Employee Ownership Wales

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Celebrating the 10th anniversary of the Nuttall Review

5 July 2022

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About Graeme Nuttall OBE

Graeme Nuttall OBE is a partner in the European law firm Fieldfisher, a Fellow of Ownership at Work, Executive Fellow at Rutger's Institute for the Study of Employee Ownership and Profit Sharing, a trustee of the Institute for the Future of Work and chairman of several employee ownership trust (EOT) trustee companies.

Graeme was the UK Coalition Government's independent adviser on employee ownership. He was asked to work with the Government to identify all the barriers to employee ownership of private companies and find the solutions to knock them down. Graeme responded with 'Sharing Success: The Nuttall Review of Employee Ownership' (BIS, 2012). The UK Government responded positively to all of the Nuttall Review's 28 recommendations and, in particular, his ideas for promoting the trust model of employee ownership. As a result of the Nuttall Review the trust model received statutory recognition in the Finance Act 2014 in the form of the EOT. In the decade since the Nuttall Review employee ownership has become a mainstream UK business model with almost all new employee-owned companies adopting EOT ownership.

Graeme was the Financial Times 2013 Innovative Lawyer of the Year and has received The Philip Baxendale Fellowship Award (Baxi Partnership and Employee Ownership Association, 2012), the Award for Services to Employee Share Ownership (ProShare, 2016) and the Txemi Cantera International Social Economy Award (Asociación Empresarial ASLE, 2021).

Graeme received an OBE in the Queen's 2014 Birthday Honours for services to employee share plans, public service mutuals and employee ownership.

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About Employee Ownership Wales

Employee Ownership Wales is a service delivered through the Social Business Wales programme, which is funded by the European Regional Development Fund and delivered by Cwmpas. The service provides fully-funded, bespoke advice to Welsh businesses to help them decide if employee ownership is the right solution. Cwmpas, is Wales' national development agency for co-operatives and social businesses. For more information, visit the dedicated Employee Ownership Wales website at: employeeownershipwales.co.uk or email: sbwenquiries@cwmpas.coop.

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Preface

On 5 July 2022 the Welsh employee ownership community gathered at John Lewis & Partners, Cardiff to celebrate employee ownership 10 years on from the publication of the influential Nuttall Review of Employee Ownership. In this Review Graeme Nuttall OBE identified the fundamental obstacles to making employee ownership a mainstream business model for private companies and made recommendations to overcome those obstacles.

As a result of the Review, the UK Government agreed to promote employee ownership. It supported an array of regulatory and non-regulatory measures to achieve this aim. These measures included statutory recognition of the employee trust model in the Finance Act 2014 , in the form of the employee ownership trust (or EOT). Since then the employee ownership sector in the UK has flourished propelled by conversions to EOT ownership.

Graeme was unable to deliver his talk in person as originally planned. After a video introduction from Graeme, the talk was instead delivered by Sarah Owens and Professor Paul Cantrill from Cwmpas.

This publication is an expanded version of the original talk with added information in the boxed inserts.

31 August 2022

Derek Walker
Chief Executive
Cwmpas

Graeme Nuttall OBE

Celebrating the 10th anniversary of the Nuttall Review

This evening we celebrate the 10th anniversary of the publication of the Nuttall Review of Employee Ownership. We are also, in Graeme's view, celebrating the first ten years of a new era of UK employee ownership and, quite possibly, of employee ownership internationally.

Part one - A celebration

Graeme wants us to start by saying categorically that employee ownership in the UK is in great shape.

As we know from the announcement on 24 June 2022, the UK's 10th Employee Ownership Day (EO Day), there are now over 1,000 UK employee-owned companies ranging across many sectors, from small to large businesses.

2021 was a record year with 285 new employee-owned businesses. That's more than one every working day.

There are tens of thousands of UK employee owners.

> The UK's 50 largest employee-owned companies have over 181,000 employees.
> (RM2 and Employee Ownership Association, June 2022)

As we hear from the wonderful accounts on each EO Day employee ownership means so much to these employees.

This growth in UK employee ownership has been rapid and shows no sign of losing momentum.

At the time of Graeme's Gandhi Foundation lecture in July 2020 he calculated the UK employee ownership sector had grown by over 300% since 2014. Updating that calculation, we can say the sector has grown by over 700%, with its size more than doubling in the past three years.

