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it's our business

newspad of the Employee Share Ownership Centre

Shares For Rights legislation rescued after more concessions

George Osborne salvaged his political reputation when the government managed – at the third time of asking – to get his 'Shares For Rights' plan reinstated by the House of Lords into the Growth & Infrastructure Bill, but only after further major concessions.
The price extracted by their Lordships for supporting the controversial 'employee shareholder' legislation was a heavy one – employers will have to offer employees free independent legal advice before any employees can sign up to the deal. It was this concession that brought the ping-pong battle between the government and the House of Lords to an end.
It now looks likely that the new employee shareholder contract will come into operation this autumn, though uncertainty remains over how many small businesses will take up the scheme. The scheme which formed the centrepiece of Mr Osborne's party conference speech last autumn was designed as a way to stimulate employee share ownership in business start-ups and SMEs.
The kernel of the scheme remains that employers will be able to offer certain employees between £2,000 and £50,000 worth of shares without payment but, in return, they must give up a range of employment rights, including those relating to unfair dismissal and redundancy payments, plus the right to request training and flexible working hours. Employers could offer key employees up to £50,000 worth of shares. Employees would not pay income tax or national insurance contributions on the first £2,000 of shares received and would not pay capital gains tax on the first £50,000 worth of shares. The Office for Budget Responsibility warned, however, that the scheme could be misused as an expensive tax dodge by some employers and senior employees, costing the Treasury potentially £1bn in lost tax revenue though this, for the time being, is mere speculation.
Not only Lib-Dem peers, but even former Tory Cabinet ministers, had already voted to try and strangle clause 27 at birth, by striking it out of the Bill. Assurances and concessions given by Government were still not enough to satisfy their Lordships and on April 22 peers voted, for the second time, to strike out clause 27, which enables the employee shareholder contacts to come into being. In a heated debate, one or two over-excited peers even claimed that the proposed employee shareholder contract was a form of "slavery."
In response to this the Government hastily announced a list of concessions in a bid to persuade the House of Lords to accept the Clause.
In the Commons, the business minister Michael Fallon tried to reassure Tory peers before sending the bill back to the Lords for a third time, telling MPs: "The company must give the individual a written statement setting out the employment rights that are not associated with this status and detailing the rights attached to the shares. That will include whether the shares have any voting or dividend rights, whether there are rights to have the shares bought back or redeemed and whether an individual may freely sell the shares to anyone, or if there are restrictions".
Mr Fallon defended the "imaginative" proposal. However, he acknowledged that it would "not suit all companies or individuals. British companies are competing in a global race to increase their competitiveness and create wealth," he said. "What is at stake here is choice and a new status that companies can

From the Chairman

Think British Isles.....the UK government seems to be stuck in a convenient political timewarp in its rhetoric about the Crown Dependencies. Now they rate as well as UK for international transparency it is time to stop denigrating "offshore" and play to the strength the British Isles offer to the world. Maybe the Crown Dependencies too could stand up more and make a more coherent case for the benefits they bring. These thoughts flowed from our successful Jersey event where former regulator Helen Hatton made a powerful intervention - not for more regulation but for clearer association with the social good in employee ownership. It is on the website and makes good reading: http://tinyurl.com/dxrb363

Malcolm Hurlston CBE

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use to give themselves a competitive edge and more flexibility in deciding how to structure their work force. By combining share ownership and favourable tax treatment - with the appropriate steps to prevent any tax avoidance - we are giving companies, especially young companies, a tool that may tip the balance in their favour as they seek to attract high-calibre individuals who can have a disproportionately positive impact on how the company performs."

Mr Fallon said that the Government would amend guidance for Job Centre advisers to "state explicitly" that a jobseeker could not be forced to apply for an employee shareholder job. "The draft guidance ... will mean that a jobseeker cannot be compelled to apply for an employee shareholder job, nor can their jobseeker's allowance be reduced or cut if they turn down an offer of an employee shareholder job or refuse to apply for an employee shareholder job," he said. "This explicit change to the guidance puts beyond any doubt our intention that no one should be forced into this new status."

The government has been selling the scheme on the basis that this new employment status gives "new companies a fresh option that they may use to attract high-calibre employees who can share in the growth potential of the company".

The full list of government concessions written into the legislation now is:

*An employee cannot accept the offer within seven days of receiving it;

*The employee must be given a written statement of the rights he/she is giving up;

*A written statement setting out the details of the shares being offered must be provided;

*A jobseeker who refuses a job on an employee shareholder basis will not automatically forfeit his/her unemployment benefits;

*Existing employees will be protected from retaliation if they refuse to switch to the employee shareholder status.

*The Government emphasised that the new employment status would be entirely voluntary.

