

The Hunt Review

An independent review of the contribution that
mutuals can make to growth, prosperity and fairness



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Preface

As a subject in itself, mutual ownership may appear distant from the challenge of creating growth, prosperity and fairness.

But the essence of mutuality is that it is the embodiment in business, of that enduring truth about people - that we achieve more together than by working alone.

Put simply, mutuality is a good idea that can deliver trust, confidence and accountability between many institutions and the people that they serve.

During the twenty years that I have worked with mutual businesses, the sector has undergone a transformation, though it is fair to say that at times some mutuals have struggled to justify their place in our economy and society.

Yet their very resilience at a time of great change is testament to their importance to us all.

The last decade has seen a rebirth of this idea, with mutuals once again gaining market share and providing answers in new and exciting areas of business and public service. Globally, mutuals are on the march, serving many billions of people and gaining support across a broad political spectrum.

I know that mutuals have a lot to offer. Greater diversity of ownership will help to protect our economy from damaging shocks such as the financial crisis. But there is no law of economics that will bring about the changes necessary for mutuals to play their full part in our economy and society.

Our political leaders need to think big in this respect. The next Government has the opportunity to make the reforms necessary to make the best use of existing and new mutual businesses, for the good of us all.

I am honoured to have been asked by Rt. Hon Ed Miliband MP and Rt. Hon Ed Balls MP to conduct this Independent Review. The ideas contained in the recommendations are meant to help kick start the process of using mutuals to deliver more growth, prosperity and fairness in our country. I realise that this is not the last word on the matter: my recommendations will not please everyone but they will hopefully help to fuel a lively debate.

Peter Hunt

Peter founded Mutuo in 2001 as the first cross mutual sector body to promote mutual business to opinion formers and decision makers.

Peter has twenty years' experience in the mutual sector, working with co-operatives, mutuals and employee owned businesses. For ten years, he was General Secretary of the Co-operative Party.

In 1999, he was a co-founder and secretary of Supporters Direct, the football supporters' initiative, which has gone on to establish over 100 supporters' trusts at professional football clubs.

He led the Parliamentary teams which piloted four private members bills through the UK Parliament, working with all parties to update co-operative & mutual law and encouraging employee ownership.

He is a founder member of the management board of the Oxford Centre for Mutual and Employee-owned business, based at Kellogg College, Oxford University.

Since 2004, he has worked closely on a number of public sector structural reforms, including NHS Foundation Trusts, advising both Government and Trust Boards on the adoption of new membership structures. In 2011, he advised the Coalition Government on its plans to mutualise Post Office Ltd and in 2012 published the report of the Ownership Commission, a two-year study into corporate diversity.

He is currently Managing Partner at Westminster Bridge Partnership.

Acknowledgements

I would like to thank the many people from the mutual sector who have provided help and inspiration to me over the last twenty years. At the risk of missing people out, I would like to mention a few individuals, from Andy Love who first sparked my interest in mutuals through to other friends and colleagues including Gareth Thomas, Nick Eyre, Sir Graham Melmoth, Andy Walsh, Gareth Swarbrick, Andrew Haigh, David Anderson and the late John Tilley, all of whom have been more important contributors to this body of work than they might have imagined.

The Review would not have much meaning without the contribution of my good friend Cliff Mills, who has been instrumental in the re-birth of the mutual idea. I am also indebted to Ann Tyler for her contribution on employee ownership. Other advice has been gratefully received from many sources, notably from Mervyn Wilson, Paul Walsh, Phil Loney, and Tom Davis, with my friend and colleague Mark Willetts sharing the many hours spent in drafting this document.

Any mistakes or omissions, of course are my own.

Peter Hunt



Summary Recommendations

Mutuals help to create an economy and society that works in the interests of the widest number of people by sharing power and the rewards of business. Mutuals bring:

- Enterprises that spread wealth and prosperity
- Financial services that work for consumers
- Institutions that protect the public interest

By its actions, The Government can help to grow the mutual sector, enabling mutuals to fulfil their potential and thereby deliver a wide range of public policy objectives, such as:

- Create diversity in business, which will act as a counterbalance to mitigate systemic risk to the economy
- Establish longer-term business strategies
- Provide competition and choice for consumers in a range of markets
- Spread wealth throughout the country
- Re-build and maintain public trust in business
- Create business structures for public service providers that keep them accountable to their users and taxpayers
- Provide business structures that protect the public interest

This report proposes 37 recommendations for change that will enable mutuals to make their full contribution to our economy and society.

Government should embrace this agenda as its own – and commit to the actions necessary for growth, prosperity and fairness to flourish in the United Kingdom.

Leadership through policy and fiscal measures

The policy priorities and supporting fiscal environment will determine the direction of the next Government.

- 1** Government should adopt a series of principles, which will guide the actions of the next administration in dealing with mutual business.

These principles will ensure that:

- Mutuals can compete freely and on fair terms with all types of business
- Legislation and regulation for mutuals matches the best standards for any business
- It is as easy and cost effective to set up and run a mutual as other business forms
- Government policy recognises the value of mutual business and provides appropriate incentives for their creation and development
- The unique contribution that mutuals can make in public and community services is recognised and supported by Government
- Mutuals are championed by Government alongside other forms of business ownership
- Ultimately, the mutual sector is enabled to grow

2 In order to ensure that there is equitable treatment for all corporate forms:

Government should adopt a clear manifesto commitment to promote all types of mutual ownership and corporate diversity in general.

3 To ensure that mutual ownership is understood and that the concept is not abused by misrepresentation:

Government should adopt a clear and inclusive definition of mutual business that includes customer, employee and mixed ownership mutuals

4 Tax incentives for share ownership in companies should apply equally to all corporate forms:

Fiscal measures should promote mutual ownership as much as share ownership

5 Employee ownership should be promoted as a means of spreading wealth and rewarding work:

5.1 Government should commit to continue and build upon the work of the Nuttall Review of employee ownership

5.2 Government should go further by introducing new provisions aimed at achieving a radical shift in the impact Employee Ownership has on an individual's working life, and therefore on the economy

5.3 Government should introduce a new savings and investment account – a “working life ownership account” through which the proceeds of employee share ownership and financial participation can be ported between employments

5.4 Government should review the existing tax reliefs for Employee Ownership in order to introduce a new tax-approved scheme comprising the three elements of: all-employee participation; working life forum; working life ownership account

Improving the architecture of Government

The manner in which mutuals are able to interact with the institutions of government will play a key role in the effectiveness of any policy direction. Reforms are required to ensure that this is managed properly.

- 6** **The anomaly whereby HM Treasury is responsible for much of mutuals legislation should be corrected:**
Mutuals should be treated as a mainstream business form alongside companies, with responsibilities transferred from HM Treasury to the Department for Business, Innovation and Skills (BIS)
- 7** **To provide the Government with a coherent focus, leadership and responsibility for working with mutuals:**
All parties should appoint a (shadow) Minister for Mutuals
- 8** **In order to lower the costs, simplify the procedure and mainstream the administration of mutual business registration:**
Government should transfer mutual registration functions to Companies House
- 9** **To establish a solid evidence base for future policy decisions:**
Government should ensure that regular official statistics are collected about mutual businesses

Reforms to the laws and regulations governing mutuals

A suitable legal and regulatory framework is essential to allow mutuals to fulfil their potential, but too often, it has acted as a barrier to growth and innovation. This imbalance should be corrected to allow mutuals to compete on a level playing field with other corporate forms.

