The Mutuals Manifesto 2010

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Building Societies Association

Co-operatives UK

eoa Employee Ownership Association

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What is a mutual?

Mutuals are organisations that are owned by, and run for the benefit of, their current and future members.

Mutuals take many forms and operate in a wide range of business and social environments. Most people recognise mutuals through one or more of the long established building societies, co-operatives, friendly societies and mutual insurers. But the sector encompasses many more types of organisations – some large and well established like housing associations, clubs and employee owned businesses to smaller, specialist bodies such as credit unions, football supporter trusts and community mutuals.

In recent years, many new mutuals have sprung from the public sector – new independent organisations providing public services, such as NHS Foundation Trusts, Leisure Trusts, Co-operative schools and community mutual housing schemes.

Mutuals are not just different types of corporate form – they are different because of the way they behave, and the reason they do business.

What all of these membership based organisations share is a common heritage and ethos – to serve their members and work in the wider interests of society.

Key Facts about the Mutual Sector

Annual mutual sector revenues exceed £95 billion

Over 900,000 people work in mutuals

Globally, mutuals aggregate turnover is equivalent to the world's 10th biggest economy

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"Customers trust mutuals more than either government run organisations or private businesses"

1 Preface - Mutuals matter more than ever

The unprecedented economic turmoil of the last two years provides a dramatic backdrop to this mutuals manifesto.

As the UK emerges from recession, the reputations of many great businesses, and their leaders, have been damaged. The public has been shocked by the scale of economic losses, and the subsequent need for Government to step in as the bank of last resort for the economy. Trust in institutions of all kinds is at an all time low.

Ultimately, economies will recover and in time most businesses can be re-built, but the nature of this recession means that more fundamental questions are now being asked about the way our economy relies on the health of proprietary business.

The mutual sector, whilst not immune from the down-turn, has been relatively unscathed – with many individual mutual firms proving their durability in adverse conditions.

Not reliant on the capricious nature of capital markets, investor mood-swings, or complicated investment instruments, mutuals' inherent long termism and clear business purpose has insulated the sector from the worst of the economic storm.

Customers trust mutuals more than either government run organisations or private businesses – and this is clearly linked to mutuals' long term relationships with their members – be they customers or employees. It points to a different cultural approach to doing business that contrasts with that of proprietary companies.

The sector has continued to grow in this period. Overall annual revenues exceed £95bn. Membership of mutuals continues to expand, with ever more individuals understanding the importance of belonging to the institutions that affect their lives.

New mutuals continue to be established in exciting new sectors and perhaps most importantly, long held certainties about company ownership, held by so many, have been shaken - leading to a new focus on the options for ownership in business.

What binds these organisations together is not a single legal structure or constitution. Their bond is cultural and is related to their reason for doing business – one that is driven by a belief that people can achieve most when they work together, and that the rewards from business should be shared with those that earn them.

A mutual manifesto for Government

This manifesto is the first of its kind. It is a challenge to the UK's political parties to show how they plan to support and nurture the mutual sector, for the good of our country.

We believe that it is in the national interest that Government understands the mutual sector and values the diversity mutuals bring to the markets in which they operate.

Mutuals do not need and are not asking for favours from Government. But they do need to be understood and to work on a level playing field.

This means that Government must be mindful of the mutual sector when it is making legislation, regulating markets and planning policy. Many mutual businesses are excellent examples in their sectors and their good practice should be shared and understood throughout Government.

This manifesto describes the contribution of building societies, co-operatives, employee owned firms and mutual insurance businesses. It contains practical proposals for how Government can support and develop these important business sectors.

The mutual sector stands ready to contribute its experience and goodwill to the future of Britain, and seeks to work with Government in a partnership for shared prosperity.

“Mutuals matter. They are an important part of our economy and society”

2 Why mutuals are good for Britain

Mutuals matter. They are an important part of our economy and society. They provide essential services to large numbers of our people and their impact is felt across the life of our country.

At a time when people have been disillusioned by the behaviour of many proprietary firms, such as the big plc banks, and trust in institutions is at its lowest in living memory, people now recognise the importance of businesses that work in their interests.

The mutual focus on service and quality rather than risk taking and profit extraction has meant that mutuals have been less exposed to the global credit crisis.

Governments across the world see the need for maintaining diversity in their economies and are taking an active role in ensuring that their citizens benefit from this. Mutuals are a vital part of this mix.

Mutuals matter to the UK

Mutuals are big business. They account for over £90bn annually in revenues and affect the lives of more than one in three of all UK citizens. More than 25 million people are members of at least one mutual – that equates on average to half the electors in each Parliamentary constituency in the UK.

Mutuals aid market diversity

Mutuals are good for the markets that they operate in. Their presence means that there is a permanent competitive pressure on profit maximising firms. One lesson from the economic downturn is that a stable mutual sector acts to protect the UK economy from the large fluctuations experienced in stock markets.

Mutuals are successful businesses

Again, the experience of the last 2 years is that mutuals have been more resilient than most firms. There are examples of individual mutuals consistently leading their markets in performance and service.

Mutuals create and spread wealth

Mutuals are successful businesses that share their profits through lower prices to customers and dividends to members. Mutuals reward loyalty and hard work for their members’ contribution in making their businesses a success.

Mutuals do business in a different way

All businesses exist to serve their owners. The difference with mutuals is that their owners are their customers or employees. This means that mutuals are more focused on how they do business by making them responsive to the needs of their customers and employees instead of the demands of investors to take ever greater risks in order to extract profits from the business.

Mutuals are trusted

The public trusts mutuals more than they do other types of business. This is because mutuals have been established to serve their customers, rather than investing shareholders. This means that not only do they have an in-built advantage in not having to pay dividends to outside shareholders, but they can concentrate on running the business in a way that best meets the needs of their customers.

Mutuals deliver accountable public services

Mutuals are increasingly seen as a good choice for providing public services. The examples of NHS Foundation Trusts and Co-operative Trust Schools show how public providers can be converted to high quality, businesslike bodies, which are directly accountable to the people that they serve.

Mutuals are popular

People like mutuals. In employee owned businesses, staff satisfaction levels are significantly greater than in the wider economy, and research shows that consumers prefer mutuals ahead of other businesses in the same industry.

"Government should ensure that mutuals are understood and receive equal treatment across all Government departments"

3 What mutuals need from the next Government

We believe that it is the Government's responsibility to establish a fair environment in which mutuals can compete with other businesses. The way mutuals are set up and work means that they have particular needs that are different from other businesses and service providers.

Overall, the mutual difference must be understood and reflected in the actions of Government when it makes laws, seeks to regulate activities, or sets policy objectives. It is not good enough to base all policy on the plc model as the norm and then struggle to cater for mutuals as an afterthought.

The following sections show how each of the constituent parts of the mutual sector wishes to play its part in building a strong and dynamic economy and society. Building societies, co-operatives, employee owned businesses, friendly societies and mutual insurers set out what the government can do to help them to deliver a strong performance for Britain.

In summary, we call upon the Government to commit to:

Ensure that mutuals are understood and receive equal treatment across all Government departments

- Create a Government Office for Mutuals with a designated Minister for Mutuals
- Ensure that mutual sector legislation keeps pace with company law reform

Use its influence with Regulators to make sure that they act in a way that respects diverse forms of ownership

- Government should commit to alter the terms and approach of Regulatory Authorities to match Government policy

Promote mutual ownership as a way of serving the public interest

- Government should support the Commission on Ownership
- Government should evaluate returning Northern Rock to the mutual sector
- Public services should be supported to convert to mutuals by a business conversion unit
- A Public Services Regulator should be established to drive quality corporate competence

Government should ensure that mutuals are understood and receive equal treatment across all Government departments

Government needs a clear vision and roadmap for the development of mutuals. Mutuals often face difficulties in working with Government because mutuals are less well understood than other corporate forms, with Government often regarding mutuals as a low priority.

Legislation affecting mutuals mostly resides with HM Treasury, and they are not seen as mainstream by the Department for Business Innovation and Skills (BIS), which is responsible for companies and company law but has little to do with mutuals. This can create difficulties with mutuals often being treated as an afterthought by Government.

Government can act to ensure consistency through a range of actions.

Action - Create a Government Office for Mutuals with a designated Minister for Mutuals

Similar to the support given to the Third Sector by the Cabinet Office, this initiative would help to ensure that there is a focus for working with mutuals in Government, and that all Departments would see a new co-ordination to working with mutuals.

Government could, at no cost, appoint a Treasury/BIS joint Minister to be specified as Minister for Mutuals. The Minister would be supported by a team of Officials who would work together as the 'Government Office for Mutuals.' The Officials could be drawn from existing HM Treasury/BIS functions.

Action - Ensure that mutual sector legislation keeps pace with company law reform

Real progress has been made in improving legislation affecting mutuals in recent years. In some cases, this has been long overdue and required significant effort to bring mutuals legislation into line with modernised legislation for companies.

