

**Sheffield  
Co-operative  
Development  
Group**

**Aizlewood Mill, Sheffield**

## **POLICY FOR CO-OPERATIVES**

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## About the Sheffield Co-operative Development Group

The Sheffield Co-operative Development Group (SCDG) is based at Aizlewood Mill, Sheffield. SCDG was formed in 1980 by:

- Sheffield Co-operative Party
- Brightside & Carbrook Co-operative Society
- Sheffield & Ecclesall Co-operative Society
- The Co-operative Bank (Sheffield Branch)
- Sheffield Trades Council
- Sheffield City Council

Working with the Aizlewood Group of co-operators, trade unions and academic, SCDG continues in its proud tradition of co-operatives and third sector organisations working with trade unions, the Labour Party and Labour Councils, in association with newly emerging industrial and servicing co-operatives on the basis of mutual aid. SCDG collaborates with national organisations to secure financial support and advice to individuals wishing to form a co-operative and offers this paper to the wider Co-operative Movement as a basis for discussion on practical ways forward.

### Disclaimer

The opinions expressed in this paper are solely designed to provide a helpful basis for discussion purposes only.

While SCDG and the authors have in good faith made every effort to ensure the accuracy of the paper's contents to the best of their knowledge and belief they disclaim any liability of any nature in connection with the contents or the opinions expressed within the document.

## Executive Summary and Key Messages

This is a policy paper from the Sheffield Co-operative Development Group (SCDG) which makes practical positive proposals for increasing number of co-operatives. SCDG has been involved in promoting and supporting co-operatives since its formation in 1980. Section 6 of this paper sets out a routemap for various policy developments which will significantly expand numbers of co-operatives.

Though SCDG supports initiatives by New Economics Foundation (NEF) and others which have recently published reports on policies for expanding numbers of co-operatives, this paper offers other more practical ways forward. At this stage, though these proposals are primarily for England, because Scotland, Wales and Northern Ireland have already made progress in developing national powers and frameworks, SCDG seeks to consult with these.

Section 1 highlights some problems involved in doubling numbers of co-operatives and the need to restore local economic democracy. Though other reports project the transformation of 5% of business to co-operative ownership, co-operatives still form a small percentage of UK businesses.

Section 2 examines European comparisons, including France, Italy and Spain, many of which neglect the different legal systems on which many European co-operatives and mutuals are based. In contrast to the UK, many mainland European countries have always relied on these organisations for public service delivery, especially in health and care.

Section 3 highlights current outsourcing procedures, especially those under the UK Government's Procurement Regulations, based on Article 77 of EU Procurement Directive 2014/24/EU. There may be misunderstandings on procurement processes in the Democracy Collective, Co-ops UK and Co-operative Party's recent proposals which advocate co-operatives' continued participation in a competitive procurement market.

Section 4 describes the successful policies of a previous Labour Government and Labour Councils to double numbers of co-operatives. The roles of the Greater London, other Metropolitan County Councils and Sheffield City Council are examined. Many of these policies could be replicated using existing legislation.

Section 5 highlights alternative approaches to competitive procurement and commissioning which seek to restore economic democracy, such as "Better Government for Older People" and the Scottish Government's Public Social Partnerships, which should involve trade unions. Funding should be made available for economic democracy projects.

Section 6 explores steps towards legislation which might be introduced by a future Labour Government to encourage increasing numbers of co-operatives. There are lessons from Labour's experience in 1976, 1978 and under Labour Governments of 1997 and 2001, which show that the Co-operative Movement needs much more preparation before the next General Election. Since little preparation appears so far to have been made, this section gives detailed proposals for implementing policies to assist expansion of co-operatives which may not need new legislation.

In all this, SCDG and the Aizlewood Group seek to rebuild previous relationships between the Labour Party and the Co-operative Movement.

## POLICY FOR CO-OPERATIVES

### 1: Doubling Co-operatives: Some Problems

A previous Sheffield Co-operative Development Group (SCDG) Report (Sheffield Co-operative Development Group, 2018) offered detailed comments on the New Economics Foundation's (NEF) Report "Co-operatives Unleashed: Doubling the Size of the Co-operative Sector" (Lawrence et al., 2018). SCDG's approach shows how numbers of co-operatives can be doubled on a local community basis without their becoming involved in commissioning, procurement and competition with the private sector for delivering public services. Though a previous Labour Government from 1976 to 1979 provided funding and infrastructure which more than doubled numbers of co-operatives, other current reports make no reference to this important period of Labour Government. The paper advocates a return to these policies.