- 10** **Mutuals should be able to choose to adopt legally binding protection from asset stripping and demutualisation:**
Government should act to safeguard mutual ownership by removing incentives for demutualisation
- 11** **To avoid the misleading of consumers through misrepresentation of firms as 'co-operatives' when they are owned by external investors:**
Government should legislate to protect the use of the term 'co-operative'
- 12** **In order to learn from and share the benefits of the best international standards of treatment of mutuals:**
Government should work positively with EU partners to build shared Regulatory standards
- 13** **Legislation should open up new capital raising opportunities for mutuals:**
New capital instruments are required to allow mutuals to raise funds for new investment and members of mutuals should be permitted to invest in their firms through new investing shares
- 14** **The law governing mutual insurers should be modernised:**
Government should legislate for a new mutual insurance Act to update legislation for friendly societies & mutual insurers

- 15** The financial capability of consumers should be promoted as a way to help them to have the confidence to save for the future and to make good financial decisions which also reduce long term reliance on State welfare. As part of this, Government should act to ensure that life insurance and pension funds are accessible, understandable and fair to those who contribute to them:

These objectives can only be achieved once:

- Financial service providers take responsibility for the lifelong financial education of their customers
- Greater transparency and competition in financial services products is achieved
- Pension providers, insurance companies and banks who distribute these products are obliged to offer the best value products and funds to their customers as well as their own offerings
- The cost of providing advice is reduced and an advisory regime is introduced which makes financial advice available to the general public at a realistic cost

- 16** Financial regulators should be responsible for ensuring that a wide range of providers is available to consumers:

The Financial Services Act should be amended to introduce a Statutory obligation on regulators to measure and promote corporate diversity in financial services

- 17** Relevant Government officials should be educated and experienced in mutual business:

Government must ensure that regulators and Government departments have sufficient knowledge and expertise to work with mutually owned firms

- 18** Share ownership incentives for company employees should be available to all mutuals:

Employee share ownership should be incentivised in consumer mutuals as it is in other businesses, by the introduction of qualifying shares

Facilitating economic growth and prosperity

The economic crisis has shown the importance of a strong mutual sector, which can act as a counterbalance to stock ownership in our economy. Measures should be taken to strengthen the role of mutuals, particularly in financial services.

- 19** In order to grow a mutual banking sector, committed to customer service:

Government should consider transferring or selling government owned banking assets to existing building societies and new mutual banks that adopt blocks to future demutualisation

- 20** Government and investors should work together in a partnership to make a success of a British Investment Bank:

Government should consider creating the new British Investment Bank as a mutual, owned jointly between Government and investors

- 21** Members of the public should be able to easily invest in national infrastructure projects:

Government should support the development of new 'One Nation' savings products to promote consumer investment in infrastructure projects

22 A Commission on Mutual Banking should recommend measures to establish a significant mutual banking sector in the UK:

The Commission will be invited to:

- Define the role of customer owned mutual banking institutions (building societies and credit unions) in the context of a diversified and competitive financial services sector
- Propose a model for building societies and credit unions to provide full retail banking services
- Make recommendations on the consolidation or restructuring of the building society and credit union sector
- Examine the options for groups of mutual banking institutions to share back office services on a formal basis and the extent to which this model is appropriate
- Make recommendations for legislative change including elements for a new mutual banking bill
- Publish its first report within four months of commencement

23 Government should act to improve working peoples' access to fair savings and credit:

Wherever Government is a significant employer, it should work with the credit union sector to establish credit unions for its staff, with automatic deductions from pay available for those who wish to join

24 Islamic banking and insurance should be promoted as part of a growing mutual financial services sector:

Government should promote Islamic Finance as an integral part of increasing financial diversity

Extending mutuality in the public interest

Across the country, institutions provide services that are of great importance to the public. From public services to assets of public importance, it is essential that the public interest is protected. Mutuals can play a major role in delivering accountable institutions over the long term.

25 To avoid repeating the mistakes of past privatisation and nationalisation, Government should adopt new public interest principles when considering altering the corporate status of public service providers:

- No public service should be spun out or privatised unless clear continuing benefits to the public can be demonstrated
- Government should commit not to create private sector monopolies
- New providers must have structures in place to engage with customers and employees
- Government should always consider a mutual option before a private sector contractor is engaged
- There should be transparency on what proportion of turnover will be extracted in profits (if any)
- There should be a recognition that the cheapest bid does not always offer the best long-term value for the taxpayer

26 Any new mutuals created from state or municipal bodies should be nurtured to avoid them becoming a stepping-stone to privatisation:

Government should adopt a clear protocol for public service mutualisation that allows sufficient time and ensures a fair and consistent approach across government departments

- 27** **Parental and staff involvement in schools should be actively promoted:**
Government should support and promote co-operative education providers by creating a level playing field for co-operative schools
- 28** **Large health mutuals such as NHS Foundation Trusts must use their new mutual structures better to fully empower their staff and engage with the public that they serve in order to improve healthcare standards further:**
The role of public and staff members of Foundation Trusts should be strengthened
- 29** **Social housing providers should promote greater tenant and employee engagement:**
Social landlords should be encouraged to adopt the 'Rochdale' housing model that empowers both staff and tenants
- 30** **National public services should be directly accountable to their customers and other stakeholders:**
Government should ensure that, where appropriate, providers of major national services are operated in the public interest through mutual structures
- 31** **Government should make the UK Rail network more accountable to the public:**
- Rail franchises should be altered so that they better serve the public interest
 - Where franchises are forfeited to Government the Government should examine the option of setting them up as independent mutuals
- 32** **Government should act to promote supporter involvement and ownership in football clubs as a strategy for building trust and confidence for the long term:**
- Government should ensure that the football authorities engage supporters in the running of clubs, and learn from models such as the German football league
 - Supporters Direct should have a stable and predictable funding from the proceeds of football
 - Government should legislate to protect certain football community assets (club colours, club name, home ground ownership and the rights to securitise assets) from sale or abuse

What mutuals should do for themselves

Government will not be able to provide all of the answers for the mutual sector - as true self-help organisations, mutuals were established by like minded people seeking to solve everyday problems. There are a number of actions that the sector itself can take to help to plan its own future and ensure that mutuals play a full part in our economy and society.

- 33** **To ensure the consistent engagement of all mutuals in the sector:**
Mutuals of all types should work together, and the largest firms in each sector should provide a leadership role
- 34** **Sub-optimally sized mutuals should take urgent action to better serve their members:**
In some sectors, mutuals are too small to serve their members properly. In such cases, they should consider merging together to create robust businesses
- 35** **The UK mutual sector should be less insular and co-operate more with other mutuals internationally:**
The sector should pool its expertise to help develop answers to common problems, innovating and learning from the best international examples and participating in pan-national mutual groups
- 36** **All mutuals should be responsible for working towards the highest levels of transparency and quality of service:**
Mutuals should ensure that they adopt the highest standards of corporate governance
- 37** **To avoid duplication and waste of resources in the sector:**
Mutual trade bodies should work together to share resources
- They should urgently consider merging common functions
- They should evaluate the benefits of full mergers



Introduction

Any overview of British economic history will appreciate the profound effect that forms of business ownership have had at key points in our national development. From the birth of the first companies through to globalisation via nationalisation and privatisation, ownership has played an important part in the manner in which wealth has been earned and shared in our society.

The story of mutual business is interwoven through this. It can be charted from small beginnings as a response to market failure through to a heyday of growth when mutuals dominated the home lending, life & property protection and retail food markets. At their most significant, mutuals accounted for a quarter of the food market, more than half of insurance business and dominated mortgage lending.

But in later years, mutuals lost their way. Having once been engines for change they appeared to be stuck in the past and their faltering market performance opened the door to a crisis of purpose.

From the mid 1980s, demutualisation completely changed the face of the sector – carving a hole through mutuals by slicing off many of the largest firms as they converted to stock listed companies. The fact that members were content to vote away their rights in return for small cash payments was evidence that these societies meant no more to them than other businesses on the high street.

Along with privatisation, this led to the emergence of a mono-culture in favour of companies limited by shares, with government policy, legislation and regulation skewed towards this as the 'norm' for business. The reasons for doing business through a mutual and being a "member" were fast becoming forgotten; they were ghosts from the past, relics of a different age.

The search for ever greater profits would ensure that capital would now decide our economic priorities and the market would be solely responsible for ensuring customer choice. Short-term business strategies designed to reward this capital meant that ever-larger institutions would be created to provide our products and services. In the financial services industry the former mutuals were now unrecognisable in their new amalgamated plc groupings.

It was the financial crisis of 2008 and the catastrophic failure of demutualised banks that finally showed the error of this process. It exposed the risk to our economy of having markets dominated by similarly structured, strategically flawed monolithic institutions, essentially focused solely on short to medium term economic outcomes. This experience has challenged the consensus in favour of stock listed financial services firms and has also opened up the debate around company ownership more widely.

Mutuals have continued to win back market share since the financial crisis. Their focus on service and quality rather than risk taking and profit extraction has meant that mutuals were less exposed to the global credit crisis. At a time when people continue to feel disillusioned with and excluded from many of the institutions of our country, there is strong support for businesses that work in their interests.

Meanwhile, the remaining mutual sector has responded by regrouping through consolidation and improving individual business performance, which first arrested and then began the slow claw back of market share. The leading mutual businesses are committed to a different business purpose that puts customers and employees ahead of investors. This has included a rediscovery of the value of engagement, and the part it can play in improving the chances of success.

At the same time, the tentative re-birth of the mutual idea has begun to take shape in new areas. From early beginnings in community based mutuals and local government services, through to football supporter trusts and then larger scale public service mutuals in health and education, the mutual business form was once again being used as an agent for change.