Unlike legislation for conventional businesses, legislation affecting mutuals cuts across departments. It mostly resides with HM Treasury, but mutuals are businesses and BIS must have a shared role in developing this agenda. The current approach puts mutuals at a competitive disadvantage, where they often have to wait many years to enjoy the same benefits as companies.

Government should commit to continue this effort and ensure that in future, co-operatives, building societies, friendly societies, employee owned firms and other mutuals are treated equally with companies in maintaining and improving their legislative environment.

"Government should use its influence with Regulators to make sure that they act in a way that respects diverse forms of ownership"

Government should use its influence with Regulators to make sure that they act in a way that respects diverse forms of ownership

Much day-to-day business with mutuals takes place through Regulatory authorities, such as the Financial Services Authority. It is vital that these Regulators equally understand the effect that their often 'one size fits all' approach, inevitably based on the plc model, has on mutuals.

As a consequence there is a wide and growing divergence between the stated Government policy objectives and the actions of the Regulator, which are likely to frustrate them.

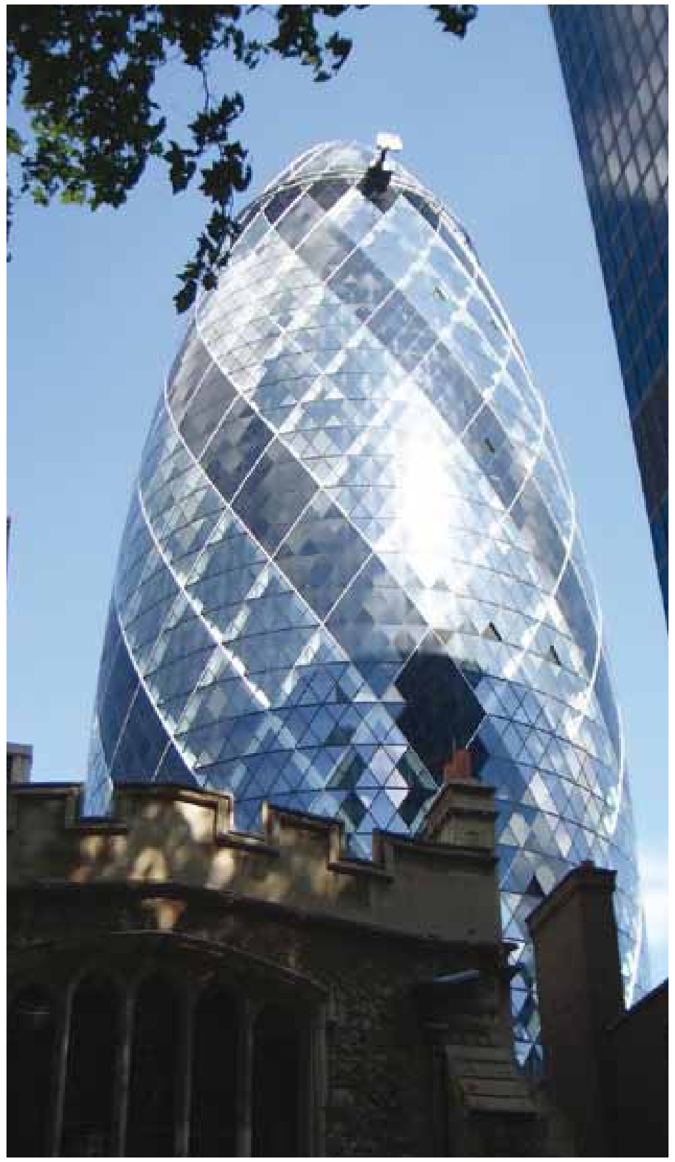
Government should take action to address this.

Action - Government should commit to alter the terms and approach of Regulatory Authorities to match Government policy

In the wake of the financial crisis, there is a consensus across the major political parties for diversity of corporate form within financial services, with a strong mutual sector.

However, the Financial Services Authority does not see that it has a duty to take corporate structure into account when regulating the financial services industry. Mutual capital differs from proprietary capital and cannot be regulated in the same way.

One of the four statutory responsibilities of the FSA is, 'public awareness: promoting public understanding of the financial system.' (Financial Services and Markets Act). We call upon the Government to reform the remit of the Regulatory Authorities to include a new principle 'to act to maintain diversity of corporate forms, by affording equal respect to mutual forms of corporate organisation.'



Promote mutual ownership as a way of serving the public interest

Financial mutuals, which are not owned by investing institutions, can counter-balance the short-termist pressure of the City. Mutuals also play their part in reducing the concentration of financial sector resources and employment in the City, dispersing wealth and welfare to regional and local economies.

The Government rescue of the banking industry presents a unique opportunity to make a bold statement that there should be no return to the practices that led to the banks' difficulties. Government owned Northern Rock should be converted to a public interest mutual.

In the public sector, new mutuals have been established, which transfer power and decision making to the users of services and the staff that provide them. They ensure that public services are connected with, and accountable to, those who engage most with them.

Government can act to strengthen understanding of the sector and increase the number of new mutuals serving the public interest.

"Promote mutual ownership as a way of serving the public interest"

Action - Government should support the Commission on Ownership

The economic crisis has shown the fragility of stockmarket owned business, and the importance of the diversity of corporate forms to the British economy. Trust in institutions is at an all time low. At the same time, political parties are increasingly interested in how public services can be more accountable to their users, whilst harnessing a stronger culture of employee engagement.

The Commission on Ownership will establish a new and clear understanding of the influence that ownership has on the governance of our country.

The key questions for the Commission are:

- Does ownership matter?
- Does ownership affect fairness in Britain?
- What, if anything should Government do about ownership?

The Commission on Ownership will look at all of these questions and recommend how in the future the mutual sector could be preserved and grown for the good of the UK. We call upon the Government to engage positively with the work of the Commission.

Action - Government should evaluate returning Northern Rock to the mutual sector

Government must not allow the UK's financial services sector to return to the 'business as usual' model that has proved so costly to the economy and public finances. Already we have seen a return to the bonus culture, which is fuelled by profits boosted by the increased market power of banks which have been rescued by the taxpayer. It is vital that the banks face competition from mutuals, which would also reduce the risk of the credit crunch being repeated.

Keeping a reformed Northern Rock independent of the big banks will be good for competition. Northern Rock could be converted to an asset locked public interest mutual. As a mutual committed to its core business, a remutualised Northern Rock would help the Government by supporting competition and diversity through the maintenance of a strong mutually-owned financial sector.

In any exit process the Government needs to realise the optimum value for the taxpayer. A re-launched and re-mutualised Northern Rock can pay for the taxpayer stake over time. A deferred payment profile can give the optimum outcome, both returning the full value to the taxpayer but also achieving other public policy goals.

Given that remutualisation would strengthen competition and create a more diversified financial sector, it could be expected to generate an advantage to the taxpayer over the long run in excess of the immediate benefit of any capital proceeds in the short run.

Action - Public services should be supported to convert to mutuals by a business conversion unit

The conversion of state and municipal providers to publicly accountable, business-like and independent community mutuals has been successfully applied in health, education, housing and leisure services.

These new mutuals are focussed on a high level of service delivery, whilst remaining accountable to their users and staff. Many successful mutuals have been created by converting existing state or municipal providers to these new bodies.

Government should commit to assist public sector managers, staff and their trade unions, who wish to provide their services through new employee or customer led mutuals.

We call upon the Government to establish a non-departmental business conversion unit to work across all Government departments to assist in giving best practice help to public bodies that are converting to mutual status. The lessons from health and education and elsewhere can then be shared with newly established mutuals to ensure the best possible support for these newly independent businesses.

Action - A Public Services Regulator should be established to drive quality corporate competence

The experience of NHS Foundation Trusts is that in the transition phase, they benefit from a tough and focused Regulator that can drive high standards of corporate governance.

Driven by a strong and empowered Regulator, these bodies have had to demonstrate their competence as businesses in a very short time scale. The corporate standards that they must adopt should be common across all externalised public service providers.

The Public Services Regulator would build on the successful work of Monitor (The Independent Regulator for NHS Foundation Trusts). This will help to ensure that high governance standards are met before conversions to new structures are permitted.

It will also establish and enforce standards of membership engagement that will ensure the accountability of institutions to their users and taxpayers.

"The building society model provides a real alternative to the plc banks and is one the Government should seek to enhance"

4 How mutuals can help Britain

4.1 Building Societies

Building societies are of great importance to the financial services industry, the economy and to consumers.

The financial services system derives benefits from the diversity of ownership structures, governance arrangements and portfolio composition typically resulting from the co-existence of plc banks and mutual building societies.

Societies, which are not owned by investing institutions, can counter-balance the short-termist pressure of the capital market. They play their part in reducing the concentration of financial sector resources and employment in the City and are an important part of the UK economy. They provide employment in many regions of economic stress. Their economic effect on other service businesses in their regions is immense. And, unlike many proprietary banks, they do not dabble in "casino banking". They stick to "utility banking" providing services that people really need – savings and home loans.

