ProShare

Briefing for ICSA Company Secretaries' Forum

The Labour Party's 'Inclusive Ownership Fund' Proposal

This briefing note has been prepared in response to concerns raised at a recent meeting of the ICSA Company Secretaries' Forum. It references ProShare's initial public response to Labour's proposal, issued in September 2018 the week after their announcement at their Party Conference, and the content of an email sent by ProShare's Executive director to the Shadow Chancellor John McDonnell.

Since then ProShare has on two occasions met with members of Labour's Shadow Treasury Team to explain our position and discuss our concerns, and a member of their team attended the recent Parliamentary launch of our Annual SAYE & SIP Report. These conversations have been constructive, if non-committal. Our dialogue with Labour (and all other mainstream political parties) remains open and ongoing as part of our Westminster stakeholder engagement programme.

A quick recap of the main elements of Labour's 'Inclusive Ownership Fund' proposal:

- That all UK listed companies be required by law to place up to 10% of their issued share capital into a fund;
- The fund will hold the shares on behalf of the company's workforce;
- Any dividends that are paid on the company's ordinary share capital held in this fund will be paid out in cash to workers, divided equally; and
- Dividend amounts payable to workers will be capped at £500 per employee, with any amount over and above that threshold being payable to the Government.

Whilst ProShare is heartened to see the Shadow Chancellor express his support for employees owning a stake in the businesses that they work for, there are several elements of this proposal as it currently stands that we and our members have concerns about: mandatory participation, indirect vs. direct (share) ownership, cash rather than shares for employees, and the method of acquisition of shares.

Mandatory participation

This would be a shift away from the current voluntary 'all employee' model where companies can choose which plan (or plans) will work best for their business model and workforce, to a mandatory 'all-company, all-employee' model. There will be many questions to work through in consultation, not least how this new ownership arrangement might interact with existing all-employee plans, shareholder dilution limits, and other considerations.

Our key concern is that companies may feel compelled to make and either/or choice between complying with this new requirement and continuing to operate their existing all-employee plans. The IOF could therefore 'cannibalise' existing SAYE and SIP schemes. This would be extremely detrimental to employees, as the potential financial gains from participating in these existing schemes are uncapped – the recent ASDA SAYE maturity netted profits of £14,000 per employee saving at the maximum permitted monthly savings amount. The IOF would only allow dividends of up to £500 per employee to be paid out.

Indirect vs. direct (share) ownership

A valid question is how much real agency employees might have in an arrangement where their ownership is indirect – in McDonnell's proposed model, even with the fund overseen by elected employees, it will still be the directors recommending the level of dividend proposed to be paid out to all shareholders (including those with a notional interest in the employee trust).

The indirect ownership model, particularly the example set by the John Lewis Partnership, has its pluses and quite rightly many supporters. In companies where this model is highly effective, however, there are many other factors which enhance and amplify its effect, strong and distinct corporate culture and disciplined, competent line management being probably the most important. These factors obviously would be beneficial to any company, regardless of its ethos towards ownership and employee engagement. The indirect ownership model on its own is not a silver bullet for employee engagement and productivity.

The direct ownership opportunities afforded by SAYE (post- option exercise) and SIP (from initial share award/purchase) are of equal and distinct merit, having benefitted many millions of UK employees over the decades that they've been in operation by the majority of the UK's biggest and most successful companies.

Direct and indirect models of ownership have co-existed happily for some years now, and long may they continue to do so. ProShare believes that choice and flexibility should be protected, for the sake of all types of companies, large and small, listed and private, and most importantly for the sake of all of their employees.

Cash rather than shares for employees

Since the global financial crisis of 2007-08, average wages have struggled to regain lost ground and in most cases have stagnated. There has been a significant growth in the number of UK workers engaged on less secure agreements such as zero-hours contracts and in the gig economy, which contribute to lower pay and less secure working conditions. Given that asset prices over the same period have increased significantly in value (most relevantly, shares and property), there are large parts of the UK workforce, particularly in the Millennial and younger generations for whom even getting a foot on the housing ladder is becoming a distant dream. The toxic combination of rising inflation and near-zero interest rates too erodes their pay further.

All-employee share schemes with direct ownership help employees to convert their pay into an asset class (shares) that is more likely to increase in value and may earn them an income in the form of dividends. Giving employees a stake in the companies they work for is therefore one small way of helping to tackle financial inequality. It also gives people a reason to participate and support a more enlightened and democratic form of capitalism. Simply paying cash dividends to workers does not achieve those aims.

SAYE and SIP remain on the statute books as effective and valuable ways for employees to make their pay go further. On our latest data some 2.5 million UK employees currently participate in SAYE, SIP, or both plans - many millions more have benefitted from these plans over the decades that they've been in operation. Ninety-one FTSE100 companies currently operate a broad-based employee share ownership arrangement of some sort, and we estimate that around 60-70% of the FTSE 250 have these types of plans in place too.

We know from our work in supporting HM Treasury's application to renew EU State Aid approval for EMI that thousands of smaller and un-listed companies value the ability to incentivise and reward their staff with shares, too.

Method of acquisition of shares

The detail on how the IOF shareholding is achieved, and the economic rights that flow from that, is up for debate. Unfortunately, much of the press commentary so far has been ill-informed and rather lacking in factual detail. It remains to be decided how the proposed annual increment of one percent of ownership of companies' issued share capital (up to a maximum of 10%, in line with current institutional investor guidelines on shareholder dilution limits) will be funded and, critically, where the shares will be sourced from.

Some of the most alarmist commentators have assumed that the shares will be 'seized' from existing shareholders, when actually no such detail has been announced. Governance and share plans professionals are well aware that the shares could be market purchased, newly issued or even issued from Treasury – sadly this dull but important technical detail doesn't seem to cut through the 'noise' or suit some commentators' agendas.

The bigger picture

Forum members will be well aware that with the re-casting of directors' duties under s172 of the Companies Act and the associated reporting requirements, companies with more than 250 employees will be obliged to state how they've engaged with employees and whether or not an employee share scheme has been operated during the financial year in question.

It's long been ProShare's view that companies don't get sufficient credit for empowering share ownership amongst their workforces, too frequently overshadowed by pay for the handful of individuals at the top of their organisations.

This is a position that we will promote in our Autumn Budget submission, along with improvements to existing schemes. The current debate on economic equality and fairness for all presents us with an opportunity to take all forms of Employee Share Ownership to a much broader mainstream audience than has been the case for some years. This is an opportunity to be embraced by our industry in its broadest sense.

As always, ProShare welcomes its members' views – and those of the Forum - on employee share ownership policy.

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