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An All-Party Parliamentary Group (APPG) is a grouping which is composed of politicians from all political parties, which meets to discuss a particular issue of concern. In the case of the **All Party Parliamentary Group on Employee Ownership**, of which I am a member, the Group consists of 78 Members from both Houses of Parliament. The purpose of the group is to examine the contribution of the co-owned business sector to the UK economy. We work closely with the principal voice of the co-owned business sector in the UK is the **Employee Ownership Association (EOA)**. The EOA is an association of businesses wholly or substantially owned by their employees. Its members include the John Lewis Partnership; global companies such as Arup, Unipart and Mott MacDonald; other international businesses such as founder members Scott Bader and Tullis Russell Group; and a diverse range of companies from different sectors.

In the UK, the growth and health of the co-owned sector in the UK has been aided by the efforts of successive Chancellors to create a framework of fiscal incentives that make co-ownership an attractive proposition to employees and entrepreneurs,

The Government has pledged its commitment to supporting employee share ownership, which it sees as benefiting companies, employees and the economy. The Government principal means of encouraging employee share ownership has been through three tax-advantaged share schemes: Save-As-You-Earn (SAYE), the Share Incentive Plan (SIP), and the Company Share Option Plan (CSOP). The Government has also introduced the Enterprise Management Incentives (EMI), designed to help small higher-risk companies recruit and retain employees who have the skills that will help the company to grow and succeed. EMI as a share option incentive also facilitates employee share ownership.

Details of schemes:

1. Share Incentive Plans (SIP) - a tax and NIC advantaged plan for all employees. Companies can give up to £3,000 worth of shares a year to each employee. Employees can buy up to £1,500 worth of shares a year.

2. Savings Related Share Option Schemes (SAYE) - tax advantaged scheme for all employees and directors. Participants save up to £250 per month to acquire shares at the end of a 3, 5 or 7 year period.

3. Enterprise Management Incentives (EMI) - Companies with gross assets not exceeding £30 million can grant tax and NIC advantaged share options worth up to £100,000 each to any number of employees, subject to total share value of £3 million under EMI.

The fact that the schemes are tax advantaged means that the employees benefit from income tax and national insurance contributions relief on shares and share option gains.

In 2002, the Government worked with me on the Employee Share Schemes Bill, which I had introduced to Parliament. This Bill enabled companies to obtain "up-front" corporation tax relief on money given to a share incentive plan trust to buy a larger block of shares. The 2002 Act enshrined in legislation the right to elect worker shareholders as trustees of share incentive plan trusts. That was followed by legislation in 2003 to provide employers with the certainty of a statutory route to a corporation tax deduction for the cost of their employee share schemes.

In the UK there have been concerns over the scale of the participation. However, back in March 2006 it was estimated that more than 4 million employees—nearly 20 per cent of private sector employees—were participating in tax-advantaged schemes. In 2004, more than 6,000 companies were operating tax-advantaged schemes and more than 1,000 were open to all employees. The share incentive plan was, at that time, the most popular tax-advantaged all-employee share scheme ever, with nearly 3.9 million people buying shares in 2003–04.

Employee Ownership achieves results. The co-owned business sector is worth an estimated £20-25 billion annually and is growing. Its largest employer incorporates the UK's two favourite retailers: John Lewis and Waitrose.

The sector exhibits exceptional performance on a number of important business indicators. It is making an increasingly significant contribution to the UK economy via:

- its capacity to generate employee engagement, a spirit of innovation and enterprise, and hence productivity;
- its high standards of corporate ethics and responsibility and resulting contribution to community cohesion;
- its attractiveness to customers; and its role in effective business transfer.

Employee ownership has received positive support. The Employee Ownership Association and co-ownership generally tends to be supported by the major political parties and the EOA received wide publicity for its paper last year on 'CoCo Companies: Work, Happiness and Employee Ownership', which was launched by the now Foreign Secretary David Miliband MP.

However, there is a feeling within the sector and among politicians supportive of employee ownership that the political support is not as strong in practice as it is in theory. That is why the All Party Parliamentary Group on employee ownership was formed. It is also the reason why the Group launched an inquiry to examine the performance and contribution of the co-owned business sector and to explore the policy issues affecting its development.

The Group decided that it was important to launch an inquiry given the implications of the sector's scale and growth for policy makers; for businesses who might wish to adopt this ownership model, finance it or advise on it; the field of business education and research; and for employee owned companies themselves.

The analysis of our Inquiry emphatically confirms the vibrancy of the co-owned sector, which is now estimated to have overtaken the agricultural sector in terms of its relative share of GDP.

The Group also believes that the co-owned model offers enormous potential for the UK economy. Our Inquiry has confirmed that co-owned companies are exceptional mainstream businesses. A wide array of coowned companies, operating in competitive markets in the public and private sectors, are delivering exemplary performance through the use of the co-owned model.

Co-owned firms appear adept at managing innovation and change, are underpinned by very high levels of productive employee engagement, and have an excellent track record in delivering broader social, environmental and community benefit.

While Government has helped to create a framework of fiscal incentives that make co-ownership an attractive proposition to employees and entrepreneurs, there is inevitably a feeling that more could be done.

