Funding the Future

George's new "we'll pay for the right to fire you with ...

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George Osborne announced a new and bizarre scheme during his Tory Party conference speech this morning. The Treasury put it like this:

The Chancellor of the Exchequer, the Right Honourable George Osborne MP, has today announced plans for a new kind of employment contract called an owner-employee.

New owner-employees will exchange some of their UK employment rights for rights of ownership in the form of shares in the business they work for, any gains on which will be exempt from capital gains tax.

Companies of any size will be able to use this new kind of contract, but it is principally intended for fast growing small and medium sized companies that want to create a flexible workforce.

Under the new type of contract, employees will be given between £2,000 and £50,000 of shares that are exempt from capital gains tax. In exchange, they will give up their UK rights on unfair dismissal, redundancy, and the right to request flexible working and time off for training, and will be required provide 16 weeks' notice of a firm date of return from maternity leave, instead of the usual 8.

Owner-employee status will be optional for existing employees, but both established companies and new start-ups can choose to offer only this new type of contract for new hires. Companies recruiting owner-employees will continue to have the option of inserting more generous employment conditions into the employment contract if they want to.

Legislation to bring in the new owner-employee contract will come later this year so that companies can use the new type of contract from April 2013. The Government will consult on some details of the contract later this month.

So, someone starts work with a high risk employer that's growing fast and in exchange for giving up their employment rights they're offered shares in the company instead so it can have the right to fire them at will.

Now, let's think this through. The obvious problem is that the only time the company will (you hope) want to fire you is when it's doing badly. So at that point it's fair to presume the shares you've been given are near enough worthless. Which will create a triple whammy: no job, no compensation and shares worth the square root of zilch. Why bis any employee going to pt for the scheme in that case?

Second; let's be clear that in small growing companies owners do not want the ownership spread around because if that happens selling is very, very much harder to achieve and is much more costly to arrange as the number of people needing to agree rises too fast to manage. That's why if such companies do issue shares they invariably have shareholder agreements that require that if someone leaves they have to sell their shares. Usually that is on what is called 'bad leaver' terms - which means you get a rubbish pay out. So, back to square one again: lose your job and get a poor payout (at best). So still no employee take up.

Third, if favourable payout terms are required on leaving under this scheme small employers just won't do it: it won't be worth the hassle. Why? Just valuing the company every time someone leaves and has to be paid off will cost more than settling the redundancy pay.

Let's put it another way: instinctively this scheme won't fly with employees or small employers.

So let's describe it as a U turn in the design stages right now.