The new mutuals started to show the possibility of citizen members rather than the state becoming the guardians of public interest, for their own and future generations. They also started to show how through engaging a range of membership constituencies including users and employees, the mutual organisation itself could become the vehicle for resolving tensions, reducing cost and improving quality. Such organisations provide the platform for collaboration and co-production, which are fundamental to securing optimum value from public funds.

Today, there is a real need to address the risk that a single dominant corporate form, dependent on market fluctuations, can pose to the health of our economy and society. There is also a need to earnestly continue the search for successful alternative models in areas of public service where traditional business forms have been found wanting.

That there should be more corporate diversity, if only to spread risk, is now becoming a much more widely held view. And in turn, there is a new opportunity for economic policy to be re-cast in order to better manage markets, protect consumers and taxpayers as well as to promote sustainable wealth creation.

This is the opportunity in which mutuals can play a vital part, in financial services, business growth and public service provision.



Mutuals today

A mutual is a business owned by its customers, its employees, a group of like-minded producers or a combination of these.

The purpose of a mutual is different from other businesses: it exists to serve its members rather than to reward capital investors.

The UK mutual sector consists of building societies, co-operatives, friendly societies, mutual insurers, credit unions, employee owned firms, public service mutuals and community mutuals. Each form of mutual is defined by its own history, legal framework and market experience. Each has responded differently to changes in the size and impact of the sector but many share common challenges.

The majority of members of mutuals belong to these organisations and most of these types of mutual have been around for 150 years or more. One in three UK citizens is a member of at least one mutual.

Their purpose is to serve their members, who are also their customers, suppliers, their employees or a mixture. They do not have external capital shareholders, and this distinguishes both their ownership and their business focus from proprietary firms. It means that they can concentrate directly on the products or services that they exist to provide, instead of the economic reward for shareholders. It is a different way of doing business – with a different purpose.

Where there is a proper alignment between the output (products and services) and the interests of the member-owners of the mutual, this way of doing business works well. With good management it is efficient, with no leakage of value from the business, and provides a systemic advantage over investor owned firms.

It also provides a diverse contrast with share owned companies – helping to spread overall risk in markets and economies. Mutuals are inherently long term in business strategy.

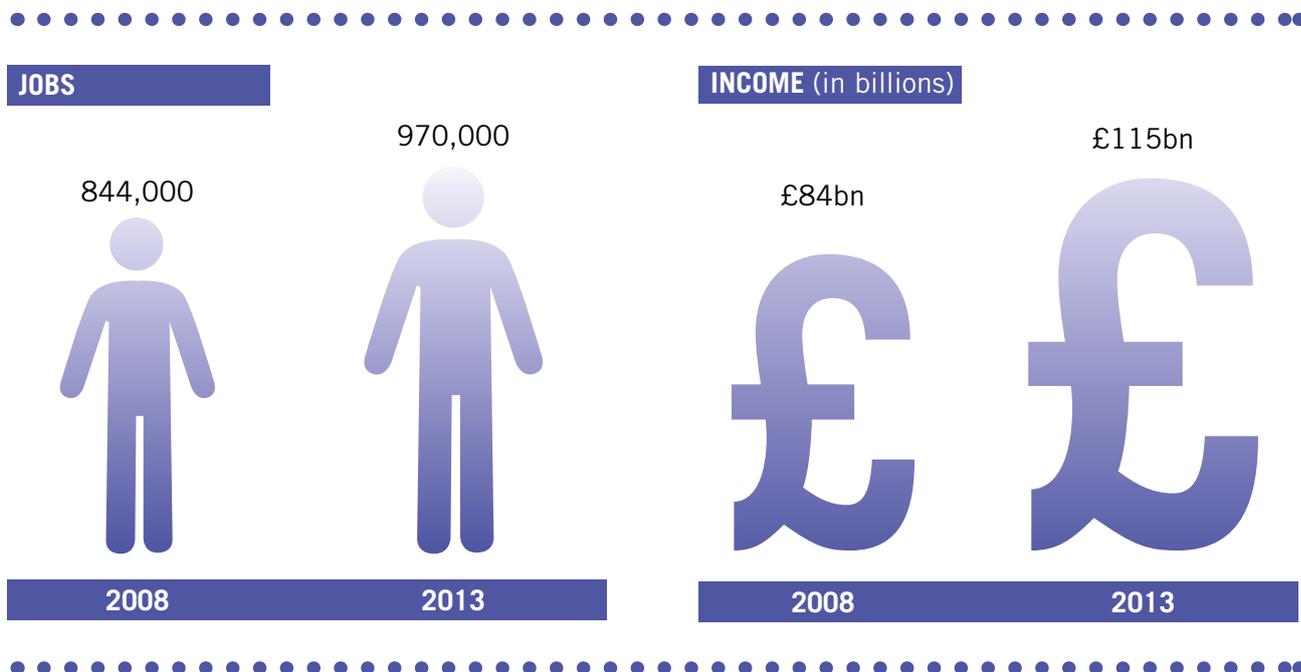
The fundamental challenge for mutuals is to establish a clear purpose for their business offering, and to express this clearly to current and future members, through the services and products they offer, and the way they conduct their business.

Today, mutuals are to be found in a wide range of settings. Their business purpose is focused on meeting specific business challenges, such as where:

- Competition is needed as a counterbalance to market dominance
- Services would otherwise not exist
- The interests of customers need to come first
- Better value can be achieved through price lowering/profit sharing
- Providing satisfying and rewarding work is a priority
- The quality of services provided is paramount

- A trusted provider is required
- Direct accountability to customers is essential
- User and employee involvement is critical for future viability
- The business is conducted in the public interest

As mutuals serve their members by delivering on their core purpose, they provide value to the economy and society as a whole. The next section shows how our country can benefit from a successful mutual sector.



Sector	Number	Jobs	Income (BN)
CO-OPERATIVE BUSINESS			
Co-operatives	4,458	154,359	£26.4
Employee Owned	250	150,000	£30.0
FINANCIAL SERVICES MUTUALS			
Friendly Societies and Mutual Insurers	53	20,000	£9.9
Building Societies	46	40,000	£3.7
Credit Unions	390	1,500	£0.9
PUBLIC SERVICE MUTUALS			
Health	145	480,000	£31.0
Education	629	-	-
Housing	1,500	123,000	£13.0
	7,471	968,859	£114.9



A vision for mutual business

Mutuals help to create an economy and society that works in the interests of the widest number of people by sharing power in, and the rewards of, business.

They have the potential to help create growth, prosperity and fairness through:

Enterprises that spread wealth and prosperity:

More and stronger mutually owned businesses, spreading wealth through long term investment and business strategies

An extension of employee ownership, to fairly reward and incentivise work

Financial services that work for consumers:

A mutual banking sector that can provide a true challenge to plc banks, more competition in the high street and greater choice for consumers

Mutual insurance and savings products that can promote fairness and innovate in ways that permit citizens to invest in the future of the country

Institutions that protect the public interest:

Public service providers that are influenced by and actively accountable to those people

Public institutions that are safeguarded by the people who care most about them to operate in the public interest through mutual ownership

With the right environment, mutuals will help to contribute towards a range of public policy objectives:

- Create diversity in business, which will act as a counterbalance to mitigate systemic risk to the economy
- Establish longer-term business strategies
- Provide competition and choice for consumers in a range of markets
- Spread wealth throughout the country
- Re-build and maintain public trust in business
- Provide business structures for public service providers that keep them accountable to their users and taxpayers
- Provide business structures that protect the public interest

Create diversity in business, which will act as a counterbalance to mitigate systemic risk to the economy

One lesson from the economic downturn is that a stable mutual sector acts to protect the UK economy from the large fluctuations experienced in stock markets.

The financial mutual sector has a key part to play as part of an overall policy objective to manage risk to the UK economy.

Establish longer-term business strategies

Without the need to respond to stock market pressures, mutuals are able to adopt longer term business strategies. Their success is evidenced by the longevity of mutual businesses, many of which have traded continuously for over 100 years.

Provide competition and choice for consumers in a range of markets

Mutuals are good for the markets that they operate in. Their presence means that there is a permanent competitive pressure on profit maximising firms.

In financial services in particular, mutuals can promote competition through a range of diverse business options and products.

Spread wealth throughout the country

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

Employee owned business directly incentivises and rewards workers for their efforts.

