SIP and EMI recalled how, back in 2000 he said: "This is the biggest boost for employee share ownership our country has ever seen." He added: "I hope that at a time when share prices have turned a corner we will find a new generation interested in share ownership." In a show of cross-party support for a government initiative Lord Newby said: "The government does a lot to incentivise programmes and they don't always work. The great thing about employee share schemes is that they do work."

On the move

Sarah Pickering has left Alvarez & Marsal Taxand where she was MD of the UK division and has resigned her post on the Centre's steering committee, as she has plans to spend some months outside the UK. Sarah told Newspad: "My association with the Centre has always been a rewarding and fun one. My personal email for future reference is: sarahpickering65@hotmail.com .Who knows where I will pop up next?"

John Challis Head of Project Acorn & Corporate Restructuring at **BT** is taking early retirement next March. John told *newspad "*I'm giving myself the spring and summer off to do some long-postponed jobs in the house and garden then will decide whether I want to do some short-term contract work, or try something completely new." His mobile contact is: 07801 610018 and e-m: john.c. challis@bt.com

The Financial Reporting Council (FRC) announced the appointment of **Roger Marshall** as interim chairman of the **Accounting Standards Board (ASB).** Roger replaces **Ian Mackintosh**, vice-chairman designate of the International Accounting Standards Board (IASB). Roger Marshall was until recently a senior partner at PricewaterhouseCoopers, where he had extensive experience of auditing FTSE 100 companies across a variety of sectors and was chairman of PwC's Corporate Reporting Task Force in 2008-9. He was previously a member of the ASB for six years until 2007. In May this year Roger was appointed to the Professional Oversight Board. He is a director of Old Mutual plc.

In addition, the FRC announced the appointment of **Glen Moreno** as its own new deputy chairman. Mr Moreno is chairman of Pearson and a non-exec director of Lloyds Banking Group and Fidelity International. FRC Chairman Baroness Hogg said: "Glen Moreno brings a wealth of global business expertise to the FRC. His knowledge of market regulation and international business practice spanning the US, continental Europe and South East Asia will be of enormous value to us. As a FTSE 100 company chairman Glen brings a fresh perspective to our work on corporate governance and investor engagement."

Chancellor of the Exchequer **George Osborne**, has announced that he will deliver his first 'normal' **Budget** on Wednesday 23 March next year. The date was given during his evidence to the Treasury Select Committee last month.

Ifs Proshare has appointed **Alexy Armitage** head of employee share ownership. She was previously a senior consultant with Mercer, where she worked in both the organisation's London and Paris offices. She replaces **Julie Richardson**, who has re-joined Capita Share Plan Services.

Paul Allen has taken over from **Tamara Murray** as head of human resources at **Invista Real Estate Investment Management**. Paul can be contacted on his direct line +44 20 7153 9379. His e-address is paul.allen@invistarealestate.com Invista live at Exchequer Court, 33 St Mary Axe, London EC3A 8AA.

