



Minutes of Meeting: Implementation Group on Employee Ownership, 2.00pm, 17 July 2013, at the Department for Business, Innovation and Skills

Attendees:

Jo Swinson (Minister of State for Employment Relations and Consumer Affairs)
Claire Hobson (Deputy Director, Business & Society Team, BIS)
Adrian Wakeling (ACAS)
Peter Matthews (Baxendale)
John Atherton (Co-operatives UK)
Sarah Deas (Co-operative Development Scotland)
Iain Hasdell (Employee Ownership Association)
Malcolm Hurlston (ESOP Centre)
Michael Mealing (Federation for Small Businesses)
Graeme Nuttall (Field Fisher Waterhouse)
Ann Tyler (Field Fisher Waterhouse)
Clive Lewis (ICAEW)
Charlotte Cool (John Lewis Partnership)
Patrick Burns (Prospect Services)
Gill Wilde (Skye Instruments)
Janet Williamson (TUC)
Rhian Edwards (Wales Co-operative Centre)
Heidi Munn (BIS)
David Francis (BIS)
John Souttar (BIS)
Janet Ford (BIS)
Darren Walcott (BIS)
Tom Shirley (Cabinet Office)
Colin Strudwick (HMRC)

Apologies:

Campbell McDonald (Baxendale)
Joseph Lampel (CASS Business School)
Sinead Lawrence (CBI)
Ed Mayo (Co-operatives UK)
David MacLeod (Employee Engagement Taskforce)
Andy Davies (Gripple)
Graham Dale (ICAEW)
Kathleen O'Reilly (Law Society)
Peter Hunt (Mutuo)
Ian Simpson (Santander)
Derek Walker (Wales Co-operative Centre)

Action Points:

1. Iain Hasdell to re-convene the Communications Workstream to consider follow-up to EO Day and proposals to launch the 'One Year On' report and to report back at the next meeting.
2. Other Implementation Group members wishing to volunteer to join the Communications Workstream should do so by close 26 July 2013.
3. BIS to discuss as soon as possible the next stage of preparatory work on the Institute with Ann Tyler.
4. BIS and Cabinet Office to discuss the proposed scope of HMT proposed tax incentives and whether this should be extended to businesses where employees only have a nominal stake.
5. BIS and Co-operatives UK to take forward the work on a business rescue pilot in the light of comments received and through liaising with other interested Members.
6. Members to provide suggestions to Janet Ford at BIS on who to best target the proposed Call for Evidence on exempting Employee Benefit Trusts from the 125 year perpetuity period.
7. BIS to notify members of details of the next Implementation Group meeting.

Summary Note:

Item 1: Introduction and Actions from the last meeting

Jo Swinson, Minister for Employee Relations and Consumer Affairs, welcomed group members to the fifth meeting of the Implementation Group on Employee Ownership.

The Minister reported that all action points from the previous meeting had been completed and the previous minutes were agreed.

Item 2: Report on progress and EO Day

The Minister asked Heidi Munn to report on progress since the last meeting.

Heidi explained that significant progress had been made. The KMPG report on the Institute had now been finalised and would be discussed separately. In addition, all of the publications anticipated had been published as planned on EO Day - see Annex for further details and links. The icing on the cake had been the publication on EO Day itself of the HMT consultation on proposals to support indirect employee ownership. Heidi thanked all those who had helped with the publications.

Heidi reported that EO Day itself had been very successful. The London Conference had been well-received by stakeholders and the 150 or so attendees. The Ministerial visits to Arup and TTP Group had generated useful local media - a YouTube video of the Arup visit by Vince Cable and Jo Swinson had received 312 views. At the BIS offices in 1 Victoria Street events had been run for employees and, with thanks to the EOA, a display on employee ownership had been set up in the foyer all day. Pictures of the display had since

appeared on Twitter. Jo Swinson's speech at the EOA's annual dinner on the evening of EO Day had also generated many follow-up enquiries.

Heidi also provided a round-up of media coverage. She explained that the BIS press office was pleased with the good coverage in the trade media. Articles had also appeared in both the Guardian and Telegraph (and subsequently the Sunday Times). The BIS press notice issued for EO Day received 1729 visits. Heidi also reported that there was a lot of social media activity on the day with #EODay used in 720 tweets and #employeeownership in 620 tweets.

