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it's our business

newspad of the Employee Share Ownership Centre

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From the life president

It is already an odd election when the Financial Times sees both major parties as happily "promising the undeliverable". Luckily the Centre's focus is narrower. Until Construction News broke the news, highlighted in this edition of newspad, of widespread abuse of the EOT, we might have been worried about Labour being tempted to steal that item of the LibDems's dirty washing. But that too fades into the highly unlikely - unless Labour needs LibDem support to form a government.

We do have a major advantage in approaching the new government. Employee ownership pays for itself. All we need is nudge. Nudge would be far easier if the gap between HMRC and HM Treasury was bridged. Ministers can't nudge for us because HMRC is quasi-independent. Let us hope the new government sees the case for finding a way to put this right and giving the economy a free boost through the magic of our schemes.

Malcolm Hurlston CBE

Royal Mail owners agree to £5bn takeover offer

The acceptance by the RM board of Daniel Křetínský's £3.70 per share offer will deliver several thousand pounds to the shareholding majority of its 157,000 employees.

The Royal Mail Share Incentive Plan (SIP) holds 53.5m shares, now worth £180m after the offer, which has to be approved by investors, who include the 'posties'. Calculating the average value of the employee shares is complicated because many will have left Royal Mail, some replaced by new employees who could not profit from the free shares offered when RM was privatised a decade ago. Mr Křetínský, known as the Czech Sphinx, owns 27.6 percent of RM through his vehicle Vesa Equity Investment. However, the bid will attract government scrutiny on national security grounds - specifically the implications of having the national letters and parcels service controlled by a non-British organisation. While the outgoing UK government is not opposed to a Křetínský takeover of Royal Mail, the stance of an incoming Labour government is less sure. According to *the Guardian*, Křetínský is offering to take IDS private for £3.57bn, absorbing about £1.7bn of existing debt in the process. He says he will pay for the business with £1.2bn in cash and an extra £2.3bn in borrowed funds, meaning Royal Mail will be burdened with even more debt should the deal go through. Additionally, there are the commitments to preserve Royal Mail as an identifiable entity. Křetínský promises the branding is 'sacred' for five years, as are its UK headquarters and tax residency. A separate promise to maintain base salaries and benefits for staff will last for only two years, while a pledge not to break up the company is valid for three years. In the context of an organisation that traces its roots back to Henry VIII, these are micro-commitments.

In an interview for BBC Radio 4's Today programme, broadcast on May 29, CWU general secretary, Dave Ward, who has spoken at a Centre conference, shared his concerns.

Replying to the question: "while the deal has had some assurances built into it, what is the gap for you?" he said: "*We want more extensive assurances about the future of UK postal services. We'll be looking for pension guarantees, and for a stake for the employees in the future ownership model of the business; testing Mr Křetínský as to whether he has any plans for investing in the workforce, investing in growth strategies for the company, or whether his intentions are to asset strip the company. It goes way beyond whether they are going to maintain the brand and keep the headquarters in the UK.*

"We are also pushing for a different ownership model with the Labour Party and we want to hear what the government has got to say about this, as ultimately the government still has the power to stop this. We need to get everything out on the table."

The quality of the service Royal Mail provides has been criticised by customers; perhaps new ownership would improve it?

"We would agree – the current board has run the company into the ground. CWU members are disgusted that people have run the company in a way that is completely alienated to their own workers; and not told the truth to customers about what is happening on the ground. They are going to benefit and make a huge killing here, because of the failure of privatisation. They are going to make a lot of money out of this deal, whereas the people who really care for the service are the workforce and the millions of customers who use Royal Mail.