The Group's efforts to develop more definitive assessments of these and other issues have, however, been hampered by a significant data gap as evidenced by the absence of official statistical data on the co-owned sector in the UK. The Inquiry is also concerned about the lack of awareness and information about the sector among business owners, advisers, financial institutions, and public sector policy makers.

To support the co-owned sector's continued growth the APPG has identified a range of recommendations which I will outline in brief:

1. The data gap

The APPG recognises the strength of the evidence presented to us on the data gap.

Given that the size and strength of the sector we judge that the case is compelling for Government sponsored research in this area, and that the Treasury and the Department for Business, Enterprise and Regulatory Reform have an interest in helping to generate a review of, and research into, the co-owned sector in order to address the glaring data deficiencies that the APPG Inquiry has underlined.

We believe that there is a strong case for the Treasury to lead such a review.
The APPG recommends that key points of emphasis should include:
i) A focus on firm level data (with both individual-level and company level financial data).
ii) An assessment of the performance benefits of coownership, and in particular its potential role as a supplier of public services
iii) The appropriateness of the current regulatory and funding environment

2. The knowledge and advice gap

The APPG has been provided with very strong evidence from across the co-owned sector that the level of knowledge and expertise among business owners, advisors, financial institutions, and public sector policy makers is at best patchy, and at worst non-existent.

There are a number of measures the APPG would encourage the Government and others to support to remedy these weaknesses:

i) The relevant accountancy and professional bodies should ensure that their training and accreditation schemes include knowledge of co-ownership structures in order to raise the quality of their advisory expertise in this area.

ii) Similarly, Regional Development Agency (RDA) Business Link advisors and their equivalents in Scotland and Wales should have a basic knowledge of co-ownership structures and systems in order to inform their advisory work with local companies. As a minimum this would allow Business Link advisors to discuss with relevant clients their succession strategy; advise them of the employee ownership option; and build a list of specialist agencies/consultants who can advise on employee ownership.

iii) Business education is of course vital and the APPG encourages business schools and equivalent institutions to integrate cases and materials on coowned business models into their MBA curriculum and other similar programmes.

3. Tax rules affecting the sector

The APPG have already noted the need for the broader regulatory framework to be reviewed under recommendation one and believe that recent Capital Gains Tax changes are also relevant to such a review.

Without wishing to pre-judge the issue, the instinct of the APPG is that there are a number of possible ‘turn keys’ which will satisfy both the Treasury’s concerns

about tax avoidance, and the co-owned sector’s desire to offset intelligently the withdrawal of tax relief for companies contributing funds to an employee benefit

trust.

i) The APPG recommends that the Treasury and others explore whether the HM Revenue and Customs approved share incentive plan (SIP) trust could involve a permanent holding of shares, in addition to the already existing function of distributing shares to the employees as individuals.

ii) The APPG encourages the Treasury to work with interested parties to draw sharper definitional and operational assumptions between employee trusts used for the purpose of achieving employee control structures in bona fide trading operation and

contrived arrangements involving employee trusts used for the purpose of sheltering from income tax and national insurance contributions.

iii) The APPG recommends that the Treasury explore how far new research evidence would support a more favourable tax treatment of SAYE over Company Share Option Plan [CSOP] schemes which are operated for selected employees only.

iv) The APPG recommends that the Treasury consider making the annual allowances for employee share schemes index linked.

v) The APPG suggests that the Treasury might also review options for fiscal concessions for investors and lenders supporting co-owned start-ups in areas of social and economic deprivation.

4. A relative lack of appropriate finance

The APPG received a wide range of evidence suggesting that there is a shortage of appropriate funds in the UK which is limiting the scope for employee buy-outs. In

particular this may be limiting the process of business transfer and succession via a co-owned route in the UK.

i) The APPG recommends that if the Treasury review were to identify serious market failings in this respect, one possible response would be for key development agencies, such as the RDAs, to consider longer-term financing interventions in the co-owned sector.

ii) The APPG notes the creation of formal institutions in Wales and Scotland piloting, and exploring the scope of, such interventions in the co-owned sector, with a particular eye on business succession issues.

There is no analogous public institution in the rest of the UK. We suggest that the case for a similar body in England should be considered by the proposed Treasury led review.

5. Government support and encouragement of the Sector

The Inquiry received strong evidence that the Government could do much more to support the growth of the sector, particularly in terms of its future role in the provision of public services.

The APPG concluded that there are a number of simple but decisive steps that could be taken to encourage the overall growth of the co-owned sector:

i) The APPG recommends that the Government nominate specific Ministerial responsibility for relationship with the development of the co-owned business sector.

ii) The APPG recommends that there is a review of current procurement guidelines to ensure that the broad range of added value benefits that can be delivered by co-owned providers are better understood by public procurers and that their commissioning decisions are informed by such judgements.

iii) The APPG recommends that the Government, ideally the nominated Minister for relationships with the co-owned sector, invite the Employee Ownership Association [EOA] to outline how it might work with Government to educate and inform the commissioners of public services about the potential contribution of co-owned service providers.

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