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it's our business

newspad of the Employee Share Ownership Centre

Share schemes minister bows out

Treasury minister of state, Jesse Norman MP, who was the share scheme sector's first port of call in Whitehall and who was responsible for UK tax policy and customs has left office.

The former financial secretary to the Treasury said that he had not been sacked but had volunteered to step down when the PM had told him in an interview that he wanted more "diversity" among his ministers.

Mr Norman told *Times Radio: "We had a conversation in which he (Boris Johnson) offered me the choice of staying on, but said that he was looking to improve the diversity and representation within the government."* He then told the PM that he was happy to step down because he didn't want to be "*one of those ministers who then has to be fork-lifted out later on."*

Mr Norman was replaced by Lucy Frazer QC, who combines legal and political expertise. She previously served as solicitor general for England and Wales and as minister of state for prisons and probation. However, *newspad* was unable to unearth any interest in employee share ownership during her parliamentary career to date.

The out-going minister highlighted his achievements. "*The FST works in the centre of the government engine room. I managed the Covid furlough, self-employment and other schemes, put in place a ten-year UK tax administration strategy, pushed digitisation ahead, enhanced taxpayer safeguards, strengthened the HMRC board and recruited a great first chair in Jayne-Ann Gadhia. I put eight pieces of primary legislation onto the statute book, including two Finance Acts, the Covid Contingencies Fund legislation and the landmark Health and Social Care Levy. I pay tribute to the astonishing work of civil servants at HMT and HMRC on all this."*

The Centre will lobby the new Treasury minister on several key issues:

*Hopes that Treasury ministers would intervene in the **Roadchef** Esop compensation scandal have been dashed, despite parliamentary debates about the plight of the ex-motorway services employee Esop participants, who still await their payments seven and a half years after the High Court ruling in their favour. For in the UK, the Treasury has no *direct* control over tax operations conducted by HMRC. Thus, successive junior Treasury ministers, including Mr Norman, have told MPs that they couldn't interfere in the Roadchef case as, exceptionally, HMRC is a ***non-ministerial***

From the chairman

The government and the share schemes industry have been caught badly napping by the rise in the gig economy and international trends from US to Germany.

There is still a key role for employee schemes even as the number of regular employees falls, not to mention the number of years for which people expect to stay. But the focus needs to move to workers as explained by David Craddock.

In the United States KKR has led the way in ensuring that all employees can enjoy equity rewards, creating a corporate atmosphere in which nudge and behavioural economics can multiply the effect without complex tax breaks.

The UK government is keen on nudge but has been slow to apply it to our sector, mainly because of the separation of HMRC from the Treasury, spelled out helpfully in detail by newspad editor Fred Hackworth in his lead story this month.

Up on the rails we see the Germans long inimical to employee share ownership taking new meaningful strides.

The position of the UK is at risk. Let us hope the new Treasury team is up to the job, with the steady hand of John Glen— responsible for banking and FS reform, plus regulation and financial inclusion—still on the tiller.

Malcolm Hurlston CBE

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department of the UK government, a set-up intended to ensure that the administration of the tax system is fair and impartial. The HMRC Board admits that it "*does not have a role in day-to-day operational decision-making, nor in tax policy or individual taxpayer matters*." The rules could be changed to allow ministerial intervention, but only when an HMRC ***personal*** tax issue involves more than 250 taxpayers simultaneously, as in the Roadchef case, which is now subject to independent mediation. The Centre has criticised HMRC for hiding behind the taxpayer confidentiality mantra in order to avoid discussing the case, even though there are almost 4,000 beneficiaries awaiting payment from the Roadchef compensation pot. HMRC has not explained why it has failed to treat the case on a *Class Action* type footing, which would enable it to discuss publicly the tax principles it was applying to the Esop and other beneficiaries as a whole. Although the pioneering Roadchef EBT1 document was loosely worded regarding the identity of the beneficiaries, many argue that HMRC should not tax the compensation pots of the Esop participants, whose employee shares were transferred from their EBT1 to an executive performance shares trust without their express permission.

*The need for radical changes in the now ageing **rule book** governing UK tax-advantaged employee share schemes, notably the five-year continuous employment requirement in the Share Incentive Plan (SIP) to enable employee participants to obtain full tax relief. Few among today's *coalface* employees stay within the same company for five years. In addition, the current limit of 249 employees imposed on companies using the share options based Enterprise Management Incentive (EMI) should be expanded to 499 forthwith and its Gross Asset Value qualification limit increased from £30m to £75m.
*An inter-ministerial group should examine how recommendations made by the Social Market Foundation (SMF), in its recent report: *A Stake in Success – Employee share ownership and the post Covid economy* - can be implemented speedily.
•The SMF criticised amendments to accounting standards, under International Financial Reporting Standards (IFRS 2), which have led to harsh accounting treatment of SAYE option plans.
•Those employees who leave share plan participation before vesting should no longer be treated as *bad leavers* and instead be entitled to receive tapered benefits, it said. •Government and other institutions were urged to provide more support and leadership to increase training and support generally for employee share ownership.
•The Audit, Reporting and Governance Authority (ARGA), successor to the FRC, should require firms to include information on what type of Eso plans are operated, the extent to which each plan is taken up by eligible UK-based workers and the average value of employee shares in annual reports. This information should be reported regularly and in standardised form, for the use of investors pursuing an ESG agenda and seeking more information about companies' social and governance performance, added the SMF report.

*Last, but not least, on the priority list, the Centre wants to see an urgent change in the rule which excludes most **private equity** companies from launching tax-advantaged employee share schemes in the companies they acquire. *Literally tens of thousands of UK employee share scheme participants are being deprived of their share schemes after private equity firms takeover their companies.* Normally, corporate acquirers call in the rump of unsold shares, including employee shares, after a takeover and then invite their new employees to join their own employee share schemes, but this is not the case when private equity funds are the acquirers. HMRC share scheme rules could be changed to allow private equity to set up new tax-advantaged share schemes provided they can show that the companies they have acquired operate at arms length from the parent. To facilitate this process, they could be encouraged to become listed, which HMRC normally demands before granting share schemes tax-advantaged status.

Three months ago, Mr Norman, a former Visiting Fellow at All Souls, Oxford, delivered this year's online *The Robert Oakeshott Lecture,* which commemorated the death a decade ago of the job ownership pioneer. Mr Norman celebrated Oakeshott's achievements, reviewed the growth of employee ownership, examined how the idea of job ownership helps to address economic and social challenges and discussed ways to overcome barriers facing the further growth of UK employee ownership. Mr Norman had held his Treasury post from mid 2019 until mid September and is married to venture capitalist Dame Kate Bingham, who headed the pandemic vaccine task force. He joked that the couple were known as "*Mr Tax and Mrs Vax.*" He left a poignant souvenir on Twitter - a photo of his cleared ministerial desk and his empty chair.

*Labour urged the chancellor to raise £440m a year by closing the ***carried interest*** tax loophole enjoyed by private equity fund managers, reported *The Guardian*. The shadow chancellor, Rachel Reeves, said the proposal was one example of how a Labour government would "start to end the unfairness in the tax system" by ensuring that the wealthy do not avoid paying fair tax rates when rank-and-file employees faced a hike in their NI

payments. Carried interest refers to the share of profits made by private equity fund managers from an investment deal that they have put together. It is taxed at the Capital Gains Tax rate instead of at the Income Tax rate, which generally means people paying 28 percent tax, instead of 45 percent Income Tax. Only about 2,000 fund managers receive carried interest income per year, but on average the sums recorded are £1m. Ms Reeves said Labour would urge the government to do this in the forthcoming budget, but that a Labour government would implement the measure itself if the Tories refused. Carried interest should be taxed as income because it is effectively a fee for management, rather than a capital gain, she added. Often, private equity managers contribute between only one and three percent to the capital of the fund they have put together, but get 20 percent of the profits. The party said that closing this tax loophole would reduce the incentive for private equity to engage in asset stripping. It said almost 60 percent of big retailers that went into administration between 2010 and 2019 were linked to private equity takeovers. Ms Reeves said: "It's absurd that the current regime around carried interest means tax breaks for fund managers averaging £170,000 per person. It's not right that working people and ordinary businesses have been hit by a jobs tax, while private equity fund managers don't have to pay a penny more on their income and are in fact handed a tax break by this government."

UK share schemes menaced by new US PE bid

The future of employee share schemes in the Warrington based robotics software company **Blue Prism** was threatened by a £1.1bn takeover bid launched by US-based private equity firm **Vista Equity Partners.**

For the Blue Prism Group operates both an employee and non-employee share plans alongside a Share Incentive Plan (SIP). In addition, it operates an employee stock purchase plan, launched in 2017. Blue Prism's board accepted the offer and said it had support from 23 percent of shareholders so far, but at least 75 percent of shareholders must agree the £11.25 per share offer before it can go forward.