Consumers would suffer if building societies did not exist. Societies have much higher service standards than their competitors in the market with various market research surveys showing that they are more trusted by their customers, are perceived as offering better value for money and as treating their customers more fairly than do their banking competitors. They have also, in comparison to the banks, been much less likely to close their branches over the past 15 years.

Societies offer long-term, good value to their customers. For example, Moneyfacts' Most Consistent Savings tables from January 2010 show societies account for over 73% of all the savings products offering the best rates of interest over both the last 18 and the last 36 months.

The building society model provides a real alternative to the plc banks and is one the Government should seek to enhance.

Bringing mutuals closer together

One of the problems in the mutual sector over the last 100 years of their history has been a difficulty in bringing together in one corporate form mutuals of different types. Ironically it has been easier for some mutuals to convert to the form of plc than to merge with another mutual. This was successfully tackled, with all-party support, through what is known as the "Butterfill" Act, The Building Societies (Funding) and Mutual Societies (Transfers) Act 2007. But the Act requires full implementation, via detailed secondary legislation, in relation to all types of mutual transfers. So far, it has been implemented for transfers by building societies only. This should be completed for the whole mutual sector - so that mergers between all different types of mutuals should be permitted, or facilitated, in practice - as Parliament intended. Creating new mutuals, or converting a plc to a mutual, should also be made easier – and this requires innovative, imaginative approaches to the scope for capital raising by all forms of mutuals, and a readiness to amend legislation where it is out of date and constricting.

Building on progress so far, a permanent post of 'Minister for Mutuals' should be established. There should be a commitment to resource the Minister with a team of experts on the various embodiments, and their existing legislation, within the wider mutual model. The Minister would have cross-cutting responsibility to review all policy in respect of its impact on mutuals, and secure the "parity of esteem" and parity of treatment mentioned above. While the Minister and her/his team might continue to sit within the Treasury, strong cross-departmental working and collaboration would be essential – especially with the Department for Business, Innovation and Skills as the custodian of companies legislation, so as to make these parities work in practice.

Capital raising and support measures

Capital raising

Mutuals generate most of the risk capital they need from retained surplus – since they do not generally distribute profits to non-customer investors (unlike plcs), there is a substantial internal source of capital. But all types of mutual need some access to external risk capital from time to time, on a basis that does not compromise their mutuality.

Although politicians often claim to show "parity of esteem" to the mutual and proprietary ownership models, this does not translate into parity or equivalence of treatment when it comes to regulatory capital. Instead, regulators in the UK tend to take the proprietary model as the norm, and treat mutuals as a deviation from it. So, for instance, the FSA now holds out the company ordinary share, a proprietary instrument, as the gold standard for "core capital", and even goes as far as to suggest that only capital remunerated by a distribution of profit is capable of being considered as "core". This stance is clearly anti-mutual, but has received little challenge so far.

But the FSA has based its policy on an uncritical and idealised acceptance of the plc model, and has

"Parity of esteem for the mutual and proprietary models is a principle of public policy which should set the agenda for regulators, not vice versa"

ignored the very real weaknesses of that model - the inherent incentives to risk-taking and over-distribution, and the added instability resulting for example from the volatility of bank share prices. Instead, FSA seems determined to force mutuals, when it comes to capital raising, into quasi-PLC structures and behaviours at the very point where those have been found wanting.

This is not a matter that can be left to regulators. Parity of esteem for the mutual and proprietary models is a principle of public policy which should set the agenda for regulators, not vice versa. European institutions have less difficulty granting mutuals parity of esteem – as evidenced by the concept of the European Social Economy and the three Statutes that established it. The challenge is to embed this thinking in UK government and regulation in a joined-up way.

Access to state support

At the height of the banking crisis, the UK Government set out a range of measures to stabilise financial markets and support individual deposit-takers – these include the Bank Recapitalisation Programme, the Asset Protection Scheme and the Credit Guarantee Scheme. All were stated at the time to be equally open to banks and building societies. However, their practical application told a different story.

The recapitalisation programme initially handed out £37 billion of state investment to the major banks (and an additional £25.5 billion was injected by the Government into RBS on its participation in the Asset Protection Scheme). The building society sector, demonstrating solidarity in accordance with its mutual values, coped with the relatively few problem societies by way of mergers at no cost to the taxpayer, throughout 2008. By March 2009, however, when the BSA-led consortium of societies proposed a modest capital injection for the Dunfermline BS to be matched pari passu by the Government, suddenly the recapitalisation funds had evaporated. Societies and others remain unclear why the goalposts suddenly moved.

The cost and design of the Credit Guarantee Scheme (CGS) also proved less attractive for building societies compared with the major banks. The CGS could only be used to obtain a government guarantee for issues of specific debt securities. But many societies do not issue debt securities as their funding volumes do not justify the issue overheads - instead they take term deposits from the money market and provide a home for local authority temporary cash surpluses. The CGS would have been the ideal vehicle to provide, in the short term, the extra reassurance that for instance local authorities needed – but because of its design features it could not be used. Moreover, those societies that considered using it have found the cost to be excessive: although notionally a market-determined rate derived from credit default swap rates, few if any societies have any reliable market in their CDS, and moreover CDS rates do not appear to take account of the very low risk of actual loss for senior wholesale depositors with a building society. The Government was therefore demanding an unjustifiable premium from societies in relation to the true risk that it would assume under the CGS.

Finally, the Asset Protection Scheme would again have had potential application to a range of societies seeking to mitigate their exposure to impaired assets. But the Government set an arbitrary £25 billion threshold for participation in this scheme, with the effect that only two or three societies at most (out of 52) were eligible.

These three examples indicate why – in relation to present and future mechanisms to preserve financial stability, or equivalent government interventions in other sectors - what is needed is not only the principle of parity of treatment between proprietary firms and mutuals, but also important, the embedding of that principle in the detailed design and operation of any such scheme, together with a readiness to monitor for and correct any inadvertent anti-mutual bias that comes to light.

The Financial Services Compensation Scheme – the unfair impact on building societies

The Financial Services Compensation Scheme (FSCS) is the 'safety net' for customers of financial institutions in the UK. It steps in when institutions fail.

In the economic turmoil of late 2008 / early 2009 there have been a number of bank failures; Bradford and Bingley, Kaupthing Singer and Friedlander, Icesave, Heritable Bank and London Scottish bank. In all these cases no private individual with a UK deposit with one of the failed banks has lost any money. Where the amount insured by the FSCS has been exceeded (the FSCS covers the first £50,000 of an individual's deposits and £100,000 in the case of a couple) the Government has paid the remainder. This is to be welcomed and has helped to maintain confidence of UK depositors that their money is safe.

The compensation payments have been made in the first instance by the UK Government, part of which has been in the form of loans to the FSCS, which currently amounts to £18.2 billion. The principal of the loans will not become due until March 2012, by which time it is hoped that there will have been substantial recoveries

from the assets of the failed banks, but any amounts still outstanding will need to be met by FSCS levies on the industry. In the meantime, building societies and banks are being required by the FSCS to service the interest on the loans made by the Government to the FSCS. These interest payments are currently capped at £1 billion pa, of which, we estimate that building societies will be required to pay a fifth, ie up to £200 million pa in each of the next three years. With the recent reductions in interest rates, the latest estimates are that the £1billion pa cap will not be reached this year – the FSA's forecast is that the FSCS levy for 2009-10 will be £493 million, of which building societies will be required to pay £100 million.

Building societies are not immune from the continuing market turmoil – as the plight of the Dunfermline Building Society has illustrated – although that has yet to trigger further contributions to the FSCS. Nonetheless, building societies consider that they are having to bear a disproportionately high share of the compensation costs associated with failed banks. Societies are angered that, as institutions that mostly behaved prudently in the housing market upswing, they are now being forced to pay for those who acted much less prudently. As mutual, member-owned organisations, any additional costs such as these, ultimately work to the detriment of societies' members – their savers and borrowers.

The disproportionate impact on building societies is due largely to the current allocation of FSCS levies, which is based on the size of each contributor's retail deposit balances. As a result, building societies, which have always raised the great majority of their funds from their traditional retail savings customer base (and are required to do so by law), will pay – relative to their total balance sheet - significantly more than those banks that have relied excessively on wholesale funds from the markets – even though such reliance on wholesale funding has been one of the main causes of the financial crisis.

New arrangements are needed that more accurately reflect the relative risks faced by banks and building societies, and which are fairer to building societies – and their members.

"New arrangements are needed that more accurately reflect the relative risks faced by banks and building societies, and which are fairer to building societies – and their members"

Consumer protection

Mutuals care about their customers and see strong and simple regulation as an important protection of consumer interests in relation to financial services. Successive Governments have been committed to deregulation for over 20 years – yet still the regulations pile up to the detriment of clarity for consumers and against the interests of the UK economy. Now is the time for a clear commitment to deregulation that goes beyond words and includes deeds. Many appropriate principles are already in place (through, for example, the Better Regulation Executive) but these mean little unless they are applied effectively in practice.