*The final concession – obligatory free independent legal advice - was enough to swing the sentiment of the upper house and on the same day Peers voted to accept the clause.

Moreover the employer will be liable to pay the reasonable costs of that advice regardless of whether the employee subsequently chooses to enter into the contract or not.

Westminster sources claimed that Business Secretary Vince Cable originally did not support Mr Osborne's employee shareholder contracts but, after mounting a rearguard action, decided to back it, in return for a commitment by Osborne to support Cable's business investment bank.

Share plans expert Matthew Findley of Centre member **Pinsent Masons**, said although the Government would now succeed in implementing its proposal this was nothing more than a pyrrhic victory. "The idea has never been considered likely to become mainstream and the need for individuals to be provided with independent advice at the expense of the employer is likely to be the final nail in the coffin in that regard," he said.

There is media speculation that one of the No 10 Downing Street policy units is now looking actively at how to promote broad-based employee share schemes. Although details are scant for the moment, the background appears to be a growing realisation among senior Tories that mass employee share ownership, in both quoted companies and larger privately held companies, needs a boost in order to rebuild the participation of rank and file employees in economic progress.

Centre Awards 2013

Entry forms for the Centre's *'Employee Share Ownership Plan of the Year'* Awards 2013 can be downloaded from the Centre website: www.esopcentre. com. The awards are divided into three categories, large (more than 1500 employees) and smaller companies respectively and thirdly, best plan communications. In addition, this year, an individual award is under consideration, said chairman Malcolm Hurlston CBE. The working title for the new award is '*Share Plan Personality of The Year'* and the Centre would like to see such an award sponsored. Mr Hurlston will announce the finalists for all the awards at the Centre's 25th annual conference at Le Meridien Hotel in Barcelona (see below) on **Thursday June 6 and Friday June 7.**

Postmen in line for employee shares before Xmas

The government finally confirmed that the Royal Mail will be privatised within the next 12 months, though whether by stock market flotation, or sale to a rival business, remains unclear.

Business minister Michael Fallon said that the government is considering the options for the shape of the share scheme for Royal Mail's employees and hinted that postal workers could be offered more than the minimum ten percent of the equity, which is enshrined in the enabling Act.

There was media speculation that around 140,000 postal workers would be offered around £1,500 worth of shares each and that the offer would be structured in a way that would prevent top Royal Mail executives from walking away with most of the employee shares. However, it is yet to be decided whether postal workers will be given free shares or whether they will be offered to them at a discount.

If the government chooses the flotation option, the IPO could be valued at somewhere between £2n and £3bn, according to City sources.

Using coded language during his speech to Policy Exchange, Mr Fallon admitted that the Department for Business, Innovation and Skills (BIS) is still at loggerheads with the Communication Workers Union (CWU) - the union that represents Royal Mail employees – over the privatisation plan. The union is balloting its members on whether to strike against imminent privatisation. The minister said that he would continue to encourage the CWU to engage with government officials on the structure and terms of the employee share scheme. He said: "I strongly believe that employees should share in the company's future success and dividends.... And it is our intention to have such a scheme in place at the time we conduct a sale of Royal Mail."

Mr Fallon said that the tendering process to procure a syndicate of banks to advise on a possible flotation will begin within the next few days. BIS specialist commercial arm, the Shareholder Executive, hopes to appoint the lead global advisers at the end of this month. At the same time Royal Mail will begin exploring access to capital with the debt markets. Both of these processes are part of ongoing work to prepare Royal Mail for a sale of shares during the current financial year. Ministers do not want to be tied to a specific type of sale or an artificial deadline. Mr Fallon announced that the government is attracted to an IPO as the preferred method of sale, but all options remain on the table and no final decisions have been taken. Mr Fallon and Business Secretary Vince Cable agree with the assessment made by Richard Hooper in his independent review that the status quo cannot continue. Royal Mail could not continue to compete for scarce public capital against other public services like hospitals and schools.

Share buy back rules ease for private companies

The new share buy back rules, which took effect on April 30 - will make it significantly easier for many private companies to buy back their own shares by permitting them to:

* authorise share buybacks by ordinary, rather than special, resolution (so a simple majority will be sufficient);
* authorise in advance multiple share buyback contracts, but only if connected to an *employees' share scheme*.
* pay for bought back shares in instalments if the buyback is in connection with an *employees' share scheme*. The Government expects that the use of instalments should not be the default position for share buybacks and does not therefore intend to impose specific terms, such as time limits;
* finance buybacks in connection with an *employees' share scheme* out of capital, subject to approval by special resolution supported by a solvency statement (this is a significant simplification)**;**
* buy back small numbers of shares (up to the lower of £15,000 or five percent of share capital in any financial year) where the company's articles so allow and without having to specify that the cash is from distributable reserves (and without this being treated as having been paid out of capital). A special resolution will be required if there is no relevant enabling provision in the articles; and
* hold shares in treasury in the same way as fully listed public companies already do. This will apply to unlisted and AIM listed public companies. Companies should note that the expression *employees' share scheme* has a specific definition in the Companies Act 2006, and it is important to ensure that the requirements of that definition are satisfied, where relevant.