If it does, Blue Prism employee shareholders will lose their UK based share schemes, though they will be encouraged to participate in **Tibco**'s employee equity arrangements.

Vista said that it planned to merge Blue Prism with Silicon Valley based data company Tibco if its bid was accepted by Blue Prism shareholders. The regulators too will want to examine the implications of the 'merger' on competition in the robotics sector.

Blue Prism, which develops automation processes to replicate and replace clerical office work, currently employs 1,032 people and has expanded rapidly, but such a merger, inevitably, would reduce that headcount.

Blue Prism floated on the AIM market for less than £50m in 2016 and two years later, it gave its employees shares in the business, making many of them paper millionaires. Founders David Moss and Alastair Bathgate are still major shareholders.

*An auction this month between two US-based private equity consortiums - **Fortress Investments** and rival **Clayton, Dubilier & Rice (CD&R),** looked set to settle the fate of **Morrisons** supermarket group and its 118,000 employees. The future of Morrisons popular SAYE-Sharesave scheme, administered by **EQ**, seemed grim, because if the company is taken private by either of the two private equity giants, at least 20,000 Eso participants are set to lose their employee share schemes. Morrisons explained that neither bidder had declared its latest bid as 'final' – hence auction was a logical outcome. CD&R had tabled the strongest bid so far – at 285p per share – so it was up to Fortress to come back with an enhanced bid to trigger the auction. Former Tesco ceo Sir Terry Leahy, who is advising CD&R, said he had struck a deal with the trustee of Morrisons' pension schemes, which have around 85,000 members, to reinforce their assets by the transfer of property. However, it was revealed that CD&R, if it wins, plans to control Morrisons via Market21 GP Holdings, a company operating from the Cayman Islands. Mr Leahy came under pressure to confirm that the company would pay UK Corporation Tax rates. City bankers, lawyers and PR advisers were expected to net £400m in total for their services if the takeover of Morrisons went ahead.

*Meanwhile, Mohsin and Zuba, the Issa brothers who, together with private equity firm TDR Capital, now own **Asda** supermarket group, are reportedly planning a £10bn sale of their 6,000 petrol filling station sites in the EG Group. They have already closed down Asda's employee share plans, which were operated by Asda's erstwhile US parent, **Walmart** and have bought out the 25,000 employee participants.

*Employee shareholders at Coventry-based defence and aerospace technology firm **Meggitt** are on the verge of losing both their SAYE-Sharesave and SIP schemes, as the takeover battle (*see last issue)* was won by US aerospace company, **Parker -Hannifin (PH),** which gained almost 100 percent of votes cast at a shareholder agm. However, there was a lingering doubt about the outcome as the UK government examined whether the deal would compromise national security. Earlier, PH's rival **TransDigm** abandoned its fight to acquire Meggitt,

leaving only the 800p per share offer from PH, worth £6.3bn, still on the table. More than 4.2m Meggitt share rights are held in its Sharesave, while an additional one million shares are held in its SIP. A bonanza cash-out awaits those in senior management at Meggitt, as 11.5m share rights are held in its LTIP - 8.65m in conditional awards and a further 2.95m in options. PH intends to close both schemes, but said that "*wherever possible*" Meggitt employees would be able to participate in Parker's global employee stock purchase plan. A further 1.8m Meggitt shares held by its employee share ownership plan trust are earmarked for outstanding awards. PH said it was "*committed to being a responsible steward*" of Meggitt, but admitted that any legally binding commitments to maintain Meggitt's UK HQ, plus existing divisions, R & D, product engineering and manufacturing staff levels would be time limited. Parker is a global leader in motion and control technologies, including precision engineered solutions for aerospace, climate control and electro-mechanical production. Meggitt, a FTSE 250 company, makes wheels and brakes for military fighter jets, employs more than 9,000 people worldwide, including 3,000 within the UK at various manufacturing facilities and regional offices. In this case, bankers, lawyers and PR advisers expect to net £200m in total for their services if the takeover of Meggitt is crystallised. Ceo Antony Wood and fd Louisa Burdett are entitled to retention payments and *transition awards* in cash and stock, as well as payment for shares they sell to Parker. In total, the duo could scoop a combined £9m. Sir Nigel, who was involved in the sale of Boots and Signature Aviation to overseas buyers, would make £2m if he sells his shares in the company.

***Sainsbury's** was in talks to sell its banking arm to US based private equity firm Centerbridge Partners for c £200m. Sainsbury then hired Robey Warshaw (RW), one of London's leading investment boutiques, to help to defend the supermarket group against a rumoured imminent takeover bid. Former chancellor George Osborne works for RW.

*Employee shareholders at Bournemouth based **Ultra Electronics** were surprised to receive letters from takeover aerospace victor **Cobham,** advising them to exercise their Sharesave options on completion, before October 22, to avoid them lapsing. Cobham, which is owned by the US private equity house **Advent**, gave Sharesave participants two options – exercise their options on completion and receive a one-off compensation payment, or on completion, buy Ultra shares at the option price with a total value equal to their accumulated savings at that date. The Ultra shares would then be automatically purchased at the *offer price* for each Ultra share and they would make a profit, but without the one-off payment. Ultra's board agreed the £2.5bn takeover, meaning that Ultra and its subsidiaries will become wholly owned subsidiaries of Cobham. Shareholders will receive 3,500p for each share in the engineer, plus the interim cash dividend of 16.2p declared a month ago. The offer came after an initial 2,800p per share proposal last June. The final price is at a 63 percent premium to the closing price on June 24. Ultra shares acquitted by employee shareholders on exercise of their Sharesave options will be held on their behalf by Centre member **Sanne Trust Co**, the EBT trustee, as nominee. Completion of the deal is expected in the first quarter next year. Secretary of state for Business, Energy and Industrial Strategy, Kwasi Kwarteng issued a public interest notice to intervene in the deal on national security grounds. He gave the Competition and Markets Authority until January 18 to submit a report on the proposed Ultra takeover.

*Wiltshire-based inhaler manufacturer **Vectura** fell to US tobacco giant **Philip Morris International (PMI)**, which announced that its £1bn takeover bid was already supported by 77 percent of Vectura's shareholders (by value). Vectura's shares will be de-listed on October 19, the Marlboro manufacturer having made its bid unconditional. It had given the rump of Vectura's shareholders until the end of last month to accept its £1.65 per share offer, which topped the earlier offer from private equity firm **Carlyle.** All UK Vectura employees, including executive directors, had been encouraged to become shareholders through participation in its all-employee share schemes - the Vectura Sharesave (SAYE) scheme and the Vectura SIP. Several similar schemes operated for overseas employees. All these seemed destined to disappear once the takeover is approved by the regulators. However, PMI operates several all-employee equity plans itself – notably deferred profit sharing plans and Esops and it is likely that Vectura employees will be invited to participate in these plans. Vectura makes inhaled medicines and devices to treat respiratory illnesses such as asthma. Dozens of health groups had urged Vectura to reject PMI's bid, but in vain. The outcome marked a rare defeat for private equity.

*Rishi Sunak, himself a former hedge fund manager, gave his blessing to allowing foreign private equity houses to gobble up UK businesses, describing the buying spree as "*good news*" for the economy. The chancellor was speaking at the launch of Treasury Connect, an event intended to bring together fast-growing tech businesses with investors and politicians to spur innovation in fintech and life sciences. Addressing the trend in

which overseas buyers target UK firms, Mr Sunak said: "*We've always been an economy that benefits from investment in it. I would view it as a sign of confidence in the UK. It's good news for our economy.*" His remarks were dismissed as "depressingly banal," by City commentator *Nils Pratley,* writing in *The Guardian.* "Yes, the UK must obviously welcome foreign investment, but the current buyout frenzy raises questions Sunak sidestepped. Is it really a good thing that UK companies are seen as sitting ducks by US private equity firms and UK boards being supine? Does the Treasury see no revenue dangers in UK corporates being loaded with cheap debt that can be offset against corporation tax? Would Sunak really be relaxed if, say, BT, a company the UK relies on to build a fast-fibre broadband network, was the next target? None of which is to say that all buyouts should be opposed. Some clearly add value but, in an era of cheap money, the takeover game seems hopelessly skewed in private equity's favour," added Mr Pratley.

******The UK employee share scheme participant toll from private equity takeovers is already high – 25,000 gone at Asda; 20,000+ threatened at Morrisons and potentially another 31,000 at Sainsbury's too, should a rumoured bid materialise there too.*

*Buy-out groups spent a record £32bn acquiring UK companies in the first half of this year, according to financial data firm Refinitif. Private equity investments usually use a holding company, which in turn holds shares in a trading company. The owners behind the holding company, in addition to senior investors, will usually be one or more partnerships or funds. Depending on the shareholding held by a private equity investor and the control rights it has in the company's articles of association and any investment agreement, the company issuing the shares is often treated as *being under the control of another company* and therefore ineligible for Eso tax relief. Recent deals and bids backed by private equity investors include St Modwen Properties, private jet company Signature Aviation, fund administrators Sanne and Equiniti, and infrastructure investor John Laing which have all been targeted for buyouts. Bargain hunters have had the British aerospace industry in their sights, with Senior and Ultra Electronics both among the targets.