The UK financial services industry and its customers deserve clear, coherent consumer laws and we commend the Building Societies Association's 12-point plan to Government.

http://www.bsa.org.uk/policy/response/dberr.htm

"The co-operative model of business is extraordinarily flexible"

4.2 Co-operatives

The Case for Co-operation

There is increasing evidence across a range of disciplines that people are co-operative as much as they are also competitive. Over recent years, policy and politicians have neglected this truth. Britain has therefore lost out by missing some of the opportunities for innovation, business success and social responsibility that co-operation brings.

Co-operative enterprises have proved their worth over the recent credit crunch. Around the world, there has been a rush to trust in terms of savers switching to financial co-operatives and the UK is no exception. The co-operative Rabobank is the only bank in the world with triple A rated status from both Moody's and Standard & Poor's, while in the UK, the Co-operative Bank, newly merged with the Britannia Building Society, is flying high at the national level, while at the local level credit unions are growing fast.

There is a spectrum of co-operation. It is not that every business should be a co-operative or mutual. But every business can benefit by being more co-operative. We know that the UK has a very high degree of workers - 23% - that are not engaged in their workplace and that this comes at a cost. Drawing on a methodology developed for the USA, Co-operatives UK estimates the minimum annual economic cost of this failure for the UK at around £36bn.
There is, after all, a growing consensus on the factors that serve business excellence – a clear mission, better services and products, giving consumers power, nicer places to work, engaged staff, less social and environmental harm. There is good practice on some or other of these elements in plenty of workplaces, but taken together, they are what many would describe as a co-operative.

The co-operative model of business is extraordinarily flexible. It allows villages to make a success of shops threatened with closure and, now, communities to reopen pubs that are closed. It allows freelancers in the creative economy to come together for mutual benefit. It allows for sensitive services, such as funeral care, in which consumers are often vulnerable to be delivered with trust and dignity. It allows residents to take responsibility for their own community through housing co-operatives. At the heart of its success are fundamental values, of equality, democracy and participation.

Our vision for a self help society

Until now Government has looked, to varying degrees, to either plcs or philanthropy to provide economic and social security. As enterprising organisations based on self-help and mutual aid co-operatives offer a trusted, alternative approach.

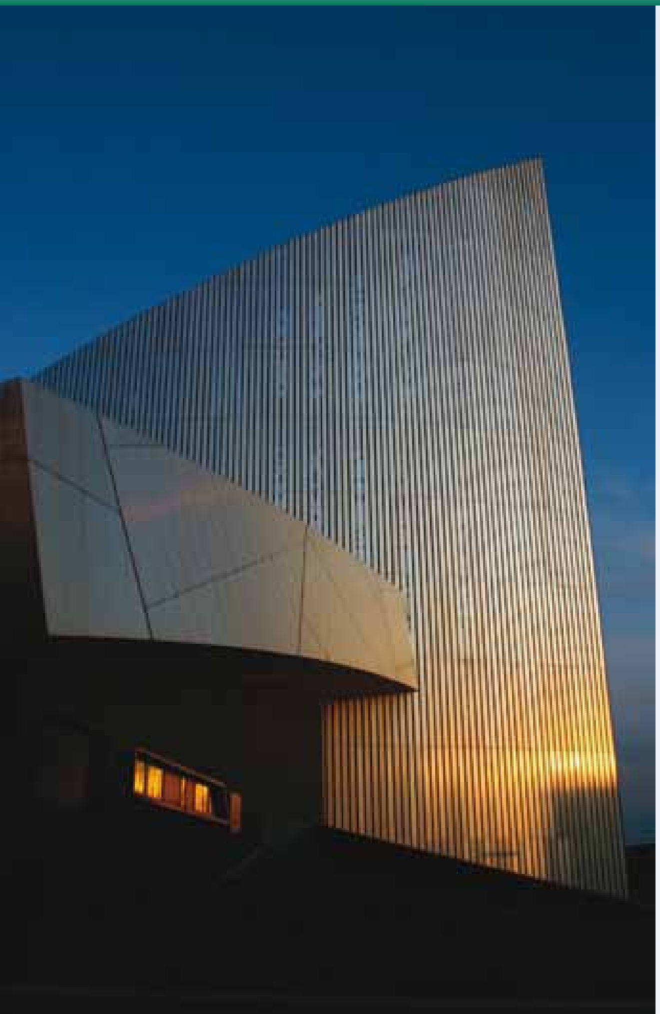
A thriving co-operative economy already exists in the UK. There are 4,800 co-operative businesses, owned by 11 million people - one in five of the population - and sustaining more than 200,000 jobs. The sector has a combined turnover of almost £29 billion - this works out at £550 million per week.

Co-operatives are independent businesses, but as with any other form of enterprise, self help and mutual aid needs the right environment to thrive. People need to feel confident that they have the right support and tools to for self help to succeed. Co-operatives need a fit for purpose legislative environment and recognition in key areas of economic and social policy.

In line with other parts of the mutual sector, co-operatives wish to see the next Government make a commitment to encourage a diverse economy – one where a variety of business models are encouraged and enabled to thrive – in UK policy, the devolved nations, the regions and locally.

The key levers for enabling a more co-operative, self help society are:

- Cutting red tape. Make it as easy as possible to set up a co-operative or other form of social enterprise compared to other form of business. Encourage and support effective self-regulation of the co-operative sector.
- A clear vision and roadmap for co-operative development drawn up as a partnership between Government and sectoral bodies.
- A clear role and vision for co-operatives across the major areas of business policy including business advice and support, innovation, entrepreneurship, finance, the creative, digital and green economies, as well as farming and food.
- Further legislative reform. Much progress has been made in modernising legislation affecting co-operatives over the last few years. It is important that these efforts continue, to ensure that co-operative legislation keeps pace with wider corporate law. This should include a complete review of co-operative legislation and a new Act in line with that of recent company law reform.



- Action to protect the term ‘co-operative’ in registration to safeguard standards and ensure co-operatives remain a trusted business model.

- Learning from the success stories of devolution. Devolution has created opportunities for developing and promoting the co-operative advantage. The creation of Co-operative Development Scotland (CDS), for example, as an integral part of business policy, has helped successfully to support employee buyouts and new start co-operatives. In Wales, close collaboration between trade unions and the co-operative sector has led to a vibrant co-operative economy.

- Support for the roll out of community investment. Over 90 cases of community investment have been identified in the UK, more than half of which are new community enterprises formed in the last ten years. These newer initiatives have raised more than £42m from over 30,000 community investors.

“Looking forward, the five central and interlocking challenges that the UK faces are all ones that require a step change in co-operation”

Our five themes for a more co-operative economy are:

Economic renewal A more participative economy will be a more productive economy, and the co-operative option can be effective for all settings from saving a business for the future by bringing in employees, allowing freelancers or low-paid workers to gain strength by clubbing together through to new start co-operatives. The goal should be to make it as easy to start or to convert to a co-operative business as it is a private enterprise, by removing red tape and including co-operatives at the heart of business policy.

Social innovation To find new solutions to public service problems in a context of tight resources, we need new forms of co-operation. Much of this, in fields from social care to crime, is about a radical shift in resources, investing in prevention at the community level and handing more control to service users.

A fairer society In comparison to other developed countries we have high levels of inequality. Why? Because we have a culture that tolerates it. To reduce the stresses of inequality, we need to rebuild a culture that cares and reassert key social norms of reciprocity. At a global level too, co-operatives play a critical role in tackling poverty, from farm networks to all the co-operatives behind fair trade.

Climate change To deal with climate change and resource depletion, we need co-operation. The evidence is that most people will take and support action at different levels if they know they are not acting alone. Co-operation works well for long-term issues and encourages collective action on the basis of ‘I will if you will’.

Digital futures To take advantage of the digital economy, the UK has to embrace the creative commons of co-operation online, from open source to platforms for user generated content, rather than try to shore up traditional business through protectionism. If there can be increasing as well as diminishing returns to investment in a knowledge economy, then economic policy should encourage sharing and limit the reach of monopolies.

"Government can act to nurture
and support the growth of a more co-operative economy"

Economic renewal

Government can act to nurture and support the growth of a more co-operative economy. It should ensure a level playing field in business support provision that allows all business models an equal chance of success.

In particular, Government has the opportunity to:

- Ensure that viable businesses are not failing unnecessarily, by advancing support for the conversion of businesses to co-operatives and making employee ownership – especially business succession – an upfront option in all business advice.

- Promote the creative economy, by highlighting the benefits of co-operatives in allowing individuals and business to achieve scale through working together. The co-operative approach, for example, can benefit freelancers in the creative and IT industries who may otherwise be in a vulnerable economic position by bringing them together, enabling sharing of ideas and providing security.

- Tackle the growing challenge of low-skill unemployment or low-paid employment by looking for ways for people to come together through co-operatives. For example, this could include steps to integrate the opportunity for co-operative action into contracts for adult learning and training, combined with links to business advice. We believe that it should be made easier for people on welfare benefits to make the transition to work by setting up, or joining, a co-operative. There is a track record for this approach in many other countries: their benefits continue during the transition, and they are then able to capitalise the benefits to provide start-up finance.