CONFERENCES

DAVOS: The Shell award-winning international employee share plan will star in a major case study at the 12th annual Global Employee Equity Forum in the five-star Steigenberger Belvedere Hotel, Davos Platz, Switzerland, on **Thursday Feb 3 and Friday Feb 4**. Shell International, the winner of the 2010 Esop Award for 'The Best International Employee Share Plan,' together with its plan adviser, Computershare, will deliver a joint presentation on the nature, evolution and reach of the winning plan, focussing on design, communication and admin process simplification. In addition, Alasdair Friend, senior associate in the employee benefits division of global law firm Baker & McKenzie, will deliver a key presentation on the recent evolution of executive reward packages. Baker & McKenzie is playing a leading role across Europe and in the US regarding the new rules governing remuneration in financial services. Alasdair will present a comprehensive overview of trends and developments in this field. The Centre's first ever speaker from Norway will be Arne Peder Blix, ceo and founder of Norse Solutions. The speakers in Davos will be: **Alasdair Friend** of Baker & McKenzie LLP; **Professor Jens Lowitzsch** of Berlin University; **Justin Cooper** of Capita Registrars; **Iain Wilson & Martyn Drake** of Computershare; **Pam Roffe** of Shell International; **Maoiliosa O'Culachain** of Global Shares; **Jeremy Mindell** of Henderson Global Investors; **Michael Sterchi** of KPMG (Zurich); **Martin Osborne-Shaw** of Killik Employee Services; **Mike Landon** of MM & K; **Arne Peder Blix** of Norse Solutions; **David Pett** of Pett, Franklin & Co. LLP; **Kevin Lim** of RBC Corporate Employee & Executive Services; **Alan Judes** of Strategic Remuneration; **John Pymm** of Towers Watson; **Julie Withnall** of Britvic plc; **Adrian O'Shannessy** of Greenwoods & Freehills Ltd (Australia) and **Malcolm Hurlston**, chairman, Esop Centre, who will deliver the welcome address and introduction to the conference. Please see the topic slot titles and logistical info about Davos 2011 in the 'events' section of our website. The brochure, which contains the full programme, can now be downloaded from the adjacent box. Delegates can book their seats by clicking onto the 'book now' box. The practitioner (service provider) Centre member delegate price for the two nights (Feb 2 & 3) in the five-star Belvedere Hotel (on a half-board basis) + conference package deal is an unbeatable **£899** and no VAT charged. Non-member practitioners pay £1250 for the same package deal. Delegates from plan issuer companies will pay either **£475** if Centre members and £615 if not. For more information on this event, please access the 'events' button on this website. The Davos segment contains info on topic slot titles, travel logistics, more about the Belvedere Hotel and event co-sponsorship opportunities. All booking enquiries to Fred Hackworth at: fhackworth@hurlstons.com. You can book your delegate place online too at: www.hurlstons.com/esop/esop and click onto 'events' to find the Davos 2011 segment.

Centre-STEP Guernsey

Legal uncertainty regarding the discretionary powers of offshore trustees should be resolved as soon as possible, Alison Mackrill, chairman of the Society of Trust & Estate Practitioners, Guernsey, told a joint Centre-STEP Guernsey employee share schemes conference for trustees last month.

A successful application by HMRC to the Guernsey Court of Appeal, seeking to be joined directly in an appeal involving the discretionary powers of a Guernsey trustee, had increased the uncertainty, 40 delegates, who assembled at the St Pierre Park Hotel, were told. Such cases, which invoke the Hastings-Bass Principle, hang on whether trustees, having exercised their discretionary powers in an incorrect way (usually because new information has emerged since their original decision, or a documentary error), can revoke and recast faulty decisions with impunity. Often, tax implications emerge as a result of bad or misinformed wording in a decision by the trustee, which is why HMRC becomes interested in the outcome.

The original Hastings-Bass ruling, established by the UK Court of Appeal in 1975, normally allows trustees to correct 'mistakes' and to re-visit their earlier decisions – in effect to turn back the clock, as though it never happened - explained Jeremy Le Tissier of Appleby Global.

For its part, HMRC seems to want to narrow down these discretionary powers, implied Alison, who is a senior associate with Carey Olsen's fiduciary team in Guernsey. In the past, HMRC had maintained an observer status in such actions, but now it is veering towards a more 'hands on' approach as witnessed by the fact it is now joined in the case to be heard by the Royal Court of Guernsey.

Chairman **Malcolm Hurlston** welcomed the delegates and announced that the Centre wanted to extend its successful programme of conferences for trustees with STEP to the Caribbean, using Miami as the most convenient hub. He welcomed Francis Maude's announcement that government employees would be free to set up their own mutuals or co-operatives, but questioned the clarity of thinking behind the announcement. He offered the Centre's expertise to those considering this route. The coalition government, he said, was unpredictable in that some policies were being pushed through surprisingly quickly whereas others were left to gather dust. However, despite a confusing overall picture, employee ownership was clearly prospering. Those multinationals, which kept faith in share schemes throughout the recession, such as Shell (the winner of the Centre's main award for international share schemes this year), were now reaping the rewards.

