

## Consultation Response

# Independent Review of Employment Practices in the Modern Economy

April 2017

## Introduction

We welcome the Prime Minister's decision to initiate this important review. It is increasingly clear to Co-operatives UK that as a society we need to reimagine work and wealth creation, so that these deliver for more people. Unfortunately, too many of the new developments in our economy seem to reimagine the world of work in less positive ways.

We firmly believe that co-operative approaches to work and precarity have a lot to offer. They should be better understood and supported by policymakers as a consequence of this review.

In particular, self-help solutions for the self-employed are something that we believe need to be much better understood through this review. While it is vitally important to look in detail at the statutory rights, regulatory interventions and tax treatments in this area, the power of the state to change things will always be somewhat limited and must complement what small players in the economy can do together.

There is a considerable amount of grass roots and non-state activity already going on to develop these approaches, which governments central and local could choose to facilitate and partner with.

This response draws on a detailed research report 'Not Alone: Trade union and co-operative solutions for self-employed workers' by Pat Conaty, Alex Bird and Philip Ross, published in 2016 by Co-operatives UK, Wales Co-operative Centre and Unity Trust Bank. It is important we acknowledge the researchers' efforts.

## Security, pay and rights

### **1 To what extent do emerging business practices put pressure on the trade-off between flexible labour and benefits such as higher pay or greater work availability, so that workers lose out on all dimensions?**

- 1.1 We share concerns that many emergent business practices in the UK economy are giving rise to less secure, less rewarding and ultimately less equitable working lives. We are particularly but by no means exclusively concerned for the welfare of what could be termed the 'precarious self-employed.' In 2016 our detailed research into co-operative solutions for the precarious self-employed highlighted the following:

*"Eighty-three per cent of sole traders earn less than the average income and 77 per cent live in poverty. According to the ONS, average earnings from self-*

*employment have dropped from £15,000 to £10,400 a year since 2008, which amounts to a median weekly income of £207. Moreover, since 2010 the number of self-employed people earning less than the tax-free allowance has increased from 20 per cent to 35 per cent.”<sup>1</sup>*

- 1.2 However, we would like to draw attention to some business trends which are more positive, where the trade-off between flexibility, pay and work availability are not necessarily ‘lose, lose, lose’ for workers. We are seeing renewed growth in worker co-operation in the UK. Some of this takes the form of worker-owned businesses, while we are also seeing examples of networked co-operation between more autonomous workers operating in consortia, including freelancer co-operatives.
- 1.3 Through a range of tried and tested co-operative approaches, these collaborative entrepreneurs pool talents and energies, share costs, access opportunities and benefit from solidarity and mutual support, all while taking control of their livelihoods. Their work can retain considerable flexibility and sacrifices are often made, but these workers have much greater control, get a better share of the rewards, benefit from solidarity and have the prospect of growing their equity over time.
- 1.4 To understand more about these trends in practice, we suggest looking at the members of CoTech, a consortium of co-operatives trading in digital and media.<sup>2</sup> We also point to the work of the Musicians Union in supporting the development of consortium co-operatives for freelance music tutors.<sup>3</sup> We also suggest looking at more established examples of co-operation between sole traders, such as the National Market Traders Federation.<sup>4</sup>

#### International examples

- 1.5 Our 2016 research also highlighted emergent examples of successful co-operation between self-employed workers in other developed countries. These include Coopaname in France, with 750 members including craftspeople, freelancers and service providers. This is one of 72 ‘business and employment co-operatives’ across France providing services such as accountancy, insurance and training to more than 5,000 entrepreneurs.<sup>5</sup> Another prominent example is SMart in Belgium, a mutual providing a wide

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<sup>1</sup> <https://www.uk.coop/NotAlone>

<sup>2</sup> <https://www.coops.tech/>

<sup>3</sup> <https://www.uk.coop/case-study-swindon-music-co-operative>

<sup>4</sup> <https://www.nmtf.co.uk/>

<sup>5</sup> <https://www.uk.coop/NotAlone>

range of services, including accounting, skills development and networking to 60,000 freelance creative and cultural workers.<sup>6</sup>