In terms of fiscal policy, co-operatives should operate on equal terms where there are incentives for entrepreneurialism and employment. There is a need to level the playing field for co-operative enterprise in schemes where their contribution has been overlooked. This is not about increasing public expenditure, but about being included on an equitable basis in all schemes that Government does run. Government should therefore explore and cost the following relevant measures:

- Ease the process of converting to a mutual model through legal and fiscal instruments. This could include fiscal incentives - for example, a newly mutualised business could attract tax relief for the investors for a set period after conversion. In the period leading up to the conversion, donations or investment could provide tax relief for the donor/investor.

- Continue to allow Industrial and Provident Societies to be eligible for tax relief under the Enterprise Investment Scheme (EIS). EIS has proved useful for attracting investment in IPS share issues, ensuring innovative community-based businesses have been able to proceed. Government should carefully consider the particular safeguards that the IPS model displays with regard to such capital. For instance, Industrial and Provident Society (IPS) withdrawable share capital, which has a minimum period of five years, should be classified as acceptable in its own right for the purposes of EIS.

- Raise the limit for the Enterprise Investment Scheme above its current £2m limit to £10m, but make savings by tightening up restrictions on qualifying legal entities (IPSs, Community Interest Companies and charities) and/or for certain industrial sectors such as renewable energy, which need investment on a greater scale.

- Permit Self Invested Personal Pension Schemes to invest in IPSs and CICs, especially property-based ones such as Community Land Trusts, housing co-ops and low carbon energy schemes.

- Consider options for allowing community benefit societies (IPS Bencoms) to benefit from some of the tax advantages enjoyed by charities, given that they operate for the benefit of the community, rather than private gain. This could be through either a tax break in recognition that Bencoms make surpluses – not profits, or through making Bencoms eligible for Gift Aid.

- Continuation of the Community Investment Tax Relief scheme, which has been an important route for investment for some Community Development Finance Institutions (CDFIs) and the social enterprise sector.

There is also scope to develop thousands of locally owned enterprises providing community services and infrastructure, financed by the community, who share the profits and benefits of enterprise. Action Government could take includes:

- Complete the necessary update of IPS legislation, whilst maintaining its unique attributes that promote community investment. Important updates could include allowing community benefit societies to pay dividends and co-operative societies to adopt an asset lock.

- The confirmation that charities can convert to IPS asset-locked community benefit societies in line with permitted conversion to Community Interest Companies (CICs).

- Support the development of self-regulatory practices covering community investment offer documents and

"Co-operatives are playing an increasing role in the delivery of public services. From education to housing, health care to leisure services..."

the training, accreditation and recognition of community investment business advisers.

- Promote higher standards of transparency and accountability by improving public access to electronic information on IPSs including access to their annual financial and social reports.
- Improve the fiscal stimulus for community investment, by extending the zero rated exemption for corporation tax currently available only to charities, to include asset-locked IPS community benefit societies.
- Broaden the scope of Community Investment Tax Relief to encourage communities to invest in their own services and infrastructure.
- Enable people on lower incomes to invest in community enterprise by supporting intermediary finance models that can allow members to make a regular subscription over a period of several years.
- Review the CIC regulations, with the aim of enabling this legal format to practice community investment.

Social innovation

Co-operatives are playing an increasing role in the delivery of public services. From education to housing, health care to leisure services – both user and staff led co-operatives are providing high quality public services that respond efficiently to need.

Government should take advantage of the benefits of this locally led approach by developing a clear policy context for co-operatives and mutuals within public service delivery, as has been the case with the NHS 'right to request', to remove some of the risks associated with moving into new or developing markets.

The co-operative model is already employed across a range of health and social care markets including home care, out of hours GP co-operatives and foster care. There are also examples around the world of primary care that is delivered by self-help health co-operatives, working in partnership with statutory health trusts that procure their services.

The right policy framework can encourage the development of co-operatives. Recent innovations in mutual approaches to personalised budgets, for example, have shown that appropriately tailored support and seed corn funding has the potential to lead to sustainable user and carer led enterprises that provide high quality support. Procurement frameworks that recognise the added value of self help are also likely to lead to longer term value for money.

The core purpose of the NHS in providing care free of charge at the point of need is as essential today as it has ever been. There are opportunities to improve services and to involve patients and the public more effectively. Whether it is more money or less that goes to the NHS, improvement should be the aim. However, there is also a need to set out more clearly what people are entitled to expect of the NHS, both on grounds of fairness and of clinical need. By being clearer what people's rights are, it is easier to be clearer on where shared responsibilities start. Public education and public debate can help to explore these sensitive issues. Should society fund elective, cosmetic and lifestyle choice procedures, for example? How can people best be supported to make informed decisions and choices on their healthcare, public or private? The five million people in the UK covered by cash plans are clear evidence of the sharing of responsibility, but just cutting the NHS in financial terms without considering how access to essential healthcare can be maintained is unfair and unsustainable.

The healthcare system needs an injection of co-operation, based on an open dialogue in relation to rights, responsibilities, clinical need and fairness.

In education, the Co-operative Trust School model has been developed which allows schools to set themselves up as co-operatives, with co-operative values as their ethos and using a membership structure to engage parents, carers, pupils, teachers, staff and the local community. The first Co-operative Trust School was Reddish Vale Technology College, in Stockport. There are now 28 Co-operative Trust Schools, with a target of 200 schools by 2011. We call on Government to promote the emergence of co-operative schools as a key part of its wider education policy.

Alongside this is the need to build co-operation as a core competence learned in schools. One survey of 11, 13 and 15 year-olds in more than 30 countries asked the question 'do you find your peers generally kind and helpful?'. Over half were able to answer 'yes' in every OECD country. The exceptions were the Czech Republic and the United Kingdom, where only 43% felt able to answer positively (half of the results for Switzerland and Portugal). Co-operation is good for well-being, and it is also good for preparing young people for a world of work. It forms part of a vital set of 'non-cognitive' skills that help to build character and contribute to future success.

Out of school, with high levels of people living in unfit, overcrowded accommodation, housing is another opportunity for the co-operative approach. The evidence suggests that co-operative and mutual housing tends to deliver high resident and member satisfaction with services, alongside a vibrant community. There is therefore a good case for Government to establish a national and local framework that sympathetically supports the development of co-operative and mutual housing, including:

- Financing and enabling structures – a system to enable access to finance and an enabling structure to help establish co-operative and mutual housing and provide appropriate guidance and support.
- Promotion and vision – a national vision for co-operative and mutual housing, providing information for the general public, local authorities, housing associations and others that makes it clear what co-operative and mutual housing is, how it can be developed and how people can access it.
- Encouraging greater accountability and service from existing statutory and voluntary social housing providers to their tenants and residents, including opening up options where appropriate for co-operative neighbourhood services and tenant management.

One of the most iconic sectors for co-operative renewal in recent years has been sport. Co-operative supporters' trusts are excellent community anchor organisations for publicly funded community sports hubs and ensure any surplus derived from public investment is used to further the facility's objectives.

At present, the odds are stacked against supporters' trusts, which are at a disadvantage to private investors, who have the upper hand in the sale of sports clubs because of ready access to capital finance. Sports fans can be vocal, but there is no accountability in formal terms if they feel their club is being mismanaged. There is an opportunity here for sporting renewal, drawing on the example of clubs such as Barcelona who combine co-operative membership with sporting success. A radical agenda that builds on this would therefore explore how to empower sports fans to take control of their clubs.

Government should therefore consult on an option of introducing legislation to allow supporters the right to buy their club if a certain proportion of season ticket holders are in favour of the move. No doubt, it would take time to implement this, but there may be opportunities to fast-track this for clubs in difficulty. A right to buy for supporters' trusts ought to allow purchase at the point of a club entering administration and before receivership to ensure its league position is not lost. In turn, the right to buy could be accompanied by a support function from Government, removal of financial barriers (through tax relief or access to finance) and the right to buy at a fair market valuation.

After all, there is likely to be greater financial stability for spectator sports if the assets of sports clubs are in ownership of a not-for-profit community venture, preventing the community asset being used for casino-style leveraged financing for the benefit of shareholders. Sport is about passion and prowess. It is also, at scale, about business. A co-operative model balances each of these.

"There are many options for Government to develop a more co-operative and fairer society, building on what has already been achieved"

A fairer society

The co-operative model is able to address economic transactions in the context of social relationships and recognises that society as a whole is better off when people work together on an equal footing. Co-operation encourages inclusivity through preference for economic participation and ownership based on need rather than access to resources.

There are many options for Government to develop a more co-operative and fairer society, building on what has already been achieved.

At present, for example, there are £1.2bn of annual tax incentives for employee share ownership. These have significant productivity benefits, but past schemes have tended to benefit people on higher incomes, so it would be welcome for Government to explore options of how to widen access to employee ownership to those on lower incomes, in order to promote a more participatory economy.