What is the significance of a 2014 start date for these calculations? That's when, because of the findings of the Nuttall Review, the UK Government provided statutory recognition of the trust model of employee ownership in the Finance Act 2014.

> The EOT codifies some elements of best practice gleaned from older trust owned companies such as the John Lewis Partnership.

It's not just this change in tax law that's created the UK's fast growing employee ownership. There's a wider regulatory and non-regulatory support framework of which our hosts the John Lewis Partnership, and Cwmpas, form a vital part. No-one should rely solely on the Finance Act 2014 to learn about employee ownership.

Before 2012, it was difficult to get the attention of politicians. Now as shown on EO Day 2022 when Welsh, and Scottish, Ministers made announcements supporting employee ownership there is more vocal and knowledgeable political support.

The Welsh Economy Minister, Vaughan Gething said on his visit to Tregroes Waffles:

> *"It was inspiring to … see for myself how employee-ownership has benefited the business, the staff who work there and the wider local community" .*

Scottish Labour Leader Anas Sarwar said when visiting Jerba Campervans:

> *"The site is a wonderful example of both the benefits of employee ownership and the scale of the employee ownership sector in Scotland".*

All these new employee-owned companies add to the growing body of evidence of the benefits of employee ownership for businesses, their employees and increasingly, for society.

Also, there are more professional advisors prepared to discuss and advise on employee ownership as a neat business succession solution.

Pre-2012

It wasn't always so positive for UK employee ownership. We only have to go back to the time of Graeme's appointment as the UK Government's independent adviser on employee ownership in February 2012 to find a less promising scenario. The then Deputy Prime Minister, Nick Clegg, referred to getting employee ownership into the bloodstream of the British economy as "a big ambition" and one that "won't happen overnight".

Nuttall Review findings

The overarching finding of the Nuttall Review was a lack of awareness in the UK of the employee ownership concept and its benefits.

The John Lewis Partnership was then and no doubt remains the best-known example of an employee-owned company. There were a few organisations such as Cwmpas that promoted employee ownership but awareness was severely lacking and especially in the business community.

All 28 recommendations in the Nuttall Review were acted upon to some extent by the Government. By so doing we made one big step forward. The obstacles to promoting employee ownership were agreed. All we had to do was knock them down.

In addition to the lack of awareness Graeme also found:

- a lack of resources to help those who wanted to adopt this business model; and
- that there were actual or perceived complexities to employee ownership.

In summary: in 2012, even if an enthusiastic individual somehow discovered employee ownership and approached their usual professional advisors, they would be told "don't do that", or at best "there are complications and it's not worth the time and expense of trying to overcome them".

UK Government's aims

What the UK Government wanted to achieve also moved up a notch or two during the Review process. UK Government Minister Norman Lamb wrote in the Foreword to the Nuttall Review "I want this to be the decade of wider employee ownership" and "My goal is to shift employee ownership into the mainstream of corporate Britain".

Graeme believes both these aims have been achieved through various *permanent* advances each of which should be celebrated.

One Year On Report checklist

There was a One Year On Report published in November 2013. This second report was one of Graeme's recommendations, to make sure that the UK Government's newfound support for employee ownership continued for as long as possible. The One Year On Report contained his seven-point checklist to help determine if employee ownership in the UK, or indeed anywhere, is flourishing.

We will use that checklist to show how much there is to celebrate.

Actual or perceived complexity

In relation to the concern about actual or perceived complexity his checklist asks: ***Is there Government … commitment to remove obstacles?***

Yes. This was the immediate outcome of the Nuttall Review. An implementation group was established chaired by a UK Government Minister and in early 2013 Graeme was confident enough to write that "employee ownership in private companies has moved from a lobbying topic into Government policy. This means old priorities and concerns can be forgotten. Instead, a new mind-set is needed, one aimed at effective and timely implementation". The Coalition Government delivered on this commitment especially with the Finance Act 2014 recognition of the trust model of employee ownership.

