



Department  
for Business  
Innovation & Skills

THE NUTTALL REVIEW OF  
EMPLOYEE OWNERSHIP

One Year On Report

NOVEMBER 2013



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# Foreword by Jo Swinson

In January 2012, the Deputy Prime Minister Nick Clegg launched a decade of employee ownership. As this report shows, the past 12 months have seen an excellent start to this with a great deal of progress made.

My thanks go to everyone who has contributed their time, enthusiasm and expertise to make this happen. I have been particularly impressed at how different membership organisations have worked together this year to ensure the benefits of employee ownership, in all its different forms, are promoted consistently. Particular thanks go to the Employee Ownership Association for their tireless work to support and promote employee ownership across the UK.



Although much has been done, there is always more to do. I am grateful to Graeme Nuttall for not only setting out his initial challenging agenda in 2012 but for supporting the work along the way, and for stepping in again at this time to point us in the right direction going forward.

The health check that Graeme has developed, and which is set out in his foreword to this report, will help to determine if everything is in place to ensure employee ownership in the UK continues to flourish. Over the next year BIS will hold regular stakeholder meetings in order to assess where we stand against this health-check and to determine what further work is needed.

Having spoken to many representatives from businesses with employee ownership and their employees this year, particularly on Employee Ownership Day, I have been continually reminded of the great benefits this way of running a business can offer. The growing evidence base shows that giving employees an effective “voice” alongside a stake in the success of their business drives commitment, productivity, resilience and innovation. It is good for employees, good for business and good for the economy.

I have every expectation that when we look back at 2013 we will recognise it as having laid the foundations for a thriving and growing employee ownership sector in the UK.

A handwritten signature in blue ink that reads "Jo Swinson".

**Jo Swinson, Minister for Employment Relations and Consumer Affairs**

# Foreword by Graeme Nuttall

Much has been accomplished since the publication of "Sharing Success: The Nuttall Review of Employee Ownership" (the Nuttall Review)<sup>1</sup>. The Nuttall Review identified the fundamental obstacles to making employee ownership a mainstream business model. These obstacles are agreed and work has started to dismantle them. There are encouraging signs that this could be the decade in which employee ownership becomes a major part of the UK economy.

In December 2011, I discussed with the UK Employee Ownership Association what could possibly be done to build on the Government's support for public service mutualisations and extend it to promoting employee ownership across the whole private sector. At that time there was little indication this aim could be realised. There was support from the All Party Parliamentary Group on Employee Ownership<sup>2</sup> but achieving this broader aim seemed ambitious. In less than a year, with the Government's publication of its response to the Nuttall Review on 30 October 2012 this broader aim of promoting private sector employee ownership had firmly established itself as Government policy, with an agenda for change set by the Nuttall Review. One year on from that response the employee ownership sector is in a much better place, benefiting as it has from the support of Westminster and Whitehall:

- there is greater awareness of the concept of employee ownership,
- there are additional resources available to support those adopting employee ownership, and
- there is less concern about the actual or perceived complexities of employee ownership.

The focus is now on implementation, rather than, as it was in December 2011, attracting the attention of the Government. I am obviously keen that the momentum is maintained and that all those involved in promoting employee ownership keep an active check on the progress they are making. The Nuttall Review can also help with this.

There are key questions asked by the Nuttall Review, the answers to which provide a health check for the state of employee ownership.

These questions are set out below, and I would encourage all those promoting employee ownership, whether in Government or not, to use this health check to monitor their progress towards making employee ownership a mainstream part of the UK economy.

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<sup>1</sup> <https://www.gov.uk/government/publications/nuttall-review-of-employee-ownership>

<sup>2</sup> <http://www.publications.parliament.uk/pa/cm/cmllparty/register/employee-ownership.htm>

## An employee ownership health check

### *How well can these questions be answered?*

- **Is the meaning of employee ownership sufficiently clear?**
- **Does the expertise and experience exist among professional advisers and more generally across the business community to support employee ownership?**
- **Are the benefits of employee ownership understood and are they demonstrated by success stories, backed up by research?**
- **Are there practical tool kits in use to implement every form of employee ownership?**
- **Is there Government support for employee ownership backed up by incentives and a commitment to remove obstacles?**
- **Do we have the necessary champions of employee ownership?**
- **Is there an ambitious target against which we are measuring success?**

### **1. Is the meaning of employee ownership sufficiently clear?**

There was a lack of clarity over definitions when the Nuttall Review was launched. Definitions in the UK are now clearer. Employee ownership is referred to, accurately, in a much wider range of publications than before the Nuttall Review, for example, references to employee ownership were included in the important reports of the Office of Tax Simplification (OTS) on tax advantaged employee share schemes and unapproved share schemes<sup>3</sup>. The Press are generally better informed.

There can, however, still be confusion between the concept of employee ownership and other employee financial participation arrangements.

I summarised the key differences as follows:

"Employee ownership is not focussed on executive incentives or using shares as a tax effective means of paying staff, even if all staff benefit in this way. Employee ownership means a significant and meaningful stake in a business for all its employees."

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<sup>3</sup> Available from <https://www.gov.uk/government/publications/employee-share-schemes-review>

“What is meaningful and significant goes beyond only financial participation. The employee’s stake must underpin organisational structures that promote employee engagement in the company. In this way, employee ownership can be seen as a business model in its own right. There are no boundaries as to what percentage of issued share capital is substantial. If the significant and meaningful stake amounts to a controlling stake then the company can call itself employee owned. What is important is that clarity over definitions is maintained”<sup>4</sup>

On 15 March 2012 the Deputy Prime Minister, Nick Clegg explained the distinction succinctly as:

“we are talking about a big chunk of a company belonging to a significant number of staff”<sup>5</sup>.

Help in distinguishing employee financial participation from employee ownership also came indirectly from another Government initiative. In addition to promoting employee ownership, the Government has also introduced employee shareholder status from 1 September 2013. Under this arrangement, an individual can agree to have fewer employment rights than an employee in return for fully paid shares worth at least £2,000. The gains on up to £50,000 worth of such employee shareholder shares will be exempt from capital gains tax. This initiative is completely separate from the Nuttall Review agenda. It should be seen as a niche measure, which is very separate both in terms of content and scale from employee ownership. There was a universally adverse reaction to this proposal from the employee ownership sector. Nevertheless the discussion surrounding employee shareholder status had a beneficial effect in relation to what employee ownership means. Commentators pointed to what they did like, in contrast to employee shareholder status, namely employee ownership and the vision for it in the Nuttall Review.

Where we have clearly made progress is in relation to everyone appreciating there are different models of employee ownership, and that this diversity is a strength of employee ownership. Each business can adopt a model that best suits it and its employees. The three basic types of model described in the Nuttall Review are direct employee ownership, indirect employee ownership (that is where shares are held on behalf of employees through an employee benefit trust) and the hybrid model, which incorporates elements of both. HM Treasury’s consultation<sup>6</sup>, published on 4 July 2013, on new tax reliefs to promote employee ownership uses this terminology. Recent publications endorsed by the Department for Business, Innovation and Skills (BIS) and others, which explain how to introduce employee ownership, similarly use this terminology<sup>7</sup>.

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<sup>4</sup> "Seizing the decade for employee ownership" published in *Making it mutual: The ownership revolution that Britain needs* (ResPublica, 13 March 2013).

<sup>5</sup> <https://www.gov.uk/government/speeches/deputy-prime-ministers-speech-to-the-british-chambers-of-commerce-annual-conference>

<sup>6</sup> <https://www.gov.uk/government/consultations/supporting-the-employee-ownership-sector>

<sup>7</sup> Available from <https://www.gov.uk/government/policies/making-companies-more-accountable-to-shareholders-and-the-public/supporting-pages/making-employee-ownership-more-accessible>

An inclusive approach to defining employee ownership has also been maintained, one that acknowledges the broader mutual and employee ownership sector and, in particular, that, on international definitions, many of the UK's companies which are majority owned by employees would be classified as co-operative.

Also, care has been taken to emphasise that employee ownership is obviously only one of a number of business models. What is important is that each business has the right business model, and that employee ownership should be considered alongside the other business models available in the UK. The idea is that employee ownership should be as familiar as, say, a charity, a franchise or a management buy-out as a way to structure a business.

## **2. Does the expertise and experience exist among professional advisers and more generally across the business community to support employee ownership?**

It is not just professional advisers that need the expertise and experience to support employee ownership, the education and training sectors need to include alternative business models in what they teach. In addition, for example, trade union officials need to understand the employee ownership business model so they can advise their members. Lenders and investors need to understand the business model so they can provide finance on terms compatible with achieving and maintaining employee ownership.

Members of the broader business community are now involved in supporting employee ownership. The implementation group chaired by Jo Swinson involved a wide range of stakeholders<sup>8</sup> who have helped move forward the Nuttall Review recommendations and other related initiatives.

The Nuttall Review was launched at the ICAEW, the London Stock Exchange Group hosted the launch of the Government's official response, the Law Society hosted the Robert Oakeshott Memorial Lecture and the City of London Corporation is providing the venue for the launch of the One Year On Report. There are many others outside the mutual and employee ownership sector who are now trying to ensure that professional advisers and the business community generally is better placed to support employee ownership.

## **3. Are the benefits of employee ownership understood and are they demonstrated by success stories, backed up by research?**

The Nuttall Review summarised research on employee ownership and associated concepts. There is a powerful message from this research that needs to be understood by the business community, namely that, employee ownership provides a "win-win" outcome for both a business and its staff; benefits that can be relevant at every stage of the business life cycle and that work across all sectors and sizes of business. It is generally accepted now that employee ownership can be promoted as a policy area by relying on existing research.

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<sup>8</sup> See the minutes of implementation group meetings available at <https://www.gov.uk/government/policies/making-companies-more-accountable-to-shareholders-and-the-public/supporting-pages/making-employee-ownership-more-accessible>

More research is needed but this should focus on what is needed to assist with implementation and to answer the more specific questions that will arise with greater take-up. This approach was followed, for example, at the inaugural workshop<sup>9</sup> of the White Rose Employee Ownership Centre which had as its theme 'Employee Ownership: New Research Agendas'.

It is helpful in reinforcing these messages on the benefits of employee ownership that other countries have taken notice of the Nuttall Review and in Australia<sup>10</sup>, Ireland<sup>11</sup> and elsewhere there is growing recognition of its benefits, which can only encourage more research and greater confidence.

In addition to avoiding a focus on the financial benefits of employee ownership or on any tax savings when raising awareness, it is just as important to appreciate that employee engagement is not a separate agenda. The MacLeod Review<sup>12</sup> acknowledged that employee owned companies provide really good examples of employee engagement. Employee engagement can be dismissed as a management mechanism: this is much harder to do when it is underpinned by employee ownership on a significant scale.

However, what works best at promoting employee ownership are the success stories. If you want to see these, look at the website of the Employee Ownership Association to find out more about its members, or the Cabinet Office's public service mutuals map showing the location of public service mutuals across the UK. Co-operatives UK similarly has its co-operatives map showing the top 100 co-operatives.

The message should be that employee ownership is tried and tested, with success stories going back for decades in the UK and that this success is backed up by an increasing body of research.