Credit unions

Credit unions are a rare force for good in financial services. Since 1997 credit union membership has nearly trebled and shares and loans in credit unions have quadrupled. In total, there are over 655,000 adults using credit unions in Britain. Over 100,000 junior savers are saving in credit unions, many through collection points in schools. To support the further development of credit unions, action that has the backing of the Association of British Credit Unions (ABCUL) could help in the following areas:

- Saving Gateway - credit unions are keen to offer Saving Gateway accounts to their members when these become available in 2010.

"Rural communities benefit from co-operative enterprise. The challenges facing rural communities are heightened by greater distances, a more dispersed population and the lack of access to jobs and services"

- Post Office Network – accessing credit union services through Post Offices.

- Central Services – a big investment in infrastructure for the sector is needed to enable credit unions to benefit from economies of scale and standardise procedures

- Moneymadeclear – credit unions are taking part in delivering generic money guidance through the FSA Moneymadeclear pathfinders. Credit unions across the country are keen to get involved in the delivery of this service when it is due to roll out in 2010.

- Encouragement of public sector support for credit unions such as free payroll deduction facilities for public sector employees to pay into credit unions, assistance in occupying accessible and visible high street premises, promotion of credit unions through existing communication networks and encouraging public sector staff volunteering.

- Continuation of appropriate funding for credit unions including the Growth Fund, provision of subordinated debt and deferred shares (possible once new legislation is in place).

- Government promotion and publicity of credit unions including targeted campaigns to middle/higher income savers and borrowers in order for credit unions to operate more sustainably.

In the wake of the credit crunch, Government should look at options for a fundamental reform of financial services markets, from the introduction of a worldwide currency transaction tax with revenues to support sustainable development, the example of community reinvestment legislation in the USA to promote financial inclusion and the separation of narrow banking, where co-operative and mutual models have a proud record, from the financial markets operations of investment banks. The fundamental weakness in financial markets has proved to be that the people that run banks have run them in the short-term interests of shareholders rather than the long-term interests of depositors. Whether in the form of transfer for publicly owned banks or in the design of regulation and deposit insurance, co-operative and mutual models of ownership ought to be recognised and actively promoted as an essential part of a market that would serve society better.

Rural communities

Rural communities benefit from co-operative enterprise. The challenges facing rural communities are heightened by greater distances, a more dispersed population and the lack of access to jobs and services. Increasingly rural co-operatives are stepping up to the mark to overcome such challenges through a variety of innovative enterprises. Government can help rural communities to take control through community ownership, with action to:

- Assist them to get access to services, such as exploring a 'Right to Try' and associated controls and giving rural communities the time and appropriate support to empower them to take control of vital rural services through asset ownership.

- Recognise and support rural co-operatives that use volunteers as robust and sustainable enterprises.

- Support the preventative health benefits of rural co-operatives and reflect this in the commissioning process.

- Widen asset ownership. It is time for the remaining barriers to community asset ownership in rural communities to be removed. There tend to be fewer public assets in rural communities so asset transfer is not straightforward, but specialist support for rural communities, co-operatives and development trusts looking to do this, can help.

Pubs

In both rural and urban settings, community and co-operative initiatives can help stem the tide of pub closures. During 2009 pub closures were at record levels, at 2,400. It is predicted that some 2,700 pubs are likely to shut down during 2010, so that one pub now closes every three hours, with massive consequences for the lives of local communities. Drawing on evidence from the renewal of community-owned shops in villages and towns across Britain, we are calling for an 'emergency service' for struggling pubs, to help people use the co-operative model as a way of saving pubs and keeping communities alive.

In terms of a fairer global economy and poverty reduction, there is an opportunity to harness the role of co-operation in international development. Co-operatives and mutuals are the only route to finance and market for many poor farmers and have played an important role in the reconstruction of post-conflict states such as Southern Sudan. They have a proven track record in poverty alleviation and, if properly supported, have the potential to make a more significant contribution in the future. They are not charities, though, and support needs to be delivered with care in order for them to operate as sustainable, independent enterprises serving their members in commercial terms.

International

On the international stage co-operatives must therefore be treated as part of the private sector and their role in driving growth through bottom up, collective entrepreneurship acknowledged and supported. Business networks, from the CBI to the World Economic

"Research suggests that the co-operative model is trusted far more than the private sector for the ongoing management of energy infrastructure"

Forum, play an important and influential role in public policy but tend to sideline member-owned businesses. In reality, the top 300 global co-operatives alone are responsible for an aggregate turnover of $1.1 trillion, equivalent to the economy of Spain. In poorer countries, the co-operative model is also used for delivering essential services, such as water in South America and energy in the Philippines and Bangladesh. Government can play a role in ensuring learning from these cases is spread and replicated.

Climate change

Co-operatives have driven innovation in renewable energy, low carbon housing and sustainable local food systems through harnessing the enthusiasm and commitment of people who want to tackle the challenge of climate change. The wider benefits co-operation has brought include developing support for renewables, awareness of the impacts of food production and consumption and tangible ownership of measures to tackle climate change.

These successes have occurred despite tough market and regulatory conditions and will continue to remain important – but niche – examples of positive action on climate change unless Government is prepared for a radical rethink of the role of enterprise in this area.

Research suggests that the co-operative model is trusted far more than the private sector for the ongoing management of energy infrastructure. In a period where many households will be expected to make fundamental changes to their energy consumption, the fabric of their homes and the way they travel, we must allow people to own, trust and be part of the decisions that will affect their lives. To deliver a stimulus in the form of Green New Deal, there is an opportunity for co-operative utilities to develop the new infrastructure the UK will need for water affordability, energy security and low-carbon living.

We recommend the following measures to Government:

- A wholesale review of energy markets to hand greater power and control over to the users of energy. This has been achieved in countries such as Denmark through the exercise of political will effectively co-ordinated at a national and local level.
- Reform of investment and ownership of energy infrastructure. The energy market is dominated by a few large companies, with very high market concentration at both regional and national levels. There is a need to open up markets to new entrants including co-operatives, perhaps by handing more power to local authorities to plan and implement long term investment in the energy needs of their areas.

- Reviewing opportunities for increasing the efficiency, quality and public buy-in of a national housing retrofit programme. An extensive retrofit of the UK housing stock is likely and the scale of change required, particularly in aesthetic terms, is likely to meet with significant resistance which could delay improvements in the energy efficiency of our housing stock. Government could learn from the co-operative model by enabling residents to have a say in the aesthetics of retrofitting, to collectively purchase energy efficient goods and share knowledge. At a professional level savings could be accrued by combining the knowledge and skills of contractors and advisors through a co-operative model, which will in addition support the development and maintenance of co-produced quality standards.

- 'De-risking' the planning process, so as to make it more likely that a well conceived community-led development will receive consent, and within the recommended time period. This can best be achieved by encouraging, enabling and resourcing local authorities to produce an evidence-based understanding of the local feasibility and potential for renewable and low-carbon technologies to supply new decentralised development in their area. In addition we call on local government leaders to ensure that planning committees have the requisite skills and knowledge on low carbon development for making informed decisions.

- Encouraging investment in low carbon initiatives. Aside from the positive development of feed in tariffs – which will need to be reviewed for their encouragement of community scale energy generation – Government can further support the growth of investment in a low carbon country at a local and national level. We believe that new co-operative models of local saving, building on credit unions, are possible which would work alongside retailers to enable people to purchase affordable, high quality energy efficient goods and micro-generation technology.

- The establishment of a national Green Investment Wholesale Bank or Building Society to deliver investment in large-scale infrastructure, or the introduction of Green Tax Credits, based on the Dutch model pioneered over many years by co-operative Rabobank and Triodos.

- More transparent reporting. Given the way in which certain business practices, such as oil extraction from tar sands, rapidly accelerate carbon emissions, Government could ensure that oil, gas and power companies listed or licensed in the UK are open about their activities by disclosing future 'carbon liabilities' in their accounts.

"The pace of innovation and the creation of value is on the rise. Technological change creates not just new business opportunities but new models of business"

Food and farming is an example of a sector that contributes at present to climate change and will face very significant challenges in adapting to it. In recent years there has been a surge in interest in food systems that bring together producers and consumers, including models such as community supported agriculture. Aside from the very strong case for sustainably produced local food on environmental grounds there are also added benefits in terms of health and well being for engaging people more in the way our food is produced.

As one example of this, the Co-operative Group has launched Plan Bee, to reverse the decline in bee populations across the globe. Bees pollinate a third of the food we eat, and this contributes £200 million a year to the UK economy. But, in the UK, around one third of honeybee hives were lost in the winter of 2007/08.

Co-operatives can help Government to achieve a radical transformation in food and farming policy not just by increasing the share of local, sustainable food, but also by increasing the proportion of the pound spent on food that goes back to farmers. The most efficient European agricultural countries are those with a high penetration of agricultural co-operatives.

Every sector of the economy needs to move more rapidly to a low-carbon future. For food and farming, such a framework, facilitated by Government, should include the goal, in line with the need for European and global agricultural policy reform, to promote low-carbon food systems, to encourage co-operation and to increase the market share of local, sustainable food.