*New laws that came into effect before Morrisons shareholders vote on the takeover bid from CD&R this month give the Pension Regulator powers to intervene in such bids. Henceforth, private equity bidders for UK companies will have to prove that they've thought about their pension fund obligations in target companies and then prove that the scheme is treated fairly, said *The Telegraph.* The new powers were brought in after the large pension fund holes found in both BHS and Carillion after they collapsed.

Nigel Mason: Obituary

Centre stalwart **Nigel Mason** died, peacefully at home after an illness, which he faced with courage and a positive outlook. "He was a leading light in the employee share sector and has been instrumental in the growth in employee ownership schemes of all kinds," said Centre founder **Malcolm Hurlston CBE.** "We first worked together when he joined the new lending arm of the Industrial Common Ownership movement, on which consumer co-ops kept a benevolent but wary eye" he added.

At the **RM2 Partnership**, where Nigel was senior associate, he is remembered for his kindness, energy, humour and wisdom, the company said in a statement. It sent condolences to his family and friends, saying that Nigel would be sorely missed. It is understood that Nigel chose to spend his last days with his family and closest friends. Typical of the man, he summed up his own career: "*Nigel's career in employee ownership began more than 30 years ago when, as an idealistic young man, he abandoned his well-paid but ultimately unrewarding job in a large bank for an initially unpaid but much more rewarding job in a small not -for-profit loan fund for workers' co-operatives. The grandly named Industrial Common Ownership Finance, or ICOF for short, still exists under the name of Co-operative and Community Finance, and has lent many millions of pounds and sustained thousands of jobs in the small but vibrant workers' co-operative sector.*

"*After being a micro-lender to small co-ops, Nigel became interested in the emerging field of Esops. The trade union bank, Unity Trust, had started lending larger sums to employee buyouts that were based on an adaptation of the American Esop and Nigel saw the chance to deploy his banking expertise on a larger scale. He won a scholarship to go on an extended study tour of US Esops and returned to found Capital Strategies, a corporate finance adviser that set out its stall to advise on*

and source finance for large scale employee buyouts. During the 1990s, Capital Strategies advised on many landmark transactions, some of them derived from long–established family owned firms like the papermaker Tullis Russell and others created as a response to the Thatcherite programme of privatisations, where employees were often given the right of first refusal to buy the state-owned businesses where they worked. Many progressive companies sought out Capital Strategies for advice on employee share schemes. In a single week in the late 1990s, Nigel met the founders of ethical cosmetics retailer The Body Shop, upmarket fast food chain Pret-a-Manger and global innovation company Dyson."

In 1999, Nigel was asked by the then chancellor Gordon Brown to join specialists advising HMRC on the development of two new share schemes to help improve the UK's lacklustre productivity record. One scheme was aimed at entrepreneurial small businesses, to help them attract talented people from major corporations - the EMI share option scheme for SMEs, the most popular tax-advantaged scheme ever among UK companies. The other scheme was to broaden ownership for all employees in companies of all sizes, which became the SIP.

In 2000, with backing from venture capital, Nigel founded *myshares.com*, which was one of the first investor portals aimed at employee shareholders, linking their share plan records from their employers with their private investment records to give them a whole portfolio view. The business was acquired by outsourcing group *Capita* in 2001. Afterwards, Nigel led the employee share plans business of Lloyds TSB Registrars, which became Equiniti (EQ), the largest provider of share services to the FTSE-100 companies and now a FTSE-250 company itself.

He then served as part-time policy director of the Employee Ownership Association, paving the way for the *Nuttall Review* in 2012. He supported EOA's largest member, the John Lewis Partnership, in its efforts to get statutory recognition for its all-employee trust. This led to the introduction of the tax-efficient Employee Ownership Trust (EOT) in 2014. After co-founding Co-operative Energy, one of the first independent energy suppliers in the UK, Nigel returned to employee ownership in 2015, leading the buyout of RM2 from its former owners. RM2 has since become a leading adviser in EOTs and transitioned itself to full employee ownership in March 2019. In the gaps left by his day job, Nigel wrote on policy matters, for example contributing a chapter for the Institute for Public Policy Research's Commission on Economic Justice. He was an unofficial statistician for the UK employee ownership sector, compiling and analysing data on EOTs and on the sector as a whole.

RM2 opened a *Book of Condolences* for Nigel. You can leave a message in it until **November 3 2021.** "*His thoughts and ideas had an impact on so many people, and it would be impossible to send this note in one email to everyone who would want to share a message with the family so we ask everyone to please forward this to anyone who may have a story to tell,"* said **Sarah Anderson,** director of RM2

EVENTS

Webinar - Monday October 11, 15:00 (BST)

Innovative tax techniques for employee share schemes. Employee share schemes offer employees the opportunity to buy shares in the business they work for. Owning part of a business offers a great incentive for employees to contribute to the success of the business and remain loyal to the business. In this Centre webinar, share schemes expert David Craddock examines the HMRC approved and unapproved employee share schemes, exploring innovative strategies based on tax-efficient solutions in employee share ownership programmes.

Employee share schemes and trustees 2021

This year's Esop Centre employee share schemes and trustees conference, held in partnership with STEP Jersey, will be hosted on-line on Wednesday **December 1 2021** from 10:30am.

The event comprises a 90 minute live virtual conference, where, **Joe Moynihan**, **ceo** of **Jersey Finance** will set the scene with his keynote address. Then the speaker panel will discuss their presentation topics, with delegates able to interact live, followed by breakout discussion groups for all participants. Plus, participants will have access to supporting material, featuring the speakers' pre-recorded presentations, which will be released a week before the live panel session.

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

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

The programme will include talks on: *Recent changes in UK tax laws: court and tribunal decisions and the Finance Bill 2022*; *The rise of Employee Ownership Trusts*; *The Common Reporting Standard – what happens to the data within HMRC?; Round-up of the most common new structures in Jersey*; *Hot topics in employee share plans*, among legal, tax, and regulation updates.

Share schemes experts on the panel include: David Pett, barrister, Temple Tax Chambers; Elaine Graham, director, Zedra Guernsey; tax expert Paul Malin of PMC; Katherine Neal, head of employee incentives at Ogier; Graham Muir, partner, CMS and David Craddock, founder and director, David Craddock Consultancy Services.

Prices: Esop Centre/STEP members: £125 - Non-members: £195.

Early-bird offer: Book and pay before 31 October 2021 to claim one of the following early-bird discounts:

- For one to three places: deduct **20 percent** of total order.
- For bookings of **four or more** places: deduct **25 percent** of total order.

To reserve your place email esop@esopcentre.com or call the team on +44 (0)20 7562 0586.

Report: The gig economy and Eso participation

The meteoric rise of the *Gig Economy* in the UK had raised the issue of how gig workers could be given access to employee share scheme participation, share schemes expert **David Craddock** told a webinar hosted by the Centre**.** He shocked some listeners by telling them that, according to forecasts, there could well be ***7.5m*** active gig workers in the UK by next year. Even two years ago, the number of gig workers had already doubled to 4.7m and they were reckoned to contribute £20bn to the UK economy annually. David defined gig workers as those who worked part-time or on a freelance basis, without holiday or sick pay and no pension arrangements. Yet almost half of UK gig workers had full-time jobs in addition to their gig assignments. About one in six UK men and one in seven women were gig workers, he said. The gig worker scenario had got off the ground after the 2008 financial crisis. Followers believed that gig represented the future of work; others went gig to try to secure their dream job, perhaps via work experience. Gig was an opportunity to earn added income, self-evolved adaptation to disablement, or part of a transition from redundancy. Wrapped up in the gig concept was a transition by some from a consumer to a conserver economy in which less was being spent on a new life style, he added.

In quoted companies, shares were rationed, but if there was no headroom to issue shares to gig workers, then they might be offered a phantom scheme, based on deferred bonuses linked to shares. So how could a company design an employee share scheme suitable for all? The golden rule was to keep it simple and use direct communication with all would-be participants. Good communications were a powerful unifier, not least because there could be negative protectionist reactions from the 'real employees' about Eso inclusiveness, warned David.

The opportunity to implement a share scheme for gig workers was more evident in supplier based gig operations – e.g. delivery type gig workers at Deliveroo or Uber – as opposed to customer based gig working, for example serving customers *from* home. Generally, that type of gig worker did not expect to become an employee share scheme participant, he explained. David was confident that one day employee share schemes might be renamed 'worker share schemes' in which non-employees were included. In the US, where immigrants had brought in strong entrepreneurship, there were 60m already in the gig economy.