#### **4. Are there practical tool kits in use to implement every form of employee ownership?**

There is a great deal of knowledge about direct employee ownership. The UK has well established tax advantaged share and share option plans and the business community is well used to dealing with these direct employee share ownership arrangements. The precedent documents and necessary legal and tax know-how are readily available to deliver these forms of equity incentives to all employees. Changes by the Government to the enterprise management incentives arrangement and the work of the OTS, as implemented in the Finance Act 2013, have helped give a further boost to the use of these tax advantaged share plans and to wider employee share ownership.

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<sup>9</sup> See further at <http://www.york.ac.uk/management/news-and-events/research-news/employee-ownership-workshop-may-2013/>

<sup>10</sup> See further at <http://www.employeeownership.com.au/>

<sup>11</sup> See <http://www.ipso.ie/events/photo-gallery/jack-fitzpatrick-memorial-lecture-2013/>

<sup>12</sup> Available from <http://www.engageforsuccess.org/about/what-is-employee-engagement/>



But do the tool kits exist to build a direct employee ownership model in which, say, all the issued share capital is owned directly by employees?

More significantly, do advisers know what is needed to put an indirect employee ownership model in place?

The main area where there is a gap in know-how is in relation to indirect employee ownership. Many advisers are used to using employee benefit trusts to achieve tax advantages. The Government has fought a long running campaign to counteract what it considers unacceptable uses of employee trusts. The focus of advisers has been so skewed over the years that they can forget there are sound commercial uses for employee benefit trusts: as market makers and, in particular, as trusted long term owners of shares in a company for the benefit of all its employees.

The Government has now taken steps to promote the indirect employee ownership model through publishing a tool kit for employee ownership<sup>13</sup> on its website. This deals with setting up an employee benefit trust and trustee company. HM Revenue & Customs has published accompanying guidance<sup>14</sup> on tax issues. This should help ensure that all forms of employee ownership can easily be implemented.

#### **5. Is there Government support for employee ownership backed up by incentives and a commitment to remove obstacles?**

The Nuttall Review has clearly attracted political support for employee ownership and the Government has shown a commitment to remove obstacles.

The support from Government Ministers has been more than the employee ownership sector could possibly have expected back in December 2011:

At the Deputy Prime Minister's Summit on 4 July 2012 when the Nuttall Review was launched we had the support of Nick Clegg, the Deputy Prime Minister, Cabinet Office Minister Francis Maude and the BIS Minister Norman Lamb.

When the Government published its formal response to the Nuttall Review on 30 October 2012 again there was cross departmental ministerial support. Nick Clegg said "the plans we're setting out today are the first important steps in boosting this burgeoning sector". Jo Swinson, Minister for Employment Relations and Consumer Affairs, said "our action plan will boost employee ownership in the UK and help give new impetus to a business model we want to see thriving across the country" and Francis Maude endorsed the Government's response saying this is "fantastic news".

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<sup>13</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/210449/bis-13-948-model-documentation-for-company-with-employee-ownership.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210449/bis-13-948-model-documentation-for-company-with-employee-ownership.pdf)

<sup>14</sup> <http://www.hmrc.gov.uk/shareschemes/est-intro.pdf>

On 27 March 2013, when delivering the Robert Oakeshott Memorial Lecture, Nick Clegg repeated his support for employee ownership stating that he saw employee ownership as a means "to create a fairer society which distributes its rewards. To create a stronger economy which is diverse and sustainable. A stronger economy shared by all".

On the UK's first Employee Ownership Day, on 4 July 2013, the Ministerial support included Business Secretary Dr Vince Cable saying that the "evidence is clear that employee owned businesses not only help us build a stronger economy, but boost the retention, innovation and motivation of their employees" and Chief Secretary to the Treasury, Danny Alexander, saying "We want to encourage greater use of employee ownership in UK businesses and want to ensure that we provide reliefs that are supportive and effective".

The words of support are definitely there. These words of support have generated publicity and have helped attract wider interest.

Also, we have had positive action. The One Year On Report from BIS sets out what the Government and others have done to help promote employee ownership and includes examples from the broader range of actions over the last year to promote employee ownership.

One of the lessons learned has been that the lack of awareness of employee ownership means that a more proactive approach to consultation is necessary than in respect of other policy areas.

The employee ownership debate has moved away from its previous close association with tax and, in particular the UK's tax advantaged share plans. This is helpful. It is harder to make a business model mainstream if it is tied to tax breaks for its success. In parallel to the Nuttall Review HM Treasury undertook an examination, to which the Nuttall Review contributed, on the role of employee ownership in supporting growth and options to remove barriers, including tax barriers, to its wider take-up. The 2012 Autumn Statement<sup>15</sup> reported on HM Treasury's outcomes. A key outcome was that the majority of businesses who met with HM Treasury did not identify the tax system as a primary barrier to greater uptake of the model. This conclusion was accepted by the employee ownership sector. Nevertheless targeted tax measures, such as announced in Budget 2013<sup>16</sup>, and now explained in more detail in the recent HM Treasury consultation<sup>17</sup> will have a key role in overcoming obstacles. When the two new tax exemptions take effect from 6 April 2014 they will help raise awareness of employee ownership, increase financial resources to support it and simplify adopting an employee ownership model.

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<sup>15</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/221550/autumn\\_statement\\_2012\\_complete.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221550/autumn_statement_2012_complete.pdf)

<sup>16</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/221885/budget2013\\_complete.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221885/budget2013_complete.pdf)

<sup>17</sup> <https://www.gov.uk/government/consultations/supporting-the-employee-ownership-sector>

## **6. Do we have the necessary champions of employee ownership?**

The Nuttall Review has shown what can happen when all those involved in the employee ownership sector pull together around a plan of action. In the UK there are a number of stakeholders. The BIS One Year On Report demonstrates what a wide range of contributors there now are and what they can achieve.

There is still room for others to join in and to champion employee ownership, and there is a continuing need for everyone's efforts to be focussed and co-ordinated.

## **7. Is there an ambitious target against which we are measuring success?**

The Deputy Prime Minister wants to see employee ownership in the bloodstream of the British economy.

The UK Employee Ownership Association and its members have rallied around a mission to increase the contribution of employee ownership to 10% of UK GDP by 2020.

It is not enough for the concept of employee ownership to be well known, for the expertise and tool kits to exist and for there to be active champions. Employee ownership also needs to be well used. Answering this last question is the most important of all the questions in this check list.

One year on from the Government's response to the Nuttall Review, it is right to say that much has been achieved. I thank all those who have helped make the Nuttall Review recommendations move from the page to reality. However the bar has now been raised and there is more to do if we are all to succeed in making this the decade of employee ownership.



**Graeme Nuttall**

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**Partner, Field Fisher Waterhouse LLP, London and, as the Government's Independent Adviser on Employee Ownership, the author of the Nuttall Review.**

# Executive Summary

This report provides an update on progress against each of the 28 Nuttall Review recommendations, measured against the commitments made in the Government Response to the Review that was published on 30 October 2012. This report has been produced by BIS but has been validated by Graeme Nuttall and representatives of the employee ownership sector.

## Raising awareness

One of the key aims for this first year of Nuttall implementation was to raise awareness of employee ownership, in all of its forms. Employee ownership is when the employees of a business have both a meaningful “voice” in how the business is run and a significant stake in the success of the business. Where employees have a controlling stake in the business, this is called employee-owned. Employee-owned businesses can, if they adhere to certain democratic principles, also be worker co-operatives.

Awareness of employee ownership has been raised at a number of key points in the year, notably the **Robert Oakeshott memorial lecture** that was given by Nick Clegg, Deputy Prime Minister, in March and by the first national **Employee Ownership Day** on 4 July. The latter, in particular, generated considerable social media interest through many individual businesses playing their part in sharing the good news of the way their business has embraced employee ownership.

Another highlight of the year was the announcement at **Budget 2013** of the provision of £50m annually from 2014-15 to further incentivise growth of the employee ownership sector. A consultation on specific proposals has closed and the much-awaited results are expected shortly. Putting in place tax incentives for employee ownership is a significant step forward as it will require business advisors to become more familiar with the model.

The re-launch of the **UK Employee Ownership Index** will once again draw attention to the evidenced success of UK public companies quoted on the London Stock Exchange that have employee share ownership.

## Other key developments

What else has changed in this past year? Progress has been made against all 28 of the Nuttall Review Recommendations and in over half of the recommendations progress has been assessed as having been significant. Work on many of the recommendations has led to tangible outputs, including:

- **Model documentation** and accompanying guidance for a company with employee ownership – the so-called “EO in a box”
- Specially-developed **guidance for employees** to enable them to understand the concept and how to take forward the idea within their own business

- **Amendments to Company Law** to improve the operation of internal share markets
- New **guidance** on how to get started in employee ownership and on co-operative models of employee ownership
- Numerous new **websites** giving further information on employee ownership to specific audiences

The volume of research highlighting the importance of employee ownership has continued to grow this past year and some of the key findings are summarised in this report.

### Next steps

Progress has been overseen in the past year through an Implementation Group that has been chaired by Jo Swinson (Minister for Employment Relations and Consumer Protection). This Group will now be turned into a BIS stakeholder group with a role to support and drive the continuation of ongoing work and to determine what new work is needed to ensure a flourishing employee ownership sector in the UK.

Some specific areas for ongoing work highlighted in this report are:

- To consider the viability of future work to identify and co-ordinate gaps into **employee ownership research** in lieu of development work on an Institute
- To examine the results of the **Call for Evidence** published today on further reducing the complexity of employee ownership, including considering the rule against perpetuities
- To **review the success** of some of the key outputs that have been produced
- To **continue to raise awareness** and build on the success of EO Day and other activities in a targeted way

# One Year Update on Research

## Overview

Academic studies and research organisations continue to draw attention to the significant beneficial effects that employee ownership is having across the world. Since the publication of the Nuttall Review in July 2012, the volume of research highlighting the importance of employee ownership has continued to grow. This chapter presents the latest research findings.

There is no internationally accepted definition of 'employee ownership', and so, as noted in the Nuttall Review, each study uses its own definition of 'employee ownership' or associated concepts.

The Nuttall Review highlighted several strong themes among the diverse benefits of employee ownership. These are:

- improved business performance;
- increased economic resilience;
- greater employee commitment and engagement;
- driving innovation;
- enhancing employee well-being; and
- reducing absenteeism.

Recent research has continued to focus, in particular, on the impact on business performance as well as on employee well-being.

## Detail

A recent study from Edinburgh Napier University<sup>18</sup> looks specifically at Employee Owned Businesses (EOBs). The study analyses the performance of a sample of 12 EOBs in Scotland. Quantitative results showed that EOBs generally out perform their conventional peers in terms of turnover and staff employed. Qualitative analysis also showed that employee representation was cited as a key to ensuring business success, but its impact changes with the size of the company, with ability to influence decision making declining for larger companies. EOBs also reported recruitment and access to finance as main growth bottlenecks. Although recruitment is not necessarily linked to the EOBs' status, the lack of understanding of EOBs by banks was claimed as a major constraint.