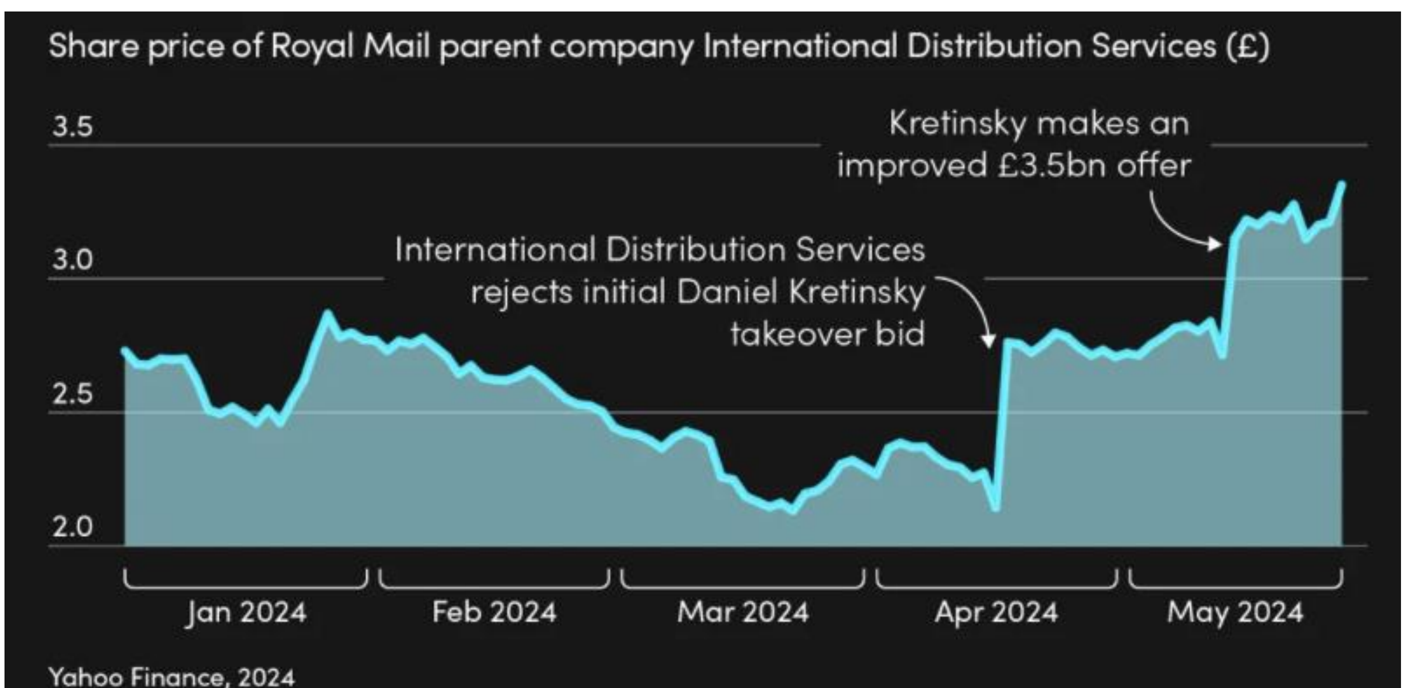
"So there's a lot at stake and we've no sympathy with the current board. And I wish, sometimes, that people had dug a bit more into how they actually run Royal Mail and the mistakes they have made – deliberate mistakes at times. One of the big things the board has been trying to do is to split parcels from letters, thinking they can make more money by letting the letter post wither on the vine. So, one of the assurances we'll be looking for is that Royal Mail will continue delivery of both parcels and letters."

This is the first time that this 500-year-old business would be in the hands of foreign owners. What do you make of that?

"It can't be right. In the UK this is an iconic British company. Nothing gets more British than Royal Mail. Our concerns are that it doesn't feel right. It shouldn't be happening. But we've also got to deal with the realities of the fact that Royal Mail is already privatised. And that's why, I think, there is an opportunity here to talk to the government and the Labour Party about whether there is a more dynamic ownership model."

Centre comment: Dave Ward's proposal raises three key questions:

1) Would Křetínský agree to settle for less than 100 percent control? - because that would be unusual in a corporate takeover like this.
2) Even if Křetínský were to agree, which seems unlikely, would the bulk of the Royal Mail employee shareholders follow their union leader's advice, or would they take the profit from their shareholding? The latter seems more probable.
3) Furthermore, the current SIP would have to close anyway under HMRC approved scheme rules if and when Křetínský takes over, because the protection from tax liability disappears once there has been a change of control (effectively, the SIP would come to an end as it would need to be sold and proceeds paid to the SIP participants, free of tax). That being so, the employee shareholders would have to be pre-advised as to any negative tax implications of refusing Křetínský's offer. Otherwise Royal Mail and the CWU could be sued for negligence.



UK General Election:
Will Labour revive its 2019 election Eso boost pledge?

With the election called for July 4, *newspad* wonders whether Labour will revive its 2019 election manifesto pledge to boost Employee share ownership. The proposed one percent annual donation from companies to fund more Eso created waves last time out.

