the co-operative party

An economy where wealth and power are shared

IN THIS DOCUMENT

THE 2018 POLICY PROCESS

The Co-operative Party's policy process is an opportunity for members and the movement to have a say on the Party's position on key issues.

The policy process 2018 focused on two specific areas of policy – the economy and the UK's future relationship with the European Union. From the referendum result in 2016 to the impact that technological change is having in our workplaces, the last few years have seen huge change. The policy topics seek to understand and shape the way our economy is organised and our place in the world.

As a member-led organisation, the Co-operative Party held a consultation over a six-month period from January 2018, and asked members and the movement for their ideas and lived experiences to help shape policy development.

Hundreds of members participated, whether through sending an individual contribution, attending their local branch or party council, taking part in one of the centrally-organised policy meetings, going along to their regional conference or getting involved online. The policy sub-committee have now reviewed the responses and provided feedback to the Party units who contributed, outlining how their suggestions have been incorporated.

These policy papers are 'living documents' which can be amended and expanded to take account of changing circumstances and environment. They are available to view and download at party.coop/publications. Following the debates and votes at conference, these documents will be updated to reflect the views of conference.

INTRODUCTION

The foundations of the UK's economy have shifted. Former industrial towns and regions have been damaged as manufacturing has downsized or moved abroad. Communities face a crisis of eroding rights in the workplace, rising living costs and stagnant wages.

Too many companies have become fixated on short term profit maximisation at the expense of their workers, their customers and the wider economy. The nature of work in Britain is changing, with growth in the use of self-employed status forcing workers to go without sick pay, job security, minimum wages or pensions.

Co-operation provides an antidote to many of the economy's failings. The original co-operative and mutual societies were created as a way for ordinary people to come together to provide mutual self-help for their members – from good quality affordable food to fair rewards for their labour and protection against sickness and unemployment.

While the country is a very different place to when the Co-operative Party was founded a century ago, the solutions offered by co-operatives are as pertinent and important today as they were then. By existing to provide a service for their members rather than generate profits for external shareholders, co-operative and mutual enterprises are the key to creating an economy that puts people before profit. And conversely a larger co-operative sector is a sign and measure of a different kind of economy emerging, where purpose and participation are valued above profit maximisation.

The paper has been developed through consultation with members and looks to reflect their concerns and contributions. The full breakdown of responses can be found here www.party.coop/policy/new/submissions.

In doing so, the paper seeks to put forward a positive vision for this different kind of economy – one which speaks to the everyday by improving job quality, bottom-up regeneration and a regional rebalance. As the recent IPPR report

'Prosperity and Justice' emphasises, prosperity and justice must go hand-in-hand, and this means tackling the inequality in the structures of the economy where they arise.[1]

A co-operative economy places decision-making closer to those communities affected, through empowering local authorities, creating democratic workplaces and giving consumers a greater voice. And of course, it means a significantly larger co-operative sector and the hardwiring of our values into conventional businesses.

1 https://www.ippr.org/research/publications/prosperity-and-justice

EXPANDING THE CO-OPERATIVE SECTOR

With values and principles at its heart, co-operative enterprise is the fairest way to do business – democratic organisations with a social purpose, operating in the interests of their members and wider communities, and sharing the dividends of success.

Economies characterised by a larger co-operative sector are more equitable, productive and accountable, with a narrower gap between the rich and poor. Instead of wealth being concentrated in the hands of a small percentage at the top, co-operative economies have a wider ownership base. In communities like Emilia Romagna in Italy, co-operative enterprises generate close to 40% of GDP in the province and which has the lowest socio-economic inequality of any region in Europe.

In contrast, our economy is skewed to the interests of private business. Co-operative growth and expansion are hindered by a legislative and regulatory framework that is designed for privately-owned businesses. Member finance and community share offers have been very successful in financing community energy, co-operative pubs and other projects and enterprises but given their unique structure, co-operatives are often excluded from traditional investment methods. This unequal playing field places the sector at a competitive disadvantage and makes it easier for new enterprises to adopt conventional business models.

It is testament, therefore, to the resilience of co-operatives that the sector is worth £37 billion to the economy each year, despite this hostile economic environment which creates barriers to further co-operation. This is further explored in the recently launched New Economics Foundation's independent report, 'Co-operatives Unleashed', which explores some of these barriers to growth for the sector and sets out an ambitious vision for a co-operative sector double the size it is today.

PROPOSALS

Levelling the playing field for co-operatives and fuelling growth

- A Co-operative Economy Act should be passed to provide the support and funding needed to enable the co-operative sector to grow. This should include:
    - The creation of a new statutory Co-operative Development Agency tasked with deepening co-operative capabilities and growing the sector. In Scotland and Wales existing institutions provide this function admirably already, but scaling such efforts across the rest of the country is crucial. The agency would provide a network of support and capacity building to co-operatives large and small to facilitate networking, federating and risk sharing among co-operatives, and act to increase familiarity with the co-operative model. This new agency will also inform and deliver government policy, and should be suitably resourced in order to at least double the size of the co-operative sector.
    - Reform which gives co-operatives the opportunity to choose a legally binding corporate form that enshrines the principle of 'disinterested distribution' common in other EU states, ensuring that there can never be a benefit from 'cashing out' because the assets must be transferred to another mutual;
    - Mechanisms and funding to support the transition of existing businesses into co-operative models, through a right to own and education programmes to support employee buyouts and the co-operatisation of existing businesses;
    - Mechanisms to make it easier to convert from a company to a Society corporate form;
    - A new statutory 'duty to foster diversity of corporate forms' to enable a new culture of co-operative entrepreneurship. This would include amending the government's Impact Assessment on new legislation and regulation, to ensure that all legal forms

are properly considered, and to identify and remove burdensome unintended consequences of new government policy.

