the co-operative party
politics for people

Annual Conference 2013
Economy Policy Paper

As we seek to rebuild the economy there has never been a time in which the co-operative and mutual ideal has been more important. While the Labour Government took action to prevent us suffering from the worst of the global recession, the Conservative-led coalition has done little to return to a stable growth and economy. Indeed, unemployment, particularly youth unemployment, has become entrenched in many parts of the country.

For 150 years, the Co-operative Movement has been on the side of ordinary families. The original co-operative and mutual societies were formed as a vehicle for ordinary people to have access to good quality food at a fair price, purchase their own homes and insure themselves against sickness and unemployment. In contrast to other businesses of that era, they were designed to provide mutual self-help for their members, rather than create wealth for investors.

This is still their core purpose today.

As the global economy faces difficult challenges, we need to pioneer a new way of doing business: an approach that will underpin the long term stability of this country's economy, and ensure that all people, not just the few, will be able to share in its rewards. As the failings of the market have led us into recession, we are starting to see a renaissance of mutual organisations, who are continuing to extend market share and deliver profits, putting people rather than shareholders at the centre of their operations.

The coming few years will not be easy for anyone in the UK, not least for an incoming Labour Government. But the length and depth of the continuing downturn will depend largely on the solutions that we put forward. Remaking the economy in the co-operative image not only has a lot to offer in the downturn, but will enable us to go into the future with sustainable businesses that act in the interests of their employees and consumers.

Supporting co-operative and mutual enterprise

The Mutual Sector plays a vital role in British society. Over 19 million British individuals, or one in three of the population, are members of one or more mutual society. Co-operatives and mutual organisations differ from their PLC competitors in one crucial respect, they exist to provide a service for their members rather than to generate profits for external shareholders. This means that there are no conflicts of interest between the claims of consumers and owners, and no incentive to exploit customers for short term gain.

As a key part of the plurality of the UK economy, Governments should ensure that every assistance is given to the preservation of co-operative and social enterprise business structures, and to the creation of new mutual businesses. This means that the co-operative and mutual model should receive the same level of support as other forms of enterprise.

We welcome the support that the UK Labour Government gave to both primary and secondary legislation, which has done much to level the playing field between mutuals and other business models. Whilst the Party welcomes the legislation proposed by the Coalition Government that consolidates the individual pieces of law that Labour & Co-operative Members passed in the past decade, we fear that the Bill will pass without taking the opportunity to further enhance legislation that expands the co-operative sector.

The Co-operative Party endorsed the recommendations made in the Review of Industrial and Provident Society Legislation in 2008, but regretted the length of time it took for the incoming Government to implement the outstanding legislative reform orders. Mutual societies have not seen the same sort of review into their function as was done for the Public Limited Company in 2006, nor have reviews looked at the sector as a whole, as opposed the discreet building society, friendly society, co-operative and mutual insurance sectors. A further review could continue to concentrate on the governance and legislation that would enable the mutual sector, including unincorporated voluntary associations to thrive in the future. In particular, the review should look at more favourable tax treatment for mutual organisations, especially community benefit societies, who exist for a public purpose and are asset locked in the public interest.

Mutual forms of business incorporation still suffer from a lack of support, despite being robust and proven business structures. As it stands, the majority of mainstream business support providers do not have the capacity or expertise to provide services for those seeking to set up co-operatives or social enterprises.

We believe that co-operatives and mutual enterprises should be given better business support and training through government-backed business advisory services, recognising and supporting the wealth of experience and expertise that has been built over the last thirty years within smaller independent agencies across the country. Existing co-operative businesses already invest considerable financial and human resources in supporting the development of new and existing co-operatives, and Governments should look for more opportunities to match fund this support.

Local Economic Partnerships (LEPs) and arms of local and national government should be obliged to place the development of co-operative and mutual forms of enterprise at the core of their economic development strategies. The Government should ensure that LEPs or any future successors include representation from the co-operative and mutual sector, to ensure that the needs of the sector are fully represented to those bodies.

Co-operatives and trade unions, founded on the same values and principles, both have long, proud and shared histories of fighting for and preserving workers rights. With rapid and global economic change it is just as vital that we continue to have modern and growing trade unions in our country as a genuine voice fighting against discrimination and abuse.

The Co-operative Party believes that the development of a resource or organisation that able to act as an early warning system and provide support to co-operatives which may be facing difficulties would be of benefit to the sector. There are models which have carried out this function, especially in the Bedfordshire area, which may act as a best practice template for this work.

Employee Ownership

Giving employees a stake in their business provides workers with economic gains and creates companies that are responsive to their frontline staff. Evidence from the industry shows that firms where staff have a large ownership stake and a say in decisions do not just create happier workers, they also make more productive businesses.

The degree to which employee ownership boosts productivity can be seen in the performance of co-owned companies, which have consistently outperformed their PLC rivals. In cash terms, an investment of £100 in the EOI (Index of Employee Owned Companies) in June 1992 would have been worth £453 at the end of December 2008; the same amount invested in the FTSE All-share would have been worth £162. This superior financial performance is the little known story of a sector worth a combined turnover of £20-25 billion annually, and going from strength to strength.