The full text of the statutory instrument setting out the new provisions can be found at:
http://tinyurl.com/bw584bx

Our thanks to employee ownership lawyers and Centre member **Postlethwaite** for the above summary of the share buy back rules changes:

First UK Employee Ownership Day: July 4

Thursday July 4 2013 will be the first UK Employee Ownership Day, announced Employment Relations and Consumer Minister Jo Swinson, following EU days supported by the Centre. The day aims to raise awareness of the employee ownership sector at both national and local level in the UK and to illustrate the achievements and progress made since last year's employee ownership summit. As a government partner in the BIS Employee Ownership Implementation Group, the Centre will participate in the events and spotlight share ownership in the publicity campaign.

Ms Swinson said: "Hundreds of businesses will benefit from the introduction of reforms that make direct employee ownership easier and simpler for both employers and employees. "Evidence shows that employee-owned companies can be more profitable, create more jobs and were more resilient during the economic downturn. We are committed to making direct employee ownership more attractive, cutting red tape for companies, and promoting new and more responsible ways of running a business. I hope these changes, alongside the announcement of an Employee Ownership Day on July 4, will raise awareness of the benefits of employee-owned companies and lead to an increase in the number of direct employee-owned firms across the UK."

Ms Swinson made the announcement while confirming the changes to the Companies Act 2006, aimed at making the installation of employee share ownership in smaller companies much easier and less bureaucratic than it has been hitherto. Small business owners who sell their company to their employees will be exempt from paying cgt in certain circumstances. Author of the Nuttall Review and partner at Field Fisher Waterhouse

LLP Graeme Nuttall said: "These significant changes in company law will bring employee ownership to the attention of a wider audience. The changes will provide many companies with a less expensive and simpler way to run an internal share market for employees' share schemes. As a Nuttall Review recommendation they will always be linked to the broader goal of making employee ownership a widespread feature of the UK economy."

However, rumblings of discontent are being heard from industry and commerce regarding Liberal-Democrat ministers' apparent obsession with majority employee ownership, as opposed to employee share ownership.

The **Lindum Group** criticised Deputy PM Nick Clegg for advocating only one kind of employee ownership. Group finance director Herman Kok said: "As one of the oldest employee ownership promoting companies, we would be disappointed if the Deputy PM were to direct the attention of the government solely on the simplistic employee benefit trust and trust form of employee ownership and ignore companies like ours which promote full shareholder status for all employees. In contrast to the John Lewis model, which is in essence a profit share membership scheme, that rewards the higher earners proportionally more than their lower paid colleagues, our proper voting share scheme rewards all employees equally and provides them with rights and benefits which last into retirement. Our shareholding employees would greatly benefit from a reduced capital gains tax and benign dividend treatment. We would welcome the opportunity to work with the Cabinet Office to find an equitable way forward for rewarding all shareholders of employee-owned enterprises," he added.

Centre member **PwC** tax partner Carol Dempsey said: "CGT exemption for entrepreneurs who sell businesses to their staff is welcome but on its own is unlikely to achieve much. Employee ownership is a really complex area and it will be hard to make a difference without changes to the existing tax rules. Also it's hard to see how employees could collectively afford to buy a business for full value without financial backing and there's already a rarely used cgt relief for shares sold cheaply. The proposal for tax relief on bonuses paid through EBTs seems to be at odds with recent tax avoidance legislation stopping people from using trusts for remuneration, so the detail will need to be thought through. The consultation process will be important to prevent bear traps that could make this great objective unworkable," she warned.

Report on Jersey conference

A record number of delegates attended this year's ESOP Centre share schemes seminar in association with the Jersey branch of Society of Trust & Estate Practitioners (STEP), which took place at the Royal Yacht Hotel, Jersey, on April 19.

During his introduction, ESOP Centre chairman, **Malcolm Hurlston CBE**, paid tribute to Margaret Thatcher, who had given a great boost to our sector by insisting that an element of free employee share ownership must be included in all privatisation deals. Baroness Thatcher had shown that on this issue she was more in tune with the employees than the unions were, Mr Hurlston said. Famously, in the case of the British Telecom privatisation deal, the unions encouraged employees not to accept the free shares they were offered and suffered a humiliating blow when almost all employees ignored their advice. Unions are now better attuned.