The rise of the gig economy, outsourcing and the demise of a *job for life* had diminished access to share plans for many in the workforce, the audience was reminded. Gig economy workers - freelancers; independent contractors; consultants etc - were treated as self-employed for tax purposes, rather than as employees of a company. The webinar was chaired by Z/Yen Group Limited md, Ian Harris.

MOVERS & SHAKERS

***John Daughtrey** was appointed head of business development at *Condor Alternative Legal Solutions* at employee share ownership lawyers **Fieldfisher**

***Global Shares (GS)** welcomed its 500th employee after 16-years in business. GS has employees of 25 different nationalities working in 16 global locations. 125 staff have joined in the past year and these were hired remotely. GS was founded in Clonakilty, West Cork, as an equity services company, but soon realised that its business model wasn't working. "*We were juggling eight different software platforms to service our international client base, margins were low, and we were facing competition from multi-billion-dollar global financial services corporations*," said GS. "*We had to pivot to survive. The odds were against us but there were two key factors in our favour: a gap in the market for a truly global software platform and our amazing team of 20 people.*" It was re-launched in 2015 and people

moved to Clonakilty from all over the world to work for Global Shares and so its multi-cultural foundation was set. Diversity, empowerment and entrepreneurship were fundamental pillars at every level of the team's culture. However, the development of the platform took twice as long and cost twice as much as forecast. Some initial strategies, including outsourcing to India, were subsequently shelved, as management of the core product required centralised development alongside the GS operations team in Ireland. Project management software was introduced to manage increasingly complex IT development.

***Alderman and Sheriff Professor Michael Mainelli,** escorted by a cavalry contingent, survived a three-hour ride around City livery halls while raising almost £13,000 via JustGiving and direct contributions for the Sheriffs' and Recorder's Fund, which makes small payments to needy ex-prisoners in order to deter them from re-offending. Michael told *newspad: "It was fantastic to get round Mansion House, 17 livery halls, and a lot of iconic City locations, including riding into Haberdashers' yard to put hoof marks on the lawn for the first time. We thank everyone for being so generous with champagne, wine, port, beer in tankards, sloe gin in thimbles, juices, and water (don't underestimate how great water can feel after three hours in the saddle), and equally generous to the horses with apples and carrots, including some bags of fruit and vegetables to take home (Leo and his team of trusty steeds say thank you)"* It was a memorable closing event for his two years in the Old Bailey – as a Sheriff, rather than as an accused. He was escorted throughout by the Honourable Artillery Company Light Cavalry.

*The **Royal Institution of Chartered Surveyors (RICS)** confirmed the departure of four senior board members, including its ceo, after the release of a critical independent report, which suggested that the crisis-hit body should apologise to the non-executive directors it sacked two years ago. The Institution, founded in 1688, said that ceo Sean Tompkins, who received £1.1m in pay, including bonuses, from 2017 to 2019, would not receive a pay-off after his exit. Others on the doormat were RICS president Kathleen Fontana; chair of the governing council Chris Brooke and Paul Marcuse, chair of the management board.

UK CORNER

Ryanair forces Brits to sell their shares

British citizens who bought shares in **Ryanair** this year are now being forced to sell them, as a result of post Brexit rules applying to airlines licensed to fly to and between EU destinations. These rules demand that the majority of shares in such airlines are owned by EU nationals. Ryanair said that it had been forced to sell around one million shares bought by non-EU nationals (mostly Britons) since last January 1. It has additional rules preventing non-EU nationals, including employees, from buying stakes in the company in order to ensure it continues to meet the Brussels imposed ownership quota.

Bank row over ex-employee share sales

Online banking and technology company **Revolut** faced complaints from ex-employees after imposing a surcharge on cashing in their shares in the $33bn London fintech. The company informed its former employees that they'll have to pay a 2.75 percent processing fee for taking part in a secondary share sale, according to Whatsapp messages seen by FT backed news website *Sifted*. This prompted internal protest, with one claiming the charge was "extortionate" and lacking in transparency. However, the 1,600 current employees don't have to pay the fee and will be given first selling rights, reported Isabel Woodford. Revolut, which has set up a $100m+ sale, has forbidden option holders from selling any shares outside the formal process *"The saga highlights the difficulties employees face in banking their shares, often encountering complex and opaque rules Normally, employees struggle to sell their shares until the company they work for is either bought or listed on a stock exchange, something which can take many years,"* wrote Ms Woodford.

Revolut is one of the few European start-ups to give its staff and former staff the chance to take part in a large secondary sale and cash out early, but with strings attached. A Revolut spokesperson told Sifted: "*We want to be fair, but we do slightly favour current employees, as…they're the ones still supporting the [company's] growth…It's an illiquid market — equity is a long term engagement*." Revolut is already covering part of the costs associated with finding new investors, which amounts to more than the 2.75 percent being charged to ex-employees, added the spokesperson. To ensure the sale's success, ex-employees will be banned from selling more than ten percent of their stakes. Present employees however have been able to sell up to 20 percent of their stakes — as long as they've worked there for more than 18 months.

More than 70 employees and ex-employees have Revolut equity worth over $1m each on paper. Although controversial, its decision not to cover the sale fees for ex-employees is not abnormal. Selling a stake in a company early is considered a rare luxury, rather than a right. The invitation to do so could be seen as a generous gesture by Revolut.

Secondly, the fee is not out of line with other secondary sale providers. **Crowdcube**, for instance, charges sellers four percent. In addition, Revolut is allowing shareholders to sell shares at the full $33bn valuation price, which is $609 per share, rather than at a discount, offering a fair swap. Other ex-employees told Sifted they considered it a fair deal: *"I've no issue. If I went to an agent to sell my shares privately I'd pay 4-5 percent commission to them and I wouldn't necessarily get the primary share price on offer here,"* one senior ex-executive at Revolut said.

ESG: Regulators demand diversity and inclusion

The Financial Conduct Authority (FCA) recognised that while the financial services sector had made progress in bettering gender diversity, there was still a long way to go in improving social mobility, **Linklaters** partner **Alexandra Beidas** and colleagues told *Lexology*. The role of diversity and inclusion as key components of a healthy culture have moved to the fore in firms' thinking about their culture and this was mirrored in speeches from UK regulators and the publication of a joint discussion paper on diversity and inclusion in the FS sector. She wrote: *"The regulators have clearly signalled their intention to encourage further and faster progress across all aspects of diversity and to increase the focus on fostering inclusion through a culture of psychological safety. There are multiple and inter-connected strands to diversity, presenting different challenges which all need to be addressed as the focus on diversity and inclusion sharpens in the financial services sector as elsewhere."*

Ms Beidas said that external pressures on firms from various sources and the gender pay gap reporting regulations continued to drive the focus on diverse cultures. Many firms had demonstrated their commitment by joining industry-based initiatives including the UK Race at Work Charter and the Women in Finance Charter. She wrote: "*The regulatory focus on diversity reflected the recognition that certain 'toxic' cultures identified within firms where conduct failings arose were perpetuated by a lack of challenge from non-diverse 'echo chambers' of agreement and closed views.*"

Megan Butler, former FCA director of supervision, had noted in a speech that most FS employees were '*not intrinsically immoral*', but rather that micro-cultures created within firms could lead to close-mindedness and 'groupthink', and ultimately poor decision-making. Regulators, Butler said, '*need to concentrate on changing the barrel – the culture – and not just the bad apples*'.

Alexandra added: *The regulatory push for 'changing the barrel' by looking at culture as a*

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driver for positive outcomes has led to increased focus on inclusion and representation in the workplace at every level. Diversity within firms, from the board down, is now seen as both an indicator of and contributor to successful governance, improved customer outcomes, engagement with core values and identified 'purpose'. FCA ceo Nikhil Rathi held that establishing and maintaining a diverse and inclusive culture at a firm would allow firms to understand the differing needs and vulnerabilities of their customers and work to ensure that they were adequately provided for and protected. Rathi queried whether '*any firm can adequately respond to the needs of these consumers if they do not have the diversity of background and experience required to overcome biases and blind spots,*' placing the onus firmly on firms' diversity as a route to understanding their consumers, strengthening outcomes and fully meeting their needs – whether that be through product design, consumer service or communications. The regulatory landscape was primed to incorporate diversity as a concrete assessment factor for firms: Rathi's speech identified the aim of expanding the 'five conduct questions', intended to help focus the minds of senior managers on conduct risk, to include - '*Is your management team diverse enough to provide adequate challenge and do you create the right environment in which people of all backgrounds can speak up?*'

The FCA warned firms that it would be asking questions about representation across grades – with firms needing to consider how they access the relevant data in order to answer questions about their workforce while adhering to data protection requirements. Regulators will run a pilot data survey during this autumn to better understand what data firms were currently collecting and able to provide, to inform a longer term move towards the introduction of regulatory reporting requirements. Regardless of the scope of these reporting requirements, the discussion paper made it clear that diversity and inclusion would be a *key* part of supervisory discussions and firms would need to ensure senior management were able to explain their diversity and inclusion strategy to regulators. Alongside this, the regulators were considering developing policy across a range of topics including *governance, individual accountability, remuneration, policies and practices, diversity targets at all levels within firms, training, product design and disclosure.* The discussion paper invited views on how to provide further clarity on the use of regulatory measures to respond to diversity and inclusion failings, such as assessments of fitness and propriety, SMF approval and the threshold conditions.