The manifesto suggested that companies with over 250 employees would be required to give their workforce 'a stake in the companies they work for'.

Under proposals to create 'inclusive ownership funds' (IOFs), affected companies would be required to transfer one percent of their shares into the IOF each year over a 10 year period. Dividends paid on the shares would be "distributed equally among all, capped at £500 a year", with excess dividend payments above the £500 cap to be paid to a new 'Climate Apprenticeship Fund' which would also have been set up by a Labour government.

In anticipation of the May 23 announcement, a Co-operative Party press note suggested that the next general election could be a landmark moment for growing employee ownership across the economy. Citing the EOA's policy proposals "*Unlocking the Potential of Employee Ownership: The Why and How for People Powered Growth*", the note concentrates on the growth in indirect employee ownership via EOTs, which was in part driven by a generation of business owners departing and selling their firms to their workers. It concludes "*The next general election provides a clear opportunity to build a fairer, more equitable economy. With a commitment to double the size of the co-operative sector and unleash the social economy, a Labour & Co-operative government represents a real opportunity to break away from the economic status quo of the last 14 years. Delivering a new generation of employee-owned businesses must be integral to achieving this vision*."

Raspberry Pi staff to share £68m payday from London float

Staff at Raspberry Pi, the maker of tiny computers for all, are set for a major windfall when the company goes public in London in the coming weeks. According to IPO registration documents, Raspberry Pi's employee incentive scheme controls shares worth around 13.6 percent of the company, relates James Titcomb at the *Daily Telegraph*.

At an expected £500m valuation, those shares could be worth up to £68m in total - an average of £660,000 per employee if split evenly among Raspberry Pi's 103 staff. The actual amount may be diluted by the issuance of new shares in the IPO. Founder and ceo Eben Upton has a 2.2 percent stake worth around £11m. The company is majority-owned by the nonprofit Raspberry Pi Foundation supporting computer skills training.

Employee Share Schemes Statistics released

We are glad to see that HMRC finally issued its Employee Share Schemes Statistics for tax year ending 2022 on May 30 2024. It was disappointing to have such a long delay, but good to see that the robustness of the data is key. The stats can really give us an insight into how companies are taking advantage of this opportunity.

Key Points:

1) 18,630 companies operated one of the four tax-advantaged share schemes, with EMI being the most popular tax-advantaged scheme operated (88 percent of companies operating a tax-advantaged share scheme operated an EMI).
2) SAYE options offered the largest aggregate value, followed by shares held via a SIP (which is likely due to these schemes being “all-employee” in nature).
3) EMIs were the biggest contributors, with £680m in IT and NICs relief, compared to CSOPs which offered much lower reliefs compared to the other schemes at just £50 million.
4) More employees exercised SAYE options than CSOP or EMI options or took shares out of a SIP plan.

Esop barrister, Centre member David Pett commented that these data illustrate the continuing popularity and success of EMIs (which, as an effective form of incentive for smaller companies, has clearly withstood the test of time), and the relatively increasing popularity of SIPs, as compared with SAYE options.

The smaller number of companies granting CSOP options is understandable as they are typically used only when the company does not qualify for EMIs.