- Co-operative and mutual enterprises continue to operate under a regulatory framework that can disadvantage them in contrast to company law. Laws applying to co-operative and mutual enterprises should be reviewed to ensure they benefit from a level playing field and to ensure no policy has unintended consequences for the co-operative sector, or Henry VIII powers in the Co-operative and Community Benefit Societies Act 2014 should be attached to all the various thresholds and other provisions which require regular update.
- The Inclusive Economy Unit, currently within the Office for Civil Society at the Department for Culture, Media and Sport, should be strengthened and moved to the Department for Business, Energy and Industrial Strategy (BEIS), and benefit from the appointment of a new Minister for Mutuals. The Minister should be tasked with developing a roadmap for policy development in Whitehall aimed at making co-operative options more user friendly, removing the unnecessary red tape faced by many co-operatives and allowing them to adopt a statutory asset lock if they choose. While important that the Treasury continues to have a role in supporting co-operatives and helping to deliver the type of economy where co-operatives thrive, the unit in BEIS is well placed to take on some Treasury responsibilities to drive the promotion of the co-operative economy and champion the sector.

Funding models and tax exemption

- Access to funding is a barrier to new co-operatives starting up and existing co-operatives expanding. A new investment bank should be created along mutual lines, in addition to the British Business Bank and new mutual guarantee societies, which is jointly owned by bondholders and the UK Government. The Bank should support the expansion of the co-operative, mutual and social enterprise sector through the provision of patient risk capital. There should also be a dedicated government-backed Responsible Finance Fund to unlock private sector investment in a similar way to Community Development Finance Institutions. For example, scientists and researchers organising into co-operatives to better access research facilities, raise awareness of their research and collaborate would benefit from this as it could provide a broader source of funding

- Community Benefit Societies are non-profit distributing businesses that exist for a specific social purpose. While several of these are also registered as charities, this can be a difficult bureaucratic hurdle to navigate for some smaller organisations. As businesses solely concerned with social outcomes, the government should exempt Community Benefit Societies from paying corporation tax and business and non-domestic rates.
- Changes to the Enterprise (EIS) and Seed Enterprise Investment Schemes (SEIS) should be made to ensure that asset locked mutuals have access to funding. Currently, small asset-locked mutuals are unable to benefit from the EIS an SEIS due to the limited role that external capital plays in member-owned organisations. Where mutuals decide to opt for an asset lock, their retained profits should qualify them for tax relief under EIS and SEIS.
- Co-operatives rely on internal reinvestment of earnings to grow, so many schemes designed to encourage private investment are of limited use for some co-operatives. The government should introduce tax relief on profits reinvested by co-operatives which have opted to have an asset lock, as introduced in the new Co-operative Economy Act, and a common capital fund.
- Co-operatives do not issue shares in the same way as investor-owned companies, as to do so would mean demutualising, so co-operatives with significant capital requirements can face considerable difficulties raising additional capital at the level they need. There is a strong case for an incoming government to develop legislation to introduce Redeemable Shares for these co-operatives facing larger capital requirements – this could be fixed-term withdrawable share capital which would allow for societies to raise patient and engaged equity finance from member and non-member investors. There are a range of challenges that the sector faces in attracting capital, and other models including the provision of non-member investment to provide capital in return for a limited return but will also need support in order to help achieve a well-financed, capitalised and growing co-operative sector.

WORKPLACE DEMOCRACY

Putting co-operation at the heart of our economy not only means a larger co-operative sector, but also the hard-wiring of co-operative values and principles into the DNA of the wider economy.

That means purposeful, values-driven businesses creating growth and jobs, it means the fruits of labour being more fairly shares, and markets working in the interests of consumers and employees rather than shareholders.

It makes good economic sense too. Companies and organisations in which employees have a real influence, in particular where this comes in parallel with an ownership stake, are more productive than organisations where this is not the case. In these organisations workers are happier, better remunerated and more productive.

This can be seen, for example, in the performance of co-owned companies. As the recent 'Ownership Effect Inquiry' concludes, more employee owned businesses would improve UK productivity[2]. Similarly, the 'National Center for Employee Ownership' has created an index of employee-owned businesses in the US which investors can use to invest in a basket of employee-owned businesses – which is outperforming traditionally run and owned companies. From June 19, 2017, to May 14, 2018, the Employee Ownership Index gained 22.5 percent to the Standard & Poor 500's 13.2 percent[3].

And this is true on a macro scale too. A new Economic Democracy Index, measuring economies by the extent of workplace rights and collective ownership like co-operatives and credit unions, has found a clear correlation

2 https://issuu.com/revistabibliodiversidad/docs/eoa_full_book

3 https://www.motifinvesting.com/motifs/employee-ownership-index-C7kwtx45?next=/positions/employee-ownership-index-C7kwtx45_738851#/performance

showing that economies where workers have a greater say and stake in their workplace are more productive[4].

There is clear appetite for this route to inclusive and balanced growth which will demonstrably increase productivity within the UK workforce, as can be seen within results of recent YouGov polling which found that 68% of people in work feel they have no control in their workplace[5].