Re-build and maintain public trust in business

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

Provide business structures for public service providers that keep them accountable to their users and taxpayers

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

Provide business structures that protect the public interest

Many businesses provide services that are important to the national interest and the social fabric of our country.

The accountability that mutuals deliver should be applied in many more areas where the public interest should be recognised, from major public utilities through to football supporter trusts, where the extraction of an equity-holders profit unnecessarily increases the cost and distorts the organisation from securing public or community benefit.

Through its actions, the next Government can take the necessary policy, legislative and regulatory steps to make this vision a reality.

This review has considered what those actions might be.



Leadership through policy and fiscal measures

UK business is dominated by the share-owned company and while it has many advantages, it has become the default corporate organisational form to an extent that reduces opportunities for other ownership types to grow and prosper.

Plurality of ownership types should be viewed as an economic good in its own right, increasing both choice and the variety of corporate forms available for varying business models and their investors, while spreading risk more effectively.

Mutuals can provide more opportunities to deliver different business models, promote more resilience in the wider economy, allow investors and savers more ways in which to invest and give consumers more choice.

Each of the major political parties has now joined in the political consensus that mutuals are a useful and valid part of a mixed economy. This is welcome, but as a meaningful policy objective, this view must be reflected in coherent and co-ordinated policies that support it.

The policy priorities and supporting fiscal environment will determine how successfully mutuals can fulfil their potential.

1 Government should adopt a series of principles, which will guide the actions of the next administration in dealing with mutual business.

These principles will ensure that:

- Mutuals can compete freely and on fair terms with all types of business
- Legislation and regulation for mutuals matches the best standards for any business
- It is as easy and cost effective to set up and run a mutual as other business forms
- Government policy recognises the value of mutual business and provides appropriate incentives for their creation and development
- The unique contribution that mutuals can make in public and community services is recognised and supported by Government
- Mutuals are championed by Government alongside other forms of business ownership

2 In order to ensure that there is equitable treatment for all corporate forms: Government should adopt a clear manifesto commitment to promote all types of mutual ownership and corporate diversity in general

Privatisation and demutualisation are the direct result of conscious Conservative policy objectives to increase private ownership at the expense of collective ownership. As has been outlined, this has been to the detriment of the UK economy and society.

Government should adopt a clear policy statement that it is in favour of a diversity of corporate ownership, promoting customer owned, employee owned and producer owned mutuals as a way of ending the pro plc mono-culture.

3 To ensure that mutual ownership is understood and that the concept is not abused by misrepresentation:

Government should adopt a clear and inclusive definition of mutual business that includes customer, employee and mixed ownership mutuals

Too often, different Government departments have chosen narrow, exclusive definitions of mutual business, for example promoting employee ownership to the exclusion of customer-owned mutuals. Worse, there have been examples of the political misrepresentation of mutual ownership in an attempted 're-brand' of unpopular privatisations.

Government needs to adopt a clear and inclusive definition of mutual ownership, encompassing all its forms, and ensure that its policy proposals apply equally and fairly to the entire sector.

4 Tax incentives for share ownership in companies should apply equally to all corporate forms:

Fiscal measures should promote mutual ownership as much as share ownership

For many years, successive governments have promoted private share ownership in limited companies through tax incentives. Government should commit to ensure that any such incentives promoting corporate ownership are also available to mutuals. For example, tax incentivised savings and investments such as ISAs should be extended to include capital investments in mutuals. This will create a wider range of options for investors and savers, broadening support for a more diverse range of business types.

5 Employee ownership should be promoted as a means of spreading wealth and rewarding work:

Employee ownership (EO) is acknowledged to be good for business, with better rates of growth and productivity, greater resilience and higher levels of employee wellbeing. The employee owned sector has an annual turnover of £30 billion plus, and is growing annually at nearly 10%.

The last two years have seen unprecedented publicity for the development of employee ownership, with the Coalition Government supporting the publication and work of the Nuttall Review. The challenge for the next Government is to continue to build on the best of this work to adopt an innovative, well thought out, radical policy to support and promote employee, co-operative and mutual ownership in a way which maximises its contribution to our economy and society.

Legislation and regulation will be required, as the EO sector will continue to be small in the foreseeable future, and the culture of companies and their management will not change organically.

The Government should introduce a policy of “Shared Capitalism” to create a more equal sharing of rewards, in companies with a long-term investment view and which recognize the benefits of giving workers a voice, influence and control in their working lives. This will continue the incremental growth of the sector, effecting real change in the way employees participate in the workplace throughout their working lives and operate on a macro rather than a micro-economic basis.

Employee ownership works best in companies with a good record of employee engagement, so the introduction of a “working life forum” will recognise this formally, and reward companies which introduce it with enhanced tax reliefs.

The changing nature of work, and the need to address the deficit in pension provision and personal savings, will support a proposal to introduce a “working life ownership account”, portable between different companies and organisations throughout the life of an individual.

5.1 Government should commit to continue and build upon the work of the Nuttall Review of employee ownership

Government should build on the work that has been done to make employee ownership and employee share ownership a significant part of the UK economy by introducing measures to ensure workplace democracy and to capture the proceeds of ownership in a way which boosts savings and pension investment. In this way, it will promote a long-term approach relevant throughout an individual’s working life which will move EO to the mainstream of the UK economy.

This could be a genuine cross-party agenda, building on advances that have been made and committing to continue to build on the work of the Nuttall Review.

5.2 Government should promote the continued growth of the sector by supporting and improving existing tax reliefs, extending them so far as possible to all employees, and introducing measures to make ownership and participation more transparent

This would include the following actions:

- Policy support for Employee Share Ownership/listed sector/tax approved schemes: SIP, SAYE, CSOP, with additional tax benefits for schemes for all employees
- Extend eligibility for tax approved schemes to companies owned by private equity investors to enable employees to access the benefits of EO and share in the profits when the investor exits
- Retain selective schemes but dependent on commitment to all-employee involvement ie selective scheme to be available for all employees, or linked to operation of such a scheme
- Revisit following a full-scale review of short term, performance related rewards (cash or equity) for top percentage earners
- Abolish “employee shareholder” status: The Coalition’s “shares for rights” proposal risked damaging the progress and reputation of employee ownership by inviting employees to surrender existing employment rights in exchange for shares.
- Introduce measures to improve disclosure/transparency of employee interests, to provide employees with more information about the company and its ownership, and to avoid abuse through executive and selective option schemes.

5.3 Government should go further by introducing new provisions aimed at achieving a radical shift in the impact employee ownership has on an individual's working life, and therefore on the economy

This can be achieved by adopting a suite of actions:

- Continue to build on FA 2014 tax reliefs to embed long-term employee ownership and participation, promoting long-term investment over short-term shareholder value
- Introduce proposals for workplace engagement along the lines of the "working life forum" (IPPR's Fair Shares report) and "employee voice" (TUC) to support formal requirements for implementation of measures to introduce workplace democracy, as a condition of operating a tax advantaged EO or ESO scheme
- Offer additional tax advantages conditional on introduction of workplace engagement/employee voice
- Establish sector/Government funded Institute to represent cross-sector, to provide information and education, and to support the working life forum
- And/or establish funded UK body to support introduction of/transition to employee ownership
- Support schemes to provide finance for employee ownership businesses

5.4 Government should introduce a new savings and investment account – a "working life ownership account" through which the proceeds of employee share ownership can be ported between employments

This new account would receive part or all of the proceeds of ownership, whether cash or shares, received during an individual's working life in different companies, offering income and capital gains tax advantages over a shorter or longer holding period and an attractive rate of return.

The savings account will be accessible at different stages during an individual's life, or can be carried forward in whole or in part to boost pension provision on retirement.

5.5 Government should review the existing tax reliefs for EO in order to introduce a new tax-approved scheme comprising the three elements of: all-employee participation; working life forum; working life ownership account



Improving the architecture of Government

The manner in which mutuals are able to interact with the institutions of government will play a key role in the effectiveness of any policy direction. Reforms are required to ensure that this is managed properly.

6 The anomaly whereby HM Treasury is responsible for much of mutuals legislation should be corrected:

Mutuals should be treated as mainstream businesses, with responsibilities transferred to the Department for Business, Innovation and Skills (BIS)

The infrastructure of Government should be constructed to ensure that mutuals are understood and receive equal treatment across all Government departments.

Legislation affecting most mutuals resides with HM Treasury, and receives disproportionately less attention. Mutuals are still not seen as mainstream by the Department for Business Innovation and Skills (BIS), which is responsible for companies and company law but has little to do with mutuals, other than employee owned firms.