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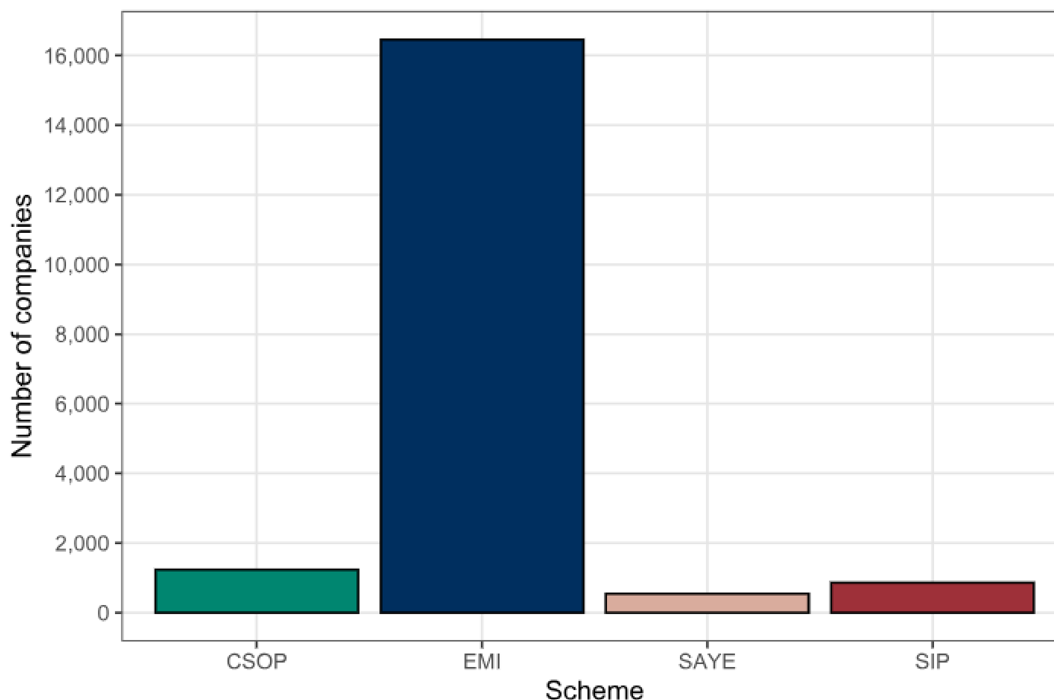
Figure 4: Number of companies with tax-advantaged ESS, tax year ending 2022



Hold the day for Centre/STEP Guernsey conference 2024

The Centre is set to return to the Old Government House in Guernsey for its annual employee share plans and trustees conference, on Friday **November 8** this year. We are putting together a programme of talks from expert speakers, who will address the key issues currently facing trustees and employee share scheme professionals. Presentations will run from 09:00 to 13:15 (approx.) followed by a networking lunch for delegates and speakers. The seminar will be held in conjunction with STEP Guernsey.

Guernsey Les Hanois Lighthouse Photo by Enrapture Captivating Media on Unsplash a

UK CORNER

Varied business leaders endorse Labour plans

Dozens of business leaders, although few from major enterprises, have signed a letter endorsing the Labour Party's economic plans ahead of the July 4 general election saying that it is 'time for a change'. In a letter published in *the Times* on May 27, 121 founders, chief executives, and former leaders from a range of firms state their belief that Labour has changed and 'wants to work with business' on long term growth.

UK no longer in recession

The UK economy has officially exited recession after growing by 0.6 percent in the first quarter of 2024, according to the Office for National Statistics. According to Joe Middleton of *the Independent*, the faster-than-expected rebound followed two consecutive quarters of contraction in the latter half of 2023. Chancellor Jeremy Hunt welcomed the figures as "proof that the economy is returning to full health" post-pandemic, with growth driven by the services and production sectors.

Inflation tumbles to lowest level since 2021

Inflation in the UK fell less sharply than expected in April to 2.3 percent, down from 3.2 percent in March, but above analysts' 2.1 percent forecast, *the Telegraph* reported. The drop was driven by a decline in household energy bills following the latest price cap reduction. However, services inflation remained high at 5.9 percent, worrying the Bank of England which is weighing further interest rate moves.

While goods prices fell for the first time since early 2021, food inflation has eased from its peak but remains high after a 25 percent rise over two years. The figures dashed hopes of an imminent rate cut, with markets now pricing in just one reduction this year versus expectations of two.

Consumer demand reignited by price cuts

Shoppers have benefited from retailers cutting prices to reignite consumer demand in a further sign of inflation cooling. The rate at which shop prices rise has fallen back in line with “normal levels” over the four weeks to May, according to a study by the British Retail Consortium. Shop price annual inflation eased to 0.6 percent in May, down from 0.8 percent in April.

Photo by Andrea Piacquadio: https://www.pexels.com/photo/photo-of-woman-in-gray-outfit-walking-down-a-sidewalk-carrying-shopping-bags-3760042/

Most paid ceos' annual compensation more than doubled last year

Hock Tan, the chief executive of semiconductor giant Broadcom, has joined the ranks of the world's highest-paid corporate leaders after being granted a $161m stock award, reports *Benzinga*. The bumper pay package, which could swell to over $1.3bn based on Broadcom's recent share price surge, underscores the notable changes sweeping executive compensation in corporate America this year.