The Co-operative Party believes that the achievements of the co-owned sector should be recognised and built upon. We believe that both employees and employers could equally benefit from a more participative form of employee share ownership and that there is a need to extend employee share ownership schemes, particularly those that give employees a collective, democratic voice.

In order to do this, the Government should develop and promote a framework of advice and legal guidance to incentivise and enable employees and employers to work together to realise this, based on the successful Supporters Direct model for football clubs.

We are therefore glad to see that, following the inclusion of the above call for an ‘Employee Ownership Direct’ organisation in the 2010 manifesto, the Coalition’s Nuttall Review into employee ownership has led to the formation of an independent and expert Institute of Employee Ownership. There is also a need to increase knowledge and awareness of this important sector. Government should conduct a research review of the co-owned sector building on the Nuttall Review, with a specific focus on firm level financial performance. Professional bodies and government agencies should include knowledge of co-ownership structures in their training and accreditation schemes, or as part of their brief to advise local companies.

A major cause for concern is the Conservative-led Government’s casual and inaccurate use of the word ‘mutual’ with particular reference to their public sector ‘mutualisation’ project. Many of the so-called mutuals are not majority owned by staff – ownership of My Civil Service Pension is for instance 25% staff and 40% by venture capitalists – and do not give most staff a say in the way the business is run. These cannot be called mutuals and employee ownership is being diluted.

The Co-operative Party is also opposed to the linking of rights at work and employee ownership, and supported the campaign by Unions Together to oppose the Conservatives' Growth and Infrastructure Act that allows companies to remove staff rights to flexible working and time for training and to water down unfair dismissal and redundancy pay when linked to employee ownership.

There is no necessity for employees to forgo any of their employment rights to get any of the various tax benefits associated with employee ownership. We reject the Government's proposals to dilute employment rights to incentivise employee ownership as a dishonest attempt to dress up the dilution as a measure that will increase employee involvement.

Fighting the Recession and Unemployment

In the face of what has been the most serious downturn since the depression of the 1930s, a future Labour Government must utilise all the resources, skills and capital it has at its disposal to stimulate the economy. Large scale unemployment and economic decline has vast implications on our ability to recover, as well as having wider ramifications for health and wellbeing, social mobility and community cohesion.

A British Investment Bank could have a decisive role to play. Any such British Investment Bank would benefit from the mutual model, inherently more sustainable and able to make decisions for the long-term. A mutually-owned Investment Bank to invest in infrastructure, housing and other projects, could provide an incoming Labour Government with a vital tool to stimulate the economy and tackle large-scale unemployment and economic decline.

Finding resources for such an economic stimulus in an era of unsustainable deficits will require imaginative thinking. For that reason, the British Investment Bank should be allowed to access to capital from the Bank of England – so-called quantitative easing monies.

The Bank of England has generated £375bn to purchase assets, predominantly UK gilts. The purpose of the purchases was and is to inject money directly into the economy in order to boost nominal demand.

Using additional quantitative easing monies to capitalise an Investment Bank allows for a real and rapid stimulus programme with no additional borrowing requirement. Co-operative and mutual enterprises can play a key role in responding to the recession, in mitigating its impact and creating a more resilient economy. Social enterprises play a key role in ensuring support for the most disadvantaged back into the labour market. At the last election we welcomed the intention of the Future Jobs Fund for social enterprises to deliver 10% of the 150,000 new jobs to be created, as these organisations have experience of providing a people centred and sustainable service. We deplore the Conservative and Liberal Democrat Government's decision instead to scrap the Future Jobs Fund.

With self employment providing one route out of unemployment, we believe the Government should also provide support for people to establish micro social enterprises and provide an avenue for them to be connected with existing social enterprise networks. The Co-operative Party believes that the Government should encourage social landlords to set up social enterprises to work in their communities on neighbourhood and green projects, adding value back into their communities.

Employee or consumer ownership has a role to play in saving viable businesses from needless insolvency or disposal. The Government should support the creation of an 'early warning' resource capable of informing workforces in advance of an insolvency or disposal of a viable business, and helping them assess the scope for acquisition by a management and employee buy-out. Where a buy-out is judged feasible, such a resource would help with the preparation of a management and employee bid for the company, with or without the participation of external stakeholders. Government should actively review the scope for allowing employees to divert a portion of possible redundancy compensation, in a tax advantaged way, if they choose to take a collective equity stake in a reconstituted business.

As a creditor, Her Majesty's Revenue and Customs will normally have a role in insolvency proceedings. Where a mutual or employee buyout is agreed, the Government should ensure that HMRC agrees to waive their debts. While this may be a write off for the Exchequer, the benefits of providing a long term sustainable future for businesses faced with the prospect of insolvency should outweigh the cost.

Financial Services

The events of the last few years have demonstrated serious flaws in how the UK's shareholder-owned banks operate. In April 2007, nine banks occupied places in the FTSE 100 all share index. Of these, five are now substantially or wholly in public ownership. None of the four demutualised building societies, Alliance and Leicester, Bradford and Bingley, HBOS or Northern Rock still exist as a stand-alone bank.

This has had a tremendous impact on the rest of the UK economy. The massive contraction of credit had a hugely damaging effect on other businesses – an effect that we are still yet to see in full. It is hard to estimate what the eventual costs of the financial crisis will be on public funds, but it is likely that these will be significant and long term. Hundreds of thousands of jobs have been lost. The failure of our banking sector will come at a serious cost to everyone in the UK; whose savings have been risked, whose taxes may have to rise and whose livelihoods are threatened by the recession that has followed. It is vital that we learn from our mistakes and build more stable foundations for our financial services sector in the future.