Digital futures

The pace of innovation and the creation of value is on the rise. Technological change creates not just new business opportunities but new models of business. What we see is that many of these are based on networks of co-operation.

Online communities, co-operating informally, date back to the 1970s, including email communities of self-help in fields such as health and education. What is different now is the scale of online collaboration, touching the daily lives of millions of Britons. From editing on Wikipedia, posting reviews of hotels through to participation in communities such as netmums and mumsnet, the idea of co-operation has found new form online.

In policy terms, there has been a welcome opening up, for example, of public data which can then be re-used in creative ways to serve citizens and communities in ways that could never have been predicted. Open source software and peer to peer models are helping to build social and commercial innovations. However, at the same time, there are pressures to restrict, or enclose, this creative space. It must be the role of Government to ensure that a balance is struck between commercial success for the future and market dominance based on the past.

A digital future needs also a close focus on inclusion, to ensure where possible that all citizens can benefit from these new universal services. Rural communities, for example, should be encouraged to take control of digital services by promoting community ownership and implementation of fibre-optic broadband access to rural communities across the UK.

An agenda for co-operative innovation online includes action for Government, with a role to:

- Set out what people can share, in terms of positive rights for consumers using peer to peer technologies and not just what they can't.
- Promote the inter-operability of technology, such as common power cables and remote controls, through inclusive standards and protocols for innovation.
- Encourage collaborative solutions to challenges such as spam and identity management and bring competition policy to bear far more quickly to ensure that there is open access to the emerging 'tethered' platforms of bundled services, equipment or social networking platforms.
- Release public data in raw form for re-use by citizens at marginal cost, for example by the Ordnance Survey, rather than restrict public access through the model of government trading funds.
- Bring forward a comprehensive review of Intellectual Policy, in order to balance the rights of producers and consumers.
- Be a champion for open source options where they work well and to be an active partner rather than a competitor to the fast-growing consumer communities online.

"Without any net cost to the public purse, employee ownership could make a major contribution to re-balancing the economy, distributing wealth more widely, re-invigorating civic society, re-building trust and re-connecting people with more satisfying, more productive and happier work"

4.3 Employee owned business

The case for employee ownership

As an instrument of government policy, employee ownership is economically effective, politically attractive and socially just.

Without any net cost to the public purse, employee ownership could make a major contribution to re-balancing the economy, distributing wealth more widely, re-invigorating civic society, re-building trust and re-connecting people with more satisfying, more productive and happier work.

Employee ownership can help to re-balance the economy

We now realise just how narrowly the collapse of the entire financial system was averted, thanks to unprecedented emergency measures taken by governments and central banks. But there is a growing unease that, having tackled the symptoms of the crisis, the urgency to tackle the root causes is receding. It is vital that we avoid complacency. We still need bold policies that make the market economy once again self-regulating, sustainable and vibrant and which set our economy back on a path to prosperity.

Economies benefit from diversity, and that includes diversity in the ownership of business. We believe ownership matters, because the way business is owned largely determines its behaviour, its horizons, its values, its longevity and its performance. Different ownership systems will either diffuse wealth or concentrate wealth, they will connect people to business or disengage them, they will encourage a long term view or short term view that either husbands resources or exploits them.

Ownership determines the nature of stewardship. Some types of owner will care about investment, the well-being of individuals and the impact of their actions on society. Other types of owner won't care at all because they won't be owners for long enough.

In the UK, individuals held over half of UK shares in 1963. Today, they hold around an eighth. Reflecting the globalisation of capital, there has also been a rapid increase in foreign shareholders, from less than a sixth of shares in 1993 to 50% in 2007.

Properly structured, employee owned businesses have the potential to transform our economy.

Employee ownership distributes wealth widely

Just as it influences behaviour, ownership also determines whether wealth is spread widely or is further concentrated. Broadly based ownership creates more vibrant and sustainable economic activity, touches more people's lives, alleviates the more corrosive effects of status anxiety and leads to a happier, healthier, safer society.

Owner-employees are productive, and can contribute disproportionately to wealth creation: the share prices of public companies that are more than 10% owned by employees outperform the market as a whole by on average 10% per annum. In 1976, the bottom half of the UK population owned 12% of the marketable wealth, excluding property; by 2003 that had fallen to just 1%.

The last decades of the 20th century began a process of widening asset ownership – with more home owners and share owners. The next decade should build on that foundation by creating a new generation of employee owners.

Governments can and should influence the ownership of work. This can be achieved without draconian redistribution, and in ways that are perfectly compatible with the incentive and rewards for entrepreneurialism that will be so vital to fuel growth.

Employee ownership drives accountability and reinvigorates civic society

Direct ownership puts all the fruits of ownership – income, capital appreciation, information and votes – in the hands of the shareholder. Indirect or intermediated ownership, of the kind that is now dominant through pension funds and insurance companies and hedge funds, creates a long chain of middlemen, weakening the line of accountability between boards of directors and the investing public.

Direct ownership, uncluttered by such intermediaries, creates the strongest lines of accountability.

The say that employees have in traditional companies is way behind the democratic rights we all take for granted in society as a whole. This must be addressed so that we can take advantage of the full motivational benefits of employee ownership.

The fact is that through engagement as owners, people made responsible at work will act responsibly in society.

"When employee ownership is introduced with employee involvement in decision-making, the rate of productivity growth is boosted by 52%..."

Employee ownership creates satisfying, productive & happier work

Employee-owned businesses perform at least as well as other businesses, and in most cases significantly better; employee owners work hard, are more productive and are happier.

When employee ownership is introduced with employee involvement in decision-making, the rate of productivity growth is boosted by 52% compared to the position before employee ownership was introduced.

Sales growth and employment growth is 2.4% higher, and the same businesses are more likely to remain independent. Over 50% of businesses with employee share schemes surveyed by HMRC reported improved organisational performance as a result.

Employee ownership is associated with greater willingness and ability to contribute innovative ideas, and absenteeism, a strong indicator of employee morale, and labour turnover are lower in employee-owned businesses.

How Government can help

There is a 30-year track record of governments promoting tax-efficient employee share schemes, helped by the strong political consensus for the idea. Profit sharing in 1978, Save-As-You-Earn share options in 1980 and latterly the Share Incentive Plan in 2000 all received cross-party support. These schemes have produced a large number of employee shareholders in the public company sector but this accounts for just 17% of the national workforce, and the extent of employee ownership in most public companies is less than 1%, not enough to make a difference to company behaviour and performance.

How can government tilt the field in favour of more extensive broad-based ownership at a time when the public finances are so constrained?

There are three policies that could do this: advocacy, conditionality and public services reform.

Government should actively advocate the importance of employee ownership

First, government should champion the employee-owned sector's contribution to the 'bio-diversity' of the UK economy. The financial crisis of the past two years has reminded us that, in terms of business models, diversity is strength. In the case of employee ownership, that should mean active advocacy. For too long, government's attitude to this sector has been one of benign silence, occasionally broken by tax reliefs for share schemes in large public companies. Advocacy for employee ownership should include explicit aspirations for growth of the co-owned sector and expansion in the number of employee-owners.

Tax relief should become conditional on the business having an all-employee trust of a minimum size

Secondly, where present tax reliefs are subsidising regressive ownership outcomes, such as unlimited tax relief on corporate debt in private equity buyouts, they should be changed to encourage wider ownership and become conditional on the business having an all-employee trust of a minimum size. Similarly, where tax reliefs are subsidising discretionary executive share schemes, such as share option plans and EMI schemes, which are perfectly legitimate tools for entrepreneurial businesses, they should become conditional on the business having an all-employee trust. Tax reliefs ought to lead to progressive ownership outcomes – particularly where they have been shown to improve economic performance – not to further concentrations.

Government should mandate the transfer of public sector businesses into 'partnership trusts'

Thirdly, the pace of public service reform could be accelerated by mandating the transfer of businesses in the health service and local government into 'partnership trusts', businesses majority owned by all-employee trusts. First refusal could be given to in-house teams. If declined, external bidders would be required to accept the in-house team and establish a partnership trust business for the contract.

The legal form of a trust is an important element of these proposals. Trustees have a legal duty to manage the trust's assets, in this case shares in a business, in the best interests of the beneficiaries. Reference to future beneficiaries in the trust deed encourages a long term view. Distribution of trust assets can, but need not, be constrained to remove the temptation of winding up or selling businesses for personal gain. The trustees, who may include independent non-executives as well as elected employees, can act as a supervisory board to the company's board of directors, a stable model of corporate governance that has been proven in many different settings.

"Mutuals are all about helping people to help themselves. Risk is pooled in these organisations and members share the benefits and profits of their mutual trade"

4.4 Mutual Insurers and Friendly Societies

Why mutual insurers and friendly societies are good for Britain

Mutual insurers and Friendly Societies are member owned financial institutions that encourage self help and personal responsibility. They typically have over 100 years of experience and heritage in financial services. They manage approximately £80 bn in assets and serve more than 19 million customers.