Finally, Heidi noted that much of the local media had been generated by individual businesses opening their doors or holding events to mark the Day. She explained that others round the table would be best-placed to provide further details on these aspects.

EO Day:

The Minister noted that she was impressed with how EO Day came together and congratulated everyone on a very successful event. She now looked for suggestions as to 'next steps' in order to keep up the momentum and to get people using the many new publications.

Members agreed that EO Day went well. Michael Mealing noted that the publication of the HMT consultation and the inclusion of a session on the consultation at the EO Day Conference was a good example of joined-up Government. Sarah Deas noted that a lot was achieved in a relatively short timescale, particularly in terms of publications. Malcolm Hurlston felt that more thanks should have been given to Graeme Nuttall for his ongoing contribution to the sector.

Graeme Nuttall noted the particular success of the EO Day branding that the EOA had obtained. The Minister supported this view and pointed out that the branding was a long-term and significant contribution to the sector.

EO Day Events in Sheffield:

Iain Hasdell reported on successful EO Day events hosted by Gripple in Sheffield. Iain advised that on the Day there had been 100 EO-related events around the UK. He noted that Storify content summarising all the activities is now available on the EOA website. After the meeting Iain Hasdell provided the following links:

- General Coverage of #EODay - <http://storify.com/EmployeeOwned/employee-ownership-day-2013-celebrating-success>
- Members' news re #EODay – <http://storify.com/EmployeeOwned/eoday-members-news>
- Media coverage re #EODay – <http://storify.com/EmployeeOwned/eoday-2013-media-coverage>

Iain also reported a significant increase in the number of serious enquiries from companies considering moving to employee ownership since 4 July.

Promoting use of the publications:

Members spoke about how they have already promoted the use of the publications and how they will further promote use. ACAS are considering expanding their web offer and producing a newsletter; the TUC intend to send details of the publications to their members; the FSB have sent details to their members; ICAEW's Tax Faculty newsletter has featured articles on employee ownership and the HMT consultation in the last two weeks and are looking to build a website; and the Co-operatives UK plan to follow up their Simply Buy Out publication by producing three case studies by mid-August.

Other ideas:

Malcolm Hurlston called for a greater focus on direct share ownership and share schemes going forward. Ann Tyler agreed that it was important not to neglect this part of the employee ownership sector. Janet Williamson noted that there was an opportunity to push the need to give employees a voice within this part of the sector.

Malcolm Hurlston suggested that thought be given to how companies may be encouraged to include reporting on share schemes and levels of participation as part of their corporate responsibility. The Minister reminded members that there is an ongoing BIS Call for Views on corporate responsibility where members could submit views.

Michael Mealing said that more case-studies of successful moves to employee ownership were needed in order to influence small businesses.

Gill Wilde suggested that SMEs might be more engaged if employee ownership was more prominent on the agendas of Chambers of Commerce and Business Clubs. Rhian Edwards noted that they had done something along these lines by partnering an accountancy firm.

Michael Mealing emphasized the need to focus on the business needs of a company and how good employee engagement supports business success. He thought it worth stressing how a lack of employee engagement can often be an indicator of other problems within a business.

Communications Workstream:

The Minister proposed that the Communication Workstream be re-convened under the chair of Iain Hasdell to take forward these ideas and also to come up with proposals for the next major milestone – the launch of the 'One Year On' report and to report back to the next meeting. This was agreed by the Group.

Iain Hasdell asked for more volunteers to join the Communications Workstream. Heidi Munn said that the original members of the workstream had been the EOA, Co-operatives UK, Co-operative Development Scotland, the Wales Co-operative Centre, Cabinet Office and BIS. Malcolm Hurlston for the ESOP Centre asked to join this workstream.

AP 1: Iain Hasdell to re-convene the Communications Workstream to consider follow-up to EO Day and proposals to launch the 'One Year On' report and to report back at the next meeting.

AP 2: Other Implementation Group members wishing to volunteer to join the Communications Workstream should do so by close 26 July 2013.

Item 3: Final KPMG report on the Institute

Graeme Nuttall thanked all the members of the Working Group who had contributed to the work so far, KPMG for producing this report on a pro bono basis and to Ann Tyler for her significant personal contribution.

Ann Tyler explained that the KPMG report on the indicative financial viability of an Institute provides the context and rationale for an Institute emphasising a cross-sector approach, initially focusing on employee ownership but also covering co-operatives and mutuals. The report sets out options for the kind of activities such an Institute could undertake. The report also sets out suggestions for the level of funding needed prior to the Institute becoming self-sustaining. A large amount of background research was undertaken in compiling the report, which could be vested in the Institute. The next stage would be for consultation and market testing.