Financial mutuals broadly weathered the global crisis much better than their shareholder counterparts. While the very scale of the international financial crisis has meant that even mutuals have not been immune, they have on the whole shown themselves to take fewer risks with savers' money; and have not required the same level of assistance from Government as required by the private sector.

Despite this, The Co-operative Bank has suffered a 'perfect storm' of prolonged national economic stagnation, a changing regulatory environment alongside some toxic assets brought in its merger with Britannia.

It will be a challenge to put this right, but one which is made easier by the Bank's mutual structure meaning no requirement to sacrifice long-term value on the altar of short-term expediency.

There is one fundamental difference between co-operative and mutual financial organisations and their PLC competitors; that they exist to provide a service for their members rather than create wealth for external shareholders.

This means that profits are shared amongst the members (consumers), rather than external shareholders. As the Building Societies' Association has estimated, this provides them with a cost saving of approximately 35%, which is distributed straight back to the members - through the provision of low cost borrowing, high returns on savings and dividends.

In addition, the fact that these organisations operate using democratic voting systems, on a one-member-one-vote basis, allows them to take a long term view of their members' interests. As we collectively count the costs of our financial institutions' previous short-term thinking, this approach to business should unquestionably be the future direction that we are looking for.

The Co-operative Party regrets that the Conservative Government failed to re-mutualise Northern Rock and strengthen the financial mutual sector. Yet the same principles could also be applied to those failed banks in which the public has a considerable stake. It would be undesirable for institutions that have failed to adequately protect their savers to be allowed to risk deposits taken on the 'casino' functions of the market for a second time.

The Co-operative Party therefore believes that when determining the long term future of these companies, the Government should explore all possible ownership structures – including splitting them into retail and investment arms and placing the retail banks into mutual ownership.

It is also important for us to strengthen existing financial mutuals. The Co-operative Party commends the support the Labour Government gave to a number of pieces of legislation that have modernised the mutual business model and begun to achieve a level of parity with the company form. In addition, we welcome the support given to the future development of the Mutual Sector in the Treasury White Paper 'Reforming Financial Markets,' and call for the speedy implementation of all proposals made. This work must also include measures that level the playing field for co-operatives in relation to capitalisation. It is noted that the trailed Co-operative Consolidation Bill will have measures which that alleviate this but further work is required for financial mutuals.

We must also ensure that the burden of failure does not fall on those who least deserve it. Under the current set up of the Financial Services Compensation Scheme, the proportion contributed by institutions is based upon the deposits that they hold. In practice this has meant that financial mutuals have been punished for a safer business model in which they are funded through a higher proportion of deposits, paying on average three times as much proportionately as the shareholder owned institutions. We therefore call on the Government to introduce a more equitable scheme for funding the insurance of deposits of failed banks.

Access to Finance

We need to do more to ensure that our financial services industry meets the need of the whole of the UK economy. Financial mutuals have much to offer in this regard as their structure of governance has traditionally allowed them to lead the way in providing services to many people who are often excluded from mainstream products.

In the UK, it is primarily credit unions that offer affordable credit and banking services to thousands who would otherwise be unbanked. The last ten years or so have seen tremendous growth in the credit union movement. Between 1995 and 2006, the number of credit union members in the UK more than tripled to approximately 500,000, with deposits growing almost nine times to just over £500 million. We welcome the support the Labour Government and the Welsh Labour Government gave the credit union movement, both in improving the legislative framework in which they operate, as well as the significant financial assistance that they gave the sector. We are pleased that the support has continued under the new government.

It is important that the Government continues to assist credit unions to ensure that they are strong and sustainable. This will require it to help them expand their range of services to make certain that they can offer the maximum assistance to ordinary people in these testing economic times. The time is now ripe for a real step-change in the penetration rate of Credit Union membership. This is all the more important in view of the impending benefits changes such as Universal Credit.

One way which this can be done is through the creation of a central finance facility. Most credit unions around the world which provide a wide range of services to significant proportions of the population have an organisation of this kind, which is owned and controlled by the credit unions which use them. Such a body would provide a range of services including liquidity management, treasury management and payment services, and assist credit unions to provide other products where economies of scale and back office functions are crucial. This will be essential in enabling the credit union movement to scale up and reach out to more people.

Guidance should also be issued to all public sector employers in the UK advising them to establish payroll deduction facilities for credit unions and to promote it to their staff. There should be a standard clause in all contracts, service level agreements and grant agreements between the UK Government and public, private or voluntary organizations employing 50 or more people requiring them to offer payroll deduction facilities for credit unions as a condition of contracting with the Government.

Community Development Finance Institutions (CDFIs) also provide vital consumer credit and finance for small businesses, including social enterprises, using the personal, supportive and advisory approach that banks once provided. They help those who cannot access finance from banks, providing sustainable economic prosperity to some of the most disadvantaged areas of the UK. Local Government has a role in the promotion of and investment in CDFIs and co-operative development agencies.

