

Welcome to

**Employee Ownership Association**

**Annual Conference 2017**

Where employee ownership meets

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Advice Investment Growth

# Welcome to the Journey to Employee Ownership

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Presented by Ewan Hall, Baxendale

Denise Bennetts & Philip Eccles,  
Bennetts Associates

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# The Journey

- Steps to take
- Pitfalls to avoid
- How to access finance
- Tax considerations
- Project managing the transition
- Case study
- Q&A

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# Key Steps to Take (1 of 2)

- Be clear on why you want to be employee owned
- Is the organisation or business moving to employee ownership sustainable?
- Is there a willing seller and is there a deal that works for them?
- Do you know how you will engage with all the key stakeholders in the organisation?

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# Key Steps to Take (2 of 2)

- Determine your new ownership structure
- Determine your new governance / accountability structure
- Appoint advisers who understand the options
- Implementation

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# Pitfalls to avoid

- Missing a Key Step
- Jumping the gun
- Managing expectations
- Managing third parties
- Not giving yourself enough time

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# Access to Finance

If there is a market price to be paid, someone will have to provide the finance:

- Vendors
- High street banks – loan finance
- “Ethical” banks – loan finance
- Specialist finance providers – may include loan and equity
- Corporate finance intermediaries

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# Tax Considerations (1 of 5)

## **Capital Gains Tax:**

- No CGT if structured appropriately
- Also think about CGT for employees if using direct shareholdings



# Tax Considerations (2 of 5)

## Income Tax:

- No income tax on certain bonuses to employees (although NICs are payable)
- First £5,000 of dividend income is exempt from income tax

# Tax Considerations (3 of 5)

## **Inheritance Tax:**

- Most shareholdings in private companies are exempt from IHT
- But deferred consideration / vendor finance is usually liable for IHT
- “Preference” shares can avoid this, but usually at the cost of less security

# Tax Considerations (4 of 5)

## Corporation Tax:

- Few corporation tax issues with the transition itself, but some for post-transition
- Employee tax free bonuses should be deductible for corporation tax
- Some direct shareholding structures (in particular, Share Incentive Plans) allow the cost of shares to be deductible

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# Tax Considerations (5 of 5)

## **But:**

- Avoid the tax tail wagging the dog – tax laws will change

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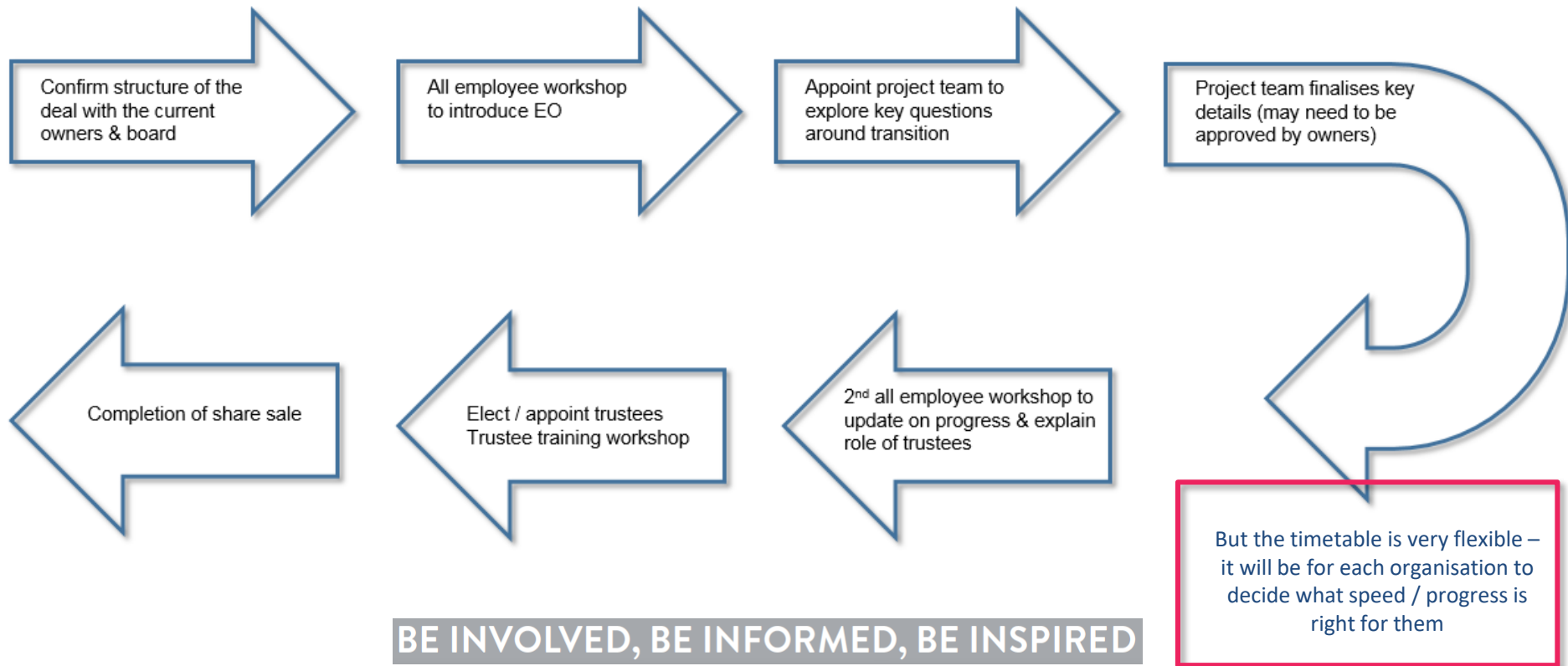
# Accounting Considerations