WHITE & CASE

Linklaters had launched a *Diversity in Financial Services* webpage at a time when regulators and other bodies were considering how D&I could be incorporated within their monitoring, supervisory and enforcement powers. ***Firms that fail to make and evidence meaningful progress in this area will in future face enhanced supervisory scrutiny and potential regulatory action,*** it warned. Diversity of thought, when coupled with an inclusive culture, was seen as supporting better decision-making, better outcomes for firms and customers and enhanced risk management. Building on existing initiatives by external agencies and their own engagement with the FS sector on the topic, *financial regulators are clear that there is now a regulatory imperative for firms to manage and promote diversity and inclusion effectively*.

*About 1,100 listed companies will be affected by the proposed changes and the move will bring the UK into line with other jurisdictions including the EU and the US in setting diversity targets for listed companies. The consultation closes on **October 20** and changes to the rules may be made late this year - to come into effect from January 1, with the first annual reports containing the required disclosures being issued in the first quarter of 2023. Further details can be found in the consultation paper available at CP21/24: Diversity and inclusion on company boards (fca.org.uk).

*The FCA issued a consultation paper, CP21/24, proposing changes to the Listing Rules to require UK and overseas companies on the premium and standard segment of the official list to publish *annually* a 'comply or explain' statement on whether they have achieved certain proposed targets for gender and ethnic minority representation on their boards. The targets are: •at least 40 percent of the board are women (or self-identify as women), •at least one of the chair, ceo, senior independent director or cfo is a woman (or self identifies as such) and at least one member of the board is from an non-white ethnic minority background and •as part of the same annual disclosure obligation, data in a tabular format on the make-up of their board and most senior level of executive management in terms of gender and ethnicity *must* be presented. Open ended investment companies, special purpose acquisition

companies, issuers of debt securities, securitised derivatives and miscellaneous securities will be exempt from the disclosure requirements, reported the most recent **EQ** bulletin. Investment trusts will however need to make disclosures.

*The **FRC** issued a feedback statement following publication of its thought leadership paper on the *Future of Corporate Reporting*. There was consensus from respondents that the annual report needed reconsideration and that there was a need for concise reporting with the current regulatory system being considered complex and fragmented. There was support for: •A model accommodating the interests of investors and other stakeholders, although there were differing views on how this could be achieved. •The concept of a reporting network but recognition that the idea would need further development before it is practicable •A model that puts digital first but ensuring that there is access to printed copies of annual reports and •Standardisation of non-financial reporting. In addition respondents encouraged the FRC to align UK developments with those internationally. The FRC will incorporate the feedback via different work-streams - policy development, influencing, thought leadership and transformation although no time frame was specified in the statement, other than short, medium and long term objectives. *Feedback Statement - A Matter of Principles -The Future of Corporate Reporting 2021* (frc.org.uk)

COMPANIES

***Apple** ceo Tim Cook received more than five million shares in the technology giant, as he marked ten years in the job. A filing with the US Securities and Exchange Commission (SEC) watchdog showed that he sold most of the shares for more than $750m (£550m). However, slightly more than half the shares sold were withheld to cover tax payments. It was part of a ten year deal he struck when he took over from co-founder Steve Jobs. Apple's filing revealed that Mr Cook was eligible for the award as the company's shares had risen 192 percent over the last three years. It noted that Apple's share price had increased by 1,200 percent since he became ceo on August 24 2011. The company behind the iPhone, iPad and MacBook has a market valuation of almost $2.5tn. Last year, Mr Cook agreed to a new reward package that runs to the end of 2026, which will net him one million Apple shares, currently worth $150m, when the scheme vests, subject to new performance targets. An SEC filing showed that Mr Cook donated almost $10m worth of Apple shares to charity, without naming the recipient.

*Railway construction services company **Buckingham Group Contracting** became employee owned after setting up an employee ownership trust (EOT). The directors transferred 100 percent of their equity into the trust, which will retain a minimum 60 percent equity in the firm, allowing for the future issue of growth shares to all qualified employees. A £1,000 tax-free bonus will be paid to more than 530 eligible employees, in addition to its profit share bonus scheme, which continues. Ceo Mike Kempley and coo Tim Brown are moving into the roles of chairman and deputy chairman and will stay involved in the business for five years and two years respectively. Kempley said that the organisation was "perfectly suited" to employee ownership, which would enable the culture and ethos of the business to continue as is.

***Capita** plans to ban face-to-face client meetings unless online meetings, by Zoom etc, are impossible. Staff will only work from their offices if needs must – as more than half its workforce continue to work from home – and corporate travel will be cut back to reduce carbon emissions too. As a result, Capita plans to offload more than 25 percent of its property portfolio to save space and money.

***Costa Coffee** said it would give its staff a five percent pay rise and recruit more than 2,000 new employees to cope with higher expected consumer demand. From this month, 14,500 Costa employees will receive a pay rise of at least 45p per hour, taking their minimum pay up to £9.36 per hour. Costa's *Barista Maestros* will see their pay rise by 65p per hour to a minimum of £10.29 per hour. Costa was sold by Whitbread to Coca-Cola for £3.9bn in 2018.

***Glencore** is to return an extra $1.2bn to shareholders after soaring commodity prices helped it to achieve record underlying profits in the first half. The FTSE 100 miner and commodities trader said that it would pay a $530m special dividend and would buy back $650m of shares, in addition to its previously announced $1.6bn dividend for this year. Glencore reported net profit of $1.3bn, compared to a $2.6bn loss in the same period of 2020, when it suffered heavy impairment charges.

*Auditor **Grant Thornton** was fined £4m (gross) – adjusted for aggravating and mitigating factors

and discounted to **£2.34m** - for failures in its 2015 and 2017 audits of collapsed cake chain **Patisserie Valerie**, said regulator the Financial Reporting Council (FRC). Grant Thornton had "missed red flags" and failed to "question information provided by management," it said. Grant Thornton admitted to not following audit rules. It must report annually to show how it is improving. David Newstead, who carried out the audits, was fined £150,000 for his role in signing off the accounts. Claudia Mortimore of the FRC, said: "*This decision notice sets out numerous breaches of relevant requirements across three separate audit years, evidencing a serious lack of competence in conducting the audit work.*" Mr Newstead's £150,000 fine was adjusted to £87,750 for the same reasons. In addition, he was banned from carrying out audits for three years. Grant Thornton - Britain's sixth largest accountancy firm - had previously been fined £650,000 in December 2019 over the botched audit of a listed company. In October 2018, Patisserie Holdings announced that its board had been notified of potentially fraudulent accounting irregularities. The company entered into administration, leading to the closure of 70 stores and the loss of more than 900 jobs. The collapse followed the discovery of a black hole in the firm's accounts, eventually valued at £94m. Later, the patisserie chain was found to have overstated its cash position by £30m and had failed to disclose overdrafts of almost £10m. The Serious Fraud Office conducted an investigation into the collapse of Patisserie Valerie.

*The ceo of a listed legal services company picked up a £500,000 bonus last year while his business received £1.5m of taxpayer furlough funding during the pandemic. Adrian Biles of maritime lawyers the **Ince Group** was awarded a one-off payment linked to the company's share performance at the same time that his business received government support to keep staff employed.

*Trust-owned **John Lewis Partnership** upset thousands of its employee *partners* after paying bonuses to almost 4,000 selected staff when the wider workforce was denied a bonus for the first time in 70 years. Apparently about 1,000 staff complained on JLP's intranet that the "*special contribution awards*", including to 16 managers, were unfair to the rest of its 79,000 workforce, reported the *FT*. The awards are capped at ten percent of salary for exceptional service and have been in place for ten years, but last year was the first time the wider *partnership bonus* was not paid since 1953.

***LDA Design** became a 100 percent employee-owned business via an EOT to maintain its long-term independence. It put in place new business

structures designed to support its coaching leadership, so that its 170 members of staff understand what employee ownership means for them. It will assess its own progress against the trust commitments in a new charter, which will reflect the values and thinking of the team. Jane Mitchell was appointed as its independent chair to oversee the continued transition. Frazer Osment, chair of the design and planning consultancy, said that all members of the team now had a say in how the business was run and the direction it takes, with employee ownership an important way to unlock the qualities of the collective and an expression of faith in each other. "*Employee ownership is about empowerment and being part of something bigger and is a quietly radical challenge to market norms on many fronts, from governance to where profit goes. It gives us an independent future and enables us to put creativity front and centre. Everyone is trusted for the things they are good at, and it is through our projects, and the quality of our thinking, that the values of our employee owners will be most clearly revealed*," he said.