Cabinet Office has led work on spinning out public services into new mutuals, but little has been done to link any of this knowledge and work with the Department for Communities and Local Government or Departments for Health, Education, Work and Pensions who are each responsible for significant mutuals. There has been very little attempt to explore how public sector and financial mutuals might work together, and no real attempts to learn lessons from established mutuals.

This all creates difficulties with mutuals often being treated as an afterthought by Government, with little consistency apparent.

7 To provide the Government with a coherent focus, leadership and responsibility for working with mutuals:

Parties should appoint a (shadow) Minister for Mutuals

Parties should appoint a BIS (shadow) Minister to be specified as Minister for Mutuals. The Minister would be responsible for:

- co-ordinating the Government's policy approach to all mutuals
- working with mutual businesses to ensure regular dialogue with Government
- working across departments to ensure a consistent and well informed approach
- international dialogue with those responsible for mutuals.

The Minister would be supported by a team of Officials who would work together as the 'Government Office for Mutuals.' The Officials could be drawn from existing HM Treasury/ BIS/Cabinet Office functions.

8 In order to lower the costs, simplify and mainstream the administration of mutual business registration:

Government should transfer mutual registration functions to Companies House

Currently, co-operatives, credit unions, friendly societies and building societies are registered at the Financial Conduct Authority, unlike companies, which are registered via Companies House, and regulated by BIS.

Two negative consequences of this is are that the legislation for these mutuals often lags behind that of companies, and the registration costs per firm are higher. As part of the mainstreaming of mutual business, this function should be transferred to Companies House, along with any remaining expertise. Costs for registration and compliance should be equalised with companies.

Prudential regulatory functions for financial service mutuals would not be affected by this.

9 To establish a solid evidence base for future policy decisions:

Government should ensure that regular official statistics about mutual business are collected

There is a real lack of official data on corporate ownership. Without reliable metrics by which to judge changes in individual markets and the economy as a whole, it will be difficult to understand trends and make meaningful policy interventions.

The Office of National Statistics should systematically collect information such as the share of GDP and employment accounted for by the varying ownership types – the PLC, family firms, partnerships, co-operatives and consumer mutuals, employee ownership, private equity and foreign ownership.



Reforms to the laws and regulations governing mutuals

A suitable legal and regulatory framework is essential to allow mutuals to fulfil their potential, but too often, it has acted as a barrier to growth and innovation. This imbalance should be corrected to allow mutuals to compete on a level playing field with other corporate forms.

10 Mutuals should be able to choose to adopt legally binding protection from asset stripping and demutualisation:

Government should act to safeguard mutual ownership by removing incentives for demutualisation

The demutualisation of the 1980s and 1990s was made possible by Conservative legislation that established regimes for converting mutuals into listed companies. As Deputy Governor of the Bank of England, Andrew Bailey said to the All Party Parliamentary Group for Mutuals in 2014, 'The demutualised building society model failed.' The effect of this process was disastrous for the members, the mutuals themselves and ultimately for the UK public that had to bail out the plc banking sector.

There is still an opportunity for the Government to redress the balance by bringing forward legislation that will give the remaining mutuals the right to choose whether to commit their organisation to permanent mutual status, as is common in other EU states and parts of North America.

11 To avoid the misleading of consumers through misrepresentation of firms as 'co-operatives' when they are owned by external investors:

Government should legislate to protect the use of the term 'co-operative'

The term 'co-operative' is already restricted for a reason. No new business may be registered using this description if it does not satisfy the Financial Conduct Authority, that it is a bona fide co-operative. It is confusing and misleading if the term is applied to firms that are not, or are no longer, co-operatively owned. Not only is it likely to confuse and potentially mislead the public, this has negative repercussions for other member owned businesses.

However, unlike the case of building societies and friendly societies where the law is clear, the discretionary power to decide if the 'co-operative' name may be retained is held by the Secretary of State for Business, Innovation & Skills, with continuing responsibility for business registrations held by the FCA.

Government should remove this discretion and legislate to protect against usage of the 'co-operative' term by any business that alters its ownership structure away from co-operative ownership.

12 In order to learn from and share the benefits of the best international standards of treatment of mutuals:

Government should work positively with EU partners to build shared Regulatory standards

The poor manner in which EU relations have been managed by the current Government risks damaging UK business interests by removing potential influence and opportunities to collaborate with EU partners on setting standards for business regulation.

UK mutuals note the more positive regulatory environment that pertains in EU competitor countries, where mutuals are better understood and the attitudes of regulators reflect this.

With an increasingly pan-national approach to regulation, it is important that UK mutuals are not disadvantaged by a less enlightened business regime than their EU counterparts. The strength of the mutual sector in many other parts of Europe owes much to the active support of governments, who recognise the importance of business diversity and who often provide barriers to demutualisation. A common approach to working with mutual business will ensure competition and growth across all nations.

Government should put this right by working closely with Governments, institutions and national regulators across the EU to develop a shared framework for working with mutuals, based on the best available.

13 Legislation should open up new capital raising opportunities for mutuals:

New capital instruments are required to allow mutuals to raise funds for investment and members of mutuals should be permitted to invest in their firms through new investing shares

New capital instruments are required for mutuals to allow them to raise capital otherwise their growth prospects will be badly damaged.

By their very nature, mutuals are limited in how they can raise capital. Like all businesses, they can retain profits and can borrow against future earnings, but they have no equity shareholders and so do not have access to this type of prime capital.

Where members have contributed capital to their mutual enterprise, it is not to speculate for capital gain but to fuel the business.

Mutuals need new mutual shares that can be offered to existing and future members. Such shares will serve the dual purpose of raising additional capital and further engaging members in the economic and social purpose of each mutual.

14 The law governing mutual insurers should be modernised:

Government should legislate to introduce a new Mutual Insurance Act

Friendly society law is outdated and restrictive and other mutual insurers need a new Mutual Insurance Act to create a modern, fit for purpose corporate form for mutual

insurance, with the following features:

- An option to introduce a legal bar on demutualisation
- Permission for firms to offer all types of insurance business
- The extension of membership rights to all class of customer, as the mutual chooses
- Introduce optional capital instruments through which members can invest in their society
- The facility for small insurers to federate their business to provide stronger firms

15 The financial capability of consumers should be promoted as a way to help them to have the confidence to save for the future and to make good financial decisions which also reduce long term reliance on State welfare. As part of this, Government should act to ensure that life insurance and pension funds are accessible, understandable and fair to those who contribute to them:

These objectives can only be achieved once:

- Financial service providers take responsibility for the lifelong financial education of their customers
- Greater transparency and competition in financial services products is achieved
- Pension providers, insurance companies and banks who distribute these products are obliged to offer the best value products and funds to their customers as well as their own offerings
- The cost of providing advice is reduced and an advisory regime is introduced which makes financial advice available to the general public at a realistic cost

It is imperative that people receive fair and impartial guidance when negotiating the complex choices related to their pensions and life assurance. Many people struggle to understand insurance and pension products, and this is a particular problem when deciding how to make decisions when buying annuities or drawing down pension pots to provide retirement income. Ignorance and inertia mean that many do not receive the best deal, and financial advice is so expensive that it is only really affordable for the rich. This must change.

The organisations responsible for overseeing the interests of pension holders should adopt new and transparent structures that will help to de-mystify products and break down barriers between providers and customers.

A number of reforms are needed to bring this about:

- Banks, insurers and pensions providers should have a new legal duty to provide financial education to their customers over their lives. Where this guidance is a direct precursor to choosing a product it should be provided by an impartial guidance provider that is independent to the bank or insurance company.
- The Money Advice Service (MAS) and the Pensions Advisory Service (TPAS) should be re-formed as a single independent mutual specialising in the provision of financial guidance. This mutual should work with banks, insurers and pension companies to develop a long term national plan to increase financial literacy which is independent of party political interests. This new mutual would provide tools to assist in building financial literacy and act as the provider of impartial guidance when the customer is contemplating a product purchase. Industry levies which support MAS and TPAS should be repurposed to this end.
- The mutual should work with impartial regulated financial advisors to refer customers for fee paying advice on more complex issues such as life assurance, pensions and retirement income products.

- The government should task the FCA that within 3 years of the start of the next government it must:
 - Utilise the midata initiative to provide all UK citizens with a free financial advice passport containing the basic information required by financial advisors to give regulated advice. The data to be provided by banks, insurers, pension companies, HMRC and DWP. Evidence suggests this could halve the costs of providing regulated financial advice
 - A new financial advice regime, utilising this passport and the Internet to facilitate regulated impartial financial advisors to give affordable advice on life assurance, saving, pensions and retirement products
- Where customers decide to proceed without financial advice insurance companies and banks will have a duty to provide their customers with access to the best products and funds in the market alongside access to the products of that organisation. This will avoid the worst features of poor quality selling previously seen in the annuity market.