Changes in the government-backed guarantee facility for loans to small businesses have meant that CDFIs have seen their primary guarantee facility removed, and are finding it difficult to access the Enterprise Finance Guarantee Scheme (EFG) that has been put in its place. The Co-operative Party advocates either the modification of the EFG or the creation of a new scheme to ensure that CDFIs are able to access guarantee facilities as suitable for their needs as their mainstream counterparts.

CDFIs need further capitalisation to meet the demand from small businesses turned down for loans by the banks. An extension of funding from the Regional Growth Fund matched by commercial bank finance would assist this, as would efforts to encourage banks to ‘onlend’ to Small and Medium Enterprises through CDFIs.

Several years on from the collapse of Farepak, those participating in Christmas savings schemes still stand to lose all of their money in the event of another Farepak style collapse. The Government should work with the Christmas savings industry and other similar schemes to develop an insurance scheme to protect vulnerable households from any potential losses.

A new settlement between banks and society

Given the unprecedented support our financial institutions have received in the past year, it is vital they recognise the obligation of their responsibility to society – whose taxes, jobs and livelihoods have been put at risk by their failure. All people should have equal access to routine financial services and credit within their means. Banks should no longer merely be able to cherry pick the most profitable customers, but ensure that their operations serve every part of the community equally.

The Co-operative Party supported the Financial Transaction Tax in the 2010 manifesto and within the wider Labour movement. Also at the 2010 general election we called for the introduction of a Financial Inclusion Act, similar to the Community Reinvestment Act in the USA. We subsequently introduced amendments to the Financial Services Bill and introduced the Banking Disclosure and Responsibility Bill with similar proposals, which would ensure that all financial organisations must engage with, design services for, and invest in people from all geographical areas and income levels. This would require banks to report that:

- All their delivery systems are readily accessible to geographic areas and individuals of different income levels within their area of business
- Changes have been made that have improved the accessibility of its delivery systems to low to moderate income areas and individuals
- Services are tailored to the convenience and needs of those that it is required to serve.

In the USA, financial institutions have often chosen to route a substantial portion of their engagement in alternative financial institutions such as credit unions or CDFIs. Mainstream financial institutions would be free to choose a similar partnership route in the UK.

Vulnerable households have been disproportionately affected by rising household utility and food bills, making it difficult to build up a savings cushion to protect themselves against the recession. During the recent downturn they have been targeted by irresponsible doorstep lenders and pay day loan companies such as Wonga, who often charge thousands of percentage points in annual interest. The time has come to put a stop to this modern day usury and legislate for an annual interest rate cap. This should be set in consultation with responsible lenders, to ensure a fair and sustainable rate that will allow the market for short-term credit to continue.

Many lower income households do not have the option of saving for the future and have no choice but to borrow to maintain an acceptable standard of living. This is not a question of making cheap and easy credit available to fuel a consumer society; financially excluded households need access to fair, affordable credit to survive.

Land Reform

It is not only the failure of the banks that has brought us into these difficult times. In the twelve years preceding the credit crunch, the unprecedented growth that occurred in the UK housing market has had a dramatic effect in the downturn.

A significant cause of this has been the rising cost of residential land. As economic growth has occurred, this has led to inflationary pressures on the prices of residential land in scarce supply, or restricted in the places where everyone wants or needs to be. There is nothing new in this. The last 200 years have seen regular 15-

20-year cycles of economic growth and recession that have brought rapid uplift in land values, sometimes ending in their implosion.

As we seek to bring stability to the financial system, it is only right that we aim to do the same for the property markets. Instability here has been a key determinant of every recession that we have faced over the last 30 years. Given this, a key policy concern for the future must be to keep growth in house prices consistent with other parts of the economy.

Expanding the supply of homes in the UK will be crucial. The Government should ensure it meets the target of an additional 3 million homes before 2020, as this will be crucial to making sure we do not begin the same cycle in the upturn. Community Land Trusts and Mutual Home Ownership can play a vital role in building the homes that are needed to meet demand, explored in the Housing Policy Brief.

Yet tackling the problem of inflated land values is also important. There is significant evidence to suggest that the shortage of homes in the UK has been artificially created by a poorly functioning property market. This has had the effect of substantial growth in house prices, with the market rewarding those with property assets at the expense of people seeking places to live.

In order to prevent similar problems emerging in the upturn, the Government should use taxation to change incentives within the property market, ensuring that it incentivises the productive use of land rather than expected capital gains in an upward market. The Government should replace council tax and national non-domestic rates with a land value tax. While this would be a new method of taxation in the UK, countries such as Denmark, Hong Kong and Taiwan utilise land values to help their economies. Local Authorities in parts of Australia, New Zealand and North America have all adopted local forms of land value taxation. This is likely to not only improve economic stability but also stimulate investment in more productive elements of the UK economy over the medium to long term.

Investing in a co-operative future

One of the weaknesses of the mutual model compared with PLCs is their ability to access capital. Due to their very nature, mutual societies are not funded by equity capital provided by external investors. Traditionally this has led them to only expand through retaining profits with some access to debt capital.

Creating new and innovative financial instruments which will allow co-operative and mutual organisations to have greater access to capital, while at the same time retaining their corporate purpose, is a significant challenge both for the Co-operative Movement and the UK as a whole. Whether building a stronger and more diverse financial sector, a new energy infrastructure, new transport links or next generation broadband – the Co-operative Movement is in a unique position to build public assets that are held and operated for a public purpose.