Turning to the Channel Islands, Mr Hurlston said that it was pleasing to see that Jersey had maintained its place at the top of the offshore rankings in the recent Global Financial Centres Index. The Crown Dependencies give the British Isles a uniquely strong position, which UK policymakers failed to grasp. Mr Hurlston said: "We live in an age where 'offshore' has become a dirty word for political point-scoring, which ignores the reports of bodies such as the OECD, which rank Jersey above the UK in transparency. There are indications, though, that this may be changing. The signing of inter-governmental agreements as part of the arrangements for FATCA demonstrates that transparency and cooperation between the UK and the Crown Dependencies is at an all-time high. These agreements should help the Channel Islands to confirm their reputation as a centre of excellence for financial services which complements the services on offer in the City."

Mr Hurlston added that the provision of trustee and administration services for the employee share plan industry was a case in point. The trustee industry needed to showcase its expertise and positive contribution to the economy of the British Isles so that the public can better understand the role the Channel Islands plays..

Graham Muir of Nabarro gave an overview of the legal and tax developments from recent years, of which there have been many. Graham gave details of the OTS reviews of approved and unapproved schemes and the Nuttall Review and their recommendations. Though speed was welcome in implementing the changes which have been agreed upon, Graham thought that the intended start date of 2014 may be optimistic for self-certification, since there were so many existing grey areas which need to be completely resolved before companies can act with certainty.

Following the announcements in the OTS unapproved share schemes report and the creation of an off-the-shelf trust deed for employee ownership, some had questioned whether this might spell the end of an era for employee benefit trusts (EBTs). This was the topic tackled by **Barbara Allen** of Stephenson Harwood in her presentation. Barbara rightly pointed out that the reasons for locating an EBT offshore were not as simple as the OTS report had implied and that, in addition to tax reasons, the Channel Islands provided a centre of administrative expertise. An off the shelf model may provide an answer for small companies who want to create a simple employee share plan, but this would not be a solution for larger companies, Barbara said. She warned that even smaller companies would want to ongoing support for the plan once it was created, so while a DIY kit was welcome, she feared that some people would make mistakes which could prove costly to unwind further down the road.

William Franklin of Pett, Franklin & Co. reminded the audience of the generous advantages available under the Share Incentive Plan. He pointed out that thanks to simplifications being made at the moment, there could be new opportunities for the use of a SIP, especially in private companies, specifically changes around the approval process, use of restricted shares, the material interest test, sales for cash within five years and the dividend reinvestment. William gave an example of a new company where the founders implement a SIP immediately. Because of the removal of the material interest test, founders could now hold shares in a SIP meaning almost all of the future gains would be free of tax, so long as they were happy to allow all future employees to participate in the SIP. The changes could, William hoped, lead to SIPs spreading more widely in the unquoted company sector allowing the scheme to fulfil its initial policy objectives.

Jim Wilson of Ernst & Young took delegates through the EBT settlement opportunity, which HMRC continues to make available to companies to deal with trust arrangements now affected by disguised remuneration rules. HMRC is still willing to have discussions on a no-names basis and often the tax treatment is more attractive than the alternative. Jim recommended that by modelling the options it would quickly become clear which path was most appropriate.

The last presentation of the day was given by former Manx and Jersey regulator **Helen Hatton** of Sator Regulatory Consulting, who warned that the tide of opinion was turning against purely tax-driven structures. She likened the public outrage currently directed against tax avoidance to the anti-tobacco movement, saying that once a certain momentum is reached it was impossible to turn back. However, the new fiscal morality would bring new opportunities with it for the Channel Islands, especially where they could prove that there was a genuine added-value service provided. Jersey should, she said, focus on its strengths in governance, management, trusteeship and administration and not lead on any proposition of tax avoidance.

Mr Hurlston thanked **STEP Jersey** for its help in organising the highly successful and well attended event.

New Esop Institute course gets under way

The Esop Institute announced the ground-breaking introduction of a new qualification in employee share ownership - the ESOP Certificate.

The online course deals with the most important aspects of share schemes and employee ownership in a single e–learning module divided into three main sections: overview of employee ownership; technical essentials: legal, tax and accounting; and building a business case for employee share ownership and employee engagement.

The ESOP Certificate is ideal for those taking their first steps in employee share ownership and will benefit:

- New recruits to the share scheme world (company secretarial, HR or advisers)
- Share scheme professionals looking for broader knowledge
- SME advisers who want to be able to spot employee ownership opportunities for clients
- People taking an informed interest in employee ownership practice

The material content of the certificate course was developed with the assistance of **David Craddock Consultancy Services,** peer reviewed by **Clifford Chance** and consolidated internally.