16 Financial regulators should be responsible for ensuring that a wide range of providers is available to consumers:

The Financial Services Act should be amended to introduce a statutory obligation on regulators to measure and promote corporate diversity in financial services

The Regulatory Authorities can only operate under a clear mandate that they have received from Parliament. The FCA now has a new responsibility to promote competition, and in time, this is likely to benefit both smaller and new entrants to the financial services sector. It shows that the regulatory authorities respond well to new and specific responsibilities from Parliament.

The history of the UK financial services industry shows that mutuals have been the true ‘challenger’ institutions to the largest corporate banks and insurance businesses. Only as a result of demutualisation did they lose market share to the monolithic shareholder owned firms in the last 20-30 years.

To help re-balance the market, the Financial Services Act 2012 must be amended further. Government should take the initiative to do this by bringing forward proposals that will require regulatory bodies to promote all types of corporate diversity – not just mutuals - as an alternative to the plc dominance of the market.

17 Relevant Government officials should be educated and experienced in mutual business:

Government must ensure that Regulators and Government departments have sufficient knowledge and expertise to work with mutually owned firms

Too often, mutuals deal with regulatory and government staff who have little understanding of the way their firms are constructed and the different business purpose that they operate to, leading to a one size fits all approach based on how listed firms operate.

Government should ensure that these bodies have expertise that is fit for purpose, so that the Authorities responsible for supervising firms on a day to day basis are suitably qualified.

18 Share ownership incentives for company employees should be available to all mutuals:

Employee share ownership should be incentivised in consumer mutuals as it is in other businesses, by the introduction of qualifying shares

Employee share ownership is not currently incentivised in consumer mutuals, and not permitted in building societies or friendly societies. Government should commit to authorise schemes for these to be available to employees of all mutuals, making legislative changes where required.



Facilitating economic growth and prosperity

The economic crisis has shown the importance of a strong mutual sector, which can act as a counterbalance to stock ownership in our economy. Measures should be taken to strengthen the role of mutuals, particularly in financial services.

One clear lesson of the global financial crisis is that with so much of our financial services business dominated by listed firms, a rapid degradation of capital value has dire consequences for our economy.

Taxpayers have carried the burden of bailing out these businesses but six years later, the Government still holds major stakes in RBS and Lloyds Banking Group and the market remains dominated by a few large listed firms.

This is a problem because the economic model they pursue is susceptible to common risks and behaviours, stifling competition and consolidating economic risk. Action to separate investment banking from retail banking, and the break up of large firms is only part of the solution.

The UK needs to have greater corporate diversity in the financial services industry, fostering competition between different corporate models including non-listed firms and mutuals.

Policy should clearly state this as an objective and policy levers should actively seek to mitigate the systemic risk by promoting the role of non-listed financial services businesses, such as mutuals.

Legislation and Regulation governing the regime in which these firms work must be enacted to support this policy objective.

Ultimately, the UK needs a strong sector of financial mutuals that are focussed on serving consumers by providing choice and competition, whilst operating a different business model from listed firms.

In the Coalition Agreement, the Government boldly stated “We will bring forward detailed proposals to foster diversity in financial services, promote mutuals and create a more competitive banking industry.” Yet little of substance has taken place. It is now up to the next Government to make this vision meaningful.

The UK is unique among western European countries in that it has no co-operative banking sector. In Germany, for example member owned banks serve 30% of the retail market.

The only mutual banking has been provided by the small number of building societies and up until recently, the now demutualised Co-operative Bank, but this accounts for less than 10% of the retail banking market. Savings and loans are provided to consumers through building societies and credit unions, with only the largest able to offer full retail banking to the public.

Demutualisation led directly to a reduction in the number of member owned firms competing, an agglomeration of brands into large listed firms, and the pursuit of a business model that ultimately proved catastrophic for the economy.

UK businesses have virtually no access to mutual banking, with Community Development Finance Institutions (CDFIs) the only example of these services. These are small scale and patchy. Legislation and regulation restrict the ability of mutuals to grow and compete on the same way that their listed competitors can.

Mutual insurance has provided financial protection services in the UK since the 1700s. Up until the early 1980s, mutual insurers provided the UK market with around 60% of total services, today it is around 7%. The market share of mutuals in most leading EU economies is in excess of 20%.

As with building societies, this change is primarily a result of demutualisation. Again, this limits choice for consumers, diversity and competition in the market. Yet evidence shows that mutuals’ presence in markets keeps prices lower and acts as a competitive spur on the proprietary sector.

However, by law, Mutual Insurers and Friendly Societies are not able to conduct the same business as their listed competitors. Legislation for mutual insurers is over-complicated and out of date. Regulation often ignores the different ownership and capital structures of these mutuals, further hampering their development.

As was shown by their swift dominance of the child trust fund market, these firms have the potential to innovate and provide high value low cost products. Mutual insurers and friendly societies could lead the way with new products encouraging retail customers to invest in infrastructure and projects of social value. In addition, Islamic compliant Takaful insurance can potentially protect many millions of financially excluded consumers.

19 In order to grow a mutual banking sector, committed to customer service: Government should consider transferring or selling government owned banking assets to existing building societies and new mutual banks that adopt blocks to future demutualisation

The sale of Northern Rock was a missed opportunity to help to re-balance the banking sector. Taxpayers made a loss of around £400 million in the rushed sale of the nationalised bank into the private sector, when it could have been re-constituted as a mutual, with the full value paid back to the exchequer over a longer period.

When considering the disposal of remaining state owned banking assets, Government should explore the potential for transferring these into new or existing mutuals.

20 Government and investors should work together in a partnership to make a success of a British Investment Bank:

Government should consider creating the new British Investment Bank as a mutual, owned jointly between Government and investors

The creation of a British Investment Bank (BIB) is crucial to increasing investment in UK SMEs.

The existing expertise in National Savings and Investments and the Green Investment Bank should be harnessed by merging these bodies together into the British Investment Bank.

The new institution itself could be established as a mutual, with ownership shared between government and investors, who would be both institutions and individuals. In order to guard against asset stripping and privatisation in the future, the mutual would be asset locked for the public benefit.

Funds for the BIB would come from three sources: Direct Government investment, and the sale of investment bonds to institutions and individuals.

The German national investment bank (KfW) lends through the long established Sparkassen regional bank network, which does not exist in the UK and will take time to replicate. A new mutual bank sector, using existing building society branches combined with challenger banks could therefore also act as the conduit between the BIB and business customers.

21 Members of the public should be able to easily invest in national infrastructure projects:

Government should support the development of new 'One Nation' savings products to promote consumer investment in infrastructure projects

The Armitt Review has outlined a comprehensive plan to improve and increase the level of investment in major public infrastructure projects.

At a time of constrained public spending, there is good reason to encourage individual citizens to help increase total investment in infrastructure by facilitating their investment in these projects through collective schemes.

Government should support the establishment of Mutual Infrastructure Investment Funds, with the purpose of raising funds from existing and new investors that can be used for long term domestic investment projects. This would provide additional options of a medium and long-term nature for retail investors.

The funds can be designed to match the savings objectives of small investors with the Government's desire to see a step change in public investment, through a market led solution. Government can incentivise such investments through fiscal measures, allowing them to qualify for NISAs and pension investments etc.

22 A Commission on Mutual Banking should recommend measures to establish a significant mutual banking sector in the UK that can provide competition and choice for individuals and businesses:

Stock market listed banks, each pursuing similar business models, dominate the UK banking sector. Unlike most of its EU competitors, the UK does not have a significant mutual banking sector.

UK mutuals are limited to savings and loan mutuals (building societies and credit unions) with few of these currently offering full personal banking services, and none providing business banking.

The opportunity in the UK is for some of the existing mutuals to be given the chance to be able to offer full banking services by adopting a new corporate structure, similar to the German Volksbanken.

A Commission on Mutual Banking should recommend measures to establish a significant mutual banking sector in the UK:

The Commission will be invited to:

- Define the role of customer owned mutual banking institutions (building societies and credit unions) in the context of a diversified and competitive financial services sector.
- Propose a model for building societies and credit unions to provide full retail banking services.
- Make recommendations on the consolidation or restructuring of the building society and credit union sector.
- Examine the options for groups of mutual banking institutions to share back office services on a formal basis and the extent to which this model is appropriate.
- Make recommendations for legislative change including elements for a new mutual banking bill.
- Publish its first report within four months of commencement.