Clearly raising capital from communities can play a large part in this. In the nineteenth century the Co-operative Movement was built through a self-help model of funding, where investment was not only focused on what it could generate for individuals but also for the service that it could provide for the community. As we seek to build the next generation of public assets, it is perhaps time to return to these self-help principles. Mutual societies would not only offer a safe and robust investment for individuals, but also provide us with services that can collectively improve our lives.

One way in which co-operative societies have traditionally funded their businesses is through the share capital of individual members. We welcome the last Government's commitment to removing the £20,000 limit on individual investment in transferable co-operative share capital.

We also propose that a new funding model for co-operatives is developed, based on the permanent interest bearing shares (PIBs) pioneered by building societies.

This finance model was developed in the 1980s, by building societies that wanted to raise substantial funds in order to compete with the high street banks. Before its existence, the only way to do this would have been to demutualise, trading to fulfil a private purpose rather than existing to provide a service to its customers. Many institutions did not want to go down this route and they looked for an alternative way of raising external capital. Permanent Interest Bearing Shares were invented to provide an alternative way of raising capital and enabling legislation was brought forward.

PIBS appears to provide an attractive option for funding community infrastructure because:

- They can provide core funding that is treated for accounting purposes as equity, not debt;
- In a membership based organisation seeking to provide a service for the public benefit, they provide a method for funding the business, at a lower cost, where the incentive for the local community to subscribe is to provide the local service;
- Membership of the corporate entity gives the local community control over what it is doing, prevents 'capture' by investor interests, and through its democratic governance structure can monitor management to ensure that it seeks to minimise risk. Management's job is not to maximise profitability, but to provide the service as efficiently as possible in the long term;
- They can provide a reasonable return for subscribers and subject to certain restrictions or governance arrangements (to prevent demutualisation) are tradable.

In some cases it may not be possible to raise sufficient capital from communities alone. The Co-operative Party supports the development of a social investment wholesaler to capitalise and develop the existing social market. This could utilise the expertise and diversity of existing social investors and lenders to take advantage of economies of scale to provide capital to institutions lending to co-operative and social enterprises.

It is also important that collective organisations, whether consumer, employee or stakeholder owned should have the same access to the incentive schemes that have been provided to other business models. Labour should ensure that community shares in industrial and provident societies are eligible to receive the same tax incentives as shareholder companies and that Self Invested Personal Pensions Schemes are allowed to invest in co-operative and social enterprise. Where co-operatives allocate profits towards further co-operative development, this should be allowable against corporation tax.

Public Infrastructure

At a time when public sector borrowing remains high and private sector capacity to invest remains limited, a future Labour Government should explore the creation of new mutual organisations to build tomorrow's infrastructure. Because they are owned by their members, rather than shareholders, mutual organisations have the capacity to finance investment over the life of the asset and do so at a significantly lower cost than infrastructure investment funds. The way they are owned also means that there is no incentive for them to have an exploitative relationship with their customers, and that consumers are likely to receive reduced prices and better customer service.

The most high profile example of privately owned infrastructure returning to social ownership can be seen in the creation of Glas Cymru (Welsh Water). It was brought into customer ownership through raising £1.9 billion on the bond markets, the largest ever single bond issue that was not guaranteed by Government.

Glas Cymru is a single purpose company formed to own, finance and manage Welsh Water. It is a 'company limited by guarantee' and fits into the broader family of mutually owned businesses. Because it has no shareholders, any financial surpluses are retained for the benefit of Welsh Water's customers.

Financing efficiency savings to date have largely been used to build up reserves to insulate Welsh Water and its customers from any unexpected costs and to improve credit quality so that Welsh Water's cost finance can be kept as low as possible in the years ahead. These savings have also funded some additional discretionary investment in service improvements and the annual 'customer dividend'.

This can be directly contrasted with the experience of consumers in relation to the privately owned water companies in England. Welsh Water demonstrates the difference mutual ownership makes in terms of both price and service delivery.

The Government should pursue every opportunity to enable the conversion of utility monopolies to mutual organisations owned and controlled by their stakeholders, and to encourage the co-operative ownership of those that were previously privatised. It should also ensure that when building future infrastructure, full consideration is given to the development of mutual models as a method of delivery.

An example of this is the shift to next generation broadband. This is essential to our competitive future, and that requires building dependable systems for all urban and rural communities. We commend the last Government's ambitious 'Digital Britain' initiative, which is central to driving social and economic success in the UK.

Across the UK, there are locally-led projects to experiment and build FTTP networks, which vary in size between local projects and those that have the potential to be large scale. Most of them are Open Networks – utility-style networks that can be used by multiple businesses to supply services to customers in competition with each other. These projects often involve public funding, but their biggest strength is that they help build the confidence and framework to underpin other forms of funding.

Experience in Scandinavia, the Netherlands and the USA shows that mutual and co-operative ownership forms are ideally suited to this utility-style investment. They offer a perfect platform for open competition and innovation between technical suppliers and service providers. The existence of multiple projects – forming a patchwork quilt – is a strength not a weakness, offering scope for maximum innovation by small and larger businesses in the UK.

