

Business Leaders Zoom Call Report



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Building Value & Profit in 2021 - With Long Term Incentive Plans

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Introduction

26th April 2021

Welcome to our latest Business Leaders Zoom Call.

Goldman Sachs yesterday stated it had upgraded its economic forecast for the UK this year suggesting it will outperform the USA. The bank said in a note to clients that it now expects British gross domestic product to grow by a "striking" 7.8% this year, "above our expectations for the U.S."

A Reuters poll of analysts published on April 13 showed an average forecast for growth of 5.0% in the UK, the world's fifth-biggest economy, in 2021. The International Monetary Fund has projected a 5.3% expansion.

On Saturday, Bank of England Deputy Governor Ben Broadbent was quoted as saying he expected "very rapid growth at least over the next couple of quarters" as the country lifts its coronavirus restrictions.

If you live in England and Wales you are free to travel around and between each country. If you live in Scotland you can travel within the country without restriction. From 26 April, Scotland's border restrictions with other parts of the UK will be lifted - enabling people from England and Wales to visit and allowing those in Scotland to travel south of the border.

The next key date will be 17th May when indoor hospitality, entertainment and hotels etc are anticipated to be allowed to reopen, with a further date for review of the 21st June for further relaxation of Covid restrictions.

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EMPLOYMENT LAW UPDATE
HELEN DYKE,
SENIOR ASSOCIATE SOLICITOR

Right to work checking:

During the pandemic, organisations could check that their staff had a legal right to work in the UK without having to see original documents or meet them face to face. The government has announced that these temporary arrangements will end on Monday 17 May 2021 – the date when many additional businesses are expected to be able to open their doors in line with the roadmap.

<https://imbusiness.passle.net/post/102gwbe/right-to-work-checks-covid-flexibility-due-to-end-on-16-may>

Overseas travel and employee holidays:

We've put together answers to 15 questions our clients are starting to ask us about dealing with holiday requests from members of staff who want to go abroad. International travel won't begin any earlier than Monday 17 May. When it re-opens, people won't have to quarantine if the country they are travelling to is on the 'green' list. The government hasn't yet published a list of countries on the traffic light system and it's possible that people won't get longer than a week's notice to decide whether to go ahead, postpone or cancel their holiday plans.

<https://imbusiness.passle.net/post/102gw4k/holidays-abroad-employers-questions-answered>

Switching off from work:

We discuss the 'right to disconnect' - some countries have imposed legislation which gives workers a legal right to switch off their laptops and work phones so that they can properly have a break from work.

<https://imbusiness.passle.net/post/102gyoi/do-home-workers-need-a-right-to-disconnect?share=True>

Tribunal hears dismissal due to non attendance due to Covid concern case:

Many employers were worried that staff who couldn't work from home would rely on sections 44 and 100 of the ERA 1996 to argue that their workplaces posed a 'serious and imminent' risk to their health (or that of other people) during the Covid-19 pandemic.

Tribunals are now starting to hear these claims and we've got a recent decision which will interest many of our clients. In *Rodgers v Leeds Laser Cutting Limited*, the Employment Tribunal had to decide if an employee had been unfairly dismissed after he refused to return to his workplace 'until lockdown restrictions had eased' because he was worried that if he caught coronavirus, he would infect his vulnerable children.

<https://imbusiness.passle.net/post/102gvhq/covid-19-employee-who-refused-to-return-to-work-because-be-believed-his-workplac>

LONG TERM INCENTIVE PLANS

Long term incentive plan (LTIP) is a widely used term that can capture arrangements (with many different forms) that are implemented by many different types of entity. While, there is no universally recognised definition of an LTIP, the common thread is that it is a plan that is measured or applied over a period that could be considered long-term in the context of the particular business.

LTIPs are often used to describe employee share plans in listed companies with the following characteristics:

Shares will be delivered following the end of a performance period
Shares will only be delivered if stretching performance criteria are met
The employees will not be required to pay a strike price in order to receive the shares.
Such structures are also often called 'performance shares' or, in the US, 'restricted stock units'.

LTIP is, however, just a name that can be given to any form of long term incentive that a company awards to its employees. An LTIP may reward an employee with shares, cash, or other benefits.

The company can design the scheme in whichever way it feels will give the most appropriate outcome for the staff, the company and the shareholders. Therefore, plans may have very different characteristics

*Source BDO UK

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Employee Benefits are an essential part of the employee experience and a crucial tool in attracting and retaining talent. What is often overlooked is the positive effect a benefits scheme can have on your employee's motivation and in turn their overall performance.

Not all benefits 'benefit' all employees! One benefit that does appear to have a positive impact on motivation and in turn Employee Engagement is Long Term Incentive Plans, provided their value is communicated effectively.

To ensure your LTIP really makes a difference to your business and bottom line you should consider promoting the scheme using the language of motivation. There are nine different drivers of motivation and each of your employees will have a different motivational profile.