Mr Tan's award covers a five-year period to October 2027 and requires him to remain as ceo while meeting specific share price targets for it to vest in full. He is not alone in receiving an eye-watering pay rise - the compensation of Charles Robbins at Cisco Systems doubled to $65.5m and Adobe ceo Shantanu Narayen's pay nearly doubled to $87.2m. Such packages have reignited the debate around income inequality and whether excessive executive compensation is justified, especially given the modest growth in average employee wages. A recent court ruling that invalidated Elon Musk's 2018 Tesla pay deal highlights the potential legal pitfalls around outsized ceo remuneration.

Major Tesla investor to back Musk's $56 billion pay package

Scottish Mortgage Investment Trust, a major investor in Tesla, plans to back ceo Elon Musk's $56bn pay package at the company's upcoming annual shareholder meeting next month, reported *Reuters.*

The massive compensation plan, which has no salary or cash bonus and instead rewards Musk based on Tesla's soaring market value, was originally approved in 2018 but rejected by a Delaware judge in January. After initially agreeing to the deal, Scottish Mortgage believes the full amount should be paid out given Tesla's value has already surpassed the $650bn target set for the next decade. The firm is undecided on Musk's separate move to incorporate Tesla in Texas.

Tesco ceo's annual pay package doubles to £10 million

The chief executive of Tesco saw his annual pay package more than double to nearly £10m in the retailer's 2023/24 financial year, according to RTÉ News. Ken Murphy's £9.93m pay included a £4.91m performance share plan payout on top of his £1.64m fixed salary and £3.38m bonus.

Tesco defended the hefty increase since the rewards were linked to Murphy and cfo Imran Nawaz meeting "stretching targets" and creating value for stakeholders during a highly competitive period. It had also invested a record £300m in pay rises for UK hourly workers. Investors will vote on the pay report at Tesco's June 14 annual meeting.

GM shareholders advised to vote against proposed exec compensation

Proxy adviser Institutional Shareholder Services (ISS) has recommended that General Motors shareholders vote against the proposed compensation package for the automaker's top executives, including chief executive Mary Barra, at this month's annual meeting. The non-binding vote allows investors to express their views on executive pay levels.

ISS argues that a "pay-for-performance misalignment exists" at GM. Short-term incentive targets were set below the prior year's level despite the company's actual performance. "Sufficient mitigating factors have not been identified for the year in review," the proxy adviser stated, implying the pay packages are excessive relative to results. The shareholder vote, while not binding, represents an important avenue for investors to hold management accountable and prevent excessive or unmerited compensation payouts. GM's leadership team now faces an uphill battle to convince shareholders of the merits of its remuneration proposals.

Rangers, in 'no rush' to replace ceo, seeks six-figure compensation fee

Rangers FC will seek a six-figure compensation fee following the surprise departure of chief executive James Bisgrove after just 13 months in the role. Bisgrove has accepted a lucrative offer to join Saudi Arabian club Al-Qadsiah, the newly-promoted side owned by state oil giant Aramco, according to *Footballscotland.*

The Glasgow giants confirmed Bisgrove's exit on May 29, with chairman John Bennett assuming executive duties on an interim basis as the Ibrox club is in "no rush" to appoint a permanent replacement. Bennett paid tribute to Bisgrove's work in driving commercial growth during his five-year tenure, first as commercial and marketing director and then as ceo from last year. He expressed confidence that momentum would be uninterrupted by Bisgrove's exit amid a pivotal summer transfer window. Rangers is set to demand a substantial six-figure pay-off for Bisgrove's move to the cash-rich Saudi league, in a bid to protect the club's interests after his abrupt resignation.

Sibanye shareholders rebel against ceo's R190m payday

Sibanye-Stillwater, the South African mining group, faced a shareholder revolt over executive pay at its annual general meeting on May 24, with nearly half of investors voting down the company's remuneration report according to *News24*. The dissenting votes highlight growing unease over lavish payouts to top brass, including a R190m (£9.5m) package for chief executive Neal Froneman in 2022.

Under Johannesburg Stock Exchange listing rules, Sibanye is now obliged to consult shareholders after 47.92 percent voted against implementing the pay proposals. This follows a similar protest last year when over a quarter of investors opposed Froneman's R300m remuneration. The company has defended the payouts, citing the need for competitive pay to attract global talent, while acknowledging room for improvement on safety issues that led to five deaths in 2022. However, the investor backlash underscores rising scrutiny over boardroom compensation amid a cost-of-living crisis. Sibanye has vowed further engagements with dissenting shareholders to bridge the divide.