PROPOSALS

Employee ownership and the "co-operatisation" of existing businesses

- Businesses at the point of transition present a great opportunity for a step change in the size of the co-operative sector. Employee buyouts show how self-help and co-operation can build resilience into our economy, saving productive businesses and providing an attractive option for business owners. As they transfer ownership to employees, there is a guarantee of the new owners taking a genuine interest in an enterprise's long-term success. Working with the existing movement, development organisations and experts, the new Co-operative Development Agency should be tasked with providing advice and support to existing business owners on how to transfer ownership and governance to employees – something that CDS Scotland has had significant success in putting into practice.
- New legislation should give employees a statutory 'right to request' employee ownership during business succession, alongside an 'early warning' resource capable of informing workforces in advance of insolvency or disposal of a viable business. This would enable employees to assess the scope for acquisition and prepare a bid.
- The government should also be more proactive in supporting the process of employee buyouts, in particular giving the employees the financial freedom to do so when needed. The government should learn from Italy's 'Marcora Law', which provides funds and business support

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4 http://blogs.lse.ac.uk/businessreview/2018/03/03/a-new-definition-of-economic-democracy-and-what-it-means-for-inequality/

5 https://party.coop/2018/04/05/britain-wont-solve-its-productivity-crisis-unless-employees-get-a-real-stake-in-their-work-place/

for employee buy outs, and has returned an economic return of 6.8 times the capital invested by the funding mechanisms, and Spain's 'Pagio Unico' law which provides newly unemployed workers from a private company the ability to generate capital to buy the firm, through the deployment of three years' unemployment benefits which the state pays up front. The existing British Business Bank could be strengthened to become an important lending and guaranteeing institution within the delivery of a UK version of this law and tax advantages should be given to employees diverting a portion of possible redundancy compensation to take a collective stake in their reconstituted business.

- Tax reliefs should be reformed so that they are only offered to all-employee share ownership schemes that require employees to purchase and hold shares for a number of years in order to benefit. The significant savings to the government as a result should be invested in giving permanent employee benefits trusts the same tax treatment as temporary schemes, developing new schemes that give employees a collective democratic choice, and a new Co-operative Entrepreneurs' Programme to augment existing start-up support.
- Co-operatives are not just a last-ditch response to crisis, and nor should workers have to wait until a business owner is ready to retire to have a meaningful stake and say in their workplaces. Urgent action is needed to re-establish the link between profits and wages – so legislation to ensure that all British businesses with more than 50 employees are obliged to set up a profit-sharing scheme with their staff, with a minimum profit share pot set aside based on a calculation of its annual profits and its financial position. In addition, all larger shareholder- or privately-owned businesses should be required to have an 'inclusive ownership fund' where a small amount of profit is transferred into a worker or wider stakeholder-owned trust, which gives workers a collective voice in how the company is run.

Responsible business

- In the European 'stakeholder' approach to business, employees are given a formal role in making decisions about how a company is run. All publicly listed companies should have a 'duty to involve' their employees at a workplace level, and have representatives of employees on their board. These new rights would operate in addition to, not instead of, the vitally important role that trade unions play in Britain's workplaces, and the Co-operative Party would like to see a higher penetration of trade union membership and recognition in the private sector.

- Business should be required to make a statement of purpose in their annual report, measuring and reporting on shared value rather than simply profit – including their impact on the environment, their employees and their community.
- The fiduciary duties of board members should be expanded to include a duty of stewardship to the company's stakeholders and the long-term future of the business. Because this will require forward-looking statements of belief, values or judgement, this should attract new 'safe harbour protections' insulating their judgements from legal challenge.
- The ability of non-executive directors (NEDs) to challenge should be enhanced to improve governance and oversight in companies. For this to take place, they need the confidence that they are receiving independent information. Currently in the majority of the FTSE100 companies NEDs are appointed, remunerated and line-managed by the Chief Executive Officer. The government should modify the Combined Code to ensure that the Company Secretaries are appointed by the non-executive directors, reporting to the chair. Non-executive directors should have their own independent resources and staff.
- The takeover code should be reformed with additional powers give to the pensions regulator, so that workers and their pensions don't suffer when a company is sold or shut down. Irresponsible company owners who put their employees' private pensions schemes at risk should be held to account.

BETTER JOBS AND THE FUTURE OF WORK

Employment models have changed over the last ten years. Instead of companies and public organisations taking on the risks and costs of employment, this burden has been shifted to the individual in the guise of self-employment.

Dressed up as flexible working, this new gig economy is characterised by precarious jobs, low and insecure wages, an erosion of the rights we take for granted in the workplace like sick pay and maternity leave, and a growing vulnerability to debt, insecure housing and in-work poverty.

In workplaces which don't rely on these precarious models, the nature of work is changing too. 10% of the workforce is underemployed, with 5 million people under-utilised at work, 5.8 million earning below a living wage[6], a 400% increase in the number of people on zero-hour contracts since 2002 and a million people in part-time work who can't find full time jobs.[7] The link between wages and wider economic growth has been severed – between 2007 and 2015 the UK was the only advanced economy in which wages contracted while the economy expanded.[8] This has resulted in a hollowing out of the jobs market as middle income, middle-skill jobs disappear leaving a widening gap between those in well-paid, high-skill jobs and the rest[9].

Technology has radically changed workplaces too – automation not only risks a loss of many jobs but changes the nature of many others. In warehouses,

6 Rachel Reeves MP, The Everyday Economy: https://www.scribd.com/document/374425087/Rachel-Reeves-The-Everyday-Economy

7 http://uk.businessinsider.com/ons-underemployment-double-unemployment-rate-2017-9

8 https://www.ft.com/content/83e7e87e-fe64-11e6-96f8-3700c5664d30

9 ibid, Reeves

call centres, shop floors and even social care, jobs are being deskilled as machines take on more and more tasks, from self-service checkouts to call handling and logistics. And in other sectors, platform technology and apps are creating a new elite of technology entrepreneurs and developers. The ownership and profits from apps which offer cheaper taxis or takeaways, for example, sits with a small concentration of entrepreneurs and investors, and the wealth from their success does not trickle down to the cyclists and drivers who actually contribute the labour to deliver the service.