Tax changes in context

It is, however, vital to view this tax law recognition in context. Graeme believes that another fundamental change after the Nuttall Review was to move the employee ownership debate away from an historical focus on tax. The Nuttall Review's 28 recommendations were all non-tax recommendations. He worked separately with HM Treasury to examine tax barriers. One key outcome was that most businesses who met with HM Treasury did not identify the tax system as a primary barrier. This was very helpful. It is harder to make a business model mainstream if it is tied to tax breaks for its success.

> Graeme had pre-2012 experience of lobbying successfully for isolated changes in tax law that failed to boost employee ownership and indeed backfired. This showed employee ownership needed to be promoted as a distinct successful business model and not a tax scheme.

Non-tax changes

Significant non-tax regulatory changes were made. Graeme recommended important changes to the company law rules on share buybacks and treasury shares. These were implemented to help remove complexities in direct employee ownership arrangements.

> Graeme had intended to encourage employee ownership in all its forms but as we've seen the EOT is now the UK's dominant type.

EOTs as the default model

The employee ownership trust (or EOT) has had an important role in tackling concerns about the complexity of employee ownership. The Finance Act 2014 EOT provisions have helped educate advisers as to what employee ownership looks like and present a clear method of converting a company to employee ownership.

> Instead of looking through a variety of possible structures, a single method now exists to discuss first with owners considering a conversion to employee ownership. If it isn't suitable then other types of employee ownership can be explained but the EOT is the first model to consider and as the evidence shows usually the preferred choice.

The EOT helps HM Revenue & Customs address the tax uncertainties regarding funding employee trusts by gifts because of the safeguards built into the EOT and the EOT capital gains tax exemption removes the difficulty of paying tax immediately on deferred consideration. There is more to the EOT tax analysis than this but the definition of an EOT and the capital gains tax exemption are invaluable in overcoming tax concerns.

More resources

Another main finding of the Nuttall Review was the lack of resources. His checklist contains two relevant questions:

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

Are there practical tool kits in use to implement every form of employee ownership?

Clearly the resources are now there, certainly enough to create 285 new employee-owned companies in 2021.

Again, it seems clear that there's been a fundamental re-wiring of how advisers think about employee trusts. Pre-2012 employee benefit trusts (or EBTs) were thought of mainly as remuneration tax schemes.

Before 2012 the focus of advisers was so skewed that they often overlooked the two sound commercial uses for EBTs: as market makers and as trusted long-term owners of shares in a company for the benefit of all its employees.

A re-education process started before 2014. Following another Nuttall Review recommendation, the Government published a tool kit for employee trust ownership on its website dealing with setting up an EBT and trustee company and HM Revenue & Customs published accompanying guidance.

Organisations such as Cwmpas have an important role. The experience in America is that away from clusters of professional advisers, generally in major cities, regional centres of employee ownership are vital to promote employee ownership even though the main model of employee ownership in America, the employee stock ownership plan (or ESOP), has had statutory recognition for almost 50 years.

So, we can celebrate reducing complexity and increased resources to support employee ownership.

Greater awareness

We can celebrate some other fundamental employee ownership changes over the last 10 years.

Returning to the lack of awareness before 2012 the most pertinent point in Graeme's checklist, is: ***is there Government support for employee ownership?***

Clearly UK Government support remains, with the EOT on the statute book. And it's also Scottish and Welsh Government policy.

This is another fundamental change.

There has long been all-party support in the UK for employee ownership. This was reflected in the historic work of the All-Party Parliamentary Group

on Employee Ownership. However, support from Members of Parliament needed to be converted into Ministerial support.

The All-Party Parliamentary Group on Employee Ownership's first report in May 2008 identified inadequate Government appreciation as a possible barrier to the development of the employee ownership sector.

The first breakthrough in getting UK Government support for employee ownership was in relation to public service delivery. The previous Labour administration had backed NHS employee ownership pathfinders. The Coalition Government extended this policy area by promoting 'public service mutuals' more widely.

Graeme was asked to promote private company employee ownership. The acceptance of the findings of the Nuttall Review provided unprecedented Government support for private company employee ownership. White Rose Employee Ownership Centre research shows a distinct correlation between UK Government support for employee *share* ownership and increased take up. And so it proved to be the case with employee ownership. Government has an incomparable ability to convene action and ensure things happen.

A key area where there was a gap in awareness was in relation to the trust model of employee ownership.