The Co-operative Party welcomes the support given to the development of community-based and mutual enterprises in the delivery of next generation broadband, through the announcement of the creation of the Independent Networks Cooperative Association (INCA) in the Labour Government's 'Digital Britain' report. This would launch initiatives that ensure not just technical interoperability, but also business interoperability so that large service providers like Sky can interface with one "virtual" operator.

This would allow public service providers such as the BBC or the NHS to provide services at a local level directly to any customers of a local network company rather than having to transit across individual Internet Service Providers. This would mean that these public service providers would be able to provide high speed services to ordinary members of the public at no additional bandwidth cost.

An Economy in all of our Interests

An expanded role for co-operatives and mutuals will play a significant role in creating the new approach to business we so badly need. Yet for the foreseeable future, it is likely that most significant enterprises will continue to be owned by shareholders. Building a private sector more in tune with co-operative values is necessary if we are to avoid repeating the mistakes of the past. For Britain to have a successful economy and society we need an enterprise culture that acts in all of our interests over the long term. This requires a fundamental change in the way we do business.

One of the principal causes of the economic and social problems we face can be put down to a lack of accountability in our largest businesses, both to their owners and wider stakeholders. It has been a catastrophic failure of governance at every level, going way beyond, although not excusing, the failures of corporate governance in our banks. Addressing the way that our biggest companies are run will be necessary to put our economy on a sustainable footing. Examples of this can be seen within agency working and the associated problem of 'blacklisting'. The Co-operative Party believes that construction co-operatives and worker run mutuals provide much greater accountability within large business and would help lead to an economy working in all of our interests.

A key concern is ensuring that broader interests are represented in the boardroom. The financial crisis and its aftermath have clearly shown that it is not only the owners of a business that lose out when it fails. Customers and employees have also suffered due to the failure of businesses, an anguish that would have only been worse were it not for the collective burden that we bear as taxpayers for the bold Labour Government action that prevented crisis from turning into catastrophe. The culture of the boardroom seems unchanged, despite the 2006 change in company law that required businesses to focus on the long-term profitability of the company and consider their impact on their wider stakeholders. Given their clear failure of boards in this regard, it is only right that other stakeholders are given a say in the boardroom. The Government should modify company law to ensure that representation is given to employees, customers and other identified stakeholders for all publicly quoted companies. Companies should also be required to seek to ensure that their boards are as representative as possible in terms of gender and race.

More also needs to be done to improve the ability of non-executive directors to challenge an overdependence on managers. Key to this is the independence of the information they receive. The Company Secretary is responsible for this, yet in the majority of FTSE 100 companies they are appointed, remunerated and line-managed by the Chief Executive. If they are to fulfil an oversight function it is vital that non-executive directors are able to have confidence that they are receiving independent information. The Government should modify the Combined Code such that Company Secretaries are appointed by the non-executive directors, reporting to the Chair. Non-Executive directors of publicly quoted companies should also have their own independent research budgets and staff.

It is important to improve the accountability of the professional industries that provide information to board members and shareholders. The way in which firms are currently audited has been shown to have completely failed, as exemplified by the failure of banks which could not give an accurate picture of their balance sheet.

A Co-operative Agenda for the Economy

The Government should take new measures to ensure that the cosy world of auditing reflects new expectations of transparency, prudence and responsibility. These should improve auditor self-governance and redefine the legal reporting duties of the sector. The Government should create a new independent body to regulate auditors of publicly quoted firms. This could be based on the successful Audit Commission, a state body, which, until it is abolished by the Conservative Government, appoints and remunerates auditors for local authorities and the NHS. The same body should also be responsible for advising on remuneration, where agency problems are much the same.

With years more of prospective public sector cuts and most households facing the toughest squeeze on living standards for a generation, it is a scandal that some of the biggest businesses in the UK do not pay their fair share in tax. It is also unsustainable in the long run, as greater resources are required to care for an ageing population and other long-term challenges. The Government should review the corporate tax code in its entireity, including examining the case for minimum tax rates for businesses on profits and revenues that are generated within the UK.

More should also be done to ensure that business addresses its environmental and social impact. The Co-operative Party welcomes the requirement, introduced in the last Parliament, for listed companies to report on their environmental and social impacts. However, the absence of statutory reporting standards makes it difficult to have confidence in the information provided. These standards should be developed and imposed, with an overall four band rating of a company's social and environmental performance. It is also important that consumers have access to this information, and the Government should place a duty on companies to provide their four band rating on the products they produce, or in the case of the service sector, in all communications with clients.

Yet the most important change that needs to be made is in ensuring that company boards are held properly to account by their owners. It will come as a great surprise to many people in Britain that the biggest owners of UK companies are not foreign oligarchs or wealthy individuals, but ordinary members of the public, indirectly through their private pensions and other long-term savings. This represents over 20 million people, who between them own almost half of UK equities through their contributions to institutional funds.

The majority of institutional investors do not exercise their role as owners. Instead of taking a responsible long-term approach to ownership, in which they act to ensure a stable long term future for the business, they instead fail to take an active role – relying instead on their ability to trade out when prices change in the short term. This is self-defeating for those charged with delivering pensions over many decades into the future but it remains the predominant form of behaviour.

The effect of this has been disastrous. The short-term approach to investment management has resulted in a short term approach to business management – for which we are all now paying the price.