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<sup>18</sup> 'The growth of employee owned business in Scotland' Edinburgh Napier University (2013), Report to Scottish Enterprise

On the topic of co-operatives, a literature review study by Virgine Perotin<sup>19</sup> looks at literature from 1950 until 2010 and considers the comparisons of different institutional arrangements amongst workers' co-operatives and provides some evidence on survival and employment. This study looks at worker co-operatives defined as 'a firm owned and managed by its employees, where the bulk of the capital is owned by employees [...], all employees are eligible to apply for membership and a majority are members, and each member has a vote.'

The review finds empirical evidence to suggest that worker co-operatives perform well compared to conventional firms and that part of their strength are worker participation and unusual arrangements for the ownership of capital. Cross country and cross sector empirical evidence also shows that co-operatives are at least as productive as conventional firms and that the more participatory they are, the more productive they are.

Also on the topic of co-operatives, a study by Fakhfakh, Perotin and Gago<sup>20</sup>, assembles two new large data sets from several sources to compare the productivity and technologies used by French co-operatives with a set of conventional firms.

They found workers co-operatives to be as productive or possibly more productive overall than conventional firms in most industries. They also found that co-operatives use their inputs efficiently. Results also show that worker co-operative in France are not smaller than conventional firms as usually thought, and they do not find evidence of underinvestment, or capital stagnation either. Employment seems more stable in co-operatives than conventional firms over the business cycle but this difference is statistically weak. They find that the difference in labour composition does not strongly affect the comparative productivity of the two groups.

Research has also been undertaken for other mechanisms to give employees a stake in the success of their business. For example, Blasi et al.<sup>21</sup> use data from a large scale survey of 40,000 employees to assess the impact of what they call 'shared capitalism' on employee performance. They define shared capitalism as profit sharing, gain sharing, employee ownership or stock options or a combination of any of these. Results of the study found that shared capitalism has beneficial effects on all outcomes, except for absenteeism. They also find that shared capitalism has the strongest effect on turnover, loyalty and worker effort, when it is combined with high-performance policies, low levels of supervision and fixed pay at or above market rate.

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<sup>19</sup> The performance of workers' cooperatives, Virgin Perotin

<sup>20</sup> Productivity, capital, and labor in labor-managed and conventional firms: an investigation on French data (October 2012)

<sup>21</sup> Creating a bigger pie? The effects of employee ownership, profit sharing and stock options on workplace performance' Blasi et al. (2012), NBER Working Paper 14230

Slightly different results emerge from the US based study by E. Han Kim and Paige Ouimet<sup>22</sup> which also add a different angle to the debate by looking at the impact of share ownership plans by scale of the plan and size of the company.

They find that employee share ownership plans (ESOPs) have mixed effects on raising employee productivity. The impact depends on the scale of the plan and the number of employees at the company. Small ESOPs comprising less than 5% of shares, granted by firms with moderate employee size, increase the economic pie, benefiting both employees and shareholders. On the other hand the evidence for companies with fewer employees and larger employee share ownership plans (i.e. a higher percentage of shares) is weaker. The effects are also weaker for larger firms as free-riding effects tend to arise amongst employees. The authors also highlight that although some large ESOPs increase productivity and employee remuneration, the average impacts are small because they are often implemented for non-incentive purposes, such as conserving cash by substituting wages with employee shares or forming a worker-management alliance to thwart takeover bids.

Continuing on the topic of ESOPs, it is also worth mentioning the recent paper by McCarthy & Palcic<sup>23</sup> which presents a case study of the implementation of a large scale employee share ownership plan (ESOP) in Ireland's former national telecommunications operator, Eircom. The study concludes that, the ESOP indirectly affected labour productivity because of its impact on employee relationships and collective bargaining, which in turn enabled the company to make significant reforms. The authors cannot attribute the increase in labour productivity to the creation of a sense of psychological ownership emerging from the ESOP. They argue that actually many employees reported a decrease in their level of participation in the firm decision-making process, perhaps reflecting disappointed expectations.

In more general terms regarding employee engagement, Bruce Royton<sup>24</sup> finds strong evidence linking the effectiveness of employee engagement strategies in improving performance, productivity and, in the private sector, profitability. He also finds that employee engagement impacts positively on levels of absenteeism, on retention, innovation, on customer service, on positive outcomes in public services and on staff advocacy of their organisations.

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<sup>22</sup> Broad based employee stock ownership: Motives and outcomes' Kim & Ouimet (2013) Journal of Finance, forthcoming

<sup>23</sup> 'The impact of large-scale employee share ownership plans on labour productivity: the case of Eircom' McCarthy & Palcic (2012), International Journal of Human Resource Management

<sup>24</sup> 'Nailing the Evidence' Rayton et al (2012) Employee Engagement Task Force, University of Bath School of Management, November 2012



Richard J. Long and Tony Fang (Cornell University, October 2012)<sup>25</sup> expand the evidence on the question of whether employees financially benefit from 'high-performance', 'high-engagement' workplace practices. In particular they look at data from a large sample of Canadian establishments to examine whether there is any link between adoption of employee profit-sharing and subsequent employee earnings.

They find that employees in those establishments adopting profit sharing financially benefit in the five-year span after its introduction. Their results also suggest that employees in establishments that paid high wages benefited the most. Employees in low pay establishments benefited as well but over a longer period. According to the authors, this is consistent with the argument that profit sharing is used as a vehicle to retain high quality human capital and that ultimately employees eventually require higher total earnings to compensate them for the added risk.

The Nuttall Review also explored wider economic benefits from employee ownership schemes, such as well-being and innovation. Research by the Edinburgh Research Institute to the Employee Ownership Association from 2013<sup>26</sup>, combines survey, interviews and case studies to identify the levels of well-being and satisfaction from employees in employee owned businesses. They then compare these data to the national Workplace Employee Relations Survey. They found that results are consistently more positive for the employee ownership companies surveyed than the UK workforce as a whole.

A study by the America Accounting Association<sup>27</sup> points out the benefits of employee ownership on disclosure. This study finds that employee stock ownership can generate more open and regular voluntary disclosure. Bova et al. start from the premise that firms have an incentive to keep information opaque when negotiating with non-manager employees who can extract above-market rents from the firm. The study finds that firms whose non manager employees have more negotiating power are more opaque than firms where the non management employees have larger equity stakes. This in turns generates benefits in the capital market from the additional disclosure by the firm to all of its stakeholders.

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<sup>25</sup> 'Do employees profit from profit sharing: Evidence from Canadian panel data' Long & Fang (2012) ILR Review

<sup>26</sup> 'Health and wellbeing of employees in employee owned businesses' Quaid et al. (2013), Report by Edinburgh Research Institute to Employee Ownership Association

<sup>27</sup> 'Employee ownership and firm disclosure' Bova et al (2011) American Accounting Association

Finally, the Impact Report undertaken by the Employee Ownership Association<sup>28</sup> provides a business case for employee ownership looking at its benefits in terms of the economy, businesses, employees and society. Some key findings:

- In terms of the economy the report notes that the Employee Ownership Index (share price of companies that are more than 10% (or more than 3% in a different version) owned by employees or employee trusts) has outperformed the comparable FTSE 100 and All-Share benchmarks since 1992, which seems to point out at the 'economy-resilience' benefits of employee ownership structures.
- In terms of job security the report quotes some research from the US General Social Survey showing that in the US in 2010, 12.1% of all working adults in the private sector reported being laid off in the previous year compared to 2.6% of employee owners. And when data is examined since 2002 it indicates that this is a consistent pattern. The report notes that Alex Brill (July 2012) found further evidence when looking at employee stock options in the US. He found that members of employee owned corporations increased employment by 60% over the past decade, versus flat employment in the economy as a whole.
- In terms of Employee Engagement and well-being, the report quotes evidence from the Engage Success Taskforce report in October 2012, which highlights the link between higher employee engagement and innovative work behaviour and that lower employee engagement leads to higher staff turnover and unplanned absence.
- In Canada the report explains that the most definitive study on employee ownership is by the Toronto Stock Exchange, which showed that in companies with employee share ownership plans: the five-year profit growth was 123% higher; net profit margins were 95% higher; productivity measured by revenue per employee was 24% higher; return on average total equity was 92.3% higher; and return on capital was 65.5% higher.
- The report also quotes figures from an EU economic survey of employee ownership showing 9.9 million employee owners across Europe, holding 232 billion Euros in their company's shares, with the greatest number based in France and the UK being the second largest.

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<sup>28</sup> Employee Ownership: Impact Report' Employee Ownership Association (2013)

# One Year Review of Progress

## Establishing an action plan and reviewing progress

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation Z:</u></b>            Through the Minister for Employment Relations, the Department for Business, Innovation and Skills should, within three months of this review, <b>publish an Action Plan</b> showing actions taken to implement its recommendations and others aimed at promoting employee ownership.</p>	<p><b><u>Accepted – BIS</u></b>            Completed: this Government Response sets out the Government's Action Plan, and we will publish further details alongside the [2012] Autumn Statement in light of the Employee Ownership Implementation Group.</p>
<p><b><u>Recommendation AA:</u></b>            The Minister responsible for employee ownership (see recommendation C) should <b>produce a 'one-year on'</b> report 12 months after the formal Government response to this review, reporting publicly on progress made on promoting employee ownership and the implementation of these recommendations.</p>	<p><b><u>Accepted – BIS</u></b>            [It is anticipated that Graeme Nuttall will produce a one-year-on report assessing progress in implementing his recommendations.]</p>

### Recommendation Z - Completed

This recommendation was completed through the publication of the Government Response to the Nuttall Review in October 2012. The Response included an Action Plan and the rest of this report provides an update on progress against that plan.

### Recommendation AA - Completed

This recommendation is completed through the publication of this One Year On Report.

## Establishing a Minister-led Implementation Group

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation C:</u></b> The Government should maintain the <b>appointment of a Minister responsible for promoting employee ownership</b> across Government.</p>	<p><b><u>Accepted – BIS and CO</u></b> Completed: the Minister for Employment Relations and Consumer Protection has taken on the employee ownership portfolio for the private sector. Completed: the Minister for the Cabinet Office remains in charge of overseeing the public sector mutualisation programme.</p>
<p><b><u>Recommendation Q:</u></b> The Department for Business, Innovation and Skills should convene a <b>time-limited taskforce of legal, tax, accountancy and other professional bodies and representatives of employee owned companies</b> to identify how employee ownership can be a more integral part of advice provided by intermediaries, including through supporting intermediaries with training resources on employee ownership.</p>	<p><b><u>Accepted – BIS</u></b> BIS will agree membership and a Terms of Reference for a task and finish group reporting to the Implementation Group, with the first meeting anticipated for November. A work plan will then be agreed. This recommendation will be implemented alongside recommendation AB.</p>
<p><b><u>Recommendation AB:</u></b> The Minister for employee ownership should <b>convene a small ‘sounding board’ of sector representatives</b> to advise him or her periodically on the direction of implementation and on new opportunities to promote employee ownership.</p>	<p><b><u>Accepted – BIS</u></b> BIS will agree membership and a Terms of Reference for an Implementation Group, with the first meeting anticipated for November. A work plan will then be agreed. This recommendation will be implemented alongside recommendation Q.</p>

### Recommendation C - Completed

This recommendation was completed before the Government Response was published in October 2012. Jo Swinson (Minister for Employment Relations and Consumer Affairs) is the Minister responsible for employee ownership in the private sector; Francis Maud (Minister for the Cabinet Office) remains in charge of overseeing the public service mutualisation programme.