Alison MacKrill explained how a mistake as seemingly small as omitting two letters can have a huge effect on developments and how complicated the decision to rectify the mistake can be. In the case of *re the Arun Estate Agencies Limited Employee Benefit Trust* the word *'revocable'* was used in a document instead of '*irrevocable'.* The hearing then was to decide whether the damage caused was itself revocable or not. The presentation gave a reminder of the wide range of beneficiaries trustees must consider when taking action, including the unborn children of employees.

William Franklin, of Pett, Franklin & Co. LLP, outlined a series of techniques for getting a valuation for a share in an unquoted company. HMRC is often reluctant to agree a valuation up front, but with high-growth companies the wait and see option is also fraught with danger as the future valuation will be tainted by the already achieved growth. The Centre will write, under the *Big Society* banner, to HMRC suggesting staff could set up a paid-for service to agree a valuation up front. William called for more complex mathematics to be used in the valuation of shares, saying one popular method – Black Scholes – based on the physics of heat transfer in a vacuum - has no relation to shares, as shares do not exist in a vacuum but react to a series of defined variables.

In the UK, from 2004 to 2006 over 90 percent of executive schemes included L-TIPs, but then during the recession they were shunned due to the fear of underwater options, said **David Craddock** of his eponymous consultancy. Now L-TIPs were back in demand, only this time round with more realistic targets being included. High-level reward should be matched with high-level performance. A whole basket of performance conditions are included in L-TIPs to minimise the risk involved and to increase the likelihood of shareholder backing. Mr Craddock said that EMI should always be the first port of call if at all possible, as an EMI plus an EBT forms the most tax advantageous L-TIP possible.

In her capacity as chairman of the Anguilla Financial Services Commission, **Helen Hatton** was pleased to report that the Channel Islands stood to benefit from current changes. Many of the Caribbean jurisdictions are trying to provide an increasingly tight regulatory framework to attract new business, but will not have a deep enough skills pool to compete with Guernsey and Jersey, she said. A great deal of work remained to be done to construct a satisfactory risk framework for esops, Helen, of the consultancy Sator, added. The Centre agreed to work with Helen, STEP and members to put this right.

Philip Le Pelley of Collins Stewart rounded up with a look at how liquidity in the markets could be affected a whole range of factors including traders in London eating breakfast. He warned that if a large number of employees' share interests vested at the same time and all wanted to sell then this could lead to directional liquidity in the market – something for share plan administrators to be aware of and perhaps to pass on to their clients.

The papers which chairman Malcolm Hurlston judged "outstanding," can be found in a webfolder: www. hurlstons.com/guernsey

Following a record attendance the Centre and STEP Guernsey decided on an annual event.

Centre Midlands conference

Representatives of SMEs in the East Midlands, looking for new ways to motivate their staff, attract new talent and hold on to star employees, met on November 9 to discuss the possibility of implementing Eso schemes to help solve their problems. More than 40 people gathered at the IGEM conference centre, Leicestershire, to hear how employee ownership could transform their business. The oversubscribed seminar (minus ten free places, according to the website) was organised by the Esop Centre in conjunction with East Midlands Business Link. Eso schemes received a huge publicity boost recently thanks to the government's plans to give at least ten percent of shares in any Royal Mail privatisation agreement to the employees. Centre chairman **Malcolm Hurlston** opened the event, explaining the history of the Esop Centre and its current work. **David Pett** of Pett, Franklin & Co. LLP explained the difference between share options schemes and share purchase schemes. He outlined favourable tax treatment of the HMRC approved schemes and why Enterprise Management Incentive was likely to be most useful to the majority of SMEs in the room. EMI formed the main thrust of **Mahesh Varia**'s presentation. Mahesh, head of the employee benefits team at Travers Smith went through the qualifying hurdles and disqualifying events of an EMI and gave case studies as to how each might affect an employee's take home compensation. He explained why setting up an EBT was probably essential and ran through what they do and how they function. Delegates were enthused by what they heard and inundated the speakers with further questions. Those looking for a more in-depth look at Eso for SMEs should reserve their place for the Centre's inaugural joint event with the Birmingham Chamber of Commerce on March 10 next year. Email David Poole - dpoole@hurlstons.com to reserve your place or speaking slot. More details will follow soon.