The co-operative movement emerged as a way to empower people who were being left behind. Much like when, 150 years ago, the self-employed garment workers and launderers came together to provide mutual support, the co-operative model continues to have much to offer in this area. Similarly, the work of trade unions to challenge this definition of self-employment is incredibly important, and we want to see the riders, drivers and cleaners of the new gig economy able to organise and be represented in their daily working lives.

PROPOSALS

- Employment law needs to be amended so that all working people benefit from the same floor of decent employment rights and enjoy the same protections. This should include clear rules to prevent employers getting out of their employment responsibilities or misclassifying staff as self-employed.
- The government should play an active role in supporting self-employed workers who are organising themselves into co-operatives and starting service co-operatives, through improving access to start-up advice and investment, and ensuring that they have a level playing field to compete with big commercial enterprises. For example, the Link Psychology Co-operative in Preston is a consortium of self-employed educational psychologists who offer services to schools. Their co-operative model enables them to join forces to gain mutual benefits such as access to administrative support, marketing services and training.
- The Department for Work and Pensions should explore the potential for employment co-operatives for people on benefits such as Job Seekers Allowance. This would mean that unemployed people would not lose out on the security of their benefits payments while they

start out as self-employed workers, and enable them to access the collaboration, services and mutual support of the co-operative.

- There should be support for the development of mutual aid and insurance to help self-employed workers who experience or are at risk of periods of unemployment. For example, 'Bread funds' in the Netherlands enable freelancers to pool the risk of periods of unemployment by creating funds into which freelancers can pay when they are working and then draw upon if they are not able to work.
- The government needs to invest in high quality vocational education, preparing the future workforce for a new world of work and supporting lifelong learners to keep their skills relevant, as detailed in the Co-operative Party's education policy[10].
- Individuals should be helped to take back more control over their workplace. The interests of self-employed workers are poorly represented in national policy making and not loud enough in individual and local workplace issues. The rights of workers to trade union representation in the workplace must be enforced in every business – including those that rely on a largely self-employed workforce. At a national level, the Department for Business, Energy and Industrial Strategy should identify how to create a voice for self-employed workers in business policy, regulation and commissioning, learning from the way in which the wider small business community has successfully become recognised.
- In many sectors temping and employment agencies dominate the market, resulting in less secure work, little direct employment, and an erosion of working rights. The agency creams off fees and profits in the middle, leaving both the customer and the workers worse off. Loopholes which allow agency workers to be paid less than regular workers should be closed, and gangmaster licensing should be extended to agencies operating in high risk sectors.
- Support should be given to freelancers and agency workers to organise into co-operatives and public procurement rules with respect to using employment and temping agencies should be amended so that only co-operative and not-for-profit models, as opposed to commercial for-profit agencies, can take on public contracts.

10 https://party.coop/publication/instilling-co-operation-into-learning/

- Platform co-operatives offer shared ownership and collaboration through digital platforms. Currently, digital platforms tend to have narrow ownership and push the risk onto providers and users of the platform, undermining traditional employment relationships and the rights that go with that. The technical, financial and legal infrastructure should be developed to support the development of co-operative platforms and limit the market domination of extractive models.

DEMOCRATIC PUBLIC OWNERSHIP

Ownership matters. Who owns a business or service dictates in whose interests it is run. The UK's economy is owned by a narrow set of private interests and in markets, from energy to manufacturing, consumers, workers and communities are too often left behind.

Many of our markets are not really markets at all, but ideological constructs created by extensive privatisation. In practice, they are monopolistic or uncompetitive, with complicated regulation and requiring significant state intervention and subsidy to enable the services they provide to run – whether it's water, energy or rail.

The Co-operative Party has always promoted inclusive and accountable forms of public ownership. During the 1940s, Co-operative MPs served in the Labour Government that built and reformed our great publicly owned institutions including the NHS. However, we have always believed that in order to achieve the fullest possible benefits from public ownership we need to be more radical than simply vesting authority and control in the hands of a few in Whitehall. Instead, we need democratic forms of public ownership that put power in the hands of the many. That give real voice, in the running of services and in critical decisions about issues like investment priorities and executive remuneration, to those who rely on them and who work within them.

PROPOSALS

- In utility markets characterised by monopolistic structures, the government should pursue opportunities as described in the Co-operative Party's recent paper on 'Democratic public ownership for the 21st Century' to transition them into democratic, accountable and inclusive models. This means energy and water networks owned and controlled by their employees and billpayers, national organisations with the voices of workers and consumers at the heart of decision-making, and a revolution in community and co-operative energy supply and generation. Changing the way these markets are owned would ensure that their interests are aligned with those of their members rather than being in competition with them.

- For Britain's railways, this means a wholesale change to the industry too – continued public ownership of infrastructure management with new models and governance for the integration of the infrastructure management and the creation of new publicly controlled rail passenger services, which involve the passenger, employee and local authority.

- Private monopolies don't make fair markets, and Ofcom's decision to allow Openreach to remain part of BT means that this vital part of our infrastructure will continue to be run in the interests of BT's shareholders rather than the people who use phone and broadband services. The government should explore genuine separation of telecoms infrastructure from the supply of services, and create a new customer- and employee-owned model to take over the national phone and broadband infrastructure. A democratically publicly owned Openreach would ensure a fair playing field for all providers that use its infrastructure. The proceeds from the services it provides would then be reinvested, pushing up standards and speeds for all.