- 1.6 Another example we would like to highlight is the Dutch 'bread funds' movement. Bread funds are based on mutual aid and trust. Each bread fund has between 20 and 50 self-employed members who put money aside each month into their individual bread fund account. This money remains theirs and is used to support them and their fellow members if they fall sick.<sup>7</sup> This mutual insurance system operates at the grass roots level. In the UK we notice that the Federation of Small Business has called for larger-scale mutual sickness insurance for the self-employed, in part inspired by bread funds.<sup>8</sup> This too is something we would encourage policymakers to explore with the relevant stakeholders.

#### Co-operative consortia in the UK

- 1.7 We would also draw this review's attention to a well-established tradition of co-operative consortia in the UK. There are currently 243 consortium co-operatives of self-employed workers active in the UK, including 45 in arts and culture, 19 in digital and media, 17 in professional and legal services and 15 taxi drivers' co-operatives. There are also 65 co-operatives used by producers, makers and sole traders to organise and promote markets.<sup>9</sup> These not only demonstrate the value of such activity but also provide practical examples that could be followed by other self-employed workers.
- 1.8 In the digital technology sector these consortia can have an economic utility far beyond simple mutual aid. They can act a mechanism to reduce the transaction costs for trade and investment. They allow participating freelancers the freedom to experiment with a range of innovations and projects, without having to commit fully to just one project in order to attract venture capital.

#### Carers' co-operatives

- 1.9 Finally we would like to point to the example of carers' co-operatives in the UK. These co-operatives provide decent, people-focused care work, at a time when the UK care sector is notorious for its poor working conditions. Leading examples include Care and Share Associates, which is currently expanding steadily and investing heavily in its people, at a time when for-profit investor-owned providers are exiting the market in large numbers.<sup>10</sup> We currently count

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<sup>6</sup> Ibid

<sup>7</sup> Ibid

<sup>8</sup> <http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-supporting-self-employment-ukf15f3abb4fa86562a286ff0000dc48fe.pdf?sfvrsn=1>

<sup>9</sup> Co-operatives UK data

<sup>10</sup> <https://www.uk.coop/about/case-studies/social-care-co-ops-casa>

37 carer-owned co-operatives in the UK. We plan to survey these co-operatives to ascertain how they are faring in this most channelling of climates. Through our membership of the Co-op Care Forum we are aware that there is interest among trade unions in promoting co-operative approaches in care as a means of driving up conditions and standards in the sector.

- 1.10 This review should note that our researchers are currently nearing the completion of a second stage in their exploration of co-operative and trade union solutions for the self-employed. We anticipate that this will yield more detailed insights into the practicalities of organising workers and developing solutions.
- 1.11 To conclude, there is a growing body of co-operative practice to learn from and an ever-improving understanding of what co-operatives could and should offer in the context of modern work.
- 2     *To what extent does the growth in non-standard forms of employment undermine the reach of policies like the National Living Wage, maternity and paternity rights, pensions auto-enrolment, sick pay, and holiday pay?***
- 2.1 Our 2016 research found that there were issues across the board. In summary it found:
 

*“The self-employed precariat do not enjoy employment rights and protections at work, or any of the implicit services associated with being an employee, such as payroll or workplace insurance - let alone pension or sick pay. In addition, their potential income is indirectly eroded by other costs such as agency fees. They face additional challenges related to being paid on time and the right to a contract. To compound all this, many of the self-employed are among the lowest-paid workers in the country.”*<sup>11</sup>

## Progression and training

- 3     *How can we facilitate and encourage professional development within the modern economy to the benefit of both employers and employees?***
- 3.1 Below we set out how forms of worker co-operation can facilitate human development in the economy.
- 3.2 Our 2016 research into co-operative solutions for the self-employed found numerous examples where membership of organisations provides

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<sup>11</sup> <https://www.uk.coop/NotAlone>

opportunities for professional development.<sup>12</sup> We believe that such solutions could be means to develop skills and opportunities for what could otherwise be very 'hard to reach' workers.