## Recommendation Q and AB - Completed

These recommendations have been completed through the establishment, in November 2012, of a time-limited Implementation Group on Employee Ownership with Jo Swinson as chair. The Terms of Reference of the Group set its remit as being to:

- identify the key tasks needed to implement the recommendations of the Nuttall Review;
- identify new activities that go beyond those recommendations where appropriate;
- oversee implementation; and
- seek the wider development of the sector.

The membership of the Group included representatives of legal, accounting and tax professions as well as representatives of the employee ownership and wider mutuals sector and representatives of organisations representing businesses and employees.

The Implementation Group met for the first time in London on 27 November 2012 and then subsequently on 29 January 2013, 15 May 2013 and 17 July 2013. The Group also met in Sheffield on 19 March 2013. Minutes of each meeting have been published<sup>29</sup>.

The Group reviewed overall progress on implementing the Nuttall Recommendations at each meeting and took decisions on specific issues. A major focus of the group was on developing an awareness raising programme (see page 23 for further details).

Jo Swinson found these meetings extremely valuable in increasing her knowledge of the issues the sector faced, in maximising her personal contribution to the agenda and enabling her to oversee implementation work.

The 2012 Government Response explained that the Implementation Group would be time-limited, as recommended in the Nuttall Review. The Group will not therefore meet again in its current form.

At its last meeting in July 2013 it was agreed that the Group would move to become the key stakeholder group for employee ownership with BIS in a secretariat role.

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<sup>29</sup> <https://www.gov.uk/government/policies/making-companies-more-accountable-to-shareholders-and-the-public/supporting-pages/making-employee-ownership-more-accessible>

## Raising awareness of employee ownership in Government

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation D:</u></b> The Department for Business, Innovation and Skills, Cabinet Office, HM Treasury and HM Revenue &amp; Customs should report on steps taken to ensure <b>continuity of knowledge in central Government</b> on employee ownership.</p>	<p><b><u>Accepted – BIS and CO</u></b> BIS and CO will initiate an inter-ministerial letter to raise awareness of employee ownership within Whitehall. Agree an action plan across Government with relevant departments through a joint BIS/ CO officials group which will discuss Nuttall Review implementation. Details related to HMRC website and manuals will be considered as part of the HMT review and as part of other initiatives such as the development of 'off the shelf templates' (recommendation T).</p>

### Recommendation D – Ongoing – Some progress made

As part of the preparations for Employee Ownership Day on 4 July (see page 24) Jo Swinson wrote to all MPs explaining the benefits of employee ownership and encouraging personal involvement in the Day. This had far greater reach than the planned inter-Ministerial letter, although of course it was received by all Ministers as well.

As a direct result of this letter a number of MPs enquired about businesses with employee ownership within their constituencies; expressed an interest in visiting businesses within their constituencies; and some constituency offices used social media to promote the day.

A network of officials in Whitehall with an interest in employee ownership has also been created. This includes officials from: BIS; Cabinet Office; the Deputy Prime Minister's office; HM Treasury and HM Revenue and Customs. The existence of this network has already resulted in considerable benefits from the sharing of knowledge on the different aspects of employee ownership and synergies from working together on wider awareness raising activities.

BIS and HM Revenue and Customs have both developed websites that provide guidance on employee ownership and related issues<sup>30</sup>.

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<sup>30</sup> <https://www.gov.uk/government/policies/making-companies-more-accountable-to-shareholders-and-the-public/supporting-pages/making-employee-ownership-more-accessible> and <http://www.hmrc.gov.uk/shareschemes/ee-ownership.htm>

## Raising awareness of employee ownership more widely

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation A:</u></b> The Government should <b>continue to promote employee ownership</b>, building upon the Deputy Prime Minister’s vision set out at Mansion House and on the framework established by this review.</p>	<p><b><u>Accepted – BIS</u></b> A keynote summit on employee ownership was held on 4 July [2012], hosted by the Deputy Prime Minister, and at which Graeme Nuttall launched his report. BIS will identify regular speaking opportunities for Ministers.</p>
<p><b><u>Recommendation B:</u></b> Through the Minister for Employment Relations, the Department for Business, Innovation and Skills should design and lead an <b>awareness raising programme</b> aimed at promoting the concept and benefits of employee ownership and, in particular, of employee owned companies. The design and delivery of the programme should involve other Government departments and external stakeholders wherever possible, and be coordinated with wider Government messages on, for example, mutuals and co-operatives policy, plurality of ownership models and employee engagement.</p>	<p><b><u>Accepted – BIS (with CO and HMT)</u></b> An awareness raising programme will be developed with the Employee Ownership Implementation Group. BIS will coordinate with forthcoming actions in the Cabinet Office awareness raising programme, seeking synergies with the Government’s public service mutualisation programme.</p>
<p><b><u>Recommendation H:</u></b> The Department for Business, Innovation and Skills, with external stakeholders, should <b>promote employee ownership as a business succession solution</b>.</p>	<p><b><u>Accepted – BIS (with external stakeholders)</u></b> The Government accepts this recommendation and will combine it with the work to develop a broad employee ownership awareness raising programme (see recommendation B).</p>

### Recommendations A, B and H – Ongoing – Significant progress made

In order to develop an awareness raising programme to promote employee ownership at all stages in the life-cycle, BIS developed an initial communications plan in January 2013. This plan was discussed by the Implementation Group at its meeting on 29 January 2013 and developed by its Communication Workstream which was led by Iain Hasdell of the Employee Ownership Association and included BIS, Cabinet Office, Co-operatives UK and Co-operative Development Scotland. A revised plan was endorsed by the Implementation Group at its meeting on 19 March 2013.

The plan centred on two key events: the inaugural Robert Oakeshott memorial lecture on 27 March 2013 and the first national Employee Ownership Day on 4 July 2013. Awareness raising plans also received a boost due to the Budget 2013 announcement on employee ownership (see page 46 for more details).

Detailed plans for raising the profile and media interest in both of these events were developed through the Communications Workstream.

The inaugural Robert Oakeshott memorial lecture on 27 March 2013 was given by Nick Clegg, Deputy Prime Minister. Over 200 people attended the event, including Robert's family and friends, those representing the employee ownership sector, along with those representing law firms, accountancy, banking and business consultancy. The Deputy Prime Minister paid tribute to Robert Oakeshott, the founding champion of employee ownership and how the model Robert helped to create is at the heart of establishing a stronger yet fairer economy. Building on Robert Oakeshott's principles and the work he started, the Deputy Prime Minister provided more detail on the tax incentives announced the week before at Budget 2013, highlighting that a Capital Gains Tax relief would not just be a welcome boost for business owners at the point of succession, but vital in raising awareness among business advisers, lawyers and accountants.

The inaugural national Employee Ownership Day on 4 July 2013 was supported by the Employee Ownership Association, Co-operatives UK, Co-operative Development Scotland, Wales Co-operative Centre, John Lewis Partnership and the Federation of Small Businesses.

Businesses across the UK held around 100 different individual activities to celebrate the Day. There was an employee ownership "expo" that took place in Sheffield with several businesses with employee ownership exhibiting at Gripple premises; open days at Stewarty Care, located in Castle Douglas and at Sunderland Home Care Associates; and many John Lewis stores were promoting the day. Other activities included using the Employee Ownership day branding (that had been developed for the day by the Employee Ownership Association) on cakes and T-shirts worn by employees – see Figure 1.

Many of those businesses that took part were members of the Employee Ownership Association. Full details of their activities and the media that was generated can be found on the Employee Ownership Association's website<sup>31</sup>. Figure 3 gives a case study on the activities of one employee-owned company in Wales – Skye Instruments.

Employee Ownership Day also included an employee ownership conference in London, which took place at Linklaters LLP and was attended by around 150 people. Dr Vince Cable, Secretary of State for Business, opened the conference and then Jo Swinson held a panel discussion and Q&A with influential stakeholders within the employee ownership sector – see Figure 2. Francis Maude, Minister for the Cabinet Office and Paymaster General, closed the conference with a keynote on the benefits of public service mutuals.

Also on Employee Ownership Day, BIS Ministers visited Arup in London and TTP in Cambridge. The main reception in the BIS building at 1 Victoria Street showcased products made by businesses with employee ownership throughout the Day with a pop-up sign that was visible outside the building – see picture on the front cover of this report.

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<sup>31</sup> <http://employeeownership.co.uk/news/events/employee-ownership-day-2013/>





Figure 1: Pictures from EO Day showing events by Cullinan Studio, Childbase Partnership, Gripple Ltd and Associated Chemists (Wicker) Ltd (from top left, clockwise)



Figure 2: Jo Swinson with panel members at the London Conference on EO Day

## Skye Instruments Ltd.

Skye Instruments Ltd. is a UK based designing and manufacturing company with 20 employees. It has a wide product base including light sensors & systems and automatic weather stations. Skye Instruments Ltd. are also proud to now be an Employee Owned company following a decision of the founders (John and Gill Wilde) to sell their business to their employees.

Skye Instruments Ltd. showed the impact a single business can have through its work around Employee Ownership Day on 4 July 2013. In preparation for the Day they expanded the Employee Ownership section of their company website to include links to other key organisations and publications and they arranged a feature in their local paper to publicise the Day and their company's 30<sup>th</sup> anniversary. Gill Wilde (one of the founders of the company) was interviewed on EO Day for the BBC Radio 4 programme "Wales at Work" and most recently they have contributed to a Telegraph article on employee ownership <http://bit.ly/15x4vWK>.

But Skye Instruments' contribution has not stopped there. They have been a valued member of the Implementation Group on Employee Ownership that was set up following the Nuttall Review and remain a key advocate for the benefits of employee ownership, particularly to ensuring the survival of companies and businesses in rural Britain.

**Figure 3: Case study on how one business engaged with EO Day**

Finally, several new publications were launched on Employee Ownership Day – see Annex B for further details. Almost all of these publications highlighted employee ownership as a business succession solution.

The combination of new publications, Ministerial visits/speeches and events and press releases by individual businesses led to considerable media coverage. Articles on Employee Ownership Day were carried in both the Guardian and Telegraph (and subsequently the Sunday Times). The BIS press notice issued for EO Day received 1729 visits, and on the Day #EODay was used in 720 tweets and #employeeownership in 620. A selection of tweets from businesses are shown in Figure 4.

BIS Ministers have been involved in other events on employee ownership throughout the year. Jo Swinson attended a parliamentary reception hosted by John Lewis on 12 March 2013 and she attended a very well-received and insightful lunch with Women in Employee Ownership on 25 June 2013. In addition on 9 July 2013 Vince Cable (Secretary of State for Business) hosted a thought-provoking breakfast meeting at Arup.