LOCAL ECONOMIC DEVELOPMENT

Too many regions of the UK have not benefitted from the economic growth that London and the South East have enjoyed. Economic and political power have become increasingly concentrated in the capital, creating an unequal country where opportunities and wealth are stacked in favour of those living and working within the M25.

Local economies matter. And while many areas remain highly productive, in other places economic traditions have been lost, populations have declined, and a shift to low-skilled service jobs has stalled social mobility. Co-operative politics champions the principle of locating decision-making and economic regeneration as close as possible to those communities affected, reflecting our values of self-help, self-responsibility, democracy, equality, equity and solidarity

Some progress on devolution has been made, with metro now representing city regions like Greater Manchester and Sheffield. But devolution, and the extent of powers awarded to different regions, is patchy, and the piecemeal city-focused way it has evolved neglects to provide solutions for many of the UK's towns which are at the sharp end of unequal growth in the UK. While cities attract increasing numbers of young people, graduates and migrants, towns are home to more and more pensioners – widening the gap in terms of local economy, demand for services, values and views on the big issues of our time like Brexit and immigration.

In many areas, the high street is the beating heart of the local economy – for shopping and accessing services, a sense of pride of place, a centre of employment in retail and service industries. In many towns and cities, this is in decline. Nowhere is immune to the difficulties faced by the retail sector, and towns and cities alike are losing many of the stalwarts of their town centres.

While many regional growth strategies seek to rebalance the economy by picking high value highly skilled sectors to fuel local growth and job creation. While these are important jobs and industries to nurture, it's a very top down way to generate growth, and its effects are not always felt by the majority of households. It also fails to truly rebalance the economy to lift up the left behind towns and cities – it risks achieving little more than a regeneration of the M11 corridor and the Thames Valley, to the exclusion of places like South Wales or the North West[11].

Local economies rely on a bedrock of goods and services that everyone consumes, from hairdressing to healthcare. This everyday economy has borne witness to the race to the bottom that has seen many households face increasingly insecure work with stagnant wages and poorer working conditions. Local and devolved government has a key role in growing this economy and improving the quality of jobs – a bottom up and meaningful way to create community wealth.

This means local authorities and anchor institutions – meaning those big organisations like a university, hospital, sports team or utility company that are tied to their location, have substantial spending power, and are significant local employers – spending the public pound in a way which has greater positive local impact. In Preston, for example, working with anchor institutions on employment practices and procurement has seen the city go from 19,000 jobs paid below the real Living Wage to 15,000 in 2017. Below average part time wage levels in Preston in 2011 are now significantly higher than the UK average. This brought Preston out of the bottom 20% most deprived areas in the Social Mobility Index.

PROPOSALS

Local decision-making

- The UK urgently needs to rebalance its economy. This cannot be achieved from the top down – every region needs to lead the economic regeneration and growth itself. This means meaningful decentralisation and a degree of fiscal devolution, with decision-making going beyond the town hall to the communities affected.

11 CRESC Manifesto for the foundational economy p.7

- In order to unlock the growth potential of every community, more support should be given to Combined Authorities, Economic Prosperity Boards and Local Enterprise Partnerships (LEPs), to facilitate the devolution of further significant powers over the Work Programme, adult skills and infrastructure.

Community wealth building

- Local authorities and anchor institutions play an important role in place-making and economic growth – not purely through their policies but also in their behaviour as employers and in the way they procure goods and services. Local authorities should seek to implement locally relevant aspects of community wealth building approach, as set out in 'Six Steps to Build Community Wealth' including:
    - Procuring goods and services more locally;
    - Paying the 'real' Living Wage;
    - Seeking to procure from co-operatives;
    - Developing a resilient and diverse local economy by growing the local co-operative sector.
- New procurement rules should be developed which acknowledge the benefits of co-operative and social enterprise procurement. There needs to be strong and clear guidance on the types of co-operative, mutual and social enterprise models covered by Regulation 77 (public Contracts Regulations 2015) to ensure that they deliver the social value intended and do not allow for privatisations via the back door.
- The Social Value Act is a tool which public institutions can use to support community wealth building. This piece of legislation must be strengthened and enhanced to give local authorities and public-sector institutions greater scope to procure for social and long-term value rather than simply on a short-term assessment of cost. This should include:
    - Giving public commissioners a duty to 'account for' rather than just 'consider' social value, with measurable targets and clear steps outlined if these are missed;
    - Public bodies should be required to publish social value priorities and how they weight contracts;

- Extending the scope of the Act to include contracts of a lower value.

- Where an anchor institution is an arm of government, there should be clear targets setting out expectations on how much of their money they spend locally. Anchor institutions should be encouraged to use their expertise and capital to invest in the development of local employee-owned, co-operative and social enterprises so that the money spent through their local procurement is reinvested in local jobs creation and the local community.

- Funding and advice should be available to ensure local government officers understand co-operatives and are able to support local co-operative development. A new co-operative development agency should be able to work closely with public bodies to develop co-operatives at a scale which can take on public contracts, or support smaller co-operatives to work together to jointly bid for contracts.

- 40% of the UK's wealth is held in private pension funds – this is unevenly distributed and adds to overall wealth inequality. Higher rates pension contribution relief should be restricted and tax relief currently available to pension funds should be made dependent on meeting social outcomes in investments, with a focus on employment creation, local economic growth and infrastructure investment. The Manchester Pension Fund already leads the way in this area, investing in infrastructure and housing in the greater Manchester region.

