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To: Rt. Hon. Philip Hammond, Esq. MP, Chancellor of the Exchequer

From: Gavin Oldham OBE, Chairman, The Share Centre Ltd./Share plc

17th September 2018

Budget Representation from The Share Centre

Our Budget representation contains some significant new proposals, but it also carries a request for keeping provisions for some of the key tax-incentivised products – in particular ISAs – intact. In this respect we ask you to leave the Lifetime ISA in place: its popularity is steadily growing, and it does much to encourage young people to familiarise and prepare for home ownership and investment (It could, however, benefit from some simplification with regard to the Government bonus, which can become complex when transferring between providers).

The pension structure was changed so often that it simply caused confusion and reduced participation: we do not wish to see the same fate befall the Individual Savings Account.

Our key proposals are high level:

1. **To set up a working party to investigate and make recommendations to improve the operation of the free market, and to set conditions for a more egalitarian and participative form of capitalism;**

2. **To take significant and specific steps to improve financial capability throughout the United Kingdom, including using the opportunity provided by maturing Child Trust Funds so that it becomes a tool for secondary school education of financial awareness.**

Taking steps to improve the operation of the free market and democratic capitalism

The free market embodies many perspectives: open competition, prices responding to supply and demand, enterprise and creativity - but also excess and self-interest. At its heart is the free ownership of capital - or is it so free? Because, to the extent that it is owned by individuals it is excessively concentrated and, to the extent that it is owned by institutions, it carries no meaning to the general public, no sense of ownership - and therefore no reason why people should feel responsible for its well-being.

Over the past couple of decades we've seen a real concentration of power in financial markets, both in the US and the United Kingdom. In New York, there were 8,000 listed companies at the peak. In 2017 there are fewer than 4,500. London has seen a similar trend. Ten years ago there were more than 3,000 companies quoted on the main and junior markets. By 2017 it had dropped to only slightly over 2,000. The traditional public market for equities is now in absolute global decline.

The rise of private equity and the buy-out industry means there are lots of alternatives for company owners who wish to sell. At the same time, a massive rise in regulation, and layer upon

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layer of governance codes, has made public listing a burden that many directors can no longer be bothered with.

Large private equity businesses and excess financial intermediation can kill off the vital link between ownership and responsibility. By concentrating the power to steer these great engines of economic growth away from the ordinary people that they serve and employ, we must expect that those people will eventually bite the hand of those who expropriate the power. The real casualty is popular support for the free market itself: because, if individuals are denied access to investing directly in shares, they can have no sense of ownership in, nor responsibility for, the great engines of industry which create wealth in such abundance - and they will turn elsewhere.

This is why we're asking for a new cross departmental working party to advise the Treasury, Department for Business and the Department for Work and Pensions on how to bring about a new drive for individual shareownership. It should include the great institutional investors, because it is very much in their interest to see healthy public markets and popular support for the free market.

Here are some specific areas that such a working party could consider:

1. **M**ore recognition of the benefits that personal shareholders bring to business: both as long-term investors (for, contrary to popular misconceptions, the great majority <u>are</u> long-term investors), and in providing advocacy for well-run businesses. The London Stock Exchange used to have a rule that at least 25% of listed companies' shares should be owned by individuals: while they may not be the most appropriate body to set that rule, perhaps others should. This means more retail flotations and a new class of corporate advisers prepared to support personal share ownership, and it means lightening the deadweight of prospectus regulation.

2. A new focus on employee share ownership at an individual level. There is already an excellent vehicle for this, the Share Incentive Plan, which works across whole workforces and offers significant tax benefits: but it needs a much higher profile. Also, if a quoted company does not adopt the scheme, individual employees should be able to open an account with a provider of their choice.

3. **C**orporate governance within business needs a shake-up in favour of personal shareowners. Boards should be encouraged to communicate more effectively, perhaps with nominated directors with a specific responsibility to ensure that this engagement is happening. Briefings given to institutions should be on the record, and available to all shareholders via company websites. Investment service nominees should be required to provide company information flow (already enabled by law, but at present optional for them). Also, further changes are needed to company law to improve the ability for personal investors to table shareholder circularisations and resolutions.

4. Measures to improve the efficiency of public markets should include abolishing stamp duty for trading in shares on public markets. This has already been done in the AIM market for smaller companies, and has made a huge difference. These measures could also include investigating the changes necessary to encourage Exchange-Traded Fund providers to use London as their domicile post-Brexit, rather than the Republic of Ireland.

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5. Private Equity's ability to shield their leverage cost from tax could be moderated, thus re-balancing the scales between public and private markets.

6. Regulators need to revisit the weight of corporate governance regulation on listed equities, thereby reducing the burden on company boards and improving the ability to issue and trade shares on public markets. In particular, this should enable and encourage personal investor participation in both primary and secondary markets.

7. The enormous super-rich technology giants such as Apple, Google and Amazon need taming: not only in terms of both tax avoidance and competition, but also in their propensity to drive the buy-out market. There could also be encouragement for programmes of widespread customer shareownership to boost capital participation and engagement with the general public.

Margaret Thatcher understood the need to espouse popular capitalism, but it did not go far enough and it was not embedded for the long term.