Mutual insurers bring choice and competition to both customers and to the insurance market which is vital to a healthy financial services sector in the UK. Many Friendly Societies continue to specialise in providing products with very low premiums, which means that their services are accessible to all income levels.

They are also innovative and responsive to change, for example Friendly Societies are the largest providers of the Child Trust Fund.

Mutual insurers and Friendly Societies are an effective economic model. They bring necessary and healthy competition to the UK insurance, savings and investment markets.

Mutuals encourage a culture of self help

Mutual insurers and friendly societies play a vital role in financial services and in society.

Mutuals are all about helping people to help themselves. Risk is pooled in these organisations and members share the benefits and profits of their mutual trade.

Their membership structure also enables mutuals to take a long term view on savings and investment which positions them to provide financial products which are inclusive to all levels of society.

These mutuals assist the work of government by helping individuals to take responsibility for planning and providing for their own financial affairs.

Mutuals aid business diversity and financial stability

The economic crisis of the last two years demonstrates the importance to our economy of retaining strong and resilient financial institutions. Mutuals are not listed on the stock market and are therefore less dependent on stock market price fluctuations. This means that they are better able to withstand shocks to the economic system, providing stability in the market place, and maintaining confidence for consumers.

The need to retain a diverse range of financial services providers is therefore extremely important, both for maintaining consumer choice and providing stability to the financial system.

Government should actively support such diversity and ensure that its policies support the continuation of meaningful choice for consumers.

Mutuals return greater value to customers

Research shows that plc insurers paid out on average 3.1p to shareholders for every £1 invested by their customers. With no shareholders to pay, mutual insurers can ensure that their profits are only distributed to customers, or reinvested to give them better returns, better value and higher levels of service.

Health mutuals are complementary to public services

Mutual businesses already offer non-financial products such as healthcare services. These products are complementary to the National Health Service, which remains responsible for the funding and delivery of the vast majority of population's health needs. With rising costs and budgetary constraints facing state healthcare today, the time is ripe for further exploring ways of applying mutual principles in health. Strong accountability and longevity make mutuals ideal prospective partners to the NHS.

Government should commit to work with mutual insurers and friendly societies to

- Promote a savings culture
- Ensure appropriate regulation is applied
- Promote the use of child trust funds
- Innovate new savings and investment products
- Encourage the application of mutual principles in fields such as healthcare

"Government should want to encourage people to save and invest and to help build a savings culture"

Government should promote a savings culture

Government can support the take up of savings products through its tax policies, which should be designed to encourage everyone to save. Mutual insurers and Friendly Societies offer products that are simple, flexible and accessible.

Government should commit to working with the sector to develop new and attractive savings products that can be encouraged through the tax system.

Government should want to encourage people to save and invest and to help build a savings culture.

Yet, we know that less than half of the population regularly saves money each month, despite the economic downturn, which means that too few people are equipped to look after themselves when faced with financial difficulties.

Everyone should have the opportunity to provide for themselves - whether they are saving for their future, for their retirement or simply for emergencies.

Taking responsibility for savings is good for individuals, good for the economy and good for the country as a whole.

Mutual insurers and Friendly Societies are keen to work with Government to help to develop products that meet the social and economic needs of individuals. These mutuals have a track record of delivering high quality products at market leading rates, often to customers who have only modest means. Examples of successful products are ISAs, with-profits policies, Child Trust Funds and TESPS.

Working with Regulatory Authorities

Much day-to-day business with mutuals takes place through Regulatory authorities. It is vital that these Regulators equally understand the effect that their often 'one size fits all' approach, inevitably based on the plc model, has on mutuals.

For example, in the wake of the financial crisis, the government's proposals to reinvigorate competition in the banking sector included 'supporting competition and choice through diversity, most importantly through maintaining a strong mutually-owned financial sector'. (HM Treasury July 2009). This policy statement reflected a consensus across the major political parties for diversity of corporate form within financial services, with a strong mutual sector.

However, the Financial Services Authority does not see that it has a duty to take corporate structure into account when regulating the financial services industry. Indeed, it has often failed to cater adequately for mutuals both in its domestic policy and in its European and international negotiations. This has been most notable on capital raising, where FSA has based its policy on an uncritical and idealised acceptance of the plc model, and has ignored the very real weaknesses of that model – the inherent incentives to risk-taking and over-distribution, and the added instability resulting for example from the volatility of bank share prices. Instead, FSA seems determined to force mutuals, when it comes to capital raising, into quasi-PLC structures and behaviours at the very point where those have been found wanting. As a consequence there is a wide and growing divergence between the stated Government policy objectives and the actions of the Regulator, which are likely to frustrate them. The Regulator should demonstrate that they have taken full account of the impact on businesses that are not its primary focus.

One of the four statutory responsibilities of the FSA is, 'public awareness: promoting public understanding of the financial system.' (Financial Services and Markets Act). This responsibility should be amended for the FSA (or any successor body) to ensure that it includes promoting public awareness of the different corporate forms of financial institutions. Moreover, the matters to which the FSA is to have regard (known as the principles of good regulation, set out in FSMA section 2 (3)) should also address this problem, by the addition of the following : 'that equal respect shall be afforded to mutual forms of corporate organisation, and that different measures may therefore be needed to achieve broadly equivalent outcomes in each case.'

Child Trust Funds

Mutual insurers and Friendly Societies believe that Child Trust Funds are a success story that should receive the continued support of Government. The universal application of CTFs is an essential feature of their success, and it is crucial that all families are able to benefit from this product.

60% of Child Trust Funds are provided by mutuals. This is because mutuals have a lower cost of capital than other providers, which is essential in this type of product.

"Friendly Societies and mutual insurers have an excellent record of adapting to new product innovations"

Since the introduction of Child Trust Funds (CTF) in 2002, 75% of parents have actively engaged in investing CTF vouchers on behalf of their children. The vouchers encourage the establishment of accounts that parents and relatives can use to build up savings for their child that can be used from the age of 18. Tax free savings of up to £1,200 each year can be deposited and children can start to make decisions about how the money is managed when they are 16.

From 2020, many more children will benefits from increased independence and life choices, giving them an excellent start to adult life. Most importantly, they will see the value of long term savings and investments.

Government should use mutuals to facilitate innovation

Friendly Societies and mutual insurers have an excellent record of adapting to new product innovations. The experience of child trust funds is an excellent case in point. New savings and investment products will always be provided by mutuals and Government should work with the sector to design and develop products further.

For many years, mutuals have remained at the leading edge of innovating new financial services products because they are designed around the needs of the customer, rather than the maximisation of shareholder value.

Yet, in the past, new products have been established only through consultation with the proprietary financial services companies. The experience of Child Trust Funds has been that in fact it has been mutuals that have led the way in driving this product into new markets. We call on Government to work with mutual insurers and friendly societies to innovate new and inclusive financial services products.

Mutuo

Mutuo brings together the different wings of the mutual sector to promote a better understanding of mutuals and to encourage mutual approaches to business and public policy. Through Mutuo, consumer co-operatives, building societies, mutual insurers and friendly societies and other mutuals work together to promote their shared interests to the Government, media and other decision makers. Since 2001, Mutuo has worked to promote new mutuals. This has led to renewed growth in the mutual sector, with public sector mutuals established in health, housing and education and new community based businesses ranging from football to childcare, with a total mutual sector now turning over £95 billion each year.

www.mutuo.co.uk **0208 387 1259**

The Building Societies Association

The Building Societies Association (BSA) represents mutual lenders and deposit takers in the UK including all 52 UK building societies. Mutual lenders and deposit takers have total assets of over £390 billion and, together with their subsidiaries, hold residential mortgages of almost £260 billion, 21% of the total outstanding in the UK. They hold over £250 billion of retail deposits, accounting for just under 23% of all such deposits in the UK. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.

Co-operatives UK

Co-operatives^UK is the member owned and led trade association for all types of co-operative enterprise throughout the UK. It is the strategic voice for co-operation, works to increase awareness and understanding of co-operative values and principles, supports the development and growth of new co-operatives and helps existing co-operatives to achieve high performance levels and good governance.

Co-operatives^UK represents co-operative enterprise throughout the United Kingdom of Great Britain, Northern Ireland, the Channel Islands and the Isle of Man.

The Employee Ownership Association

The Employee Ownership Association is the voice of co-owned business in the UK. It is the business association for companies who are substantially or wholly owned by the people who work for them. Its members include the John Lewis Partnership, Arup, Unipart, Mott MacDonald, Blackwell, Martin Currie, eaga and Baxi Partnership; long established co-owned companies like Scott Bader and Tullis Russell; and a diverse range of other successful enterprises. The Employee Ownership Association represents a sector worth around £25 billion annually and growing.

The Association of Financial Mutuals

The Association of Financial Mutuals is the trade body that represents mutual insurers, friendly societies and other financial mutuals in the UK.

The organisation was launched on 1 January 2010, following a merger of the Association of Mutual Insurers and the Association of Friendly Societies. It has 56 member companies, who between them manage the savings and protection needs of 19 million customers, and have assets under management of £80 billion.