Reward managers top up on employee equity

The recovering economic climate means the value of the shares or options held by reward and benefits managers has risen, according to the *Employee Benefits Salary Survey 2010*. In the 2009 survey, just four percent of respondents held options or share worth more than £50,000, but this year 15 percent do so. In addition, last year 17 percent held shares or options worth between £20,000 and £50,000, but this has risen to 27 percent this year. Almost 30 percent of reward and benefits managers hold shares or share options in their employer. Of these, 50 percent received shares or options granted to them as part of their remuneration package or through an employee share scheme. *Employee Benefits* magazine surveyed 466 people responsible for managing compensation and benefits for staff in their own organisations for the *Employee Benefits Salary Survey 2010*.

All-employee share plans remain the most popular way of distributing shares among this group. The percentage of organisations offering shares through all-employee Sharesave has changed little year on year. However, the basis on which employers offer shares through a Share Incentive Plan (SIP) has changed slightly. Just under one-fifth (18 percent) now offer partnership shares through a SIP (where employees buy the shares themselves), up from the 12 percent that did so last year This is the second most common way for employers to offer shares through this type of scheme, leapfrogging schemes offering free shares. Offering shares through a long-term incentive plan has also increased in popularity, rising to third place this year. Many employers are putting deferred reward and incentive schemes in place because of the tough economic conditions. The recovering economic climate is reflected in the rising value of the shares or options held by respondents. For example, 27 percent hold shares or options worth £20,001-£50,000, while 15 percent say theirs are worth more than £50,000. This compares to 17 and four percent, respectively, in 2009. Overall, *Comp and Ben* experience continues to be highly valued by employers. Salary levels for these specialist titles tend to be higher than for general HR posts. This could reflect the higher status and importance many organisations have given to reward functions, along with the complexity of the issues facing professionals in this area. This year, the mean salary for respondents stands at £51,073 - a rise on last year's £48,436 and the £47,946 received in 2008. Eighty percent of respondents were from the private sector, while 17 percent were from public sector organisations and three percent from the voluntary sector.

UK Eso plans need reform

Eso legislation should be simplified, said **Mike Landon** of MM & K, who wrote an article: web reference http://www.mm-k.co.uk/pdfs/uk-share-plans-whats-next.pdf in the latest issue of *Benefits & Compensation International* magazine. Mike cited HMRC's statistics, which "show clearly that the previous Government's aim to increase the number of companies, particularly smaller ones, which offer employee share plans, was unsuccessful. This may be a good starting point for making a case to the new Coalition Government for simplifying the share plan legislation." Chairman Malcolm Hurlston told the Centre Awards Dinner that he was lobbying the Coalition Government for legislative changes along similar lines.

Bonus Corner

Vincent Cable is yet to be convinced that bankers have 'got the message' about big bonuses despite some attempts to show restraint. The Lib Dem Business Secretary, said he was "not persuaded they [banks] have yet got the message". On BBC Radio 4's Today programme, Cable acknowledged that bankers were in talks to try to agree a way reduce their bonuses pools. Standard Chartered, largely focused overseas, has pulled out of the discussions. Those still involved include Royal Bank of Scotland, Lloyds Banking Group, HSBC and Barclays, whose outgoing ceo John Varley is trying to lead the negotiations. Cable said: "We do understand there are conversations taking place between the banks to exercise some self-restraint. We have a process in government where we are beginning to discuss these issues with the banks, so we look forward to what they have to say."

The banks are hoping that by showing restraint they can avoid extra taxes on their profits and bonus pools but sources close to the talks concede the banks may not be offering enough to appease the government. The banks are also considering contributing funds to David Cameron's 'big society' bank and make pledges to lend to businesses – again in an effort to head off reprisals, which might be threatened by government policies.

Osborne has stepped back from plans, initiated by the previous government, to demand that bankers disclose how many of their employees earn more than £500,000 a year. He is writing to the EU to try to reach agreement on such disclosure, which goes further than European rules, which only require the overall bonus pot to be published.