Trust ownership involves the indirect ownership of shares. Instead of individual employees owning shares personally, with all the complications that arise, shares are held by a trustee on behalf of all the employees for the time being of a company or group, including for the benefit of future employees.

The Nuttall Review was categoric on the benefits of this model especially as a business succession solution.

The first thing Graeme did as the Government's independent adviser was to circulate to Ministers a proposal for a capital gains tax exemption on selling to an employee trust. A targeted tax relief could achieve all his key aims: raise awareness, increase resources and simplify employee ownership.

HM Treasury consulted on two main new tax reliefs to promote the trust model of employee ownership. These tax reliefs were confirmed in the 2013 Autumn Statement and an existing inheritance tax relief was extended.

Briefly, as you will all now be aware, if an EOT trustee acquires a 'controlling interest' in a trading company, there is a complete exemption from capital gains tax for individuals selling to the trustee in the tax year in which the trustee acquires that controlling interest.

If certain disqualifying events (such as ceasing to meet the controlling interest requirement) occur, these will trigger a catch-up tax charge on the exempted gain.

This capital gains tax exemption in effect made it very difficult for professional advisers not to mention a sale to an EOT when owners asked about succession solutions. They had to mention something they would not have done before.

If an EOT trustee has a 'controlling interest' there is also a potential tax benefit for employees.

There is an income tax (but not national insurance) exemption of up to £3,600 per employee each tax year on certain bonus payments paid by the employer. Although not a requirement, in practice, EOT owned companies start paying tax-free bonuses as soon as a company becomes EOT controlled. They don't wait until the trustee of the EOT has finished paying for its controlling shareholding.

These tax measures have certainly helped raise awareness.

Graeme's checklist contains other questions relevant to raising awareness. These are also important.

The first of these is:

Is the meaning of employee ownership sufficiently clear?

Definitions are now clearer. There was a lack of clarity when the Coalition Government launched its drive to promote employee ownership. Nick Clegg had to confirm that "we are talking about a big chunk of a company belonging to a significant number of staff".

Employee ownership is not focussed on executive incentives or using shares as a tax effective means of paying staff.

Employee ownership means a significant and meaningful stake in a business for all its employees.

What is meaningful and significant about the employees' shareholding goes beyond only providing financial participation.

The employee's stake must underpin structures that promote employee engagement. In this way, employee ownership can be seen as a business model. There are no boundaries as to what percentage of issued share capital is significant but over 25% was proposed in the Nuttall Review and has been generally accepted as the minimum threshold.

What is important is that clarity over definitions is maintained.

Again, another fundamental change, is that employee ownership is now inextricably linked to good employee engagement. Before 2012 there was very little acknowledgment of this even among those promoting employee engagement.

Employee-owned companies provide good examples of employee engagement. This can be through employee trustee directors, employees on the trading company board and employee councils, as well as individual voice. Employee engagement is much harder to dismiss as a management tool when it is underpinned by actual employee ownership.

Another change is that the Press is better informed.

Also, the concept of employee ownership has become more of a given in published works.

Another question relevant to awareness is:

Are the benefits of employee ownership understood and are they demonstrated by success stories backed up by research?

The Mutuals Taskforce, like others before it, carried out its own literature review, as if to check that the advantages of employee ownership really are as good as research suggests. The Nuttall Review also gave in to this prerequisite. Together with the Department for Business Innovation and Skills it reviewed the literature and identified key outcomes as, in brief, businesses benefit from:

- improved business performance;
- increased economic resilience;
- greater employee engagement and commitment; and
- driving innovation.

And employees benefit from:

- enhanced employee well-being; and
- reduced absenteeism.

In other words, there is a winning combination of better business outcomes and happier staff.

Prior to 2012 any policy work had to start with making a case for change based on research before getting to the action points.

What has changed is that there is no need to wait for research before acting: the UK Government, Welsh Government, Scottish Government, and other supporters can safely promote employee ownership, relying on the bedrock of existing research.

The benefits of employee ownership are best demonstrated now by the many and increasing number of successful employee-owned companies.

More research is needed but this is to build the body of research, to get into the details and keep the data alive and up to date.