A record 20 students registered for the first term of the Certificate course online. The Institute's new technology is so smart that students can study on their phones as well as in the office or at home. Prospective registrants will find the Certificate course website at: www.esopinstitute.com.

"Singapore, Jersey, England and Scotland are already represented and I warmly recommend you to take this opportunity to join in," said Centre chairman Malcolm Hurlston CBE

UK review of share schemes expense accounting rules

The UK's domestic accounting standards board (ASB) has launched a consultation on whether the current share based payments accounting standard should remain in force for unquoted companies.

The ASB accepts - at least in the context of unquoted companies (where it still has the primary responsibility for accounting standards) - that the IFRS2 (share based payments) Standard might need review. The ASB issued on April 23 a consultation document on the future of Share Based Payment for unquoted companies.

"This raises several fundamental questions about the relevance of the current standard and the ASB is to be commended for its open-mindedness in promoting this review," wrote William Franklin, of Centre member **Pett, Franklin & Co. LLP.**

"By contrast, the International Accounting Standards Board (IASB) briefly discussed IFRS2 (Share Based Payment) and gave itself a metaphorical pat on the back, concluding that the Share Based Payment Standard was working well," said Mr Franklin. "Whether this is generally thought to be the case is another matter, because at the same time the IASB observed that they had received many requests for clarification of the Standard. However these requests seemed to be regarded by the IASB as an annoyance rather than a cause for reflection or concern."

Among possible changes being considered by the ASB are (i) the complete abolition of the accounting expense for equity-settled share based payments for unquoted companies on the grounds that the calculation of the expense is too artificial and (ii) its replacement with an enhanced disclosure regime for equity based awards, such as options.

The deadline for responses is July 31 2013 at the latest and anyone with an interest in this subject should make their views known by accessing the consultation at: http://tinyurl.com/d4p4qvo The form can be completed online at http://tinyurl.com/dy4x7mg

On the move

Michael Fallon, the unofficial Tory '*employee share ownership minister'* within the Coalition government has been given an extra responsibility following the removal of John Hayes from the Energy & Climate Change department. Mr Fallon, already a Minister of State at Department for Business, Innovation and Skills (BIS), takes on the energy brief in addition to his current responsibilities.

Kevin Lim is leaving **RBC Cees** at the end of this month for a new post at Centre member **Solium UK.** The Centre's main contact at RBC will be **Mark Le Saint**.

Louise Jenkins has joined **KPMG** as a senior manager, people services, from her previous employer, **Ernst & Young**.

Centre conference speaker and colleague **Henri Malosse** has become the 30th president of the European Economic & Social Committee (EESC). Montpellier born Henri, the author of more than 50 reports, was elected president of the EESC employers' group in 2006 and has been actively supporting SMEs throughout the EU. On his election as overall EESC president, he issued a provocative challenge to the EU institutions: "The crisis we are currently facing is a crisis for the people of Europe who no longer identify with the European Union's great project and feel that the EU institutions have stopped listening and no longer take them into account. How else can we explain the fact that help for a member state has taken the form of a tax on every bank account, from the largest corporation right down to the humble pension of the retiree? It is here and now that the EESC must speak on behalf of the people of Europe, demand that its voice be heard and call for accountability in the interests of civil society."

CONFERENCES

Social Dialogue to Enhance Economic Democracy: European Commission conference in San Sebastian, Spain

The Centre played the lead role on behalf of the UK at the recent European Commission backed conference in San Sebastian about how best to support the creation and growth of SMEs within the EU and whether co-operative owned businesses are resisting the crisis better than their privately owned peer group competitors. In particular, the Centre was invited to describe employee-owned businesses that provide public services in the UK. Two Centre members, Rob Collard of Macfarlanes and William Franklin of Pett, Franklin joined the Centre team.

Centre chairman **Malcolm Hurlston CBE** organised a joint statement by all the participating organisations – the International Association for Financial Participation from France; CISL, the Italian trades' unions federation; Confesal from Spain and the centre from the UK – urging the European Commission to ensure that local and regional entities could derogate from the EU Procurement Directive when necessary, in order to ensure a level playing field in the contract tendering process.

Centre international director Fred Hackworth delivered two short case histories:

Leeds based **My CSP** (Civil Service Pension) Ltd, which had been spun out of the civil service pensions department. The 500 former civil servant employees owned 25 percent of the new company; Equiniti Group's Paymaster business (the private sector partner) owns 40 percent of the company and the government retains the remaining 35 percent stake on behalf of taxpayers. MyCSP runs the civil service pension scheme for 1.5 million employees. The government's Mutuals Taskforce had talked about empowering staff by freeing them from the 'dead hand' of state control. Despite a strike by some of the employees affected, MyCSP had won a string of contracts to administer the employee pension schemes of various government departments, including the House of Lords, the Food Standards Agency and the Electoral Commission. The employee shareholders get representation at board level and share the profits. During the course of its seven-year contract, MyCSP aims to achieve annual savings of 50 percent by 2022.