Employee Ownership Day 2013 has been hailed by a success unanimously by stakeholders as providing a platform on which individual organisations can build and a multiplier for the efforts of individual organisations and businesses.



**Figure 4: Tweets about EO Day by some UK businesses**

Considerable effort was made by the Employee Ownership Association and BIS to ensure that plans around EO Day worked alongside, and were co-ordinated with, ongoing awareness raising plans of key organisations:

- The **Employee Ownership Association** themselves ensured EO Day was a central part of the programme of events and initiatives to raise awareness of employee ownership that it has been running across the UK since 2011. The number of enquiries handled by the EOA from businesses across the UK has risen steadily since 2011 such that the second half of 2013 is showing a 15% increase in the volume of these enquiries compared to the same period in 2011. The EOA believe that the publication of the Nuttall Review itself and the creation of Employee Ownership Day (to both of which the EOA significantly contributed) have helped to deliver this increase. The EOA believe that most businesses in the UK that become employee owned are helped to do so by the EOA and so this increase in enquiries is a good barometer of employee ownership activity across the UK economy.

- The exact date of Employee Ownership Day was chosen to ensure it fell within **Co-operatives Fortnight 2013**, which ran for the fourth year from 22 June to 6 July. Through Co-operatives Fortnight more than 65,000 individual items of promotional materials were ordered to help co-operatives to promote and engage with their customers and members and encourage people to ‘choose co-operative’.
- In the run-up to EO Day, **Co-operatives UK** published an update on co-operative enterprise, *Homegrown: The Co-operative Economy*<sup>32</sup>, including statistics on the growth of worker co-operatives. Also in the run-up, the annual co-operative business event, Co-operative Congress was held in Cardiff, including a focus on employee ownership practitioners, and was attended by around 1,000 people. The programme of events was organised in partnership with the Wales Co-operative Centre, The Co-operative Cymru/Wales and Co-operatives and Mutuals Wales.
- In Scotland, **Co-operative Development Scotland** has been running an intensive awareness raising campaign since the start of the International Year of Co-operatives in 2012. They report that, since 2011, they have doubled the number of employee ownership enquiries and since 2012, they are on track to double the number of employee ownership transitions in Scotland.
- In Wales, as a result of funding from Europe and the Welsh Government, the **Wales Co-operative Centre** has had since February 2011 a specialist team supporting transitions into employee ownership. This team has been very active in arranging events for businesses, key stakeholders and chambers of commerce across Wales and in actively promoting employee ownership.

Finally, Graeme Nuttall has continued in the past year to champion employee ownership at numerous events and by writing numerous articles. He has also inspired a number of others at Field Fisher Waterhouse LLP to take up the cause. This has included a partner in corporate law contributing a number of professional articles about the improvements to the operation of internal share markets (see Recommendation V on 32) and the employment and pensions department actively promoting employee ownership through the Employment Lawyers Association.

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<sup>32</sup> [www.uk.coop/economy2013](http://www.uk.coop/economy2013)

## Increasing guidance on employee ownership

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation F:</u></b> The Department of Work and Pensions should disseminate information to <b>New Enterprise Allowance partnerships</b>, aimed at promoting employee ownership solutions to groups of claimants eligible for the New Enterprise Allowance.</p>	<p><b><u>Accepted – BIS and DWP</u></b> BIS and DWP officials are working together to implement: BIS officials will produce information that DWP will distribute to New Enterprise Allowance partnerships.</p>
<p><b><u>Recommendation G:</u></b> The <b>Employee Engagement Taskforce</b> should consider opportunities to build employee ownership into their work with practitioner panels and their forthcoming employee engagement website.</p>	<p><b><u>Supported – Employee Engagement Taskforce</u></b> The Employee Engagement Taskforce is developing a website to complement its work in promoting engagement.</p>
<p><b><u>Recommendation K:</u></b> The Department for Business, Innovation and Skills, working with ACAS, should encourage employer and employee groups (including trades unions) to develop a <b>voluntary Code of Practice setting out best practice on requesting and agreeing employee ownership</b> in a company. In parallel the Department for Business, Innovation and Skills should consider what further role Government has in providing statutory support, through Recommendations L and M.</p>	<p><b><u>Accepted – BIS and ACAS</u></b> The Government will work with ACAS on production of a voluntary toolkit for requesting and agreeing employee ownership in a company. A steering group of employee and employer groups will form a sub-group of the Employee Ownership Implementation Group and will advise on the toolkit.</p>

### Recommendation F – Ongoing – Significant progress made

Following the publication of the Government Response in October 2012, officials from BIS and DWP considered this recommendation further. This recommendation was made to support the wider objective in the Nuttall Review of increasing awareness of employee ownership at business start-up. The information provided through DWP channels to claimants eligible for the New Enterprise Allowance was found to be very general in terms of the advice about business structure and relied heavily on the content of the “gov.uk” website.

It was therefore agreed that rather than making additions/changes to specific pieces of DWP guidance it would more useful (and more long-lasting) to ensure “gov.uk” provides useful advice on employee ownership to those seeking to start a business. A new page on “gov.uk” has been developed to meet this need<sup>33</sup>.

<sup>33</sup> <https://www.gov.uk/employee-ownership>

## Recommendation G – Ongoing – Some progress made

The 'Engage for Success' movement, led by the Employee Engagement Taskforce, has now included dedicated content on the benefits of employee ownership on its website<sup>34</sup> with links to further information. This website is the key mechanism used by the movement for raising awareness of new and existing tools with employee engagement practitioners. The Engage for Success newsletter November 2013 edition highlighted the employee ownership article to its 2000 members.

## Recommendation K - Completed

This recommendation was completed on Employee Ownership Day on 4 July 2013 through the publication of a brief guide for employees on employee ownership<sup>35</sup>.

This guide was produced by BIS with endorsements from Acas, the John Lewis Partnership, Co-operatives UK, Co-operative Development Scotland and the Wales Co-operative Centre. The guide also carried the logo for Employee Ownership Day that was developed by the Employee Ownership Association.

The text of the guide was refined and finalised through extensive consultations with members of the Implementation Group on Employee Ownership. This ensured the accuracy of the guide in explaining the diverse models of employee ownership and that it would be useful and helpful to employees and employers to explain both the concept of employee ownership and how employees and employers could take forward a proposal to move to employee ownership.

Acas has since raised awareness of the new guidance to around 140,000 people through its econnect channel. This initiative has helped to ensure that the guidance has been visited over 1000 times since its launch. Acas has also raised awareness of employee ownership more generally to its network of advisors. In addition, Acas has developed Q&A content on its webpage on employee ownership.<sup>36</sup>

The success and uptake of the new guidance will be reviewed in due course as explained in the October 2012 Government Response to Recommendations L and M – see page 39.

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<sup>34</sup> <http://www.engageforsuccess.org/ideas-tools/employee-ownership-catalyst-employee-engagement/>

<sup>35</sup> <https://www.gov.uk/government/publications/employee-ownership-guide-for-employees>

<sup>36</sup> <http://www.acas.org.uk/index.aspx?articleid=4443>

## “Of the shelf” templates for employee ownership

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation T:</u></b> The Department for Business, Innovation and Skills, working with HM Treasury and ACAS as necessary, should <b>develop simple employee ownership toolkits including ‘off-the-shelf’ templates</b>, to cover legal, tax and other regulatory considerations set out in Table 10.</p>	<p><b><u>Accepted – BIS</u></b> Specification, leadership and quality assurance are anticipated to be delivered through the Employee Ownership Implementation Group. We are discussing involvement of ICAEW and the Law Society in the development of these templates. Further progress will be reported in the [2012] Autumn Statement.</p>

### Recommendation T - Completed

This recommendation was completed on Employee Ownership Day on 4 July 2013 through the publication of model documentation for a company with employee ownership<sup>37</sup> and accompanying guidance by both BIS<sup>38</sup> to explain some of the options/proposals included in the documentation and HMRC<sup>39</sup> on tax issues that can arise through the use of the documentation. The model documentation website has been visited nearly 3000 times since it was launched.

The model documentation presents the Trust Model of employee ownership, as was recommended by the 2012 Nuttall Review, alongside allowing direct share ownership by others and/or by employees. The model documentation is therefore suitable for businesses looking to combine indirect and direct employee ownership or to only use indirect ownership.

The model documentation was produced for BIS by Pett, Franklin and Co. LLP<sup>40</sup>. BIS remains extremely grateful to Pett, Franklin and Co. LLP for offering their legal expertise pro bono.

BIS would welcome comments on the model documentation, in particular those based on practical experience gleaned from the use of the documentation (in whole or in part). Such comments can be sent to [employeeownership@bis.gsi.gov.uk](mailto:employeeownership@bis.gsi.gov.uk). The model documentation will be reviewed periodically in the light of comments received.

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<sup>37</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/210449/bis-13-948-model-documentation-for-company-with-employee-ownership.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210449/bis-13-948-model-documentation-for-company-with-employee-ownership.pdf)

<sup>38</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/210450/bis-13-949-moving-to-employee-ownership-guidance-on-model-documentation.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210450/bis-13-949-moving-to-employee-ownership-guidance-on-model-documentation.pdf)

<sup>39</sup> <http://www.hmrc.gov.uk/shareschemes/est-intro.pdf>

<sup>40</sup> <http://www.pettfranklin.com/>

## Improving the operation of internal share markets

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation V:</u></b> The Department for Business, Innovation and Skills should <b>consult upon improving the operation of internal share markets</b> to support companies using direct share ownership, including holding private company shares in treasury and facilitating share buy backs.</p>	<p><b><u>Accepted – BIS</u></b> Completed: BIS is publishing alongside this report a consultation upon the proposals in the Nuttall Review. The consultation will close by the end of the year and we will report on next steps in light of the responses to the consultation.</p>

### Recommendation V – Completed

A consultation on improving the operation of internal share markets was launched on 30 October 2012 alongside the Government Response to the Nuttall Review. The consultation closed on 16 November 2012 having received 48 responses. The Government response to the consultation was published on 15 February 2013<sup>41</sup>. The resulting legislation, called “The Companies Act 2006 (Amendment of Part 18) Regulations 2013”, came into force on 30 April 2013<sup>42</sup>.

This legislation:

- Allows for shareholder approval of off-market share buy backs by a simple majority, and (where the share buy backs are connected to an employees’ share scheme) allows for this approval to be granted in advance.
- Gives private limited companies greater freedom in how to finance the share buy backs by:
  - allowing for such companies to pay for shares they buy back (in connection with an employees’ share scheme) in instalments (if the seller agrees),
  - introduces a simplified regime for buying backs shares out of capital (in connection with an employees’ share scheme), and involving small amounts of cash;
- Allows all companies to hold shares bought back in treasury.

The legislation retains the need for shareholder approval where necessary to protect the interests of shareholders and creditors. These new provisions are deregulatory and voluntary and largely limited to buy backs linked to employee share schemes.

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<sup>41</sup> <https://www.gov.uk/government/consultations/employee-ownership-and-share-buy-backs-consultation-on-implementation-of-nuttall-review-recommendations>

<sup>42</sup> <http://www.legislation.gov.uk/uksi/2013/999/contents/made>



Since the new provisions entered into force guidance has been published by HMRC<sup>43</sup> and BIS<sup>44</sup>.