*Scottish IT service business **Microtech Group**, which supports NHS Scotland and other blue-chip clients, became employee-owned by establishing an EOT. Md Chris McMail turned down offers from companies worldwide, which would have included relocating operations from Kilmarnock. He said he had no intention of uprooting the business after more than 30 years in Scotland and instead opted to reward the 70 employees with an EOT. Established in 1986, Microtech is now a majority employee-owned business, with 74 percent of its shares transferred to an EOT, thanks to guidance from specialist Carole Leslie at Ownership Associates and others. McMail will keep a minority shareholding and remain as its md. The company, which is worth around £15m, achieved an annual turnover of £5m in 2021, despite the challenges of the pandemic. McMail believes this is largely down to the efforts of the employees. He said that Microtech was a "great business with talented loyal people", and his prime consideration was that any action taken would not compromise them in any way, nor disrupt the "excellent" service delivered to clients. He explained that none of the various competitive purchase offers had guaranteed the continued

operation of Microtech in Scotland, which had taken so much hard work to build: "*It soon became apparent that any sale of the business to a third party would result in drastic changes to the company operations, including potential relocation and possible job losses. When the proposal of transitioning to an EOT was suggested, I knew this was the best way to secure the company's position in Ayrshire*," he added.

*Partners at **Mishcon de Reya**, which acted for Princess Diana in her divorce from the Prince of Wales, voted to float the business. The law firm confirmed that at least 75 per cent of the partnership had backed the move towards a listing (IPO) on the London Stock Exchange. Mishcon has yet to publish a timetable for it to become the seventh business to convert from a traditional partnership to a publicly listed legal services company, but it is understood the IPO might not take place until next year.

*The three founders of **M & C Saatchi** walked away with £1.2m collectively in salary, pension payments and other benefits after standing down following an accounting scandal. The advertising group was found to have overstated its accounts by £14m last November. The accounting irregularities, stretching back to 2014, are still being investigated by the Financial Conduct Authority.

*Vending machine business **Selecta UK** completed a £250m scheme buy-in for its pension plan members. The move "significantly" reduces future pension funding risk, as it provides all stakeholders with more business certainty, said Selecta. FS provider *Legal and General* covered the liabilities for the plan's approximately 1,000 deferred members and 1,000 pensioner members. Legal advice was provided by Centre member law firm Pinsent Masons.

*Sir Lucian Grainge, ceo of **Universal Music,** stood to gain a cash bonus of ***£190m*** after the huge success of its flotation on the Amsterdam market. The share price jumped by 35 percent to more than €25. A decade ago, Sir Lucian took over the corpse of EMI, including rights to the Beatles' back catalogue. Nine of the top ten selling artists worldwide last year were on Universal, whose opening valuation was at almost €55bn.

***White Ink Architects** became one of the first Northern Ireland-based consultancies to transition to employee ownership through an EOT. The employee trust, established ahead of twentieth anniversary celebrations for White Ink, manages 100 percent of the organisation's shares on behalf of all employees. It made several new appointments to strengthen the existing management team and nurture talent. Claire McAteer, Pearse McCann and Shane McCrory are stepping into management roles as associates. White Ink director Joan McCoy explained that the team believes that employee ownership heralds the start of a vibrant new chapter for the business, and they now have a huge incentive to continue to drive forward the performance of the practice, helping clients and improving lives through the buildings created.

NICs & shareholder dividend tax rises

Business groups condemned the government's NICs increase and its surcharge on dividend income from next April, calling them taxes on jobs and a blow to economic recovery, reported *The Guardian*. However, Centre member the RM2 Partnership said that the attractiveness of tax-advantaged employee share plans would be enhanced by the increases in NICs and dividend tax rates. The increase in NICs rates would make EMI options more attractive because all gains should (*assuming the EMI option is granted at a fair market value*) remain within the CGT net and outside income tax and NICs liability. Likewise the Company Share Option Plan (CSOP) would similarly be more attractive for the same reasons, it said. Although the government had announced a 1.25 percent increase in the dividend tax rates from next April, the dividend allowance remained at £2,000 p.a. "*That being so, then dividends potentially payable under the SIP to participants are likely in the first instance to fall within the dividend tax-free allowance of £2,000, which is on top of the general £12,570 p.a. personal allowance. Consequently, SIP participants are likely to be insulated from the announced increase in the dividend tax rates*," added RM2. Most private companies don't deliver dividends anyway to EMI participants. Either the shares under option do not carry dividend rights or, as the EMI options are designed to be *Exit Only* options, the participant is not in fact a shareholder (and thus entitled to a dividend) for a meaningful period before the relevant shares are sold to an acquirer (as part of the relevant Exit event), it said.

The British Chambers of Commerce (BCC) said the extra financial burden from higher tax charges ignored the damage suffered by thousands of SMEs over the last 18 months. In a separate attack on the tax increases, the Institute of Directors accused the government of an opportunistic ambush, "*exploiting public sentiment at the expense of some of the most productive and entrepreneurial segments of the economy*". The PM said a 1.25 percentage point increase in employee and employer NICs would contribute towards a £14bn annual increase in spending on health and social

care, to bring down waiting lists and protect vulnerable people from using all their savings to pay social care bills. He said the scope of NICs would be increased to include retirees who continue to work, although this by itself would not bring in enough money.

An additional 1.25 percent *dividend tax* hike in the next financial year means that SME directors will have to contribute too. Critics pointed out that as many SME owners pay themselves mostly in dividends, rather than salaries, they will pay considerably more each year in NICs. Around 1.3m UK pensioners who still work will be forced to pay 1.25 percent of their earnings in NICs for the first time, in the interests of fair play, added Mr Johnson. Under the current system, employees stop paying NI contributions when they reach the state pension retirement age of 66.

The new increases will be added to NICs charges for just one year before being transferred to a new 1.25 percent Health & Social Care levy, thus pushing NICs rates back to their previous level. *The Telegraph* pointed out that the UK's tax book now runs to well over 10m words and is 48 times the length of Hong Kong's tax rule book.

Yet other tax changes could be on the way, as the Treasury has yet to reply to the public consultation about potential big rises in CGT, as recommended by the Office for Tax Simplification. The Centre warned the chancellor, in a detailed submission last May, that the proposed CGT increases could severely impact both the all-employee SAYE-Sharesave plan and the EMI, which is used by more than 11,000 UK companies to incentivise key employees.

Under the imminent NICs rises, those earning more than £67,100 will have to pay an extra £715 every year, while basic rate taxpayers earnings £24,100 will pay an extra £180 per year. The self-employed will have to pay the 1.25 percent NICs increase too.

While the 1.25 percent hike in NI will raise £11.4bn a year, another £600m will roll into the Treasury's coffers from the rise in dividend income tax from the current 7.5 percent to 8.75 percent from next April for basic rate taxpayers. Similarly, higher-rate payers will pay a dividend tax of 33.75 percent, instead of 32.5 percent as at present, while additional rate payers will pay 39.35 percent, rather than 38.1 percent. The NICs rises provide even more incentive for employee shareholders to place their holdings in ISAs, which are not subject to dividend tax.

Large firms were caught by Rishi Sunak's Budget last March when he announced the first Corporation Tax (CT) rise in 47 years. The chancellor increased the headline rate of CT, the tax businesses pay on their profits, from 19 to 25 percent on profits over £250,000 from ***April 2023***, which would raise an extra £47.8bn by April 2026. Employers and employees pay Class 1 NI based on how much an employee is paid. The rate is 13.8 percent for employers, while employees pay 12 percent of their earnings up to £50,000 a year. Anything earned over this amount is subject to an NI charge of two percent.

Buried in the small print of the announced £86,000 lifetime cap on care costs for the elderly was the admission that this sum would apply **only** to medical and physical care costs, but ***not*** to board and lodging charges – *so-called Hotel Charges* - which are usually far greater. In parliament, the PM hinted that people would need to take out tailor-made insurance policies to help pay their care costs, as in France, without having to sell their houses. However, some of the extra cash generated from the levy will go to local authorities to allow them to pay higher fees to care providers.

*The government confirmed that it will suspend the *Triple Lock* pledge on pensions, if only for a year, in order to avoid having to pay an eight percent increase in OAPs from next April. Abnormally high average earnings during the past pandemic year would be ignored and, instead, the percentage pension increase calculation would be based on either annual retail price inflation, or 2.5 percent, whichever was the higher.

The chancellor confirmed that he planned to make a Budget and autumn spending review statement on **Wednesday, October 27**.