#### 1.1 Transfer of Power: Reclaiming Economic Democracy

New co-operatives and similar structures should be based in local communities, building upwards using an essentially localist approach. SCDG contends that the emphasis and themes throughout NEF's "Co-operatives Unleashed" are misplaced since they do not adequately recognise the plight of deprived and often desperate communities. Instead of reviving Labour's original shift of power to communities, NEF wants to give more power to the market. Thake and Zadek summarised the situation facing many communities in the late 1990s. For many communities little has changed since then (Thake and Zadek, 1997, p. 12):

*"It is now possible to see what happens when the centre of gravity of economic activity moves on... Within a few streets life chances, educational prospects, employment opportunities, income and house prices plummet. Those neighbourhoods that have been dependent upon failing industrial, commercial and distribution processes have suffered terribly. ... The inadequacies and injustices of the decision-making machinery, tolerated or unseen in times of plenty, are exposed"*

#### 1.2 "Transforming 5% of Businesses into Co-operative Ownership"

Instead of an approach based on local communities, NEF and others focus on existing businesses through projecting the "transformation of 5% of businesses into co-operative ownership" as a straightforward task, with some legislative and infrastructure changes. But they fail to recognise some background statistics. Corporate businesses, sole proprietorships and partnerships represent the largest numbers of UK business structures (Office for National Statistics, 2018):

*"Corporate businesses represented 71.4% of total businesses. .... Of the corporate business figure in 2018, 45.8% was made up of single employee limited companies"*

*"Sole proprietors represented 16.9% of total businesses, a slight decrease in percentage points, down 0.6% from 17.5% in 2017. Partnerships represented 7.9% of total businesses..."*

Current numbers of UK co-operatives are much smaller in comparison. “There are now 7,226 independent co-operatives operating across the UK, with a combined turnover of £36.1bn – up more than £800mn on 2017 levels” (Co-operatives UK, 2018, p. 3). In 2018, the turnover of worker co-ops is projected at £10.8bn and the turnover of farmer co-ops is projected at £7.7bn (Co-operatives UK, 2018, p. 9,15). Calvert Jump writes (Calvert Jump, 2018, p. 3):

*“As of 2012, Co-operatives UK estimate that there are around 500 worker co-ops, with just under 80,000 workers in the UK being members of worker co-operatives, and a further 78,500 workers employed on a non-member basis by worker co-operatives”.*

Resilience, part of the US Post Carbon Institute, also advocates a similar transformation of 5% existing businesses into co-operative ownership. But this approach neglects fundamentally different or legal structures in many OECD comparisons (Resilience, 2018):

*“Another strategy involves legally formalizing the ability for employees to buy existing businesses and transform them into co-ops. According to figures in the report, there are approximately 120,000 family-run small and medium enterprises that will undergo an ownership transfer in the next three years. If only 5% of those businesses transition into some form of co-operative model, the U.K.’s co-operative sector would double in size”*

SCDG also observes that many of these proposals place an emphasis on employee shareholding and ownership rather than forming co-operatives.

## 2: European Comparisons

### 2.1 Other Countries’ Different Legal Systems

NEF and others make comparisons with other European countries. “It is no accident that co-operatives are more prolific in countries where policy has provided them with incentives and made their creation a priority” (Lawrence et al., 2018, p. 17). But these comparisons fail to recognise that most have a specific legal basis for co-operatives and mutuals, usually within a separate Civil Code – in contrast to the UK’s Common Law system. France is typical – with its Code from Emperor Napoleon III, which lays down rights for citizens, contract and inheritance, and includes associations, mutuals and co-operatives under a dual legal system – Droit Public and Droit Privat.

Most mainland European countries also have extensive frameworks and support mechanisms for co-operative and mutuals. Spain, for example, has a distinct legal and financial system. The Caja Laboral Popular Cooperativa de Crédito Laboral (Workers’ Credit Union) is a credit union in established 1959 as part of the Mondragon Corporation. The bank is the major financial provider for the Basque co-operative movement, with banking and financial services through a network of over 370 branch offices in the Basque Country and beyond. Its 1800 employees are partner-owners of the bank under its co-operative philosophy of shared ownership and stewardship, with annual revenue of more than €330mn.