The new provisions have been generally welcomed. However, as a result of feedback received the Government is considering additional legislative changes to Part 18 of the Companies Act 2006 to further improve the operation of the regulations, principally in relation to the buy backs of shares out of capital using the de minimis exemption.

## Establishing an Institute

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation N:</u></b> Key organisations from the employee ownership and co-operatives sectors should develop and deliver an <b>independent Institute</b>.</p>	<p><b><u>Accepted – Employee ownership sector</u></b> BIS has been working with the Employee Ownership Association (EOA) and others in the employee ownership sector. The EOA and others have developed a nascent business plan.  BIS, Cabinet Office and the sector will continue to work together on testing the feasibility of the Institute and developing a governance structure, as detailed in the main body of this response.</p>
<p><b><u>Recommendation O:</u></b> The Department for Business, Innovation and Skills should collaborate with the employee owned and co-operative sectors to set up and publicise a <b>single point of contact providing information and guidance</b> on employee ownership to the private sector. This website and telephone service would be similar in scope to the Mutuels Information Service, which is available to public service providers.</p>	<p><b><u>Partially accepted – BIS and employee ownership sector</u></b> This action will be taken forward as a part of the consideration of an Institute for employee ownership, set out under recommendation N.</p>
<p><b><u>Recommendation P:</u></b> The Department for Business, Innovation and Skills should collaborate with the employee owned and co-operative sectors and relevant professional bodies to support the development of the Institute and, in particular, the creation of <b>information resources on employee ownership</b> to be transferred to the Institute in due course.</p>	<p><b><u>Accepted – BIS and employee ownership sector</u></b> This action will be taken forward as a part of the consideration of an Institute for employee ownership, set out under recommendation N.</p>

<sup>43</sup> <http://www.hmrc.gov.uk/shareschemes/ee-ownership.htm>

<sup>44</sup> <https://www.gov.uk/government/publications/employee-ownership-and-share-buy-backs-guide-to-companies-act-regulations>

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation W:</u></b>  The Institute (see recommendation N) should <b>provide evidence to Government on whether a new legal entity for either or both employee owned companies or collective ownership is needed</b>, three years after the implementation of the template documents (see recommendation T).</p>	<p><u>Supported – the forthcoming Institute</u></p>

## Recommendations N, O and P – Ongoing – Some progress made

Shortly after the publication of the Government Response, Graeme Nuttall agreed to lead the industry working group that was taking forward work to establish an Institute. BIS provided funding to support Graeme in this role through the work of Ann Tyler, a lawyer and expert in the employee ownership sector. The working group consisted of representatives from the employee ownership, mutual and co-operative sectors.

The working group completed an outline business plan in July 2012. In October 2012 it secured the pro bono assistance of KPMG<sup>45</sup> to consider issues related to the commercial viability of an Institute along the lines proposed by the Nuttall Review. Much of the time since then has been taken up with conducting this work.

In March 2013 the industry working group confirmed that if an Institute was established it must have a broad cross sector reach, representing and promoting employee, mutual and co-operative ownership, and with objectives to provide focus and organisation for raising awareness and supporting the growth of the sector. It was proposed that an Institute, called the Institute for Mutual and Employee Ownership (IMEO), would initially provide a suite of free activities, such as research and data compilation, and would act as a central information hub for companies and their advisers seeking to make the transition to employee, mutual or co-operative ownership.

In June 2013 KPMG finalised their indicative commercial viability report into the IMEO. This clarified the assumptions under which a body of this kind might be considered viable. On the basis of this report the industry working group concluded that creating an Institute would need market testing. It also concluded that, even if demand was proven, Government funding would be required in the short to medium term, alongside matching fee income and grants. The KPMG report concluded that this would enable the IMEO to become self-financing over a five year period as its offer increased to include activities such as membership, licensing of higher education and training courses and accreditation of individuals.

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<sup>45</sup> <http://www.kpmg.com/UK/en/Pages/default.aspx>

The final KPMG report was presented to the Implementation Group on Employee Ownership at its meeting on 17 July 2013. In order to consider the case for further Government funding to, for example, establish the level of demand for the IMEO's services through more extensive market testing, BIS consulted the working group and some members of the Implementation Group on Employee Ownership. This included the relevant associations, who in turn, drew on contact with their members around the concept of the IMEO. Support for the IMEO and therefore the need for further Government funding was mixed. Some organisations saw no case for an Institute at all and they thought the evidence showed that the IMEO would not be self-financing even in the medium to long term. Others, including Graeme Nuttall, felt it was not the right time to test the demand given the current modest size of the sector.

Those who agreed it was not the right time to invest further in market testing or start up costs but supported the idea of an Institute, felt strongly that there was a case to take forward some of the roles it was envisaged an Institute would play. In particular, there was some consensus around the need for better and more co-ordinated research. The employee ownership and wider co-operatives sectors had also put a case to Government via the HM Treasury consultation on tax incentives (see page 47) for direct support to businesses seeking information and guidance on how to move to employee ownership.

On the basis of the most recent feedback from key sector representatives and the lack of a strong business case for further Government funding, the Institute, as envisaged in the Nuttall Recommendations, will not be taken any further at this time. Instead, the Government will consider, with the sector, how best to identify and address gaps in current research to increase understanding of the employee ownership, mutual and co-operative sectors and quantify the benefits of employee ownership models.

BIS is grateful to all those who contributed to the invaluable work to scope the potential for the Institute and to help explore consensus around the next steps.

### **Recommendation W – Ongoing – No work anticipated in 2013**

This recommendation is for completion by the Institute by July 2016, i.e. three years after the publication of the model documentation (see Recommendation T).

In the absence of any Institute, it is envisaged that BIS will consider undertaking the recommended assessment of whether a new legal entity for employee ownership is needed.

## Improving data on employee ownership

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation E:</u></b> The Government should improve the <b>data</b> collected on the extent of employee ownership, for example, by adding new questions on employee ownership into Office for National Statistics surveys and the Workplace Employment Relations Study; and business surveys coordinated by the Department for Business, Innovation and Skills.</p>	<p><b><u>Partially accepted – BIS</u></b> [We will review the inclusion of questions in the next Small Business Survey, and will review other channels suitable and cost-effective and report back.]</p>

### Recommendation E – Ongoing – Some progress made

Collecting data relating to employee ownership has some inherent difficulties. This, at least in part, stems from different views on how to define employee ownership. In addition, there is not yet a centrally held database of companies with employee ownership. The closest to such a database is the publicly available membership list of the Employee Ownership Association<sup>46</sup>. However, it is unclear what share of all companies with employee ownership are actually members.

For co-operative models of employee ownership, such as worker co-operatives, there is a database held by Co-operatives UK and reported on in its annual Co-operative Economy report<sup>47</sup>. Again though, it is not clear what proportion of the overall employee ownership sector is covered by the co-operative model of employee ownership, which implies a democratic accountability to employees and that employees hold a controlling stake.

The UK Employee Ownership Index provides information on UK public companies quoted on the London Stock Exchange which have 10% or more (or in a different version 3% or more) of their issued share capital held by or for the benefit of employees other than main board directors. The Index was created and is supported by Capital Strategies Limited and has been published by Field Fisher Waterhouse LLP since 2002. It has shown that businesses in the employee share-ownership sector regularly outperform the comparable FTSE 100 and All-Share averages in previous periods. The Index has been re-launched and is now being calculated by FTSE International according to FTSE methodologies. This is an important step in demonstrating to a very wide audience that employee ownership is now mainstream. However, it is known that many businesses from the employee ownership sector are not quoted.

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<sup>46</sup> <http://employeeownership.co.uk/about-us/our-members/>

<sup>47</sup> <https://www.uk.coop/economy>

The lack of good data on the size of the employee ownership sector was raised in the recent HM Treasury consultation (see page 47).

In the absence of a centrally held database, the use of sample business surveys to gain data on the size of the employee ownership sector has been considered. However, it may be challenging to identify any firm conclusions on employee ownership because employee ownership as a business model does not conform to any set pattern. Indeed employee ownership is used by businesses of different sizes from a diverse range of sectors.

The relevant sample surveys that are carried out by BIS are the Workplace Employment Relations Study and the Small Business Survey. The Workplace Employment Relations Study was last conducted in 2011 it will be several years before it is conducted again. The Small Business Survey was conducted in 2012 and will next be conducted in 2014.

BIS will consider further what would be the benefits of incorporating questions on employee ownership into the 2014 Small Business Survey and the next Workplace Employment Relations Study after reflecting on the outcome of the HM Treasury consultation on employee ownership in relation to available data.

## Exemption for Employee Benefit Trusts from Perpetuity Period

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation U:</u></b> The Ministry of Justice should <b>exempt employee benefit trusts from the 125 year perpetuity period</b> in the Perpetuities and Accumulations Act 2009, to enable perpetual ownership of shares in employee owned companies by employee benefit trusts. Existing employee benefit trusts should also be permitted to benefit from this exemption.</p>	<p><b><u>Partially accepted – BIS and MoJ</u></b> The Government is reviewing this recommendation and will report back alongside the HMT review of employee ownership at the [2012] Autumn Statement. Any changes made would be subject to public consultation.</p>

### Recommendation U – Ongoing – Some progress made

Since the publication of the Government Response in October 2012, BIS and MoJ have considered this recommendation further. Informal attempts have been made to obtain evidence on the benefits of a change but these have been inconclusive. Therefore alongside this One Year On Report the Government is publishing a Call for Evidence that seeks evidence about whether employee benefit trusts should be exempted from the rule against perpetuities<sup>48</sup>. This Call for Evidence will close on 19 February 2014. If a decision is taken to go ahead with legislative change then a further consultation on a detailed proposal will be issued in due course.

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<sup>48</sup> <https://www.gov.uk/government/consultations/amending-the-perpetuities-rule-and-simplifying-employee-ownership>

## Unintended regulatory burdens

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation X:</u></b> The Government should, when devising regulation, <b>ensure that employee owned companies do not suffer unintended burdens</b> due to their structure; and the Department for Business, Innovation and Skills should take into account regulatory impacts on employee owned companies as part of its consultations on future changes to employment law.</p>	<p><b><u>Accepted – BIS</u></b> All Government policy-making is subject to the Impact Assessment process, under which all new regulatory proposals are tested for their costs and benefits, and whether particular sectors are unduly impacted. Impact Assessments are published and scrutinised by the independent Regulatory Policy Committee.</p>
<p><b><u>Recommendation Y:</u></b> As part of a ‘one year on’ report (see recommendation AA), and in light of the results of recommendation X, the Department for Business, Innovation and Skills should <b>assess whether a further review of the impact of regulation upon employee owned companies is warranted</b>, and keep an open invitation in the meantime to receive evidence on regulatory barriers faced by employee owned</p>	<p><b><u>Accepted – BIS</u></b> BIS will incorporate this material into the ‘one-year-on’ report. BIS runs an employee ownership mailbox and promotes this to companies and others who wish to make representations about burdens faced by employee owned companies and other issues.</p>

### Recommendation X – Ongoing – Some progress made

As explained in the 2012 Government Response, all Government policy-making is already subject to the Impact Assessment process. Under this all new regulatory proposals are tested for their costs and benefits and whether particular sectors are unduly impacted. Through its work to raise awareness of employee ownership in Government, policy-makers should now be better-placed to assess impacts on this alternative business structure.