- 3.3 We would also like to highlight examples such as Founders and Coders, a co-operative of coders with a clear corporate purpose aimed at developing the skills of its members while providing access to paid employment.<sup>13</sup>
- 3.4 More generally worker co-operatives have a very strong record in human development. The responsibilities of ownership provide excellent experience and developmental opportunities for their members. A good illustration of this emphasis on human development can be found in the UK Worker Co-operative Code of Governance, which stipulates that all worker-members should receive training, be encouraged to obtain technical skills, access professional development, and develop and share management skills and techniques to permit efficient co-operative business coordination.<sup>14</sup>

#### Apprenticeships

- 3.5 Worker-owned co-operatives large enough to pay the Apprenticeship Levy are concerned the apprenticeships framework incentivises firms to take young people on at significantly lower wages than standard workers. Co-operatives tend to be uncomfortable doing this for ethical reasons. We would like to see the system incentivise firms to take on more apprentices at higher rates of pay.
- 3.6 We are also concerned that our apprenticeships system still allows for poorly paid jobs offering little in the way of valuable developmental opportunities to be passed off as apprenticeships.

### **The balance of rights and responsibilities**

#### **4 *Do current definitions of employment status need to be updated to reflect new forms of working created by emerging business models, such as on-demand platforms?***

- 4.1 No comment.

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<sup>12</sup> Ibid

<sup>13</sup> <http://www.foundersandcoders.com/>

<sup>14</sup> <https://www.uk.coop/developing-co-ops/grow-your-co-op/codes-governance/worker-co-operative-code>

## Representation

### **5     *Could we learn lessons from alternative forms of representation around the world?***

- 5.1     The full title of our 2016 report is 'Not Alone: Trade union and co-operative solutions for self-employed workers'. Alongside purely co-operative solutions, the researchers also reviewed more representational forms of mutuality for self-employed workers.
- 5.2     Our researchers found that some Dutch trade unions have been serving self-employed members since the turn of the century. For example, FNV Zelfstandigen Bondgenoten is the largest specialist trade union in the Netherlands for the self-employed.<sup>15</sup> They also found similar developments in Sweden, Denmark, Germany, Italy and Spain. In Spain, Unión de Profesionales y Trabajadores Autónomos has over 100,000 autonomous worker members.<sup>16</sup>
- 5.3     Our researchers noted that while in the Netherlands and elsewhere national trade union federations have actively encouraged their member organisations to open up to the self-employed, the Trade Union Congress (TUC) in the UK had not done the same.<sup>17</sup> We note that since our report was published the TUC has become more heavily involved in agendas for the self-employed.
- 5.4     Meanwhile, there are excellent examples of UK trade unions that support and service self-employed members. These include the Broadcasting Entertainment Cinematograph and Technicians Union and the Musicians' Union.<sup>18</sup>
- 5.5     Our researchers found that trade unions serving the self-employed in the UK and elsewhere in the world score strongly in the provision of collective advocacy and representation, work-related campaigning and in the provision of other services and member benefits.<sup>19</sup> Since the publication of our report we have sought to work more closely with the TUC and its member trade unions to further this joint agenda.