State sector pay troughing

*The NHS is to hire dozens of new executives on salaries of up to £270,000 — to ensure the new £36bn health and social care tax is spent wisely, reported *Mail Online*. The revelation fuelled fears about where the extra cash raised by Boris Johnson's controversial reforms will be going. Health secretary Sajid Javid promised to be 'watchful for any *waste and wokery'* over the £12bn a year raised by a 1.25 percentage point increase in NICs. Critics slammed the creation of 42 ceos of integrated care boards in England, whose job will be to *'deliver joined-up services'* across the NHS and social care. Online job adverts reveal each executive will be paid an average of £223,261. Seven jobs were advertised with salaries of £270,000, which is 80 percent more than the prime minister earns. According to the job adverts, successful candidates will need to be 'politically astute' and 'actively champion diversity, inclusion, and equality of opportunity for all'. The woman in charge of diversity at NHS England earned more than its ceo and 50 percent more than the PM, the

Mail on Sunday revealed. According to accounts for 2019-20, Prerana Issar joined NHS England as *chief people officer* in April 2019 on a salary of between **£230,000** and **£235,000** – equivalent to the salaries of nine newly qualified nurses or the cost of 20 hip replacement operations. The salary is far higher than that of Boris Johnson – who is paid £157,332 – and £35,000 more than that earned by her now former boss Lord Stevens, who opted to take a ten percent pay cut in each of his seven years in charge of NHS England. Ms Issar was head-hunted for the role of NHS England's first cpo after more than 15 years at consumer goods company Unilever and six at the UN. She told the health think-tank The King's Fund in October 2019 that she was driven by 'a real desire' to reduce inequalities. *Growing up seeing the impact of her civil servant mother's work leading a major Indian food programme 'really helped me see the kind of inequality there is in the world and what can be done about it',* she added.

*Some hospitals already have up to nine managers who earn more than the PM, according to an investigation by *The Telegraph.* NHS trusts now employ 586,000 administrative and support staff *who are not medically qualified* out of a total payroll nationwide of almost 1.2m, the newspaper revealed. Already, ***374*** NHS managers earn more than the PM. It cited Manchester University NHS Foundation Trust, which pays its ceo £280,000 pa, while eight other of its managers earn more than £160,000, with two earning more than £200,000. By 2025, around 40 percent of all day-to-day government spending will go to the Department of Health and Social Care, according to the Resolution Foundation. The conservative think-tank, the Institute for Economic Affairs (IEA), warned the cash boost will almost entirely be spent on hiring new staff and increasing wages, which will be hard to recoup after 2025.

*More than 1,000 senior civil servants have received *golden goodbyes* of more than £100,000 each since a law was passed *five years ago* capping their exit payments at no more than £95,000, revealed *The Telegraph.* The 2016 Enterprise Act, which finally came into effect last November, banned all such payments above 95K throughout the public sector. However, it took only three months for the mandarins to have its implementation banned after a High Court challenge and since then, dozens have pocketed large exit payments, added the newspaper. The government said that new guidance was issued last May informing departmental mandarins that senior staff who were quitting should be allowed final payments exceeding 100K only in "*agreed, exceptional circumstances."*

*Tory MPs were angered by the news that BBC director-general Tim Davie had been awarded a £75,000 pay rise, to a new level of £525,000 p.a., after only one year in the job. The Beeb said Mr Davie's salary had been adjusted to take account of retail price rises and that, in real terms, dg pay had not been changed since 2012. It pointed out that Alex Mahon, the ceo of still state-owned Channel 4, earns £991,000 p.a.

*The head of the government's spin machine, Alex Aitken, retained his £140,000 a year post, despite being replaced by a new communications chief on the same salary. Simon Baugh was appointed as the new ceo of the Government Communication Service (GCS). Lee Cain, BoJo's former No 10 comms chief called for big reductions in the civil service payroll of the 4,500 strong GCS. A senior politician said: "*Nobody gets sacked in the civil service. They just keep their salaries – it's a disgrace and an utter waste of taxpayers' money*."

*Civil servants are being offered extra pay in London despite being allowed to work from home. Whitehall departments should "cautiously increase" the number of staff working in the office. New civil servants are being offered a pay uplift for living within the M25, "*even if you are London based, or home based*". Jobs advertised on the government website promise a near ten percent increase in published pay scales for living in the greater London area.

Three percent pay rises planned for 2022

UK employers are planning to give their staff an average annual pay rise of 2.9 percent next year. A total of 725 UK firms took part in a new global study about salary budgets and recruitment by advisory, broking, and solutions business **Willis Towers Watson (WTW).** It revealed that 2022's pay increase is set to be way more than the 2.4 percent average *this* year. According to the WTW research, this finding comes as the proportion of businesses expecting to completely freeze staff pay looks likely to fall from more than ten percent this year to below two percent in 2022. Average rises next year are anticipated to be higher in the media, leisure and hospitality, and high tech sectors, at 3.3, 3.2 and 3.1 percent respectively. Those working in the banking automotive and chemicals sectors will have smaller increases, at 2.3, 2.4 and 2.5 percent respectively. The findings highlighted that this year, UK businesses have fought to motivate and retain staff by awarding their top-performing employees a pay rise that was 2.6 times greater than that given to those with average performance ratings. In addition, more than half (54 percent) of UK organisations said their business outlook is ahead or well ahead of where they thought it would

be at this time. Overall the outlook for salaries is strong as businesses start planning budgets for 2022, and many are keen to retain top-performing staff, with performance-related pay as key areas of the employment market start to hot up.

*Fewer than a quarter of UK companies struggling to hire staff after the easing of pandemic restrictions plan to increase the wages they offer to lure new recruits, according to research by the Chartered Institute of Personnel and Development (CIPD). Employers' hiring confidence has hit a nine-year high as firms attempt to tackle what some recruiters have described as the worst staff shortages since the late 1990s, it said. The quarterly survey, which involves more than 2,000 employers and covers all sectors of the economy, found that 69 percent of employers were planning to take on new staff over the coming weeks, compared with 49 percent this time last year. When employers with hard-to-fill vacancies, which are most common in sectors such as hospitality and healthcare, were asked how they would deal with the gaps, however, less than a quarter said they would raise wages. Forty-four per cent said they would develop the skills of existing staff, 26 percent intended to hire more apprentices, 14 percent said they would do nothing and nine percent that they would introduce or increase automation.

Employers in some sectors are offering signing-on fees of up to £5,000 to tempt applicants, with the issue of healthy workers self-isolating after being "pinged" by NHS test and trace worsening shortages caused by changes to immigration as a result of Brexit and a lack of skills. The CIPD's labour market outlook survey, however, indicated that employers' overall pay intentions were no higher than pre-pandemic levels. The report found that 81 percent of employers planned a pay review between now and June next year, but among these, only 33 percent expected a pay increase, 12 percent a freeze and one percent a decrease. Data from ING Bank suggested that 7.5 percent of older UK employees were still on the Treasury funded jobs aid scheme as it approached closure, reported *The Telegraph.* These over 55 year-old employees appear vulnerable to being dismissed, with little prospect of working full-time again. In contrast, younger employees (aged under 25) were fast disappearing from the furlough scheme as pubs and restaurants reopened. About £67.5bn had been spent by the Treasury on the furlough scheme by mid August.

*UK price inflation jumped by a record amount in August amid a rise in food and drink prices, reversing a sharp decline a year earlier during the government's *Eat Out to Help Out* restaurant bills discount scheme. The Office for National Statistics (ONS) said the consumer prices index measure of annual inflation rose to 3.2 percent in August, up from only two percent in July and the highest rate since March 2012.

***The minimum wage:** Pret, McColls and Welcome Break were among almost 200 firms "*named and shamed*" by the government for not paying employees the legal minimum wage. In total, 191 companies investigated between 2011 and 2018 failed to pay £2.1m to more than 34,000 employees, reported *BBC News*. The businesses were made to pay back the money as well as being fined £3.2m. Pret, McColls and Welcome Break said the underpayments were historic errors and staff had been swiftly reimbursed. Almost half of the breaches involved firms deducting pay from wages for things like uniforms and expenses. Others failed to pay for all the time staff worked or paid the incorrect apprenticeship rate. Other organisations named by the government included Sheffield United and four other football clubs, as well as the Body Shop chain, Worcestershire Cricket Club and Enterprise Rent A Car. Trust-owned retail giant John Lewis Partnership was named over a disputed technical underpayment reported four years ago. The *National Living Wage* is **£8.91** an hour for workers over the age of 23. The government acknowledged that many of the breaches were not intentional, but said the minimum wage laws were meant to ensure that a fair day's work received a fair day's pay. *Pret a Manger* said the underpayment referred to a 2019 case that affected 33 employees, and that it had since made the required payments to staff and HMRC. Team members had opted to use some of their salary in exchange for childcare vouchers. Those deductions reduced the National Minimum Wage eligible pay, a spokesperson said, adding that the government has since changed those rules. A *Welcome Break* spokesperson said: "*In 2018, HMRC informed us and many other businesses that our policy on team member uniforms inadvertently led to a breach of the National Minimum Wage. As soon as we were made aware of this oversight, we fully reimbursed and apologised to all affected team members. We never intended to underpay our employees and have strengthened our policies and training to prevent this from happening again.*"