High streets

- High street retailers are significantly impacted by online retailers who are able to provide the same products for less because of not having to pay rents or business rates. Many big online retailers and marketplaces register much of their activity overseas or in tax havens, further reducing their costs as their corporation taxes remain very low. Business rates tax economic activity, creating a perverse disincentive to doing business, and because they are only paid by bricks-and-mortar businesses, high street stores and cafes pay a disproportionate share of corporate taxes based on their profits compared to the large multinationals.

    - Business rates should be scrapped in favour of a more progressive, much fairer form of business taxation including a land value tax.

- The tax system has not kept up with changes to consumer habits - the tax take should reflect the location of the customer in the territory in which large values of sales are generated. This could take the form of an online sales or transaction tax, or VAT could differentiate between in-store and online sales to create a more level playing field.
- Country-by-country reporting would enable public scrutiny of corporate behaviour and force the online retailers to be transparent about the ways they have kept their tax bills so low.

■ The glue that holds the high street together, from post offices to pubs, is too often at risk of closure. While the Localism Act contains important powers for local communities to play a key role to play in the preservation and delivery of local assets and services outside of local authority control, it needs to be strengthened. There are still barriers for communities – from unrealistic timetables to unwilling asset owners. The government needs to review the existing rights and strengthen the legislative framework to effectively change the balance of power, by:

- extending the protected period within which communities can mobilise to nine months, with a further extension where the asset owner refuses to speak to interested groups;
- Giving Community Interest Groups (CIGs) that have successfully listed assets should a 'first right of refusal' to purchase the asset, making the right a real 'right to buy' not simply a 'right to bid'.

■ Cash machines around the UK are closing at a rate of 300 a month, and there are over 3,000 communities in Britain that no longer have a single bank branch, especially in smaller towns.12 These are vital not just for consumers, particularly those who can't or don't want to bank online, but also for SMEs who rely on local branches to manage their business banking. To ensure branches are not replaced by phone and internet banking only, new Access to Banking Standard should be introduced to protect the continued existence of the "last bank in town", supervised by the Financial Conduct Authority and penalised when banks fail to uphold that standard, with the funds from any fines spent on financial inclusion and development of credit unions. A review of ATM charges should take place, with a view to reforming them or abolishing charges altogether.

12 https://www.ft.com/content/dce6d92e-db42-11e7-a039-c64b1c09b482

EMPOWERING CONSUMERS

The Co-operative Party has long championed the rights of consumers, and believes that in a well-functioning economy, well-informed and empowered consumers drive up standards, innovation and value for money.

However, many of our consumer markets do not currently function well and are characterised in many sectors by a lack of competition, an overdominance of large commercial firms, corporate decision-making focused on short-term profit not long-term value creation, inadequate access to information, barriers to shopping around or switching, and exploitative practices.

The economy is also a very different place from the 1960s and 1970s when Labour & Co-operative MPs developed the raft of legislation that underpins much of today's legislation. Consumer protections have not kept pace with new technologies, consumer trends and different ways of doing business – and Brexit risks the further erosion of consumer rights, as many of the rules protecting customers come from the EU.

PROPOSALS

- Consumer co-operatives are businesses owned by their customers for mutual benefit. They provide a challenge and an alternative to market failures from energy and broadband to food – by operating for the benefit of their members and wider communities rather than for private profit. A new Co-operative Development Agency created under a Co-operative Economy Act should include support for consumers to come together to create new consumer co-operatives. When companies are fined for abuse of market position or other anti-competitive behaviour, a portion of their fine should be spent on empowering consumers in that sector to start new consumer co-operatives.
- It is vital that the Competition and Markets Authority (CMA) remains responsive to consumer concerns, acts on the priorities of consumers

and works closely with other consumer champions. The government needs to put CMA reform at the top of the agenda and introduce an annual 'Competition Health Check'. Led jointly by consumers and the competition authorities, the annual health check would ensure regulators and politicians act where markets do not work in the public interest. In markets where failure is identified by regulators or the Competition Markets Authority, additional support should be given to the development of new consumer co-operatives.

- Britain's businesses lack the scrutiny needed to prevent bad corporate behaviour and to ensure consumers get a fair deal. Corporate governance requires urgent reform so that, where appropriate, consumers have a voice on company boards.
- Legislation should go further and ensure that consumers are given access to accurate and portable information. Too many companies are opaque in their dealings, obscuring charges and costs to hold on to customers or to overcharge them.
- Access to advice and advocacy services are also important. Having access to independent advice can help consumers understand their rights and resolve problems more quickly. A new duty should be placed on statutory regulators to report annually on the provision of free independent advice available to consumers purchasing services in their sector.
- Consumers deserve the right to access their data in a meaningful format and to be allowed to share it. The government should bring forward legislation to create a framework for Next Generation Intermediaries (NGIs) - these 'consumer clubs' need the ability to use data shared by consumers to negotiate services on their behalf. NGIs would enable consumers not only to individually compare prices but to collectively negotiate them for a wide range of services from energy to banking, and provide a new weapon in their fight for a fairer deal.
- There are at least 17 different Ombudsman services and fourteen different recognised complaint handling services. Navigating this confusing system makes it harder for consumers to get justice. There should be a single Consumer Ombudsman with US-style powers and the ability to take up class actions on behalf of consumers against companies.

THE NEXT DEBT CRISIS

Household debt in the UK is worse than at any time on record. Credit card debt is growing at the fastest rate since the financial crash, and as house prices continue to rise faster than wages, households are taking out bigger mortgages. New forms of lending, such as car financing, has rocketed. New finance issued by car dealerships has doubled in the past five years[13] and the rent-to-own sector experienced huge growth during and since the recession.