Milton Keynes based **Childbase**, which is thought to be the only employee-owned private nursery company in the UK. The 1,304 employees who work in 41 day nurseries own two-thirds of the company, owing to the enlightened policy of ceo Mike Thompson, son of Sir Peter Thompson, ex-boss of the former state owned National Freight Corporation, which was privatised many years ago. Thompson junior set up an EBT and all-employee share schemes, both SAYE-Sharesave and the Share Incentive Plan, which allowed Childbase staff to acquire progressively larger shareholdings in the company year by year. Thompson wants legislation to provide a single route to employee ownership, improved tax treatment for employee shareholders and better access to bank lending for co-owned firms. Dividends at Childbase have doubled in value during the past six years and its pre-tax profits reached £2.7m on a turnover of £27.7m

Centre UK director **David Poole** presented a paper on **Central Surrey Health** (CSH), the first social enterprise to spin out of the NHS. CSH, which serves a population of 280,000 in central Surrey, is owned and run by the nurses and therapists, formerly NHS staff, it employs. They say that staff are involved in all policy decisions and that they have halved waiting times for appointments to the musculo–skeletal physiotherapy service. CSH won its bid to continue running community health services in mid-Surrey for the next five years. However, CSH had found it difficult to compete for further NHS contracts because private sector competitors had better access to capital, which was needed in the form of bonds to underwrite long-term contracts.

The Centre called for an EU budget line to be opened for the improved diffusion of 'How To' employee share ownership packs info among SMEs and smaller quoted companies throughout member states.

William Franklin and David Poole took the opportunity to visit Mondragon and assess its progress. The Centre is considering reviving its esop Study Tours with Mondragon and US as initial destinations.

The government's Behavioural Insights Team (BIT), nicknamed the 'nudge' unit, is to become a profit-making enterprise, as part of the Cabinet Office's drive to make public assets pay their way. The impending privatisation of this small unit of civil servants is part of the government's drive to create what Cabinet Office minister Francis Maude says could be "dozens more spin-outs" in the next few years. Under Maude's plans, BIT will become a mutual in which a private investor, the government and the ten-strong team of civil servants will each own one-third of the company.

A competition will be held to find a business partner for the unit, similar to what happened when MyCSP Ltd was spun off from the civil service last year. The signs are the unit will be commercially successful. Its work on proposals saving the taxpayer millions of pounds - from tackling smoking to introducing rumble bars on motorways - is in demand from the private sector and foreign governments.

"We are in a global race for the jobs and opportunities of the future. To get Britain back on the rise we must find innovative ways to deliver better services more efficiently," Maude said.

BARCELONA June 6 & 7

Major international employee equity plan case histories from Smith & Nephew and Kingfisher will share the limelight at the Centre's 25th annual European conference at the five-star Le Meridien Hotel, La Rambla, in central Barcelona, on Thursday & Friday June 6 & 7. Anne Walsh, share plans manager at medical technology manufacturer Smith & Nephew will discuss the FTSE 100 company's innovative international Sharesave plans with John Daughtrey of advisers Equiniti. The second case history will see Kay Ballard, share plans manager at Kingfisher, outlining the problems the retailer faced when it decided to manage its share plan administration in-house. Kay will speak alongside Peter Leach of advisers, Killik Employee Services.

The executive reward segment will be headed by Joe Saburn of US employment lawyers Ogletree Deakins, followed by fellow speakers Leslie Moss of Aon Hewitt; Ray Coe and Ian Murphie of MM & K; Richard Nelson of Howells Associates and Patrick Neave from the Association of British Insurers.

Jim Wilson of Ernst & Young, will discuss tax battles between HMRC and EBTs; Mike Pewton of GlobalSharePlans on Equity Plan Communications; Alasdair Friend and Narendra Acharya of Baker & McKenzie LLP will speak on managing share plans after cross-border takeovers. Sara Cohen of Lewis Silkin and Grant Barbour of Bedell Group will debate whether we are at a historic moment for both tax approved and unapproved employee equity plans and Bob Grayson of Tapestry Compliance will give a round-up of regulatory changes worldwide, plus a look at CRD IV and the attack on trusts. A high spot will be the delegates' open debate. The full agenda and a delegate registration form can be accessed on the Centre website at:
www.esopcentre.com/event/barcelona-2013

Contact Fred asap, fhackworth@esopcentre.com if you want to register as a delegate. Almost 40 registrations have been booked to date. You can either choose the Centre's accommodation plus conference package deal, or you can book a day delegate conference place and find your own accommodation.