We can celebrate a growing body of research and data, including in 2018 'The Ownership Dividend' which reported the benefits of employee ownership to employees, businesses and to regional economies. In particular, the values of employee-owned companies mean they are more likely to create and retain jobs that are rooted to local areas. As a result, employee-owned companies directly drive economic resilience at a regional level. Profit distributed to staff is often spent or invested locally and the majority of employee-owned companies make explicit commitments to contribute directly to their local communities.

Another awareness raising question on Graeme's checklist is:

Do we have the necessary champions of employee ownership?

The launch of the Nuttall Review at the ICAEW, in the City of London, with over 200 attending, included many from outside the employee ownership sector. That event was the start of an increase in the UK's employee ownership champions. Instead of relying on the Employee Ownership Association, Cwmpas and Co-Operative

Development Scotland, 140 or so pre-2012 employee-owned companies and a handful of practitioners, a much wider group of champions now exists.

The 2018 Ownership Dividend report was a sense check by organisations outside the usual employee ownership enthusiasts. Over 20 independent UK business organisations supported its finding that employee ownership "pays off".

There is greater awareness of employee ownership through the calendar of employee ownership events that now exists. The Government endorsed the first UK Employee Ownership Day on 4 July 2013 and this has become a regular event. The Robert Oakeshott Memorial Lecture is another annual event.

But it is the former owners of employee-owned companies who are the greatest champions.

Satisfied former owners of employee-owned companies are happy to talk about their experience and recommend it to others.

The final question on Graeme's checklist also relates to awareness…

Is there an ambitious target against which we are measuring success?

Targets are an important part of awareness raising. They generate publicity and as this event shows can provide reasons to be cheerful.

> Targets are difficult to set. Too easy and who cares? Too hard and they won't be achieved. What is wonderful about employee ownership is that we can set ambitious and yet achievable targets.

By 2019 we could talk easily about an overall growth rate in EOTs of 30% a year. The Employee Ownership Association observed that if this continued, we would easily see an estimated 2,000 employee-owned businesses by 2030. By EO Day 2022 we had already reached more than 1,000 employee-owned businesses, several years ahead of the 2019 prediction.

Graeme looks forward to us achieving the Welsh Government's target and to doubling the number of Welsh employee-owned companies by 2026.

There's a lot to celebrate over the last 10 years. In addition to reducing complexity and increased resources to support employee ownership, employee ownership is clearly defined and much better understood. Employee ownership became UK Government policy, Scottish and Welsh Government policy, the obstacles to promoting employee ownership were agreed, action was taken to remove them and awareness raised.

Part two - Too successful in one or two respects?

Graeme gives us reasons to celebrate the 10th anniversary of the Nuttall Review.

But he suggests we may have been too successful in one or two respects.

An EOT monoculture?

The Nuttall Review's recommendations covered all forms of employee ownership and were aimed at supporting a broad co-operative, mutual and employee ownership sector. As the Nuttall Review implementation work proceeded Graeme said it was important to maintain this inclusive approach. But have we succeeded too much in promoting the 100% EOT model? Do we now have in some parts of the UK a 100% EOT owned 'John Lewis Partnership monoculture'?

What Graeme had not anticipated was the overwhelming rush into majority EOT ownership. Graeme believes trust ownership is the best main form of employee ownership but his experience as an adviser was that for some businesses direct employee ownership worked best and in others a hybrid model. Also, some businesses preferred a gradual approach: starting with say a 10% shareholding in a trust before moving to majority trust ownership.

As already mentioned, although the threshold for employee ownership is set at more than 25 per cent, the White Rose Employee Ownership Centre has found the typical employee component of ownership is much higher than this. In its 2020 survey the median level of employee ownership was 100% and the mean 84%. And those that are below 100% probably have 100% as their eventual aim.

As to the employee trust, this 2020 survey showed 86% rely solely on an employee trust to achieve employee ownership and only 8% rely solely on direct ownership. Only 6% of the sector are hybrids, using some combination of indirect and direct employee ownership.

These statistics omit typical worker co-ops. And public service mutuals are no longer actively promoted by the UK Government but the overwhelming emphasis on trusts is notable.