BIS will continue to look for opportunities to raise awareness of employee ownership and other alternative business structures with relevant policy-makers.

### Recommendation Y - Completed

As explained in the 2012 Government Response, BIS has maintained and promoted the [employeeownership@bis.gsi.gov.uk](mailto:employeeownership@bis.gsi.gov.uk) mailbox as a route for stakeholders to share information on any regulatory barriers faced by businesses with employee ownership.

Despite maintaining this open invitation to stakeholders, and conducting an informal consultation with the Employment Lawyers Association and the Share Plan Lawyers Group, BIS has not received evidence of non-tax regulatory barriers that disproportionately impact the employee ownership sector. However, this does not necessarily mean that they do not exist, just that they are not being brought to light.

In order to determine fully whether there are any remaining non-tax regulatory burdens faced by the employee ownership sector, BIS is publishing alongside this One Year On Report a Call for Evidence<sup>49</sup> that seeks views on what else could be done to further reduce the complexity of employee ownership and, in particular, seeks evidence of any non-tax regulations that have a disproportionate impact on the employee ownership sector. The Call for Evidence will close on 19 February 2014.

## Right for employees to request employee ownership

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation L:</u></b> The Department for Business, Innovation and Skills should issue a <b>call for evidence on the introduction of a statutory Right to Request</b> consideration of an employee ownership proposal, covering the issues and challenges covered in Table 5.</p>	<p><b><u>Accepted – BIS</u></b> Completed: the Government issued a call for evidence on 6 July. Responses to the call for evidence are summarised in this document. The Government will consider the need for a statutory Right to Request following reviewing the success and uptake of the voluntary toolkit.</p>
<p><b><u>Recommendation M:</u></b> The Department for Business, Innovation and Skills should issue a <b>call for evidence on the best means to encourage owners and employers to make information available to employees, if a change of control of a company or sale of the business in which employees work is envisaged</b>, in order to allow employees to consider an employee buy out.</p>	<p><b><u>Accepted – BIS</u></b> Completed: the Government issued a call for evidence on 6 July. Responses to the call for evidence are summarised in this document. The Government will consider the need for a statutory Right to Request following reviewing the success and uptake of the voluntary toolkit.</p>

### Recommendation L and M - Completed

These recommendations were completed before October 2012 through the publication of a Call for Evidence on 6 July 2012. As explained in the Government Response, the need for a statutory Right to Request will be considered further in the light of the success of a voluntary toolkit (see Recommendation K on page 30).

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<sup>49</sup> <https://www.gov.uk/government/consultations/amending-the-perpetuities-rule-and-simplifying-employee-ownership>

## Employee ownership in business rescue solutions

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation J:</u></b> Co-operatives UK, the Department for Business, Innovation and Skills and the Insolvency Service, should assess the scope for a pilot scheme, running from 2013, to test the potential for <b>employee buy outs as a solution in relevant business rescue situations.</b></p>	<p><u>Accepted – Co-operatives UK, BIS and the Insolvency Service</u> The Government accepts the principle of this recommendation and will discuss with Co-Operatives UK the best means of implementation.</p>

### Recommendation J – Ongoing – Some progress made

In March 2013, BIS hosted a workshop with Co-operatives UK and the Insolvency Service to explore the relevance of employee ownership in the context of business rescue and the factors that might be necessary for success. The organisations that attended were: FSB, TUC, Co-operatives UK, Unity Trust Bank, Institute for Turnaround, FFW, Association of Business Recovery Professionals and ICAEW.

In July 2013, the Implementation Group on Employee Ownership confirmed the importance of and need for a pilot, in line with the recommendation and in the context of the risks that would apply in promoting employee ownership in the context of business rescue.

Following this, Co-operatives UK, in close liaison with BIS, carried out informal engagement with a limited set of key partners working in the insolvency and turnaround sector to test the appetite for engaging in a research pilot and secure advice on the design of this. This included: banking teams; non-bank intermediaries (Community Development Finance Institutions) with experience of finance in the context of business distress; a leading professional services firm in the UK with a large market share in the area of restructuring practice, which implements solutions in situations of stress and distress; a management consultancy firm, itself an employee owned firm of over 2,500 people, with a worldwide presence, which has specialist teams dealing with business challenge and business design; MHA MacIntyre Hudson, with roots in the owner managed business community, providing specialist accountancy services and expert business advice; and specialist co-operative and employee ownership development agencies, including Co-ownership Solutions, Co-operative Development Scotland (CDS), and the Wales Co-operative Centre.

The findings suggest that there should be a focus on a pilot of worker buy-outs that can identify success factors and learning points for any wider uptake of employee ownership as an option, as well as soliciting any case studies that may have relevance.

BIS is considering with the sector what the next steps for this work should be.



## Financial aspects of Employee Ownership

Nuttall Review Recommendation(s)	October 2012 Government Response
<p><b><u>Recommendation I:</u></b> The Department for Business, Innovation and Skills should promote the Business Finance Partnership funds to support employee ownership and target employee owned companies.</p>	<p><u>Accepted – BIS lead</u> Completed. A number of applications for funds were received from employee-owned companies.</p>
<p><b><u>Recommendation R:</u></b> The Employee Ownership Association should consider what measures there are to <b>communicate financing opportunities</b> directly to employee owned companies, building on company case studies where appropriate.</p>	<p><u>Supported – Employee Ownership Association lead</u></p>
<p><b><u>Recommendation S:</u></b> The Government should consider to what degree there is <b>a lack of funding for employee buy outs</b> and employee owned companies, for example through the advice of the Small Business Economic Forum, and make recommendations.</p>	<p><u>Accepted – BIS lead</u> BIS will explore funding issues faced by employee owned businesses through forthcoming meetings of our Experts' Group on access to finance, and, in due course, relevant meetings of the Small Business Economic Forum.</p>

### Recommendation I - Completed

This recommendation was completed before the Government Response was published in October 2012. A number of applicants for Business Finance Partnership funds were received from employee-owned companies.

### Recommendation R – Completed

After initial consultations with funders, the Employee Ownership Association (EOA) concentrated its work on this recommendation on businesses moving into employee ownership. This included:

- Ensuring through its work in helping businesses through the transition into employee ownership (the EOA believes that most businesses in the UK that become employee owned are assisted to do so by the EOA) that the implicated current owners and their employees are aware of every possible method of and source of finance available in the market to fund or co-fund the transition; and
- Encouraging, through a range of bilateral conversations, each current provider of funding to prioritise employee ownership as an important emerging market (where this is not already part of their strategy) and to communicate more loudly their financial products to potential clients. Some of this renewed focus on communications is already under way through sponsorship and joint event work between some funders and the EOA.

The EOA's website provides useful information on financing options for businesses in (or seeking to join) the employee ownership sector<sup>50</sup>. Guidance regarding financing employee buy-outs can also be found in the guide to co-operative models of employee ownership called "Simply Buyout"<sup>51</sup> that was published on 4 July 2013 by Co-operatives UK in association with the Wales Co-operative Centre, Co-operative Development Scotland and Preston City Council. Other advice and commentary can be found through online blogs<sup>52</sup>. It is also possible through the internet to find specialist finance providers that have links with, or actively seek to support, the employee ownership and/or co-operative sectors.

In Wales businesses seeking to move into employee ownership can obtain expert advice on financing options from the Wales Co-operative Centre<sup>53</sup>. In Scotland a similar service is provided by Co-operative Development Scotland<sup>54</sup>.

Case studies are available on the websites the organisations listed above that explain how real-life businesses have secured the funding that they have needed. Three such case studies from the Mary Knowles Partnership<sup>55</sup>, Neighbourhood Midwives<sup>56</sup> and Zed Books<sup>57</sup> are included in this report at Figures 5, 6 and 7. The Mary Knowles Partnership approach, which they call "investor-led employee-owned business creation" is a particularly innovative approach.

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<sup>50</sup> <http://employeeownership.co.uk/employee-ownership/about-employee-ownership/finance/>

<sup>51</sup> [http://www.uk.coop/sites/storage/public/downloads/8364\\_cuk\\_simply\\_buyout\\_prf4b.pdf](http://www.uk.coop/sites/storage/public/downloads/8364_cuk_simply_buyout_prf4b.pdf)

<sup>52</sup> For example: <http://www.theguardian.com/social-enterprise-network/2013/jul/22/co-operatives-and-mutuals-social-enterprise-blog>

<sup>53</sup> <http://www.walescooperative.org/>

<sup>54</sup> <http://www.cdscotland.co.uk/>

<sup>55</sup> <http://www.maryknowles.co.uk/>

<sup>56</sup> <http://www.neighbourhoodmidwives.org.uk/>

<sup>57</sup> <http://zedbooks.co.uk/>

### Mary Knowles Partnership

The Mary Knowles Homecare Partnership Ltd has been established as an employee owned company. It has developed a novel financing approach which they call: "investor-led employee-owned business creation". The business was created in 2013 as a company limited by shares. To fund the start-up the owner (Dan Knowles) gave the company a loan of £150,000 (importantly this was done as a Director's loan to ensure repayments are tax-free). This loan is being paid back from the company's profits over time, and in addition a return on this investment is achieved through dividend payments. Innovatively Dan Knowles has created a model whereby he gifts a percentage of his share ownership to the employee benefit trust that he established each year in a way that still ensures he gets a good return on his investment but also shares the profits equitably with all employees through annual bonuses. The model also enables increasing levels of employee ownership so that within 5 years over 50% of the company's shares are expected to be in the hands of employees through the Trust.

**Figure 5: Case study on securing finance**

### Neighbourhood Midwives

Neighbourhood Midwives is the UK's first employee owned midwifery social enterprise. Starting out in South London but hoping to scale up to provide their service nationwide, Neighbourhood Midwives provide the option for women to be supported by a locally-based midwife who they know and trust before, during and after giving birth. In the four years running-up to their 2013 launch, the four midwives who founded the business drew support and funding from a range of different sources including the Government's Social Enterprise Investment Fund and Baxendale, providers of specialist advice and investment to employee owned businesses. Subsequently, Neighbourhood Midwives made multiple unsuccessful attempts to gain funding through mainstream sources. Ultimately Baxendale put a mixture of their own capital and ongoing business support in place to partner Neighbourhood Midwives through launch and help secure the success of the business as they grow.

**Figure 6: Case study on securing finance**

### Zed Books

Founded in 1977, Zed Books is an employee-owned publishing house based in London, which caters for academics and students. Operating as a worker co-operative, which gives employees a close involvement in the governance of the overall business, Zed publishes approximately 50 new titles each year. The majority of Zed Books' releases are produced both in hard back and paper back editions. Members were keen to respond to changes in technology and add an e-book option to their offerings. Balancing the equity in the business, owned by members, the upfront costs of financing this investment has now been met through a loan from a specialist finance intermediary, Co-operative and Community Finance, which has a thirty year track record of commercial loans to employee-owned and co-operative enterprises. The finance package will help Zed Books transfer books into formats compatible with tablets and e-readers. The co-operative not only hopes to offer e-book versions of all new publications, but also to transfer their large back catalogue of titles into a digital format.