In Italy, in 1991 a specific Law 371 for co-operatives was introduced (Thomas, 2004, p. 248):

*“...a new type of co-operative was set up in 1991 (Law 381): the social co-operative. ... SCs cover either caring activities (management of social-health care and educational services, provision of home and residential care to people at risk, babysitting/childminding, cultural activities, and initiatives for environmental protection) or training activities (introduction of disadvantaged people, who are unable to enter “normal” productive circuits, to business activities and employment opportunities)”*

To support Italian co-operatives, a range of financial institutions includes the Ethical Bank, Self-help/managed Mutual Associations, Gino Mattarelli Consortium Finance (CGM), Fincoper (which provides collection and payments services and other financial arrangements, Iccrea (set up in 2000, to support co-operatives) and Central Co-operative Unions (Thomas, 2004, p. 258).

Whether marketised or not, based on different legal systems and frameworks, many mainland European countries have always had a significant portion of their agriculture, banking, health and care and other services delivered by mutual and co-operative structures, instead of being delivered by the state (European Commission, 2018):

*“EU economy - there are 250,000 co-operatives in the EU, owned by 163mn citizens (one third of EU population) and employing 5.4mn people*

*“Market share – co-operatives hold substantial market shares in industries:*

- **Agriculture** - 83% in the Netherlands, 79% in Finland, 55% in Italy and 50% in France
- **Forestry** - 60% in Sweden and 31% in Finland
- **Banking** - 50% in France, 37% in Cyprus, 35% in Finland, 31% in Austria and 21% in Germany
- **Retail** - 36% in Finland and 20% in Sweden
- **Pharmaceutical and health care** - 21% in Spain and 18% in Belgium”

For mutuals, percentages are even higher. Insurance mutuals had a market share in Germany of 31% , in the Netherlands 27% and in France 26%, compared with only 7% in the UK (Broek et al., 2012, p. 49). Healthcare mutuals cover more than 50% of the population in France and in the Netherlands and Belgium almost the entire population is covered by mutual health societies (Broek et al., 2012, p. 53,54). The NEF Report does not mention these different structures in its comparisons of scale.

### 3: Market Place for Public Service Delivery

#### 3.1 Public Service Delivery

As described in Section 4 below, a Labour Government between 1976 and 1979 promoted a local “bottoms up” approach to enable indigenous community development. Unfortunately, from 1997 onwards Labour gradually abandoned co-operatives, collective and mutual ownership and moved towards ‘social enterprises’, many without clearly defined structures.

It is unfortunate that NEF continues this approach by advocating “more strategic use of procurement and commissioning, beginning with using the spending and supply chain footprint of local anchor institutions to support local businesses and co-operatives” (Lawrence et al., 2018, p. 41). The NEF Report relies on an interpretation from the Democracy Collective, which may have misunderstood the relevance of EU procurement directives (Guinan and Hanna, 2017, p. 23):

*“Under European law, however, explicitly linking public procurement to specific local entities or social needs is difficult. The ECJ has ruled that, even if there is no specific EU legislation concerning procurement activity, it must ‘comply with the fundamental rules of the Treaty, in particular the principle of non-discrimination on grounds of nationality’”*

Instead of this, as shown below, under Article 77 of the EU Procurement Directive 2014/24/EU there are specific provisions for local mutual entities and social needs.

The NEF Report shows no sign of changing the direction of policies which encourage third sector delivery of public services. Instead, NEF provides a routemap to this market (Lawrence et al., 2018, p. 41):

*“Contracts above a certain value should require bidders to demonstrate how they will use the local supply chain, and all other suppliers should be encouraged to source locally where possible and to consider local businesses and co-operatives when sub-contracting. Larger procurement should be broken into smaller lots where possible, to enable and encourage local SME, third sector, co-operative and social enterprise participation”.*

Though NEF mentions “Neoliberal exhaustion”, it still promotes freelancer, platform and professional and creative services co-ops as market driven organisations. NEF underestimates growing political and public opposition to outsourcing (Lawrence et al., 2018, p. 21):

*“Many public institutions will look first to bring public services back under public control and accountability. But co-operatives could play an important role alongside this in providing goods and services to the public sector – as has been the case in Preston for instance”.*

In all of this, further serious consideration and analysis of local and national procurement regulations are needed, especially where based on the 2014 EU Procurement Directive, which dominate the market based conduct of most third sector organisations.