To help you consider some of these motivators and what language you might want to use when considering implementing or promoting an LTIP scheme I have detailed below three important motivators, I regularly see with Manufacturing and Engineering clients.

Meaning and Purpose – These individuals really value a sense of purpose and want to contribute to the bigger picture. Working in a business that values its people, by giving them a stake in it would be highly motivating. When communicating the benefits of an LTIP stress the difference and uniqueness of the scheme and the value it could give your clients, as well as them personally.

Security and Stability – The driver for these individuals is the need to feel safe, so benefits schemes, like LTIP that provide this will really nourish their motivator and encourage loyalty and tenure. They like to plan and want to know that their work will contribute to a solid future. They also really value good clear communication, so show them the evidence of how the scheme will benefit them personally long term.

Belonging and Community – These individuals want a high sense of belonging and workplace community. Loyalty is important to these individuals and they like to be treated as 'Partners' so a scheme like an LTIP or an employee ownership scheme would be highly motivating for them.



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- When planning to introduce an LTIP, there is not right or wrong answer – look at your demographic and consider what people want to feel they are getting a fair reward for their input and for their hard work.
- Consider your end goal, and what you are aiming to achieve through the scheme.
- But also balance this against some negatives; people will alter their work output or behaviours to hit certain incentives / target. so be careful what you are incentivising.
- Be clear on targets and what they mean. Be clear on your criteria. Bear in mind where there is ambiguity a tribunal will favor the employee.
- Risks; it is possible that some staff all cash-in at once and then leave the business. Or people might hang around for longer than you'd like, you may incentivising people to stay longer than you'd want them to.
- Also think about what happens with bad leavers, with redundancies, or with retirees.



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John advises on executive incentivisation and employment tax issues for a broad range of clients. He also has particular expertise in structuring investment funds, including carried interest and co-investment. He is a member of the income tax sub-committee of the Law Society and is frequently involved in discussions with the Government on new legislation affecting investment funds and the taxation of employment income.

- There's a variety of approaches to LTIPs, from a tax perspective broadly offering an incentive which will be taxed at either capital gain or income tax rates.
- Where a cash bonus it will be subject NI and income tax rates.
- Often LTIPS involve shares which are received at a time when the value is not very high. These are subject to some tax, so share options should be looked at with a Tax Advisor; when the shares are sold there will be a tax to be paid on them. So talk to tax advisor:
- Most popular way = EMI: Tax advantage on growth in value of options – if held for 2 years could be 10% tax rate. Broadly its only for small fast growth companies.
- If you the employee decides to take their cash bonus in the form of a pension contribution, the employee and employer need to make the correct arrangement early-on in the process, or tax may still payable on the amount.



LTIP IN PRACTICE

"In the war for top talent, we see LTIP's as a key part of our leadership attraction and retention"

- We have an LTIPP this scheme since 2014.
- We award notional shares in the business to align employees with the long term objectives of the shareholders. Recipients of the LTIPP have a period of time that they wait until they can cash-it-in, but some freedom about when they cash it in to make it tax-effective for them.
- It helps us to attract good leaders into the organisation. It has helped to retain our key-team.
- We have aligned our LTIPP to the behaviours and values and the long term objectives of the shareholders.
- Current scheme is designed to reward and retain senior management and align to long term sustainable growth
- We focus on share price and award annually with a 3 year vesting period.
- Awards can be vested up to 7 years, with option to cash it when you need it or when share price is good or tax efficient for you.
- One of the drivers was around being competitive and attract high calibre leaders. We compete in challenging markets, its certainly helped to attract them with favourable comments.
- Our business model is long term stable growth and this helps to attract those with that mindset.
- We have had challenges around retirees but it has created a very loyal stable and focused team of leaders.
- Long term bigger picture – we've refreshed values for our LTIP around behaviours, which is challenging as subjective.
- Last year, financially we did OK all things considered but our leaders lead us through the storm. As this is a very flexible scheme and discretionary, it allowed us to look at what we could afford and look at behaviours and how values had been displayed and reward efforts accordingly.
- Those who displayed amazing leadership were rewarded based on what they did, not what we only achieved profit wise.



STEPHEN BROWN
CEO
EURO PROJECTS
RECRUITMENT



"As always, I am literally bursting with gratitude for the contribution made by our speakers today. Please do reach out to them with any questions you may have."

JOIN US AGAIN...

Please join us again on **10th May 2021 at 2.00pm** for 30 minutes to share the latest news affecting your business and to hear how to **Build Value & Profit with flexible and hybrid working**.

Your Zoom Call invitation for this event will follow next week.

WE ALSO DO RECRUITMENT!

IF YOU HAVE A ROLE YOU WOULD LIKE US TO HELP YOU TO RECRUIT FOR, PLEASE GET IN TOUCH WITH YOUR REGULAR CONSULTANT, ME, OR IF YOU'RE NEW TO US VIA THE DETAILS BELOW:

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