Overlooked benefits of employee share ownership

Graeme deliberately put clear space between promoting minority employee share ownership and promoting employee ownership. Successive UK Governments had promoted employee share ownership since 1978. Employee ownership had suffered in the shadows. However, 10 years of success stories about employee ownership now mean the benefits of ordinary share and share option plans are much less talked about. There was a wakeup call when the Office of Tax Simplification apparently made some noise about undoing decades of hard work by changing how share incentives are taxed. Thankfully the UK Government confirmed in its 2022 Spring Statement that the enterprise management incentive arrangement remains effective. And in what seems a promising sign, it will now consider if the other discretionary tax-advantaged share plan, the company share option plan, should be reformed to support companies as they grow beyond the scope of enterprise management incentive.

It is encouraging therefore to see the diverse forms of employee ownership in the list of Welsh employee-owned companies. This, no doubt, reflects the benefits of the Cwmpas advisory service in making sure a company gets the right type of employee ownership.

Part three - The EOT Age

Graeme believes we can celebrate something else, the first 10 years of a new age of employee ownership, call it the 'EOT Age' if we must.

Employee ownership and all its related ideas were not new to the UK at the time of his Review in 2012. Over the years, over the decades and indeed over hundreds of years there has been a wide-range of initiatives which were probably all needed to make conditions right in 2012 to promote employee ownership.

Important ancillary concepts include:

- the concept of cash profit sharing, which is now readily accepted as a straightforward way of incentivising staff;
- worker co-operatives, which have proved a good ownership model for micro-businesses and start-ups;
- since 1978 the UK has developed a full range of tax advantaged employee share and share option plans and a detailed tax regime covering all forms of employment related securities; and
- the UK had also seen the development and removal through anti-avoidance legislation and case law of remuneration trusts that provided tax effective pay to senior executives.

A great deal had been learned and expertise and experience existed but by 2012 employee ownership in private companies had not taken off. If we think in geological terms, various layers had accumulated, most significantly a layer of worker co-ops that had settled at around 400 in number.

Pioneering experiments

There had also been a good number of pioneering experiments in private companies using alternative structures to the worker co-op; individual ways of creating employee ownership arising typically from one founder's vision of what they wanted for the future of their company. The main example is, of course, the John Lewis Partnership but there were many others. Some tried direct individual employee ownership; others such as the Scott Bader Commonwealth tried charity ownership: with all employees as members of a charitable company that owned a trading group. A majority tried employee trusts. These experiments created another layer of employee-owned companies.

Public service mutuals

Prior to the Nuttall Review, after an initial attempt by a Labour Administration, the Coalition Government relaunched a public service mutuals initiative in 2010. The then Cabinet Office minister Francis Maude made it clear the Government was committed to supporting public sector workers form their own employee-led organisations. Previous success stories at, for instance, Central Surrey Health Limited and City Health Care Partnership CIC provided proof of concept. By mid-2014 100 ‘mutuals’ had been ‘spun-out’ of national and local government. These added another layer of employee-owned companies.

EOT Age

Although the occasional pioneering experiment still takes place and some new employee-owned companies prefer to use an EBT it is the EOT that is now the dominant form of UK employee ownership and its numbers far outweigh what came before.

From around 140 pre-2014 employee-owned companies we now have over 1,000, and there are no signs of growth slowing.

And that EOT Age includes Welsh EOT owned companies including the significant number of new Welsh employee-owned companies formed over the last year.

We are happy to join in celebrating the first decade of the EOT Age of employee ownership.

Part four - International impact

Let's now consider what we can celebrate about the impact of UK employee ownership internationally.

The EOT is making a major positive impact on European employee ownership. By reworking data from the European Federation of Employee Shareholders and RM2 it is clear that UK companies comprise over *one-third* (that is *36*) of Europe's 100 largest majority employee-owned companies, calculated by number of employees. This proportion is higher than for any other European country and has grown significantly through large UK companies adopting the EOT model. 15 of these 36 companies are EOT owned, and this is in addition to all the large employee trust owned companies, such as the John Lewis Partnership, established before 2014. Europe's Top 100 employee-owned companies include Shaw Healthcare with its head office in Cardiff.

Propelled by the EOT UK employee ownership has grown significantly over the last 10 years. This achievement is encouraging other countries to do more to promote employee ownership and to examine whether to copy the EOT's success.