And perhaps most worryingly, arrears on ordinary everyday bills are increasing – up 34% since 2010. UK households are an estimated further £19 billion in debt on missed council tax payments and repaying overpaid benefits, while another £2.2 billion is owed to water companies and £1.1 billion to electricity and gas providers.[14]

Household disposable income has been growing by less than the annual growth in household debt levels, meaning the proportion of someone's salary spent on servicing their debt is rising, leaving less in their pockets to spend on essentials and pushing many to take on further debt to make ends meet. As levels of personal debt grow, demand in the economy could fall – impacting business revenues and pushing the economy downwards again.

PROPOSALS

- The growth in personal debt as a result of repaying overpaid benefits or council tax arrears is a worrying trend, but not currently measured or reported on – obscuring the real picture of the UK's personal debt

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13 https://www.theguardian.com/business/2017/sep/18/uk-debt-crisis-credit-cards-car-loans

14 https://www.theguardian.com/money/2018/aug/21/uk-households-face-hidden-debt-of-almost-19bn-citizens-advice

crisis and preventing any meaningful action to help those households out of debt. The government should measure and report on debt to public bodies and impose tighter regulations on the bailiff industry.

- The collapse of Wonga into administration shows that high cost credit is discredited and damaging. This lesson should be applied to all kinds of credit, with a cap on interest rates and fees.

- When indebted households dip into their overdrafts, they can often face significant and unexpected fees. The majority of unarranged overdraft charges are paid by just 1.5% of customers, who pay around £450 per year in fees and charges, while banks profit from their indebtedness. In 2016 it was estimated that this revenue stream provided banks with an estimated £2.3 billion additional income15. The amount that banks can charge in overdraft fees should be capped and the funds that banks collect in overdraft fees should be ringfenced for the provision of debt advice and financial inclusion programmes.

- The way that consumers borrow money is changing – no longer are loans for a car sought from a high street lender. Instead, car manufacturers and dealerships offer personal contract purchase agreements at point of sale, making buying a new car – almost completely on credit as easy as taking out a new mobile phone contract.

- Many agreements seem cheaper because the loans do not cover the whole cost of the car – instead you pay the difference between the current value of the car and the expected value of the car at the end of the contract, plus, of course, interest to the lender. At the end of the contract, consumers don't own the car unless they pay a significant lump sum or "balloon payment" and there are often surprise expenses linked to mileage and wear and tear. Early exit is also penalised, and even when contracts come to an end, consumers are often enticed into a new deal.

  New protections for consumers choosing to lease cars should be introduced, including tighter rules on end-of-contract fees, and new protections for people who wish to end the contract early due to changes in circumstance. There should be a review of the competitiveness of the industry,

15 https://www.fca.org.uk/news/press-releases/fca-publishes-outcome-high-cost-credit-review

including an exploration of potential conflicts of interest arising from commission arrangements at car dealerships.

For the consumer, the affordability of this model relies on rising used car values – without this, the risk and cost of depreciation is greater. As a greater number of new vehicles come off lease and into the used car market there is growing risk to the sustainability of the car leasing model. Support should be given to develop sustainable models of used car leasing, as well as promoting other forms of car sharing.

FINANCIAL SERVICES

Four large banks dominate the UK high street – Barclays, Lloyds, HSBC and the Royal Bank of Scotland control 77% of current accounts and 85% of small business banking. Despite some gain in market share by challenger banks like Metro Bank, new rules designed to loosen the big four banks' stranglehold and boost competition are having a limited impact.

Consumers are still reluctant to switch accounts. Even dissatisfied customers believe they have little to gain from switching[16] - which is hardly surprising given the lack of choice and diversity in the sector. And there remain many customers without current accounts or other basic financial products. 1.7 million people don't have access to banking of any kind, and 40% of households have less than £100 in savings.

Outside of personal banking, high street banks are not performing much better and are increasingly reluctant to lend to SMEs. And the feeling is mutual – only 1.7% of small firms sought new loans in the first half of 2017, down from 2.9% for the same period in 2012[17], preferring to find alternative funding or not borrow at all even if it meant they couldn't expand. No surprise given the recent scandals, from the allegation that RBS's Global Restructuring Group engaged in "widespread and inappropriate treatment" of thousands of SMEs after the financial crisis, to the six people jailed after struggling SME customers of HBOs were defrauded and saddled with unmanageable debts.

Alternatives already exist – credit unions and community development finance institutions (CDFIs), which provide accessible and affordable banking, and building societies, which exist to provide a service for their members rather than create wealth for external shareholders. However, much of the legislation and regulation governing the sector is antiquated and in need of

16 https://www.bbc.co.uk/news/business-44522630

17 https://www.telegraph.co.uk/business/2018/02/20/small-firms-increasingly-reluctant-borrow-big-banks-report-finds/

reform, or disproportionately impacts on their ability to operate on a level playing field with the commercial high street banks.