Existing mutuals that choose to adopt 'mutual bank' status would be able to use their national branch network to offer business lending supported by the British Investment Bank. This option should also be available to all suitably qualified banks, regardless of ownership, that do not currently provide business-banking services.

23 Government should act to improve working peoples' access to fair savings and credit:

Government should act to improve working peoples' access to fair savings and credit. Wherever Government is a significant employer, it should work with the credit union sector to establish credit unions for its staff, with automatic deductions from pay available for those who wish to join.

Government should act to promote a regular savings culture among employed staff, at the same time as directly challenging the rip-off charges of high street commercial lenders, pay day loan companies, credit card and bank overdraft lenders.

Too many low-paid workers are drawn into the spiral of regular borrowing for necessities. Many people in work at all levels will struggle to meet unexpected expenses without resorting to expensive credit.

As a responsible employer, Government should act to help grow the savings and loan institutions that will provide fair finance for those employed in the public sector. The most successful credit unions are those where the common bond is employment based and are open to all levels of employee – encouraging savings from staff at all levels and providing fair credit to all members.

Wherever Government is a significant employer, it should work with the credit union sector to establish credit unions for its staff, with automatic deductions from pay available for those who wish to join.

New credit unions should be built for:

- NHS staff
- Military staff
- Police and Fire services
- Teachers and classroom assistants

24 Islamic banking and insurance should be promoted as part of a growing mutual financial services sector:

Government should promote Islamic Finance as an integral part of increasing financial diversity

Islamic financial institutions are organised in similar ways to mutuals and should be promoted as part of a drive to increase diversity in financial services.

Islamic finance is founded on sound business, social and ethical principles that apply to both Muslims and non-Muslims. Though a small part of the current financial service market, it is at the threshold of serious expansion. With its focus on fair play and on risk sharing rather than risk transfer, it has much in common with the way in which mutuals and co-operatives do business.

Mutual insurers and friendly societies in particular are therefore an ideal vehicle through which to deliver takaful (a form of insurance that meets the conditions for Islamic finance) in the UK and European markets.



Extending mutuality in the public interest

Across the country, institutions provide services that are of great importance to the public. From tax funded public services to assets of public importance, it is essential that the public interest is protected. Mutuals can play a major role in delivering accountable institutions over the long term.

Public service providers can be from the public, private or community sector. In each case, it is essential that they maintain the trust and confidence of the public that both funds them and relies on their services. The post war settlement that put Parliament and local authorities in charge of protecting the public interest has been fractured and an alternative is needed.

Direct accountability of public services can only exist when people are able to participate in the decision making that affects how they are run. Privatised services cannot ever do this, public bodies can be paternalistic and distant, but mutual service providers empower the public and staff as participants in providing the service and making decisions over how it is done.

Over the last few years, a growing number of new mutuals have been successfully established, including NHS Foundation Trusts, social housing mutuals, child care co-operatives, GP out of hours mutuals, co-operative schools and local government service mutuals. These mutuals offer memberships to users or staff or a combination of both. By doing this, they are accountable to the people they serve and directly engage the people who work in them.

Collectively, these mutuals are now responsible for providing services with an annual value in excess of £30 billion of taxpayers' money. Most of these mutuals owe their existence to previous Government policies.

These mutuals combine business efficiency with accountability to users and a public service ethos that cannot be replicated in traditional state or private provision. However the development of mutuals has been haphazard and subject to changing government priorities.

Although the current Coalition Government has stated its policy desire to see mutual organisations providing public services, the manner in which it has focussed almost

exclusively on employee owned mutuals (some of which are in reality investor-owned) and provided weak support with poor co-ordination across government shows an underlying lack of commitment to new mutuals. It has resulted in little progress since 2010, and risks damaging the public perception of mutuals.

The next government has the opportunity to create a platform for enabling these types of providers to flourish. The success of mutuals in the public sector can also be used to reform other publicly important institutions in order to achieve greater accountability and to protect the public interest.

Beyond what we might understand as public services, a whole range of non-government institutions provide nationally significant services, upon which we rely either because of their critical national importance or their relationship to our national culture and identity. Often they will be former public bodies, or operate as arms length businesses, but because of what they do, it is just as important that these organisations, from the Post Office to the BBC and even football clubs, retain the confidence of our people so that they can continue to serve the widest number of people.

Mutuality offers a way of harnessing and expressing the public interest, whilst maintaining the independence of businesses. Government can act to bring these bodies closer to the people that they serve.

25 To avoid repeating the mistakes of past privatisation and nationalisation, Government should adopt new public interest principles when considering altering the corporate status of public service providers:

The spinning out of public services and the continued privatisation of the current government have failed to sufficiently protect the public interest. Government should ensure that there is a coherent basis for altering the corporate status of public service providers.

New mutuals in competitive contracting environments have sometimes struggled to compete with large corporations. The contracting process that has favoured firms with large balance sheets has left high performing new mutuals at a disadvantage. Consequently, mutualisation, if handled badly, can be a stepping stone to privatisation, so a clear, total Government approach is needed.

Public interest principles should govern The Government's approach in this policy area:

- No public service should be spun out or privatised unless clear continuing benefits to the public can be demonstrated
- Government should commit not to create private sector monopolies
- New providers must have structures in place to engage with customers and employees
- Government should always consider a mutual option before a private sector contractor is engaged
- There should be transparency on what proportion of expenditure turnover will be extracted in profits (if any)
- There should be a recognition that the cheapest bid does not always offer the best long-term value for the taxpayer

26 Any new mutuals created from state or municipal bodies should be nurtured to avoid them becoming a stepping-stone to privatisation:

Government should adopt a clear protocol for public service mutualisation that ensures a fair and consistent approach across government departments

Across Government Departments, understanding of mutuals remains low with starkly

differing approaches being adopted by Ministers. This has led to an increase in confusion and many missed opportunities to improve services.

The current Cabinet Office Mutuels Task Force has focussed almost exclusively on employee led spin-outs, which have proved to be small in scale and difficult to replicate. Worse, businesses have been supported that are not mutual at all, in an apparent move to 'sanitise' an ideological desire to out-source services. On the other hand, the ambitious plans to mutualise the Post Office have been carefully and co-operatively executed.

- Mutuels should only be spun out of the public sector where there is a clear case for delivering cost and service improvements
- All mutuels must include service users in their governance structures
- Mutuels should receive minimum 5 year first contracts to enable them to establish before competing with the private sector

27 Parental and staff involvement in schools should be actively promoted: Government should support and promote co-operative education providers through the creation of a level playing field for co-operative schools

Much has been written about the adoption of Free Schools, but so far there are only a couple of hundred open across a nation serving 8.2 million school children.

More significantly, there are now more than 700 Co-operative Trust schools, with a further 230 in the process of adopting this new model. These schools are not new, rather they are conversions of existing community schools, which were previously run by local councils.

They have adopted new governance arrangements that give membership to parents and staff alike - hard wiring a close relationship with their two main stakeholder groups to ensure that they remain close to the people that they exist to serve. This work should be supported by Government through policy actions that give at least equal status to co-operative schools.

- Amending legislation as required
- Providing equal funding to that provided to academies and multi academy trusts
- Supporting the development of school improvement co-operatives
- Taking Co-operative and mutual models to other parts of the education sector
- Raising awareness in the DfE and among schools
- Review the power of the private sector in the examination system and explore the potential of a school/college owned mutual alternative

28 Large health mutuels such as NHS Foundation Trusts must use their new mutual structures better to fully empower their staff and engage with the public that they serve in order to improve healthcare standards further:

In terms of scale, NHS Foundation Trusts remain the largest conversion of public authorities into mutuels that have taken place so far. They remain a success story in the way that new, independent mutual structures have enabled better decision making and financial planning to take place at NHS Trust level, whilst remaining accountable to the public they serve.

Nearly two million people from the general public and staff members have now joined these new mutuels. It is a strong base upon which to build and Trusts should make sure that membership is meaningful through a strong plan of engagement and dialogue.

Too often, Trusts have adopted a top-down, elitist approach to management service decisions. At a time when health spending is under real pressure, it is imperative that the acknowledged best practice of empowering all staff is adopted to ensure that Trusts

involve all employees in problem solving and service design. The inability of many NHS Foundation Trusts to demonstrate strength in this area is their biggest weakness. Trusts should therefore be incentivised by Monitor, the independent regulator to:

- Grow active membership among staff at all levels
- Ensure that hospital consultants and doctors do not dominate
- Develop a meaningful staff empowerment programme
- Demonstrate how health improvements can be delivered through this work

The role of members of Foundation Trusts should be strengthened, in order to build stronger links between communities and governors.