The United States has added the EOT to its models of employee ownership. Australia has its first Australian headquartered EOT. Other countries are reviewing what they can do, with the Canadian Government leading the way. Denmark is catching up. The Danish Government has recently said it will consider the equivalent of the EOT. Cwmpas presented recently to an audience in South Africa as part of an initiative to grow all-employee ownership in South Africa.

This international interest all makes sense to those who support the trust model of employee ownership.

An EOT has clear practical advantages over direct employee ownership. These can be summed up as 'fewer moving parts': EOT ownership neatly avoids the upfront and ongoing administration complications, and communication issues, around individual employees acquiring and selling shares. Moving to employee ownership is easier using the trust model, with the only parties to the transaction being the sellers, the trading company, the trustee and, perhaps, a bank.

The next 10 years could therefore see EOT ownership, or its equivalent, established as the standard model of employee ownership internationally for business successions. This is something else to celebrate.

The EOT model allows for a variety of ways in which to create employee ownership tailored to a particular company's requirements:

- there's flexibility regarding embedding employee voice;
- there can be minority direct all employee share ownership plans running alongside the EOT;
- senior executives can have separate incentive arrangements provided these are consistent with the EOT's purpose;
- a founder's wishes regarding maintaining the company's ethos and how difficult it should be for a trustee to sell the company can be reflected in the trust deed and other governance documents; and
- sellers don't have to leave the business immediately, they can stay on the trading company board and they may retain minority shareholdings.

Part five - More to do

Graeme warns us we cannot be complacent. There's more to do.

By the 1970s there were around 20 worker coops in the UK. Substantial efforts to promote co-operatives over a ten-year period helped create some 1,000 worker coops but the number subsequently declined to around 400. Graeme sees no parallels whatsoever regarding the success of EOTs with what's happened to worker co-op numbers but nevertheless, it's a warning.

For example, how many professional advisers adopt the paritarian model of trustee composition? It's long established as good practice, to balance management representation with employee representation, but this is not set out in the EOT legislation and so does it get overlooked along with other elements of the trustee model that aren't codified in statute?

Fundamentally, how many directors of these new EOT trustee companies really understand the purpose of the EOT? Work is needed to promote good employee ownership as distinct from indifferent employee ownership.

The purpose of an EOT is to provide long term employee ownership of a successful professionally managed company with an employee ownership ethos. And as such a custodian the trustee must use its influence to ensure employees have:

- good work;
- informed individual and collective voice; and
- a financial share in the company's success usually though cash bonuses.

The latest statistics, provided by Professors Andrew Robinson and Andrew Pendleton, are promising. These reflect responses from Employee Ownership Association members and so are likely to be positive, all the same they show there's a lot of good employee ownership. They show the sector is delivering better business through giving employees a meaningful say:

71% of employee-owned businesses (or EOBs) have a statement of purpose, which includes making a positive contribution to society and the environment,

97% of EOBs have at least one form of employee governance, 74% have at least two, and

90% of EOBs report that employees have some or a lot of say in decisions on working conditions.

There's still more to do. American ESOPs can provide fantastically high rewards to retiring employees. Does our more flexible EOT approach achieve the same overall career long financial benefit? Also, why the fixation on annual bonuses? Graeme helped design the EOT income tax relief based on the John Lewis Partnership annual bonus model but, he explains, there could be bonus pay outs, even if not income tax free, based on, say, achieving three year business plan targets, or based around a phantom share plan.

This evening's focus is, however, on what has been achieved and what can be celebrated.

Conclusions

The UK's employee ownership sector is unrecognisably bigger than that of 2012 with many hundreds of new employee-owned companies and thousands of new employee owners. There has been a decade of EOT ownership and employee ownership is now a mainstream UK business model. Moreover, as explained in Graeme's Gandhi Foundation 2020 lecture the ability for EOT owned companies to support wider corporate purpose and address environmental, social and governance issues should future-proof it as a mainstream business model.

Looking beyond the UK, companies in the USA and Australia have adopted the EOT business model, the Canadian Government plans to support it and there is interest in other countries, notably Denmark. The next 10 years could see EOT ownership, or its equivalent, established as the standard model of employee ownership internationally for business successions.

In conclusion, there's a lot to celebrate over the last 10 years and with the continued efforts of everyone in this room there should be more to celebrate in the years ahead.

Thank you.

Graeme Nuttall OBE

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