Cable told *Today*: "It could be done through international banking regulation, which is what the chancellor is trying to do at the moment. It could be done through domestic law. There will almost certainly have to be a combination of the two, but it does not have to happen simply through banking regulation." He insisted that there was no gap between what the government was doing and its pledges to clamp down on unacceptable bonuses set out in the coalition agreement for government.

HSBC will review the London location of its head office next year as it hit out against new bonus rules being proposed by European banking regulators and George Osborne's £2.5bn bank levy. Outgoing ceo Michael Geoghegan said the bonus rules by the Committee of European Banking Supervisors (CEBS) could place the bank at the disadvantage to those based in the US, as could the chancellor's bank levy. He said it was a 'concern' that the EU and the UK were going further than other countries in implementing regulatory changes to the way bonuses can be paid. The CEBS rules, which will be finalised this month, are more restrictive in the amount of a bonus that can be paid in cash and upfront, and demand greater deferral of bonuses over up to five years. "Like many other international banks, HSBC already complies with the Financial Stability Board's global principles on remuneration. If the EU takes those principles further and applies additional requirements to European firms operating in emerging markets, it would place those firms at a disadvantage to their regional competitors and to those based in North America," Geoghegan said. "In the UK, a levy on the global balance sheets of UK-headquartered banks effectively places a tax on their emerging market growth and has a similar effect. Policymakers should consider the likely long-term consequences of changes to the competitive landscape as they finalise legislation," he added.

State-controlled **Royal Bank of Scotland** risked stoking a row over bonuses in its investment banking arm by admitting that while revenue in this division was down 20 percent, staff costs were broadly flat, indicating that bonuses were being accrued at a faster rate than revenue was falling. The investment bank has tended to cause controversy at RBS because of the bonuses it pays to many of its staff. RBS revealed that the compensation ratio – which measures how much is being accrued to pay staff relative to the amount of revenue generated – has risen to 34 percent from 25 percent a year ago. In the third quarter the ratio was 40 percent – higher than might have been expected. Some £2.1bn has been accrued to pay staff their salaries, benefits and bonuses compared with £2.2bn a year ago at a time when revenue has dropped from £9bn to £6.3bn. RBS fell back to a £1.4bn loss in the third quarter of the year as it revealed it would incur a £250m charge from George Osborne's bank levy next year. Hester defended the relative rise in the investment bank staff costs by insisting the cash was being accrued, rather than paid out now. "The final number will be determined at the end of the year," Hester said. "If the results are down so should pay be."He insisted that the flow of staff out of the division was still "damaging" but not yet "destructive". The bank must sell off a number of key assets to appease EU regulators because of up to £54bn of state aid pumped into the bank. One of those is the insurance arm which includes Churchill, Direct Line and Green Flag, which the bank said would be ready for flotation in the second half of 2012

Barclays Bank did not need to go cap in hand to the Government to stay afloat. But it was unfortunate that it should announce bonuses have hit £2.2bn this year just as a survey of more than 2,000 people found that "85 percent of those questioned say top executives should be paid less." Only one percent said chief executives' pay could be justified, according to the **High Pay Commission (HPC)**, which is funded by the left wing think tank Compass and the charity Joseph Rowntree Foundation. It found fewer than ten percent of the people questioned correctly estimated that the average chief executive of a FTSE 100 company is paid a total of more than £4m. An HPC spokesman said it was seeking further evidence from the public and added: "The government has launched an inquiry into high pay in the public sector however, this is only part of the story as evidence suggests that the growth in public sector pay is linked to increases in the private sector. "The commission provides the opportunity to understand the links between the economic crash and the short-term remuneration policies of the financial sector as well as look at what is driving the significant increase in top pay in the private sector." Chris Lucas, Barclays cfo, said high pay was justified and bonuses were the "markets at play", adding that the final decision on bonus levels was not made until the end of the year. The majority of the £1.3bn in cash, £300m in long-term awards and £640m in deferred compensation is likely to go to the 25,000 staff in Barclays Capital, the bank's investment banking arm. But the HPC claimed: "Directors have seen their wages increase by 160 percent over the last ten years as the value of their companies in the FTSE 100 has fallen by 19 percent. The commission will look at the reasons behind the surge in directors' pay over the past ten years and the social impact of this."

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