EOT flaws revealed

Trade magazine *Construction News* asks if the EOT model has inherent weaknesses after three large employee-owned companies went into administration last year.

Buckingham Group, Readie Construction and Michael J Lonsdale are among the biggest contractors to have gone under in the past 12 months. Factors identified by directors of these firms include inflation, Covid, the war in Ukraine, subcontractor failures and loss-making contracts. Undoubtedly those issues have hit many in the sector hard. But another issue put extra pressure on the cash flow of these companies that has been little discussed to date.

A CN analysis of Companies House filings shows that between them, the three paid a total of £33.95m to employee ownership trusts since 2020. The sum far outstripped their aggregate bottom lines – which amounted to a pre-tax loss of £4.7m.

These are only three among dozens of contractors who have turned to EOTs in the past four years. Given the issues they faced, CN examined whether the model should still be seen as attractive, and assessed the rarely mentioned risks.

Centre's expert view:

In a summary of **David Pett**'s paper on the subject, Centre president Malcolm Hurlston noted:

⇒ There are concerns about employee ownership trusts (EOTs) overpaying vendors when acquiring companies, which can contribute to the companies later going into administration.

⇒ The paper highlights conflicts of interest between vendors and trustees, with vendors incentivised to overvalue the company for a higher sale price despite the tax benefits.

⇒ David Pett questions whether the purchase price paid by EOT trustees, if to be funded by the company, accurately reflects the true market value, since the company itself funds the purchase, reducing its assets.

⇒ He suggests limiting the tax benefits for vendors selling to EOTs to remove the incentive for overvaluation.

⇒ He also discusses the limitations of provisions requiring employee consent for any future sale, as trustees still have a duty to act in employees' best interests.

Action points:

1) When structuring EOT transactions, ensure vendors and trustees are independently represented to avoid conflicts of interest.
2) Carefully assess the appropriate valuation and purchase price, considering the company is effectively funding the purchase from its own assets.
3) Consider proposing changes to the tax incentives for vendors selling to EOTs, potentially limiting the benefits to discourage overvaluation.
4) For existing EOTs, review the trust deed provisions related to any future sale and employee consent, recognising trustees' fiduciary duties may override such provisions.
5) Engage stakeholders (policymakers, industry bodies, etc.) to discuss potential reforms to the EOT framework to address these concerns.

We are seeking a response from HMRC to the EOT consultation of July last year, though we are unlikely to hear anything before the election.

New EOTS

- Independent b2b tech PR agency Babel PR
- Aerospace component manufacturer Boyce Precision Engineering
- Projects consultancy CPC Project Services
- Law firm Ison Harrison
- Specialist finance business Liberty Leasing
- Online roofing supplier Optagon Group
- Finance company, Plus Finance
- Finance recruitment specialist Sharp Consultancy
- Childcare group Tops Day Nurseries

WORLD NEWSPAD

France

Société Générale launches global Esop ownership programme

Société Générale launched a new global employee share ownership programme on May 22, allowing eligible current and retired employees to subscribe for a capital increase reserved for them on preferential terms. The subscription period for the share offer runs from June 3 to June 17, with the settlement and delivery of shares expected on July 25.

The transaction implements the 19th resolution approved at Société Générale's general meeting last year on May 23. Employee share ownership is a long-standing practice at the bank, with the 2024 programme marking the 31st such initiative aimed at involving staff in the company's development and enabling them to benefit from long-term value creation. The principle of the operation was disclosed in the board report ahead of this year's annual meeting on May 22.

India

Paytm announces Esop allotment as coo resigns

Paytm, the Indian digital payments firm, has announced the allotment of 87,373 equity shares to employees under its employee stock ownership plan. The move came as the company's chief operating officer Bhavesh Gupta resigned. The Esop allotment increases Paytm's issued share capital and can be seen as an effort to motivate staff amid turbulent times. The company has faced regulatory scrutiny over its payments bank and a sharp share price decline of nearly 58 percent over the past six months. Awarding employee equity may aim to boost retention and alignment with the firm's growth goals as it navigates challenges.

Zomato stock hit hard as investors react negatively to Esop

Zomato, the Indian food delivery giant, saw its shares plunge nearly four percent on May 14, despite reporting a stellar rise in net profit for the latest quarter. Investors reacted negatively to the company's decision to create an additional employee stock option pool of 18.2 crore shares, fearing an increase in non-cash expenses related to the scheme in the current fiscal year according to the *Telegraph online* (India).