**Figure 7: Case study on securing finance**

## Recommendation S – Ongoing – Some progress made

After considering the timing of future meetings of the Small Business Economic Forum, and the agendas for those meetings, it was decided that more progress could be more quickly achieved by establishing a parallel Finance Forum looking specifically at the issue of employee ownership.

This Finance Forum was chaired by BIS and its membership included financiers and businesses/representative organisations from the employee ownership sector. The Forum had the remit of identifying and reviewing any specific barriers to finance that business from the employee ownership sector might experience. The Forum met on 18 January 2013 and 12 March 2013.

The conclusion of the Forum's discussions was that there was limited evidence of barriers specific to employee ownership. The banks felt that there was no prejudice against firms with employee ownership models, whilst the sector called for "patient capital" to enable employee buyouts (investment that could be returned over a longer than usual period of time at non discriminatory rates). The Forum concluded that as very few firms were aware of the benefits of employee ownership there was as yet little demand for new products or increased understanding by banks. Formal meetings of the Forum were therefore suspended so that BIS and the sector could focus their efforts on increasing awareness of the benefits of employee ownership. Once demand for employee ownership increased, the need for further meetings would be reviewed.

Progress has been made to raise awareness of employee ownership in the financial sector and of financial issues that businesses from the employee ownership sector might face.

The "Right model, wrong money: understanding finance needs of EO businesses" workshop run by Baxendale at the London Conference on EO Day helped to draw out more detail on some of the issues faced by businesses with (or seeking to have) employee ownership. Figure 8 summarises the outcome of those discussions.

For many years Baxendale has invested its own capital and provided advice to support the transfer of businesses into employee ownership and their subsequent growth. They also manage their own private capital fund and in the right circumstances have made investments to support teams to move into employee ownership. An example of this is their work with Neighbourhood Midwives – see Figure 6.

Given this experience and the demand for financing specifically tailored to the employee ownership sector that it has seen, Baxendale believes that it is the right time to establish a much larger Employee Ownership fund. Baxendale are seeking investors for this fund from a number of prominent financial and other institutions, including The eaga Trust and the Government's Business Bank. Discussions are at an early stage, but it is hoped that this combination of experience and capital will allow the creation of a fund in 2014 which, by providing finance on commercial terms, whilst sensitive to the needs of employee ownership, will help address the concerns on access to finance raised through the Nuttall Review.

## Employee ownership and financing issues

Businesses with employee ownership (EO), like organisations that operate under other ownership structures, need capital to support the day to day operations of the business and for growth. Businesses seeking to move into EO often need capital in order to move shares into the hands of employees, for example to buy them from owner managers.

### High Street Banking Services

Experience suggests that businesses with EO do not have any difficulty accessing money for their routine trading activities where normal high street banking facilities are required. For example to obtain an overdraft or capital to buy assets (which could provide security to the bank).

However the situation becomes more difficult when businesses with EO need capital for longer term or bigger projects because it is harder to provide the personal guarantees that banks would typically seek. This is because it is administratively complex to negotiate with a large number of employees each giving a small personal guarantee and seeking a larger personal guarantee from just one or two employees, e.g. Directors, could necessitate unwelcome changes in share distribution away from the employee ownership ethos.

### Risk capital providers

The “default” alternative to banks is to turn to providers of risk capital – Venture Capitalists, Private Equity or Angel Investors. However, the objectives of these capital providers can be at odds with what a typical company with EO wants to achieve. For example, on exit risk capital providers simply want the best price for their equity stake and so are more likely to sell their stake outside the company which would compromise the company’s EO structure.

### What is needed?

This sector needs capital that is patient, willing to take more risk than a typical bank and which will create an acceptable return to investors whilst actively supporting the employee ownership structure of the business. The ideal would be for the business with (or seeking to have) EO to build up enough in profits and reserves over a reasonable period of time to itself buy-out the patient capital.

**Figure 8: Outcome of EO Day workshop on finance needs of EO model**

## Other developments

Although not specifically included in a Recommendation, the Nuttall Review included a discussion on the impacts of tax on the employee ownership sector and noted the HM Treasury review of employee ownership that was announced at Budget 2012. The outcome of that review was reported as part of the 2012 Autumn Statement:

### Paragraph 1.128 of the 2012 Autumn Statement<sup>58</sup>

Budget 2012 announced an internal Treasury review of the link between employee ownership and growth. The Government supports employee ownership as a business model, which offers benefits to employers and the wider economy, and recognises that a range of employee ownership models may be legitimately applied including employee share schemes and Employee Benefit Trusts that are not aimed at avoiding tax. The Government will continue to build a better understanding of the complexities faced by the sector, including within the tax environment. The Nuttall Review set out recommendations to support an expansion in the number of employee-owned businesses. The Treasury and HM Revenue and Customs (HMRC) will support the Department for Business, Innovation and Skills and Cabinet Office in implementing the Government's response to the Nuttall Review of employee ownership. The Government is considering further incentives to support this objective and will report at Budget 2013.

The Nuttall Review noted that there was evidence that tax systems can be used to make employee ownership and participation more attractive. It specifically referenced the existing tax advantaged share plans that can be used by businesses adopting direct models of employee ownership. At Budget 2013 the Government announced plans to provide new tax incentives to support employee ownership:

### Paragraph 1.134 from Budget 2013<sup>59</sup>

The Government supports employee ownership as a business model and welcomes work by the Implementation Group on Employee Ownership to take forward the recommendations of the Nuttall Review. In order to further incentivise growth of the sector, the Government is providing £50 million annually from 2014-15. This will be used to respond to recommendations from the Nuttall Review and other relevant organisations who aim to encourage employee ownership. It will also be used to fund the introduction of a capital gains tax relief on the sale of a controlling interest in a business into an employee ownership structure. Consultation on this measure will take into account the progress of work by the Department for Business, Innovation and Skills (BIS) and the Implementation Group to develop an 'off the shelf' employee owned company model, with the intention that the new capital gains tax relief will be introduced in Finance Bill 2014. The Government will also look at further incentives in this area, including measures targeted at employees through indirect ownership models.

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<sup>58</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/221550/autumn\\_statement\\_2012\\_complete.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221550/autumn_statement_2012_complete.pdf)

<sup>59</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/221885/budget2013\\_complete.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221885/budget2013_complete.pdf)




A consultation on the Budget 2013 proposals was launched by HM Treasury on 4 July 2013 and concluded on 26 September 2013.<sup>60</sup> This consultation proposed two tax reliefs to encourage, promote and support indirect employee ownership structures. The first was a capital gains tax (CGT) relief on the sale of a controlling interest in a business into an indirect employee ownership structure. The second was an income tax and National Insurance Contribution (NIC) exemption for employees of companies which are owned by a trust whose purpose is to benefit all their employees. The outcome of this consultation is still being considered. The Government intends to publish draft legislation later in 2013 for inclusion in Finance Bill 2014.

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<sup>60</sup> <https://www.gov.uk/government/consultations/supporting-the-employee-ownership-sector>

# Annex A: Overview of progress

Recommendation (as amended by Govt Response)		Lead	Assessment
<b>A</b>	Government to promote EO	BIS	Ongoing
<b>B</b>	Design and lead awareness raising programme	BIS	Ongoing
<b>C</b>	Appoint Minister for employee ownership	BIS & CO	Completed
<b>D</b>	Ensure knowledge on EO within central Government	BIS & CO	Ongoing
<b>E</b>	Consider improving data collection on EO	BIS	Ongoing
<b>F</b>	Provide information about EO to some DWP claimants	BIS & DWP	Ongoing
<b>G</b>	Employee Engagement Taskforce (EET) involvement	EET	Ongoing
<b>H</b>	Promote EO as business succession solution	BIS	Ongoing
<b>I</b>	Promote Business Finance Partnership funds for EO	BIS	Completed
<b>J</b>	Test the potential of EO as a business rescue solution	Co-op UK & BIS	Ongoing
<b>K</b>	Produce voluntary toolkit for requesting EO	BIS & ACAS	Completed
<b>L</b>	Issue Call for Evidence on right to request EO	BIS	Completed
<b>M</b>	Issue Call for Evidence on how to inform employees	BIS	Completed
<b>N</b>	Develop and deliver an Institute	EO Sector	Ongoing
<b>O</b>	Consider Institute as single point of contact on EO	BIS & EO Sector	Ongoing
<b>P</b>	Support Institute work and create info resources	BIS & EO Sector	Ongoing
<b>Q</b>	Convene time-limited taskforce of intermediaries	BIS	Completed
<b>R</b>	Communicate financing opportunities for EO	EOA	Completed
<b>S</b>	Consider funding issues for employee buy-outs	BIS	Ongoing
<b>T</b>	Develop "off the shelf" company model for EO	BIS	Completed
<b>U</b>	Review exempting EBTs from perpetuity period	BIS and MoJ	Ongoing
<b>V</b>	Improve the operation of internal share markets	BIS	Completed
<b>W</b>	Review in 3 years need for a new legal entity for EO	Institute	Ongoing
<b>X</b>	Reduce future regulatory burdens affecting EO	BIS	Ongoing
<b>Y</b>	Assess need for further review of regulatory burdens	BIS	Completed
<b>Z</b>	Publish within 3 months an implementation action plan	BIS	Completed
<b>AA</b>	Produce a One Year On Report on progress	BIS	Completed
<b>AB</b>	Convene a sounding board of sector representatives	BIS	Completed

Key:  Significant progress  Some progress  No work anticipated in 2013



# Annex B: Publications on EO Day

The Department for Business, Innovation and Skills published brief guidance for employees on how to request a move to employee ownership at:

<https://www.gov.uk/government/publications/employee-ownership-guide-for-employees>

The Department for Business, Innovation and Skills published model company documentation (and accompanying guidance) on moving to employee ownership at:

<https://www.gov.uk/government/publications/employee-ownership-company-model-documentation>

HMRC published new guidance on employee ownership (including the model documentation) at: <http://www.hmrc.gov.uk/shareschemes/ee-ownership.htm>

HM Treasury published a consultation (which closed on 26 September 2013) on supporting the employee ownership sector at:

<https://www.gov.uk/government/consultations/supporting-the-employee-ownership-sector>

The Employee Ownership Association published a new guide called "Employee Ownership: How To Get Started" at: <http://employeeownership.co.uk/publications/new-publication-employee-ownership-how-to-get-started/>

Co-operatives UK in association with the Wales Co-operative Centre, Co-operative Development Scotland and Preston City Council published a new guide to co-operative models of employee ownership called "Simply Buyout" at:

<http://www.uk.coop/simplybuyout>

The Mutuels Taskforce published its One Year On Report at:

<http://mutuals.cabinetoffice.gov.uk/mutuals-taskforce-launch-one-year-update>

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