Thank you to **Appleby** and **Bedell Trust,** co-sponsors of the Barcelona 2013 e-brochure.

DAVOS 2014

For your diaries: the scheduled dates for our 15th annual Global Employee Equity Forum in Davos Platz are Thursday **February 6** and Friday **February 7** next year. The five-star Steigenberger Belvedere Hotel will once again host our event.

Eso distress signals from Down Under

Lower participation in employee share plans and a decrease in the use of option plans is hitting innovation in Australian business, said **Employee**

Ownership Australia and New Zealand (EOA). Employee share plans have been widely hit over the last four years by government legislation resulting in a significant drop in employee ownership while adding complexity for companies, said EOA Oz in a new report. The number of employees participating in employee share plans and the amount of capital they are investing in these plans has been substantially reduced, it warned.

In 2009 the Australian Federal Government introduced new tax legislation, Division 83A. It was designed to improve the horizontal equity in the tax system by treating all forms of remuneration more consistently, to target employee share scheme tax concessions more closely to low and middle income earners, and to reduce the scope for losses to Commonwealth revenue through tax evasion and avoidance. A key reform was the introduction of the share scheme reporting regime, but at the expense of a complete rewrite of the existing rules. Companies and businesses are still coming to grips with the rewrite and many question whether it was needed.

"Division 83A is failing its fundamental objective of strengthening employee participation in Australian business and increasing productivity," said Centre conference speaker Adrian O'Shannessy, director, Greenwoods & Freehills. "By insisting on tax at vesting Division 83A forces employees, who can't keep remuneration at risk for extended periods, to sell in order to fund their tax rather than continue to hold equity as long term investors. And the irony is that in a generally rising market the Government might be better off if they did hold – the tax would rise with the market."

Employee share option plans, often favoured by small or cash poor companies, particularly in the technology sector, are used to attract and retain talented staff. The change from tax at exercise to tax at vesting has reduced the effectiveness of such companies using option plans.

"Consultation is urgently needed with both Treasury, regarding policy issues and in particular tax vesting and the retention of the taxing point at termination of employment which causes many real problems, with the Australian Taxation Office regarding the administration of Division83A on matters such as what is a genuine disposal restriction," said Karen Quinsey, principal at PwC and one of the experts who contributed to the report. "Addressing these matters should really help companies in administering employee share plans and increasing employee participation levels. We certainly welcome the share scheme reporting regime, but one really has to question the situation back in 2009 when the tax rules were scrapped and rewritten. This has left a legacy of reduced employee participation negatively impacting Australian employees, productivity and national savings," added Ms Quinsey. The report recommends a series of changes to help lift employee share plan participation to pre-2009 levels including re-instating tax at exercise time for options and the removal of the cap on salary sacrifice contributions.

"Broad based employee share ownership has been unequivocally shown to promote employee engagement and productivity, and ultimately lead to the enhancement of national savings," said Angela Perry, chair of the EOA Oz: "We are recommending a series of changes which will allow employee share plans to operate more efficiently and which we believe will see a return to greater employee ownership levels."

Tax information exchange

The Government agreed with France, Germany, Italy and Spain to develop and pilot multilateral tax information exchange. Under the agreement, a wide range of financial information will be automatically exchanged between the five countries. This will help catch and deter tax evaders as well as provide a template for wider multilateral automatic tax information exchange. The pilot will be based on the model inter-governmental agreement to improve international tax compliance and to implement the US Foreign Account Tax Compliance Act (FATCA) developed between these countries and the US (which formed the basis of the subsequent UK-US bilateral automatic exchange agreement). A joint letter was issued to the European Commission setting out the terms of the agreement.

FATCA, which is part of the US Hiring Incentives to Restore Employment Act of 2010, aims to combat tax evasion by US tax residents using foreign accounts. It has been widely criticised by Centre administrators, such as Capita Registrars, for being overly demanding in terms of bureaucratic requirements imposed on non US based companies who employ or act for employees who work in the US. FATCA imposes withholding taxes on these people and their employers or agents if the latter cannot prove that the employees concerned are not US citizens. *Inter alia*, it imposes heavy demands on the reporting of information by foreign financial institutions for US compliance purposes.

Exchequer Secretary to the Treasury, David Gauke said**:** "This is an important further step in the fight against tax evasion and represents the next stage in promoting a new standard in the automatic exchange of tax information. This builds on the agreements we have reached with the Isle of Man, Guernsey and Jersey and the discussions currently underway with the Overseas Territories." The Prime Minister has set out how he wishes to use the UK's presidency of the G8 to explore options for greater levels of tax information exchange, particularly on a multilateral basis. The Government therefore sees this agreement as an important early step in a much wider move towards a new international standard in the automatic exchange of tax information, providing a step change in the ability of tax administrations to clamp down on tax evasion.