Patrick Burns added that this KPMG report is a very valuable piece of work but would not work well as a consultation tool. A new document was needed that set out the options for provision that an Institute might address in a way that was more geared to testing and consultation. There was a need to address how the Institute could transition from a narrow initial set of activities to the broader activities envisaged for a later stage.

Iain Hasdell, John Atherton and Malcolm Hurlston suggested that the biggest gaps in provision are research, analysis and evidence. Even a limited version of an Institute which meets these particular gaps would be of considerable benefit.

Sarah Deas asked if one option would be to extend the remit of an existing organisation. It was agreed that this was an option.

Malcolm Hurlston pointed out that there are already some organisations that perform functions such as finance provision and accreditation, and care should be taken to avoid duplication. He also expressed concern at some of the figures proposed by KPMG.

Ann and Graeme confirmed that the purpose of the next stage of market testing is to further identify gaps, and that the Institute is intended to be an umbrella organisation which must not duplicate the activities of existing organisations. The aim would be to make progress by 31 October in time for the 'One Year On' report. Members of the Group confirmed that they would be happy to be involved as this work progressed.

AP3: BIS to discuss as soon as possible the next stage of preparatory work on the Institute with Ann Tyler.

Item 4: Contributing to the HMT Consultation

The Minister asked members for their views on how evidence on the size of the sector could be found and inputted to the HMT consultation on tax incentives for the indirect employee ownership sector. She stressed that it is important that HMT receives strong evidence on which to base decisions.

Graeme Nuttall noted the difficulty of sourcing evidence given the nature of the sector and the challenges involved in defining the sector. Members need to think creatively about how existing information sources may demonstrate credible evidence on employee ownership. Graeme suggested that evidence might be possible by combining HMRC-owned information

on companies with Employee Benefit Trusts with data on the share ownership of these companies. Colin Strudwick advised that HMT and HMRC would consider Graeme's suggestion in the context of the consultation.

Malcolm Hurston said that they would be seeking views from their members and he suggested that making estimates might be in the territory of making heroic assumptions.

Colin Strudwick advised that it would be helpful to HMT if any suggestions on the size of the sector were provided along with any assumptions made and the calculation used. Colin noted that the calculations supporting any finalised proposals from HMT would have to be confirmed by Office for Budget Responsibility.

Sarah Deas reported that Co-operative Development Scotland had just commissioned some research into the size of the employee ownership sector in Scotland and that this would be completed before the HMT consultation closes.

Tom Shirley and John Atherton asked whether the proposed tax incentives would apply to models of employee ownership where employees only have a nominal stake, i.e. penny or pound shares in for example Community Interest Companies. Colin Strudwick explained that the consultation focused on indirect forms of employee ownership using an Employee Benefit Trust but that other models haven't been ruled out.

AP4: BIS and Cabinet Office to discuss the proposed scope of HMT proposed tax incentives and whether this should be extended to businesses where employees only have a nominal stake

Iain Hasdell noted the importance of the eligibility criteria for determining which companies would or would not qualify for the tax incentives. If these were set too tightly then this would completely negate any benefits from the proposals. Janet Williamson argued in favour of tightly drawn eligibility criteria to ensure quality control of schemes that would benefit from public subsidy.

Michael Mealing noted that some SMEs that were initially eligible might, over time, fall outside eligibility rules as the company grows, since not all new employees might be offered the opportunity to acquire shares.

Item 5: Next steps on the business rescue pilot

Claire Hobson outlined the main points from the paper on next steps on a pilot for employee ownership in business rescue situations that had been circulated. The paper proposed two options: Option 1 Expansive Promotion – a communication to all who may be in a position to identify when a business is facing difficulties; and Option 2: Selective Development – informal engagement with a more limited set of stakeholders.

Claire asked if the Group agreed with the recommendation to go with Option 2. If so, the next step would be for Co-operatives UK to try to find (by the end of September) a pro bono partner to run a pilot.

The Group supported going with Option 2. Iain Hasdell and Malcolm Hurlston expressed concerns with going down a pro-bono route, preferring instead a full procurement exercise ensure that work is 'done properly'.