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<sup>15</sup> <https://www.uk.coop/NotAlone>

<sup>16</sup> Ibid

<sup>17</sup> Ibid

<sup>18</sup> Ibid

<sup>19</sup> Ibid

## Opportunities for under-represented groups

### **6     *How can we harness modern employment to create opportunities for groups currently underrepresented in the labour market (the elderly, those with disabilities or care responsibilities)?***

- 6.1 We draw the review's attention to examples of worker co-operation developed specifically to integrate migrants, people with disabilities, recovering addicts and ex-offenders into the labour market on empowering, equitable terms.
- 6.2 Research in 2013 found that such co-operatives provided jobs for 40,000 disadvantaged people in Europe. This work highlighted examples such as Ecosviluppo in Italy and Severoceske Druzstvo Zdravotne in Czech Republic which integrate disabled workers, and a co-operative consortium for ex-offenders and drug addicts in Sweden, called Vägen ut!.<sup>20</sup>
- 6.3 There are a growing number of social enterprises in the UK providing employment opportunities for underrepresented groups on a commercial basis. We believe these should be supported by this review. But evidence suggests solidarity and empowerment via ownership and control can both play a significant role in enhancing experiences of work, especially for underrepresented groups.<sup>21</sup> Thus co-operative approaches in this field of social enterprise should also be encouraged by this review.

#### *Mutual Desistance Newtork*

- 6.4 In the UK the Mutual Desistance Network, a group of co-operative development experts, rehabilitation experts and senior HM Prison officers, has been working with the Ministry of Justice to help it understand the potential benefits of co-operative working for ex-offenders in 'through the gates' employment support. Immediately before to the EU referendum the Mutual Desistance Network had made great progress in aligning its agenda with the prison reform agenda of the then Secretary of State for Justice.
- 6.5 The November 2016 'Prison Safety and Reform' white paper contained proposals that could further the development of co-operative working for ex-offenders, including clearer statutory duties to rehabilitate and a stronger focus on through the gates employment support, as well greater freedoms for prison governors to allocate budgets and enter into local 'public-social partnerships'.<sup>22</sup> The job now is to ensure that the opportunities presented by prison reform can be taken.

<sup>20</sup> <http://www.cecop.coop/Cooperatives-provide-around-40-000>

<sup>21</sup> Beth Weaver and Dave Nicholson (2012) Co-producing Change: Resettlement as a Mutual Enterprise, *The Prison Service Journal*, 204, pp. 9-17

<sup>22</sup> <https://www.gov.uk/government/publications/prison-safety-and-reform>

- 6.6 We urge the review to support the Mutual Desistance Network in this particular area of policy.

## New business models

### 7 ***How can government – nationally or locally – support a diverse ecology of business models enhancing the choices available to investors, consumers and workers?***

- 7.1 As we set out in our answer to **question 1**, through a range of tried and tested co-operative approaches, self-employed workers, sole traders and entrepreneurs can pool talents and energies, share costs, access opportunities and benefit from solidarity and mutual support, all while taking control of their livelihoods. This includes the creation of freelancer co-operatives as well as new worker-owned firms.

#### Co-operative challengers

- 7.2 In time we hope to see the emergence of co-operatively-owned challengers offering more equitable alternatives to customers in a range of markets. Through our programme The Hive, a UK-wide business development programme dedicated to helping people set up and run co-operatives, we have a good vantage point to spot emerging trends in worker co-operation and can see new options for customers developing in food and drink, personal care, creative industries, hired labour and security.
- 7.3 Eventually we hope to see co-operative challengers competing in high-profile sectors where investor-owned platforms have been especially disruptive and contentious, such as couriership and taxis.

#### Existing support activities

- 7.4 There exists a vibrant mix of grass roots and more strategic activity encouraging and supporting workers to adopt these approaches in the UK. National and local governments could be partners to improve the impact of these activities.
- 7.5 There is a small but fast growing grass roots movement supporting workers to adopt these co-operative approaches. This includes:
- Alt-Gen – a London-based organisation that focuses on promoting co-operatives to young people who, as recent research by the Resolution Foundation shows, are struggling to earn a decent living in today's economy;<sup>23</sup> Alt-Gen has a particular focus on young freelancers<sup>24</sup>

<sup>23</sup> <http://www.resolutionfoundation.org/app/uploads/2017/02/IC-labour-market.pdf>