Ensuring that institutional investors exercise their rights and responsibilities as shareholders and long term investors is crucial. The Government should legislate to ensure that pension fund trustees and their agents are required under law to design and follow an explicit strategy for discharging the duties of ownership and promoting good governance. Failure to do so would be subject to legal action. The practice of signing over proxy votes, without direction, to either intermediary agents or the Board of Directors should be forbidden by law.

Yet creating an economy that acts in all of our interests will require further reform. Pension fund beneficiaries should have a greater say in how the companies they indirectly own are run. The Government should place a duty on pension fund trustees and their agents to collect the generalised view of their clients and beneficiaries on overarching issues of corporate governance, such as director pay. They would then be required to vote their views at company meetings.

It is not only around corporate governance issues where pension fund beneficiaries have an interest. A poll undertaken by YouGov for the Co-operative Party showed that members of the public feel that the three biggest priorities for any company should be to treat its customers (91%) and employees (84%) fairly and act in a socially responsible way (75%). Yet fewer than 30% of the respondents felt that big British companies shared these priorities. Given this mismatch, a duty should also be placed to collect the view of beneficiaries on issues around the relationship of companies with their customers, employees and wider stakeholders – and bring forward the views of their beneficiaries through engagement with the company.

Taken together, these proposals could create a significant culture change in Britain's biggest companies. By reconnecting our businesses with their owners and wider stakeholders we can transform the nature of capitalism in this country – building an economy that acts in all of our long term interests.

A New International Settlement

Perhaps the most important thing the financial crisis has taught us is that in the modern world, no country is able to solve all of its problems on its own. As we face the greatest challenge to the world economy in modern times, the looming catastrophe of climate change and the continued emergency of global poverty; co-operation between nations has never been more important.

The meeting of G20 leaders in London was an important step change in this process. The agreements reached constituted a global plan for recovery on an unprecedented scale. Commitments have been made to expansionary fiscal and monetary policy, a tightening of financial supervision and regulation, strengthening our global financial institutions, promoting global trade and mitigating the impact on the world's poorest countries. It is vital that as we move toward the upturn, we should not simply try to get back to the way things were before, which was unsustainable for many reasons. Global co-operation is essential to creating a new world economy - which is designed to provide for all of our long terms interests, rather than short term gains for the few.

This was particularly demonstrated in the agreement reached at the G8 summit in Northern Ireland. A commitment to work collaboratively to increase transparency in international taxation is a good exemplar of how a new international settlement may work in practice.

From speculation to long term investment

Financial flows play a vital role in local, national and international economies, but too little of the architecture to support them bears any relation to the real economy. Rather than a means to an end, finance has become the end in itself, with short term, high-frequency trading strategies turning over trillions of dollars every day in global markets. As we have seen in recent events, these can have tremendously destabilising effects on individual companies, sectors or countries. In some cases, this has even occurred when their economic fundamentals are largely sound.

The speculative nature of investment within the global economy rewards short-term decision-making and reduces the accountability of business to its owners. In the UK, almost half of this investment is provided not by a small number of rich individuals, nameless or faceless corporations, but comes from pension funds that pool the savings that we, as individuals, invest for our future.

The average UK pension fund turns over more than 100 per cent of its securities every year, which means they are traders rather than long term investors. Since they seek to avoid risk through trading, they have less impetus to worry about trying to prevent disasters. This can create poor governance and instability throughout the entire economic system.

The previous section has outlined a number of measures that can be taken within the UK to create a new type of market, one which discourages the short-term speculative moving of electronic assets and encourages long-term, sustainable investment. Yet international action is also required in this regard.

A number of countries already collect taxes on certain financial transactions. Yet if these are to be set at a rate that encourages companies to behave in a sustainable manner, these will need to be agreed internationally. To help ensure our future economic stability, the Government should campaign for the global introduction of taxes on capital transfers in the international stock, credit, derivative and currency markets through agreement at the G20 group of nations and the UN as per Stamp Duty. These could raise tens of billions of pounds, while also changing the incentives behind investment decisions. These could still allow for substantial national sovereignty over the collection and distribution of tax revenues, but could also provide for investment in tackling global poverty and the work of international agencies.

Improving economic information

As stated previously, the events leading up to the Financial Crisis were largely caused by a failure of responsibility and accountability in our economic system. Part of this was a failure to provide the right information and a lack of independence by those who did. Tackling the agency problems inherent in the supply of economic information is vital if we are to ensure that we do not return to the mistakes of the past.

The business model currently in existence for credit ratings agencies (CRAs) is a cause for serious concern. Under the present system CRAs are employed by the management of a firm, government or other body to give a credit rating either to particular financial instruments, a particular debt issue or for the company as a whole. They are also engaged in consultancy work for firms, advising them of the rating they would give to particular forms of structured debt and how the design could be altered to maximise their credit ratings. The financial crisis has seen the spectacular failure of these agencies to assess the risk of collateralised debt obligations or the institutions holding them.

The problem is the way in which CRAs are funded. Their core business involves them receiving payment from institutions that issue debt, rather than the investors that they are supposed to protect. This creates a clear conflict of interest, which renders them incapable of producing and delivering ratings that accurately reflect the credit-worthiness of investments and institutions and was highly significant in the ‘ratings inflation’ that preceded the crash.