29 Social housing providers should promote greater tenant and employee engagement:

Social landlords should be encouraged to adopt the 'Rochdale' housing model that empowers both staff and tenants

Rochdale Boroughwide Housing (RBH) is the UK's first co-ownership mutual provider of social housing, with tenants and employees as members built into the fabric of the organisation a sense of shared priorities and working together.

In March 2012, following a vote of support from tenants, Rochdale Council transferred the housing stock, which was managed by RBH as an arms-length management organisation (ALMO), to a new mutual. It saw this as the best way to secure long-term financial sustainability for the 14,000 homes in the borough and to give tenants and employees a stronger sense of ownership in providing high quality housing service for the future.

It is a model which other ALMOs and existing housing associations should be encouraged to explore.

30 National public services should be directly accountable to their customers and other stakeholders:

Government should ensure that, where appropriate, providers of major national services are operated in the public interest through mutual structures that identify the importance of their stakeholders: customers, employees and others.

These organisations, which are often funded by taxpayers, should be responsive to the people that they exist to serve, and provide an opportunity to enable proper engagement that avoids paternalism.

31 Government should make the UK Rail network more accountable to the public:

Making railway services more accountable to users and taxpayers should be a key objective for the next Government. There are two elements to consider: the track and infrastructure business of Network rail, and the franchised train operating companies.

Network Rail governance should be improved by electing its members

Network Rail should be accountable to the public for one simple reason alone – because taxpayers and passengers are major funders of services. All taxpayers must be given the right to become individual members. As a genuine mutual venture, Network Rail should then give all of its members the right to elect their Member representatives, instead of the current appointments process.

Rail franchises should be altered so that they serve the public better

Train operating companies (TOCs) will bid for a franchise if they think a) they can win and b) it will make them a reliable amount of profit. This means that franchises can be

made more imaginative and provide for new duties for the winning bidder such as recognising passenger groups, consulting with them on business strategies, meeting certain passenger satisfaction targets, otherwise they get fined. Instead of paying fines to Government, we should consider whether they should have to spend it on projects and services that will improve passenger satisfaction.

Passenger groups could then choose to spend the money on particular service improvements on trains or stations. It's a great way of making sure passengers have a voice.

Government should commit to support the establishment of mutual passenger groups, which would have open and transparent memberships that can act as the voice of rail passengers, and thus ensure that a credible and representative dialogue exists between TOCs and passengers, as part of the franchise terms.

Where franchises are forfeited to Government the Government should examine the option of setting them up as independent mutuals

Where franchises have been forfeited, such as was the case with the East Coast line, Government has made a mistake in not keeping the franchise operating in the public sector as a public sector comparator rather than re-letting it to a private operator in haste before renewing other franchises

The East Coast Mainline franchise, run by Directly Operated Railways (DOR), returned more than £1bn to the Government in dividends and in 2014 paid £235m back to the government in its final full year as a state-owned company, a 12% increase on the previous year. This provides evidence that a service can be successfully operated in the public interest.

Rather than ideologically rushing to re-privatise the franchise, the Government could give serious consideration to constituting DOR as an independent mutual business, with a public membership, freeing its management to operate the service in line with the franchise terms and to consider bidding for other franchises as they became available. If the Government is forced to take control of franchises in future this option should be given proper consideration.

32 Government should act to promote supporter involvement and ownership in football clubs as a strategy for building trust and confidence for the long term:

Professional football in the UK is among the most entertaining in the world. It is also, at the level of the Premier League, the most profitable example of the game anywhere. Yet, there is great discrepancy between the wealth of the most successful clubs and of the majority of professional clubs in the lower leagues. At all levels, clubs are prone to sudden changes of prosperity and financial crises, brought about not by their fortunes on the pitch, but by the capricious behaviour of many of their owners.

Too often, it falls to the long-suffering supporters to rescue a club from the brink of extinction, or at best, to re-build its relationship with the local community following the experience of poor ownership.

The Labour Government's 'Supporters Direct' initiative has been a shining example of how political action can have a positive effect on failing markets.

Three actions should be taken to tackle the weaknesses of football ownership:

- Government should ensure that the football authorities engage supporters in the running of clubs, and learn from models such as the German football league
- Supporters Direct should have a stable and predictable funding from the proceeds of Football
- Government should legislate to protect certain football community assets (club colours, club name, home ground ownership and the rights to securitise assets) from sale or abuse



What mutuals should do for themselves

Government will not be able to provide all of the answers for the mutual sector - as true self-help organisations, mutuals were established by like minded people seeking to solve everyday problems. There are a number of actions that the sector itself can take to help to plan its own future and ensure that mutuals play a full part in our economy and society.

33 To ensure the consistent engagement of all mutuals in the sector:

Mutuals of all types should work together, and the large firms in each sector should provide a leadership role

Mutuals, regardless of their category, should work closely together for the benefit of a larger mutual sector. Historically, different mutuals have remained in their sub-sectors, defined by specific legislation and with their own trade association. They do not co-operate together very often, and this is to the detriment of the wider understanding of mutuals, particularly when working with government. Sometimes, the trade bodies appear to concentrate more on defending their subscription base and their particular role than on the wider, common issues facing mutual business.

Typically there will be a small number of dominant firms in each sub-sector of mutuals – it is essential that these businesses provide the leadership necessary to bring together different types of mutuals which often share common political and business challenges.

34 Sub-optimally sized mutuals should take urgent action to better serve their members: In some sectors, mutuals are too small to properly serve their members. In such cases, they should consider merging together to create robust businesses

Too often, mergers and consolidations in the mutual sector have been driven by the personal ambitions of senior executives, rather than what is good for members. Likewise demutualisation has been offered to members as the only option for a mutual seeking growth. Evidence shows that these options have tended to benefit the executives proposing them more than anyone else.

This does not mean that mutuals cannot be small and successful; it depends on the business model and industry in which that operate. However, small mutuals need to make a compelling case for how they benefit their members.

Those mutuals that remain below scale should consider merging with similar firms, on the basis of the interests of the members and regardless of executive ambition. Trade

associations should identify where such mergers would be beneficial and initiate discussions between such firms.

35 The UK mutual sector should be less insular and co-operate more with other mutuals internationally:

The sector should pool its expertise to help develop answers to common problems, innovating and learning from the best international examples and participating in pan-national mutual groups

One corollary of the lack of unity within the mutual sector has been the insular way that some mutuals have faced their problems, often within their sub-sector, and usually without reference to similar firms. Membership and participation by UK mutuals in pan-national mutual groups is extremely low and again reduces the effectiveness of UK mutuals in solving their common problems and benefitting from a wider exchange of ideas and knowledge.

The large and successful mutuals that operate in many countries of the world have much to offer the UK, where the development of mutuals has become stagnant and often been driven by outside, usually political forces.

36 All mutuals should be responsible for working towards the highest levels of transparency and quality of service:

Mutuals should ensure that they adopt the highest standards of corporate governance

Too often, mutuals have been singled out for failings of governance. The Equitable Life and Co-operative Group examples are well known. Yet there are many more cases of good practice in the sector, which should also be as well known. It is essential that mutuals operate to the highest standards of corporate governance and that larger mutuals help smaller firms to make the grade in this.

Again, this should be a core function of the trade bodies not only to drive corporate governance standards, but to police them, being prepared to identify where there are shortcomings. In this way, mutuals will retain their high levels of trust among the public and become standards leaders in the corporate world.

37 To avoid duplication and waste of resources in the sector:

Mutual sector trade bodies should examine the case for reform and merger

The wide range of different types of mutual businesses has led, over time, to the growth of separate trade associations for most of these. Whilst the particular expertise of each of these bodies is to be valued, there is considerable duplication of effort in representing member owned businesses.

This leads to an inflated cost base for this type of work, lack of co-ordination between different types of mutuals where their interests are shared, and too often, confusion with their target audiences. Policy makers, let alone the general public, have little comprehension of the plethora of mutual types, from credit unions to co-operatives, building societies, friendly societies and public service mutuals etc.

From time to time, this has led to parochialism and self interest, rather than co-operation between co-operatives.

It would better serve the cause of mutual business if trade body representatives were reformed to better serve the needs of the UK mutual sector.

Mutual trade bodies should work together to share resources:

- They should urgently consider merging common functions
- They should evaluate the benefits of full mergers