- Students for Co-operation – a national network of student groups educating soon-to-be graduates about the possibilities for living and working co-operatively in a challenging world <sup>25</sup>
  - CoTech – a consortium of co-operatives trading in digital and media that promotes worker ownership in the industry <sup>26</sup>
  - Open Co-op – an organisation promoting co-operative approaches to platform economics <sup>27</sup>
  - WEvolution - a charity in Scotland that helps women in deprived communities form self-help groups with the ultimate aim of starting their own businesses <sup>28</sup>
- 7.6 Furthermore, in response to a shift to predominant self-employment among peripatetic music teachers, the Musicians' Union now runs a programme to encourage and support the development of freelance teachers' co-operatives. <sup>29</sup>
- 7.7 Co-operatives UK has formed a partnership with the Co-operative Bank to run The Hive, a UK-wide business development programme dedicated to helping people set up and run co-operatives. The Hive includes a suit of guides, toolkits and access to professional business advice. <sup>30</sup> This programme, which will cost £1 million over three years, has already assisted more than 100 new and existing co-operatives, including groups of workers seeking to own and control their livelihoods.
- 7.8 Co-operatives UK is also working with practitioners to develop a national co-operative development strategy. Already emergent in this is a plan to enable and nurture grass roots activity, through a 'Co-op Champions' programme. The hope is that with light touch support through our national network, we can improve the reach and impact of this activity.
- 7.9 While these activities are making a positive impact, there are significant challenges that could be overcome if central and local governments played more of a partnering role:
- There is a lack of awareness about of possibilities of co-operative options in the labour force

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<sup>24</sup> <http://altgen.coop/>

<sup>25</sup> <http://www.students.coop/>

<sup>26</sup> <https://www.coops.tech/>

<sup>27</sup> <https://open.coop/about/>

<sup>28</sup> <http://www.wevolution.org.uk/>

<sup>29</sup> <https://www.uk.coop/case-study-swindon-music-co-operative>

<sup>30</sup> <https://www.uk.coop/the-hive/>

- There is a lack of capacity to carry out local, hands-on organising of communities of interest in the labour force
- Mainstream business support does not cover co-operative options
- Outsourcing practices in the economy tend to provide too little scope for self-employed people to access work opportunities on good terms
- The corporate framework government provides for co-operatives requires both routine maintenance and more strategic reforms

#### Co-operative Entrepreneurs' Programme

- 7.10 We propose a Co-operative Entrepreneurs' Programme to help workers considering self-employment understand their co-operative options and support them to adopt co-operative approaches where they see an advantage in doing so.
- 7.11 A Co-operative Entrepreneurs' Programme would most likely require a relatively small amount of central government funding to support local pilots, where existing employment and business support being provided by Job Centres, Start-up Loan providers and other enterprise agencies is augmented by input from Co-op Champions and ultimately by support from Hive providers, with local authorities being supported to play a coordinating role.
- 7.12 We envisage that individuals being helped into self-employment by Job Centres or receiving start-up support from a Start-up Loan provider would at the same time be referred to a Co-op Champion who could introduce the concept of co-operative working. Co-op Champions would help workers moving into self-employment to start informal mutual support groups, which over time could evolve into more commercial co-operation with the help of Hive providers.
- 7.13 We believe there could be significant value for public money in helping people to use portions of their New Enterprise Allowances and Start-up Loans collaboratively, as this will share good outcomes from this spending among a wider population.
- 7.14 This programme could help organise people to an extent that they are able to club together in freelancer co-operatives and could also support the creation of new worker co-operatives. It could also encourage worker participation in larger-scale mutual initiatives of the kind discussed in our answer to **question 1**.
- 7.15 In our Budget 2017 submission we set out how central government could fund these pilots by redirecting some of the hundreds of millions of pounds it

spends each year in tax breaks for executive shareholders through Company Share Option Plans and Enterprise Management Incentives.<sup>31</sup>