The Government should work within the G20 group of nations and the UN for wholesale reform of the way in which CRAs operate. As a matter of priority, it should seek international agreement on a regulatory regime that will ensure that:

- The level of information regarding structured finance instruments available to the market and public bodies is raised to the same level of transparency as exists on the corporate ratings side;
- CRAs should be prohibited from issuing a rating for any asset whose construction or design they have been consulted on.

The Government should also work within the G20 and UN to create a new mutual CRA, owned and controlled by private and institutional investors. This could not only assess risk across a number of financial instruments and institutions, but would also have the express duty of predicting large market disturbances and recessions. This would be an invaluable source of economic advice for national governments, inform the position of regulators, act as an early warning system for recession and provide assistance with modelling and responding to these phenomena.

LOCAL GOVERNMENT

Local Economic Development: Mutuals, co-operatives and social enterprises are the ideal vehicles for local economic development. They generate wealth and employment; their profits are retained locally to the benefit of local businesses or – often - used for the benefit of the community. Co-operative businesses mean co-operative ethics.

There is now a greater demand in the media and by the public for businesses that are ethical and transparent. Witness the dramatic increase in business with financial mutuals and credit unions. In the eyes of the public, profit is no longer seen as the primary measure of a good business. Local councils must take account of this when determining the types of business that they nurture, encourage or support.

Mutual organisations are often catalysts for local economic regeneration. For example, football supporters' trusts provide community support that extends beyond the club and its fans. Rhondda Cynon Taf Homes, the UK's first community housing mutual, is committed to driving economic regeneration by developing skills training and generating local jobs.

They have established a regeneration-focused social enterprise with subsidiary social businesses that employ tenants as volunteers to help boost their skills.

Business Support: We have already seen the growth of secondary co-ops as a way to make small and medium size enterprises stronger by working together. Agri-co-ops are a prime example: farmers have known for years that they have to co-operate – in buying and in marketing[1] – to survive. In France, 9 out of 10 farmers belong to an agricultural co-operative.

For small businesses to thrive in the current climate, they need support to work together to achieve economies of scale and to procure contracts. There is massive scope for the development of co-operative consortia, particularly in the building trades and tourism.

More needs to be done though to ensure that the right environment exists in which co-operatives and mutuals can thrive. Mutual forms of business still suffer from a lack of support, despite being robust and

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[1] For example, the former Anglia Pea Growers Co-operative, which in October 2010 secured a contract worth £20,000 to each of its 150 members (source: Processed Vegetable Growers Association Ltd www.pvga.co.uk.

proven business structures. The majority of business support providers do not have the capacity or expertise to provide services for those seeking to set up co-operatives or social enterprises.

<u>Procurement:</u> In both national and local government, more needs to be done to support smarter and more strategic commissioning and procurement of both goods and services. The current and future financial pressures on the public sector and the desire for efficiency savings make getting the most from public resources ever-more essential. The current and future reality of public expenditure will be – rightly – to seek more for less. The Labour Party in seeking to return to Government is right to adopt a 'laser-like' focus on demanding proper value for money in public expenditure. A creative approach to running public services to improve productivity will be essential. Ensuring that public services operate in the best interests of the public purse will be vital.

In commissioning, mutuals, co-operatives and social enterprises have a huge role to play in this value-for money agenda.

Co-operatives and mutuals are often small and medium enterprises - local businesses and members of the local community; so any assistance given to them can also bring benefits to the community.

They provide services that tend to be more focused on the end user. Their structures are generally established in order to balance the appropriate importance of different stakeholder groups. Co-operative and social enterprises can rightfully claim to be popular with end users because their services are influenced by them. They also tend to provide added value by meeting social, environmental and economic development goals, and often deliver services to hard-to-reach groups and work in areas of market failure.

These ownership considerations are rarely taken into account when tenders for public services are being offered. Yet they can have a profound effect on the manner in which services are provided.

The Co-operative Party supports a much more creative approach to the tendering of contracts by local and central government. There should be new, reformed 'best value' processes to ensure that co-operatives, mutuals and social enterprises are able and encouraged to bid.

The social value of the bidders' offer should be an intrinsic value taken into consideration in determining which bid is accepted. The long-term economic impact, ethical and environmental credentials of the contractor should be taken into account in a holistic way, alongside costs.

Where local authorities decide to externalise services, they should provide employees, service users and the wider community with a 'right to try,' which would give them the option and a time frame of six months to consider taking over the service through the creation of a co-operative or social enterprise. Councils should also ensure that these schemes are given sufficient support through the feasibility stage to enable them to compete with established private sector companies.

The Co-operative Party

The Co-operative Party is the Party of social justice.

We believe that people will achieve more by working together than they can by working alone. We support the efforts of those who seek success through that co-operative endeavour.

We believe that the only way to create a just and fair society is through power being spread evenly throughout society, and not arbitrarily based on wealth, class, gender or race.

We work to promote co-operatives and all forms of mutual organisation.

We work in partnership with the Labour Party as its sister party to achieve these ends.

In addition to hundreds of Labour and Co-operative Councillors across England, Scotland and Wales, there are currently 32 Labour/Co-operative MPs, and members in the Scottish Parliament, Welsh Assembly and the House of Lords.