- Understand the accounting treatment of the trust and any liabilities of the trust – discuss with your accountant
- Usually, if the trust is in effect controlled by the board, its assets and liabilities may be consolidated with the company
- Usually, if the trust is not controlled by the board, its assets and liabilities will not be consolidated – but there is likely to be a note to the accounts if the company guarantees any trust debt

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# Project Management

- Make sure someone does it!
- Set a timetable / key milestones
- It is an internal transition, so you can make amendments – but be clear on the impact of any changes
- See sample timetable



# Bennetts Associates Architects

- Founded in 1987 by Rab and Denise Bennetts
- A wide ranging portfolio of award-winning projects
- Architectural Practice of the Year 2006, 2011 and 2016

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# Our Team



- Studios in London, Edinburgh and Manchester
- 76 staff in total -  
63 architectural staff  
13 support staff

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# Our Journey

## Practice Structure

- Initially in 1987 as a Partnership
- Incorporated as a Limited Company in 1992
- Non-shareholding Directors subsequently appointed

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# Our Ownership Objectives

## Long Term Business Plan

- Rab and Denise to reduce joint ownership to 51% by 2018
- No financial burden to be placed on new shareholders so traditional routes of acquisition not appropriate

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# Initial Options

We started looking at share distribution in the early 2000s and considered

- Employee Benefit Trust  
Not adopted as at the time it appeared overly complicated and lacking transparency
- Enterprise Management Incentive  
A share option plan promoted by the government which better aligned with our objectives

# Enterprise Management Incentive

EMI agreed in 2003

- 22% of shares to be distributed to 4 directors
- Shares to be distributed in equal tranches over 4 years from 2004
- Directors given specific bonuses to pay for shares
- Rab and Denise not paid personally for shares
- It was anticipated that further EMI's would be adopted in later years

# Best Laid Plans...

- It had been anticipated that further EMI's would be adopted in later years but then we hit.....
- The 2008 economic downturn and recession
- Subsequently had to buy out one shareholding director, share valuation not too different to original purchase price
- Rab and Denise questioning if incremental approach is correct and if a more appropriate and wider distribution mechanism should be considered

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# Employee Ownership

Discussions always returned to Employee Ownership

- The practice works collaboratively and has a flat hierarchy
- Key practice decisions often open to all-staff discussion
- Directors are salaried and did not get paid dividends
- Excellent staff retention so long-term commitment clear
- Knowledge of EOT's - Rab had worked at Arup for 10 years
- Fellow directors agreed with the principles of the proposal

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# Seeking Advice.....

- 2014 sought advice on potential advisors from EOT's we know
- Appointed a specialist, legal documentation prepared
- Liaison with practice's accountants on financial matters
- BUT....
- Process was 'dry'
- Nothing specific to the practice
- No engagement with the nature of the practice or the people

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# Confirm Structure of the Deal

- 2015 Denise attended an EOA conference, “how and when do you introduce an EOT to staff?” said Ewan Hall
- In May Denise meets Ewan, in June Rab and Denise meet Ewan
- In July all Directors meet Ewan for discussions on structure
- Rab and Denise develop responses to key criteria and consult directors
- The principle of the EOT introduced to other members of management individually.

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# Introducing Employee Ownership

- First workshop with all staff held in January 2016
- Project team represented a cross section of the practice
- Decision making and communication



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# Project Team

- Role, structure and activities of the Trust
- Timetable and Trustee selection



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# Setting up the EOT

- Second workshop with staff held in May
- Trustee roles and responsibilities circulated to staff, volunteers...
- Selection of trustees at summer CPD day in June
- Training undertaken
- Legal and financial documentation finalised
- 6<sup>th</sup> September 2016 : 100% of shares transferred to Bennetts Associates Employee Ownership Trust

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# The first year

- A learning curve for everyone
- Post-Brexit financial impact
- One trustee made redundant
- One trustee left the practice
- One trustee had a baby in May and is stepping down
- One trustee expecting a baby in December – will continue
- One trustee expecting a baby in April – will continue

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# Questions and Discussions

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**Thank you. Enjoy the rest of the conference.**

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