Horizontal approaches to public procurement

- 7.16 Local (and potentially national) government could implement changes to commissioning that would encourage contracting practices that are supportive of self-employed people combining in co-operatives and consortia to take on work.
- 7.17 Vertical collaboration, where a lead contractor with a succession of layers of subcontracting, is the norm in public service procurement and the delivery of large private contracts, such as in the construction industry. This approach leads to the contract value being "top sliced" as it passes through each layer, tending towards the people at the bottom layer, who are delivering the work getting poor remuneration and terms and conditions. Many contractors at this bottom layer are freelancers and self-employed contractors.
- 7.18 Horizontal collaboration, such as through a consortium co-operative is designed to ensure that more of the contract value remains for the contractors at the front line involved in delivery, many of whom are self-employed. It also allows for more informed management decisions, by virtue of being closer to delivery.
- 7.19 One measure which would enable more horizontal collaboration would be to accept aggregated turnover and balance sheet in situations where the contractors were tendering together as members of an incorporated body in which they held management (or Board level) responsibility. The current status quo only recognises the turnover and balance sheet of the tendering body, which in a young consortium will be significantly smaller than the aggregate.
- 7.20 An additional means of ensuring the rights, terms and conditions of self-employed people can be achieved by breaking contracts and commissions into smaller parcels, enabling smaller organisations to compete and reducing the depth of vertical collaboration or enabling horizontal collaboration by reducing the critical mass of delivery bodies required.

Improvements to the corporate framework

- 7.21 Government can maximise the advantages for workers in adopting co-operative approaches by ensuring the corporate framework for co-operative and community benefit societies is fit for purpose.
- 7.22 At a regulatory level there is a need to ensure that the Financial Conduct Authority (FCA) Mutuels Team recognises that under certain conditions

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<sup>31</sup> <https://www.uk.coop/budget2017>

societies owned by and run for local sole traders can deliver legitimate community benefits and could be incorporated as 'community benefit societies.' At present, in cases such as these, there is too much uncertainty surrounding the Mutuels Team's likely interpretation of 'business conducted for the benefit of the community' under Section 2 of the Co-operative and Community Benefit Societies Act.

- 7.23 The French example of 'business and employment co-operatives' and the 'société coopérative d'Interêt collectif' legal form, which have proven so successful in supporting sole traders there, suggests that strategic reform of the Co-operative and Community Benefit Societies Act may be necessary to allow for a stronger combination of mutual and social purpose. This would cement a legal basis for combining entrepreneurial self-help, solidarity and social benefit. A reform like this would require primary legislation to allow co-operative societies to do the following:
- register their mutual purpose as being socially beneficial in nature
  - opt for an asset lock with statutory underpinning
- 7.24 Beyond this there is much government could do to ensure the corporate framework for co-operative and community benefit societies is better maintained as a matter of course and is a user-friendly option. We think this requires the following:
- Moving policy responsibility for co-operative and community benefit societies from Banking and Credit in HM Treasury to Business Frameworks in Business Energy and Industrial Strategy
  - Reviewing and updating account reporting and audit requirements for small co-operative and community benefit societies
  - Creating smoother less burdensome compliance processes for co-operative and community benefit societies, especially in relation to the Mutuels Register and HMRC
  - Providing straightforward and appropriate conversion routes between the society legal forms and other forms of incorporation
- 7.25 To conclude, there are practical actions central government could take to ensure co-operative options are optimal for workers. Meanwhile both central and local governments could play a better partnering role with emerging non-state activities that already promote and support co-operative approaches to work. If these co-operative approaches thrive they will provide viable options for customers seeking for equitable products and services in a range of markets. We can reimagine work and wealth creation, so that these deliver for more people.

**Co-operatives UK****Holyoake House****Hanover Street****Manchester****M60 0AS**[www.uk.coop](http://www.uk.coop)**About Co-operatives UK**

Co-operatives UK is the network for Britain's thousands of co-ops. We work to promote, develop and unite member owned businesses across the economy. From high street retailers to community owned pubs, fan owned football clubs to farmer controlled businesses, co-ops are everywhere and together they are worth £34.1 billion to the British economy.