The sell-off came as Zomato posted a consolidated net profit of ₹175 crore ($21.3m) in the January-March quarter, a significant turnaround from a ₹188 crore loss in the same period of the previous year.

Consolidated revenue from operations soared 73 percent to ₹3,562 crore, driven by strong growth in the food delivery business, which saw a 28 percent year-on-year increase in gross order value, according to Deepinder Goyal, Zomato's managing director and ceo. While brokerages raised their target prices on the stock, the market remained wary of the potential dilution from the expanded stock option plan.

Photo by rupixen on Unsplash

Ireland

Call on Government to support employee ownership

The Irish ProShare Association (IPSA) is calling on the government to support companies looking to transition to the employee ownership trust model. It follows marketing agency Wolfgang Digital's move to an Employee Ownership Trust, according to John Burns of the *Irish Independent*. While welcoming Wolfgang Digital's pioneering decision as the first known Irish company to adopt the UK EOT structure, IPSA chair Marie Flynn said legislative changes are needed to remove tax obstacles that make the process overly complicated and expensive. She argued EOTs could be tremendously popular in Ireland as a business succession solution if the government provided guidance on financing and tax exemptions, as exist in the UK. Without such reforms, the punitive Irish tax framework acts as a disincentive for both sellers and employees.

Oman

OCI employees become shareholders for the second year

Oman Cables Industry (OCI), the sultanate's leading cable solutions provider, has announced the continued success of its pioneering employee share ownership plan, now in its second consecutive year. The groundbreaking initiative, first introduced in 2022, underscores OCI's commitment to empowering its workforce and fostering an inclusive workplace culture, according to the *Trade Arabia* newspaper.

Seventy percent of OCI's employees have doubled their shareholding in the past year, a testament to the programme's success. The plan grants employees shares in Prysmian Group, OCI's strategic partner, based on achieving specific local and regional targets. This aligns with OCI's 'Empowerment, Innovation, and Excellence' vision and Prysmian's Social Ambition 2030, which aims to have 50 percent of its global workforce as shareholders, enhancing their financial engagement and long-term interests. OCI's ceo, Erkan Aydogdu, hailed the accomplishment as a recognition of the team's dedication while fostering a diverse and inclusive workplace.

South Africa

New factory and worker shareholding programme for textile Co

Rebecca Campbell of *Engineering News* reports that Cape Town-based bedding manufacturer Sheraton Textiles has inaugurated a new factory backed by a R140 million investment from the Industrial Development Corporation. The company, currently 100 percent owned by the IDC, also launched an employee share ownership programme giving workers a 15 percent equity stake held through a Workers Trust. IDC interim ceo David Jarvis highlighted the new facility's improved efficiency, saying "It really is a facility we can all be proud of." Sheraton ceo Saleem Mowzer praised the staff and IDC team.

Trade union leader Susan Khumalo welcomed the Esop, calling for more "industrial and economic democracy" through such programmes which benefit workers and businesses. Trade minister Ebrahim Patel noted there are now 125 companies with Esops in South Africa, with 551,000 workers holding R70 billion in shares and receiving R3 billion in dividends last year.

At Sheraton Textiles workers choose four members of the managing trust and the chair. The company provides the sixth member. The launch underscores the growth of the employee ownership model aimed at boosting productivity and worker equity in South African companies.

USA

After 8 years Paragus IT achieves 100% employee-ownership

Paragus Strategic IT, a technology support firm based in Hadley, Massachusetts, has completed an eight-year transition to become 100 percent employee-owned, according to *the Daily Hampshire Gazette*. In February, the company's founder and ceo, Delcie Bean, transferred his remaining stake to an Esop, ensuring all workers receive annual share allocations based on their percentage of the total payroll.

Under the Esop, employees have a significant say in the company's operations through monthly "owners' meetings." For project managers like Loyn Fadus and Jonathan Lovestedt, the ownership structure provides motivation, pride, and a sense of investment in Paragus's future success. Bean, who founded the firm in 2003 while still a high school student, says the move towards employee ownership stems from a philosophical belief in a more equitable business model that allows workers to benefit from the company's growth. The Esop also gives Paragus a competitive edge when acquiring other firms, levelling the playing field against larger private equity rivals.