Share scheme payouts
Sports Direct is to hand its staff a payout worth more than £50,000 this summer after the sportswear giant met its profit targets under a lucrative employee share scheme.
The retailer will award 2,000 employees an average 12,000 shares in August, which — based on the recent stock price of £4.42p — are worth £53,000 each. At maturity, they could be worth more than three times average salary, provided demanding sales targets are met.
This payout is addition to the typical award of £15,000 made last year. The share scheme that Sports Direct started in 2009 is more generous than the much-lauded staff bonus paid by the John Lewis Partnership. More payouts are on the cards for employees from Sports Direct's on-going bonus programme, as the retailer said it was certain of hitting its target of underlying profits of £270m for the year to April 28. Sports Direct credits the scheme with a dramatic decrease in staff turnover and a turnaround in the fortunes of the business by aligning the company's fortunes with the interests of staff at all levels. When the plan launched four years ago, about one in three staff quit every year. Within a year the loss rate was down to less than one in five, as employees saw the opportunity of a huge windfall. Another scheme launched in 2011 will see 3,000 of the retailer's 17,000-strong workforce entitled to future payouts.
The group, which Mike Ashley – former Centre Employee Share Ownership Personality of the Year - founded from a store in Maidenhead in 1982, has powered through the consumer downturn and its strength helped bring down rival JJB Sports. SD's 470-store-plus chain grew its total sales by 14 percent to £317m over the nine weeks to March 31, boosted by surging online revenue. Sports Direct will put to shareholders a new super-stretch bonus for Ashley, its deputy executive chairman and owner of Newcastle United Football Club, in September. The group is likely to increase his target from £290m to £310m for 2014.

Bonus corner
Lord Wolfson, ceo of **Next,** announced that he would share out his £2.4m bonus among the high street retailer's 19,400 staff, giving each a windfall of about £200. He explained his gesture in an email to all staff: *"The exceptional gain in our share price has meant that this [share award] has now become more valuable than I could possibly have expected. As I am a shareholder, I have also greatly benefited from the increase in our share price."*
Nat Rothschild told the **Bumi** board that the fees to all directors should be cut in line with the average paid to those in comparable FTSE 250 companies. Rothschild, who owns a fifth of Bumi's shares, warned the board that executives should not be paid any cash bonuses given they have overseen such a massive destruction in shareholder value and other targets.
There was a similar new mood being shown at **BHP**, where the new ceo, Andrew Mackenzie, said he would take a 25 percent pay cut and he sacked many of the top earners from the previous regime.
The FTSE100 insurance company **RSA** held talks with some of its biggest shareholders – about executive bonuses and its dividend cut - at a meeting brokered by the Association of British Insurers.
Meanwhile, the head of one of Austria's biggest banks – Herbert Stepic of **Raiffeisen** – handed back £1.2m of his pay on the grounds that he was overpaid.
The Observer claimed that there were signs that this year could see a replay of last year's 'Shareholder Spring', when an unprecedented number of shareholder AGMs voted down, or substantially opposed, company remuneration reports. **Standard Life** has criticised pay policies at **BP,** and fund manager **Jupiter** suffered a serious humiliation recently, when 42 percent of investors failed to back its own remuneration report, said *The Observer.* "Governments keen to pass the buck on the pay controversy point at shareholders to keep a lid on pay excess, but non-executive directors have at least an equal responsibility. Bonus schemes that pay out so much that their bosses are embarrassed to take the proceeds should never have been approved. Directors on remuneration committees need to think much longer and harder about how bonuses are handed out," it said in an editorial.
Even the **Church of England** got in on the 'bonus bashing' act by pledging to use its own multi-billion pound investments to attempt to block what it sees as excessive payouts. The Church - which controls more than £8bn-worth of assets - will attempt to vote down any bonus worth more than an executive's basic salary. It issued an attack on what it called a "culture of entitlement and greed" among the highest-paid, as it set out a list of demands which it will seek to implement in companies in which it owns shareholdings in the coming AGM season. These include switching to long-term incentive schemes for bosses instead of instant payouts and tying rewards for top management more closely to staff pay. The Church will take non-financial considerations into account when deciding whether to support remuneration deals, ranging from performance against ethical and environmental targets to measures of how firms treat their staff and customers. It hopes that its stance could start a domino effect among disgruntled investors. The Church, whose investment bodies have holdings in **Barclays, RBS, Tesco, BP, Shell and Vodafone,** among others, has a history of shareholder activism. It was among the most high profile investors to put pressure on News Corp in the wake of the phone-hacking scandal.

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