PROPOSALS

- Every adult, household and business should have access to at least a basic package of fair and affordable finance tools, including a basic transactional bank account; a savings scheme; access to credit; physical access to branch banking facilities; insurance; and independent money management advice. The government should legislate to introduce a new 'duty to serve' that would force UK banks to demonstrate that they are serving individuals and SMEs from all backgrounds, as happens in the US under the Community Reinvestment Act. Financial institutions could also look to form a partnership with CDFIs operating in their region and commit to supporting and promoting their activities whenever possible. Data collected on this already by the Bank of England should be transparently available to enable this and create greater accountability.
- The government should support the growth of the credit union movement, aiming to at least treble the number of members so that it hits 3 million by 2020. This can be kickstarted by ensuring that all public-sector employers establish payroll deduction facilities for credit unions. A credit union payroll deduction system should be a requirement for private organisations tendering for public contracts.
- Much of the legislation governing building societies and other financial mutuals is antiquated and in urgent need of reform. The government should modernise the Friendly Societies Act, which hasn't been reviewed since 1992. A better regulatory environment needs to be developed - one that facilitates the expansion of existing building societies as well as urgently reviewing the hurdles currently put down by government and regulators that have effectively meant no new building societies can be created.
- The banking levy disproportionally hits the ability of building societies to lend and punishes them for the misdeeds of the PLC banking sector. As such, building societies should be excluded from this levy.
- When banks fail or require bailout, like RBS, they should be required to take a mutual form, like a building society, to inject competition and diversity into the banking sector and so

that public funds used to bail banks out are spent for benefit of the consumers rather than future shareholders.

- Banking operates within a blunt regulatory framework that puts credit unions, building societies and other innovative banking models on the back foot. In an effort to increase competition in the financial sector, fintech start-ups have been given a degree of regulatory flexibility to enable them to innovate and grow. The same flexibility and support should be extended to proven models of banking, like credit unions, and the wider co-operative banking sector to enable them to continue to grow and provide the competition desperately needed in Britain's broken financial market.
- A genuinely competitive banking system will require widening fair access to the UK payments system, which is how financial transactions are processed. The market review conducted by the UK's Payment Systems Regulator in 2016 found a lack of effective competition in Britain's payment infrastructure. In order to enable genuine competition in the current accounts market, the government should commit to working with this regulator to make appropriate reforms.
- The government should work with city and local authorities to establish a network of regional mutual banks tasked with lending to co-operatives, social enterprises and small and medium sized businesses in their regions. These regional banks should be encouraged to take a co-operative form of ownership, ensuring that they are inclusive and helping them return benefits to their locality to reinforce local economic growth.
- Some commercial lending to SMEs sits outside of the regulatory perimeter, so other than increasingly large fines, bad behaviour continued unchecked. Small business owners are also often required to secure small business loans against personal guarantees like their homes which creates a significant barrier to many would-be entrepreneurs. The regulatory environment for SME lending should be strengthened to provide appropriate protections for SMEs and they should be given the ability to refer disputes to the Financial Ombudsman Service.
- Mutual methods of working for SMEs across Europe ensures that there is another avenue for attracting investment. Mutual Guarantee Societies

(MGSs), which have several forms and legal underpinning, allow up to 9% of all European SMEs to work together, pay in to a MGS and more easily access banking lending. The Co-operative Party believes that for the UK to have just one MGS – the British Business Bank – does not allow British SMEs to be as competitive and as well placed to innovate as their European counterparts. A new government must provide the appropriate regulatory guidance to allow MGSs to form.

FAIR TAXES

Society relies on taxation to raise the revenue needed to fund our public services and invest in infrastructure. But in a progressive system, tax also combats inequality by redistributing wealth, provides a tool to tackle wider issues from carbon emissions to smoking, and creates a level playing field for businesses large and small.

However, from offshore havens to legal but meanspirited accountancy tricks, high profile examples of companies and individuals being seen to avoid tax to extreme levels have exposed an unfair system that requires significant reform. In contrast, there is a growing movement of organisations – from co-operatives to local councils – proud to pay their fair share of taxes. The Fair Tax Mark champions organisations that pay the right amount of tax in a transparent way.

Not all of the problems with the UK's tax system comes down to businesses and individuals playing the system. Increases to business rates is putting an unnecessary and damaging burden onto small businesses, government tax cuts to corporation tax, antiquated council tax banding, and capital gains relief for wealthy business people are evidence that a more equitable system is needed – so that small, regional and co-operative businesses can grow while ensuring big businesses play by the rules and contribute their fair share.

PROPOSALS

- The Co-operative Party wants to see a more equitable system of taxation for businesses in the UK which enables small, regional and co-operative businesses to grow while ensuring big businesses play by the rules and contribute their fair share. Tax transparency is key to ensuring that UK businesses are paying their fair share of tax. Measures such as the Fair Tax Mark will make it easier to reward firms doing the right thing and identify those who are not.

- Companies who shift profits to tax havens should play by the same rules as every other business. The Treasury should use its powers under the Finance Act 2016 to properly enforce country-by-country reporting for global corporations, so that public scrutiny of corporate behaviour can put pressure on businesses to be more responsible.
- The Co-operative Party wants to see a new approach to land and planning which rewards productive economic activity rather than simply owning the deeds to a plot, where the big developers are discouraged from sitting on empty land waiting for land values to increase while thousands sit on council waiting lists for an affordable home. We believe this requires a rethink about the UK's tax policy, replacing regressive property taxes with a fair land value tax to encourage developers to "use it or lose it" instead of land banking.
- Currently, business rates tax economic activity, creating a perverse disincentive to doing business, while stamp duty can have a dampening effect on the housing market. These less efficient, regressive taxes should be scrapped in favour of this new Land Value Tax, and council tax should be reformed so that it is fair and based on income not property values. The Co-operative Party proposes that a new Land Value Tax is levied on all land, based on its unimproved optimum current permitted use.
- The Entrepreneur Tax Relief is an ineffective and unfair policy – not only does it fail to increase entrepreneurship, it simply provides large handouts from the government to some of Britain's wealthiest people. This tax break should be scrapped, and the £2.7 billion additional income a year as a result should be invested in measures which create a fairer economy – this could include a combination of creating a new co-operative investment bank, funding the new Co-operative Development Agency, and developing new regional mutual banks, for example.

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