



30 April 1999

The Committee Secretary,
House of Representatives Standing Committee on Employment,
Education and Workplace Relations,

Email address: eewr.reps@aph.gov.au

Dear Sir/Madam,

Thank you for the opportunity to comment on Employee Share Ownership in Australian Enterprises. I enclose a short submission responding to the Parliamentary Committee Inquiry on behalf of AGL.

History

AGL has been offering share ownership schemes to its employees since 1989. At that time they took the form of an interest free loan to employees with a regular deduction from an employee's salary paying back the loan over a three year period. Take up of these offers declined over a period of seven years namely due, to the increase in AGL's share price over that time frame. The general consensus in respect to the last offer in 1996 was that because of the high price of AGL shares, employees were unable to purchase a large quantity of shares. This resulted in a decrease in our people accepting the offer.

Present Time

AGL currently has three share plans in operation:

- * a general one for all permanent full and part time employees where the shares are offered up to the maximum tax exemption concession available;
- * the 'purchase plan' is offered to outside award employees to purchase shares by way of a salary sacrifice arrangement, (including bonuses); and
- * the loan plan is offered only to the senior management team by way of a limited recourse loan.

Workplace Relations

The impact on employee relations that the employee share ownership schemes have is not an issue. Our workplace relations is currently harmonious and the offer to employees of shares is external to any negotiations with respect to enterprise agreements or awards.

In making the offer of shares to our employees, AGL has been conscious of the fact that many of our employees are based outside the metropolitan area of major centres. For that reason the communication of these offers was made on a presentation basis at each centre. The advantage of this form of communication was that not only were employees able to ask questions face to face but they were also able to meet a person from Head Office that they wouldn't normally meet. This gives them a feeling of 'belonging'.

The take up rate for the general employee share offers made under the new legislation is as follows:

Date of offer	No. offered	Accepted	Take up rate
November 97	1561	1555	99%
March 98	393	393	100%
November 98	1895	1852	97%

The other two plans have had varying success. The purchase plan, available to outside award employees has not had as successful take up rate as the general plan. Approximately fifteen percent of eligible employees have taken up the offer. Most employees who don't take up this offer cite the lack of consistency in the rules of Division 13A. That is, an election in one share plan means that an election has been made in all share plans that an employee may participate in which in most cases disadvantages the employee financially.

The third plan which is only offered to senior management has a one hundred percent take up rate.

Productivity

The impact that employee share ownership has in respect of productivity is significant. The reason for this is that AGL ties the offer of shares made under the general employee share scheme to the Company's annual performance. Targets are set by the AGL Board for AGL's performance, which include reducing injuries, increasing earnings per share and reducing controllable costs on a financial year basis. Subject to these criteria being met, all full time and permanent part time employees over 18 years of age are offered shares up to the value of the income tax concession. The significant changes to the income tax legislation have improved the tax exemption concessions to both the Company and employees for offers made under defined employee share schemes. This has resulted in a markedly improved take up rate.

With these types of targets being set, AGL feels that employees will take responsibility and ownership for the performance of the Company as the outcome now affects them financially.

Areas of concern

Whilst in general the Employee Share Ownership Schemes have had a positive effect on workplace relations and productivity, there have been a few areas of concern to AGL that have been identified when setting up these schemes. These can be categorised as follows:

- * *Establishment concerns – the definition of who is eligible, in particular employees based overseas; unclear guidelines on determining market value of the shares at the time of allocation; what levels of financial assistance the company is able to provide; the unclear vesting schedule for the shares; and the types of restrictions placed on both the shares and employees.*
- * *Tax considerations – inconsistent rulings of Div 13A; market value of the shares at specified times; loans to employees to purchase shares; the use of Trusts as the vehicle to set up share schemes and the lack of forethought by Treasury in respect of the outcome of the Ralph report which leads to problems like the franking credit issue of flow through and the 45 day rule.*
- * *Capital Gains Tax – problems associated with the interaction of Division 13A and CGT provisions; and the problem mentioned previously in relation to an election made up front versus no election made.*
- * *Corporate considerations – the need to provide the ASX with a prospectus for every offer made under a share scheme is quite onerous; again the problem with financial assistance that the*

company can offer employees for share plans; the level of disclosure that the company must make to employees being offered the share schemes; and listing rule requirements.

It is AGL's intention that the employee share ownership scheme will continue to be offered to all eligible employees as often as the legislation will allow. AGL is totally committed to increasing the productivity of its workforce and enhancing work place relations through share ownership of the Company by employees. AGL also firmly believes that the Australian economy will benefit overall with employees of all large organisations taking a greater interest in the business world.

Should you require further clarification on any of the above please contact me on 02 9922 8392.

Yours sincerely,

Mrs Simone Murray
Employee Benefits Administrator