There were some serious flaws in that great privatisation initiative of the 1980s and 1990s. Too often the public issue of shares was seen as a booster for institutional demand. There was no education of business leaders about the merits of having a large personal shareholder base. Too often those new personal shareowners were just left on registers, having no-one to help develop their early interest in equity ownership. And the London Stock Exchange and corporate advisory firms soon slipped back into placings and exclusion of personal investors from new issues once the privatisation programme was over.

But, in spite of all these flaws, there was still an immense public interest, genuine participation. And it's as relevant today as it was thirty years ago. We have a saying at The Share Centre: 'More People Enjoying Straightforward Investing'. This speaks volumes about that participation. It's to be seen in thousands of investment clubs, representing tens of thousands of people, in investors' active interest in company news, research and in shareholder benefits.

But most of all it's in the link between ownership and responsibility. If someone owns a house, they care for it: rented houses are at the mercy of their landlords. And so it is with businesses - if people <u>feel</u> no sense of ownership, is it surprising that they feel excluded from the wheels of power?

This is why we need to return to the drawing board in order to reduce the dominance of institutional intermediation and revitalise individual share ownership. Otherwise excessive business and financial intermediation will give way to state intermediation, with its deadening hand on human enterprise and innovation.

<u>Taking action to improve financial capability throughout the United Kingdom</u>

It's now several years since financial education became compulsory in the school curriculum, but there is little evidence of it in educational qualifications and employers still bemoan the lack of financial awareness among young adults. An analysis of GCSE and A level exams last month shows that, with the exception of mathematics, it's necessary to go a long way down the list before finding subjects directly connected with life skills such as business studies and economics, and the only generally applicable financial education GCSE is not yet recognised by the Joint Council for Qualifications in schools.

Meanwhile the introduction of the new ‘T’ level exams next year is very welcome, but we have to wait until 2021 for ‘Finance’; and subject choices in A levels, essential for university, are heavily influenced by university entrance guidelines – which do not include financial awareness. It is therefore no surprise that future teachers emerging from universities and teacher training colleges are not equipped to teach the next generation of young people in schools in financial education, in spite of its now compulsory status in the curriculum.

So we are asking for a comprehensive and determined approach for improving financial capability:

1. A mainstream ‘Financial Awareness’ GCSE, designed to test progress with financial education in schools – the exam offered by the London Institute of Banking & Finance would fit the bill, but it has no public profile as it’s currently seen as a ‘niche’ product;

2. Guidelines being given to universities to encourage schools to bring forward qualifications in life skills and in particular financial capability, and produce a new cohort of financially capable teachers;

3. Proposals to encourage employers in both private and public sectors to provide more adult training in financial awareness. Such training for their staff should be made an allowable expense against gross income.

4. Using the Child Trust Fund as a catalyst for change and, in particular, sharing joint oversight of the scheme with the Department for Education to ensure that it used effectively as a tool for financial education.

Autumn 2018 is a particularly significant time for 15-year-olds. These are the first young people, as they reach their 16th birthday, with the opportunity to take control of their own Child Trust Fund: the account issued to all those born in the United Kingdom between 1st September 2002 and 2nd January 2011.

Issued to six million children in total, the Child Trust Fund is designed as a tool for education as well as a rare example of asset-based welfare. Budget 2003 described its purpose as “to establish a savings habit among children, providing a cushion of financial assets as they embark on adult life and enabling them to be confident in the management of their finances”.

Schools have a critically important role to play in enabling the Child Trust Fund to be a catalyst for a really effective improvement in financial capability. However its profile has to be substantially raised in order to achieve this opportunity and, for many young people whose account is ‘Addressee Gone Away’, the account has to be found. The Share Centre, together with The Share Foundation, has done much already towards achieving these aims, and our ‘joint oversight’ proposal will ensure that it continues to receive government focus.

Finally, financial education must include encouraging a mature and open approach to risk. The welfare state seeks to shield people from risk, but it’s important to remember is that nothing is risk-free. A society in which everyone has the opportunity to share in the rewards of success is also one in which everyone is better equipped to understand risk, and is appropriately encouraged

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to take on some risk at the right time in their lives. A society which values the free market does not seek to cocoon people, but to prepare them for a better understanding of the balance between risk and reward.

We also need to help people understand that a personal store of freely disposable assets is a central part of achieving economic freedom for all. Easily available credit may give the illusion of economic freedom but, as we have discovered over the past decade, it has no staying power: eventually the loans are called in. Political freedom and the ability to migrate are essential features in giving people respect and a sense of involvement, but lack of economic resources ties people into their circumstances as strongly as any physical chains. Building a store of disposable assets brings freedom, and helps make money work for you as opposed to the reverse.

Most people spend most of their lives working for money, as in a treadmill, trying to keep their income in line with ever-growing expenditure. Others learn the art of making money work for them, seeing their income-producing savings and investments build and give them increasing amounts of time for themselves.

Our aim in asking the Government to provide an effective programme of financial education, and to improve the operation of the free market, is to achieve this greater sense of economic freedom, right across our society.

With best wishes,

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Chairman

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