WORLD NEWSPAD

*The City of London maintained its second place ranking in the latest global financial centres index, which is published by **Z/Yen Group**. New York held onto the top spot in the index and has been in first place for the last three years. After London

came Hong Kong and Singapore in third and fourth position, but both fell 25 points in the ratings. Paris rose 15 places to reach tenth position as a global financial centre, ahead of Frankfurt and Amsterdam, helped by post Brexit fall-out. The fact that overall ratings continue to fall against the levels seen in 2019 reflects the continuing uncertainty around international trade, the impact of the covid-19 pandemic, and geopolitical and local unrest, explained Z/Yen. **Prof Michael Mainelli,** executive chairman of **Z/Yen, said:** "*We see two patterns in the results – confidence in the recovery of the North American and Western European economies following the shock of 2020 and a levelling off following the rapid rise of Asia/ Pacific centres and their economic stability in the covid-19 pandemic. Competition remains tight. Outside the top two centres, only five points on a 1,000 point scale separate the centres ranked third to eighth*."

*The UK and **Brussels** drifted towards a breakdown in their post Brexit relationship over the latter's EU-wide General Data Protection Regulation (GDPR). The UK government pledged a new Brussels-free data transmission regime, free of 'bureaucratic' obligations such as Cookie access requests, which add to costs. Such a move would prompt a rethink by Brussels on whether to continue operating its data transmission concession, which allows UK businesses to shift key data both ways seamlessly, just as they did prior to the ending of the Brexit transition stage. If pushed, Brussels could simply revoke its data 'adequacy' designation of UK businesses and, later on, it could invoke four-year so-called *sunset* clauses in its agreement with the UK, which would make data transmission from EU jurisdictions into the UK an offence, which would carry stiff financial and operating penalties. GDPR gave individuals the right to be consulted about personal data being gathered both online and elsewhere and the right to object to the sharing of that data.

*The UK financial services industry urged **Brussels** to extend access to UK clearing houses. Banks and asset managers warned of 'major' market disruption when their temporary post Brexit '*as you were'* licences with the EU expire next year.

***Australian** investment bank **Macquarie** returned to the UK water industry – four years after leaving **Thames Water** saddled with debt – buying a majority stake in **Southern Water (SW**) for more than £1bn. Macquarie promised to put the utility firm "back on a stable footing" after it was fined a record £90m for dumping billions of litres of raw sewage off the north Kent and Hampshire coasts. A subsequent report accused Southern Water of having poured the sewage into the sea to avoid financial penalties and the cost of upgrading and maintaining infrastructure. The company supplies water to 2.6m customers and provides wastewater services to 4.7m customers in Kent, Sussex, Hampshire and the Isle of Wight. Macquarie said that by injecting more than £1bn in new equity to recapitalise the business, Southern would be able to invest in fixing the faulty pipes, pumping stations and sewers, which are causing harm to the local environment. The bank sold its stake in Britain's biggest water supplier, Thames Water, in 2017 after a decade in which Macquarie earned billions from the company through dividends and paid next to no CT. Macquarie sold its final stake in Thames for an estimated £1.35bn, just months before the Environment Agency prosecuted the utility company for extensive pollution in the Thames and other rivers between 2012 and 2014. The £20m fine was a record for this kind of offence. Ofwat, the water industry regulator, warned Macquarie that "very profound changes" would be required at Southern Water. Ofwat chair Jonson Cox said that the water industry had made strides in recent years to bring investor returns in line with customer service and eliminate complicated corporate structures and financial arrangements. Macquarie used such mechanisms to load Thames with debt, to pay hefty dividends and no tax. The outcry prompted by Thames's track record under Macquarie's ownership was one of the drivers behind calls for the regional water company monopolies to be taken back into public ownership.

China aims to stamp out capitalism: China promised to cut out the "tumours" of celebrity and capitalism as the country undergoes a "profound revolution" and returns to socialism. "From the economic realm, the financial sector to the cultural circle and to the political field, a profound transformation or a profound revolution is taking place," Li Guangman, a nationalist blogger, wrote in an article republished by state media. "*This is a political transformation ... returning to the original mission of the Communist Party of China, returning centralism to the people and returning to the essence of socialism*," Li wrote in the article, which was picked up by the *People's Daily*, the official Xinhua news agency, *PLA Daily*, *China Youth Daily*, the China News Service and China Central Television. The regime then switched back to attacking Jack Ma's digital payments empire **Ant Group**, which was blocked by Beijing from launching an IPO last November. It demanded that Ant Group's advanced app *Alipay* should spin off its credit card and unsecured loans division. It will have to send credit card scoring on its customers to a new joint venture which will be partly state-owned.

Why would China's government do this? – asked **The Finanser** ceo Chris Skinner. "*Why would they kill the goose that laid the golden eggs? Well, it's all about power. China allowed the technology industry to grow with light-touch regulation. They started to change this a few years ago when they cracked down on P2P lending. They then looked at the arrogance and power of Alibaba, Tencent, PingAn, Didi, Baidu and other major players. In China, if the government wants change, it just does it. As a guiding principle, the vice-premier, Liu He, recently stated that* ***China is moving into a new phase of development that prioritises social fairness and national security, not the growth-at-all-costs mentality of the past 30 years.*** *The government will guide the 'orderly development of capital' to suit the 'construction of a new development pattern',"* he added. *"Dexter Roberts of the Atlantic Council, a Washington DC think-tank, discerns an echo of Mao Zedong's 'politics-in-command' economy. Either way, it is a break with the old pro-growth model and the beginning of 'real state capitalism', as one investment banker puts it. This is why Jack Ma has been confined to his mansion in Hangzhou, making short trips to Beijing for the past year, unlike his freedoms before."*

*The Chinese Ministry of Industry and Information Technology (MIIT), the sectoral regulator for the automotive industry, stepped up its regulation of intelligent and connected vehicles (ICVs), reported Centre member **Bird & Bird**. Cyber-security and data protection have become key components of the regulatory efforts against the backdrop of landmark legislation, such as the Data Security Law (DSL) and the Personal Info Protection Law (PIPL). The draft guidance on ICV manufacturers and products market lays down detailed requirements for the manufacturers to maintain cyber-security of the vehicles. In July, the MIIT required vehicle manufacturers to strengthen their data security management and cyber-security capability in an official opinion on ICV market entry. The MIIT intends to strengthen the current regulatory regime for cyber-security of ICVs. Last April, the MIIT further released a draft guidance on establishing a regime of cyber-security standards for ICVs, which aims to formulate at least 100 sets of cyber-security standards by 2025. A draft circular requires the telecom carriers, vehicle-to-everything (V2X) service operators and ICV manufacturers to enhance cyber-security protection.

*The largest **French** tech public offer in 2019 was **Capgemini**'s cash offer for Altran Technologies, for an enterprise value of €5bn, leading to the creation of a global leader in the digital transformation of industrial and technology companies, with a combined projected revenue of €17bn and more than 250,000 employees.

***Marks & Spencer** said it was closing 11 of its French stores because of problems supplying them with fresh and chilled foods since Brexit. All 11 franchise stores it operated with partner SFH in France would shut "over the coming months," because supply chain problems since Brexit had made it "near impossible" to maintain standards of food supply. However, nine M&S stores run at French travel hubs will continue to operate. "*M&S has a long history of serving customers in France and this is not a decision we or our partner SFH have taken lightly*," said Paul Friston, md, M&S International: "*However, as things stand today, the supply chain complexities in place following the UK's exit from the EU now make it near impossible for us to serve fresh and chilled products to customers to the high standards they expect, resulting in an ongoing impact to the performance of our business*."

*Just as the **German** election produced the possibility of political re-alignment, the becalmed German employee share ownership sector offers the prospect of a major boost to employee uptake. The new Fund Location Act for employee participation (*Fondsstandortgesetz*), which came into effect on July 1, introduced higher allowances, which can be granted to qualifying employee financial participants free of tax· and social security contributions. Section 19a of the German Income Tax Act (EStG) aims to make equity awards in start-ups and other SMEs more attractive for tax purposes, explained Frankfurt -based Ludmilla Maurer, from Centre member **Baker McKenzie**. The general tax allowance for employee equity participation rose from €360 to ***€1,440 per year.*** However, this allowance, which is available to some larger German companies too, only applies if *all* employees employed by the company for one year or more are eligible to participate in the plan. In addition, only real equity participation (in contrast to *phantom stock*) qualifies for the increased tax relief. The Bundesrat had campaigned for an additional tax allowance of €3,000, however, without success.

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