Malcolm Hurlston noted that the Insolvency Service was currently consulting on "pre-pack" arrangements and that this could be relevant.

Janet Williamson expressed concern about the lack of reference in the paper with regard to the potential risk to employees posed by business rescue. Heidi Munn, Graeme Nuttall and Iain Hasdell all explained that what we are talking about is circumstances where a business is failing for non-financial reasons such as through poor management.

It was suggested that an early warning system might be useful to identify companies that would benefit from business rescue. Claire advised that the Business & Society Team is liaising with BIS teams involved with local growth and economic shocks.

Rhian Edwards explained that the Wales Co-operative Centre was currently engaged in two business rescue situations at present but they were facing difficulties due to the large amounts of money the banks were demanding from employees. It was suggested that one way forward would be to learn from what is currently happening in both Wales and Scotland.

AP5: BIS and Co-operatives UK to take forward the work on a business rescue pilot in the light of comments received and through liaising with other interested Members.

Item 6: Next steps on the perpetuities exemption

Claire Hobson asked Heidi Munn to outline the proposed next steps on addressing the Nuttall recommendation to exempt Employee Benefit Trusts (EBTs) from the perpetuity period of 125 years.

Heidi explained that BIS intend to work with HMRC and the Ministry of Justice to develop a Call for Evidence to publish in September/October. This would seek evidence on the need for a change in the law and also seek views on how best to define which Trusts should benefit from the exemption without referring directly to tax legislation. She explained that the earliest changes to the law could be made would be October 2014.

Heidi asked the Group if this sounded like the right approach or whether it would be preferable to await the outcome of the HMT consultation as this consultation also looked at definitions of employee ownership.

Ann Tyler pointed out that legislation used by Baxi Partnership (now Baxendale) to set up their Employee Benefit Trust (EBT) could provide a precedent for defining an EBT for this purpose. She recommended checking Hansard and also suggested speaking to David Erdal.

Graeme Nuttall stressed the commercial and logical need for making an exemption to perpetuities legislation for EBTs, while acknowledging that it is difficult to quantify how many companies might be affected. Graeme warned BIS not to expect hard figures to emerge from a Call for Evidence. However, any discussion around a proposal for change in tax law would be a valuable means of raising awareness. He agreed that the eventual definition adopted for this purpose would need to be standalone, and not too closely tied to any HMT definition which will necessarily be specific to the measures involved and subject to change. Graeme suggested using the wording of Section 86 of the Inheritance Tax Act as a starting point.

Heidi and Janet Ford (who will be taking forward this work) reminded the group of the importance of evidence to support proposals for legislative change. Heidi asked the Group for suggestions of who would be best placed to respond to this Call for Evidence.

AP6: Member to provide suggestions to Janet Ford at BIS on who to best target the proposed Call for Evidence on exempting Employee Benefit Trusts from the 125 year perpetuity period.

AOB

Claire Hobson introduced David Francis who joins the Business and Society team as policy lead on Alternative Business Structures including employee ownership, social enterprise, and mutuals. Heidi will continue as project lead on the Nuttall Review implementation until the publication of the Nuttall 'One Year On' report in the Autumn.

Claire explained that Graeme Nuttall has formally agreed to undertake the 'One Year On' report which will not only review progress on the implementation of the Nuttall Review but also set out a vision for the way forward.

Graeme Nuttall asked and received confirmation that Group Members were happy to be contacted to contribute to this report. Graeme also emphasised that the launch of the report should be seen as the next employee ownership milestone, which like the EO Summit and EO Day, should be a focal point for any employee ownership related publications that members are looking to publish during the autumn. No date has yet been set for the launch of the One Year On report – pros and cons of various options would be considered by the Communications Workstream.

Heidi proposed that the next Implementation Group meeting be in late September and that it be an officials-only meeting, i.e. with no Minister due to availability issues. The meeting will focus on proposals from the Communications workstream on, for example, the launch of the One Year On report. Heidi suggested that thereafter the time-limited Implementation Group could be replaced by a Stakeholder Group under the responsibility of David Francis.

Malcolm Hurlston asked for confirmation on the status of the £30billion and 3% of GDP figures for the current size of the employee ownership sector. Heidi explained that these were figures provided by the Employee Ownership Association.

AP7: BIS to notify members of details of the next Implementation Group meeting.

Annex A – List of publications on Employee Ownership launched on Employee Ownership Day on 4 July 2013

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 closes 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>