### 3.2 Managing Austerity through Outsourcing

Confronted by continuing austerity, local councils, NHS and other public bodies need a serious alternative to outsourcing, especially where this is influenced by Article 77 of Procurement Directive 2014/24/EU and the Social Services and Wellbeing (Wales) Act 2014, both of which permit and encourage third sector delivery of public services in such a way that they form stepping stones to privatisation. Article 77 of the EU 2014 revised Procurement Directive deliberately facilitates this linkage process (Sanchez-Graells and Telles, 2016):

*“Article 77 of Directive 2014/24/EU allows contracting authorities to reserve for the participation of given types of organisations (such as ‘public sector mutuals’, for instance) the award of contracts for certain services in the areas of health, social and cultural services, which basically comprise all, or the most relevant, medical services, personal services, educational and training services (including eLearning), sports and cultural services”.*

UK Government interpretation of this Directive in 2015 Procurement Regulations (Crown Commercial Service, 2015) encourages public sector spinouts (Sanchez-Graells and Telles, 2016):

*“The government seems to be aiming to ensure that mutuals are only created and go ahead if contracts are awarded to them, which would certainly make the mutualisation option much more attractive by reducing the risk undertaken by public officials seeking to spin off from the public sector”*

Bates Wells and Braithwaite give further clarification (Villeneuve-Smith and Blake, 2016, p. 25):

*“Reading between the lines of the Cabinet Office guidance, it’s pretty clear that Reserved Contracts were originally designed as an early-stage ‘competition shield’ for public sector spin outs and mutuals. As a consequence, there is a three year maximum contract length for a Reserved Contract – and the winning organisation cannot win the same contract again if it is let using the same process”*

So under UK Procurement Regulations, local authorities may invite tenders from a restricted list of organisations, with a requirement that they only need to assume ‘participatory structures’ (such as co-operatives or mutuals) if and after they win a contract! Another NEF Report on “Sustainable Social Care” makes recommendations which do not seem to recognise existing procurement provision in UK Procurement Regulations (Bedford and Harper, 2018, p. 29):

- *increasing the weighting that is given to the creation of social, economic and environmental value, in recognition of the role that this plays in determining health and wellbeing and preventing harm”*

All this means that within this EU directed restricted framework, it is already possible for local authorities to give increased weighting for social factors for three years within the restrictive “Light Touch” framework. But none of this offers a guarantee that this does not become an interim stage to full privatisation. Most proposals from Co-ops UK, New Economics Foundation, NESTA, RSA, Social Enterprise UK and others for marketised versions of co-ops’ and social enterprises’ delivery of public services, especially in health and care, are already possible. But at the end of three years, these contracts must be reopened to full competition, with many services easily undercut by private bidders.

Sufficient advance warning was given on all this, when Cliff Mills from Capsticks, Solicitors, wrote in the Local Government Chronicle on September 13 2013: (Mills, Local Government Chronicle 2013)

*“Consequently the state is looking to off-load direct financial commitments, of which a major one is the wage bill for public sector workers. In February 2011 Francis Maude expressed an ambition for 1 million public sector workers to move to mutuals. “Externalising” or “spinning out” services is the agenda; and enabling them to become social enterprises and mutuals may sound more palatable and meet less resistance than privatisation”.*

*“...it will not be achieved by taking existing services and staff, dropping them into some new corporate entity vaguely labelled “social enterprise” or “mutual”, and then leaving them to be commissioned (or not) by the holders of rapidly diminishing budgets”*

The European Network of Social Integration Enterprises (ENSIE) also expressed concern (European Network of Social Integration Enterprises 2013):

*“We are extremely concerned about this Council proposal to enlarge the scope of the Commission’s text. In fact this does not pursue the original aim of reserved contracts, which is the social and professional integration of persons with disabilities and disadvantaged persons and may even create obstacles to the maintenance and development of the social enterprises that help the most excluded and marginalized persons.*

*“In addition, we think that the new provision adopted by the Council has an indirect impact on liberalization of public services and privatization of public entities which is clearly a choice and a competence of Member States”*

In summary, though current UK Regulations under the EU Procurement Directive allow local authorities and public bodies to place higher weighting on social and environmental factors for three years, there is nothing to prevent this as an interim stage before full privatisation.

## 4: Previous Labour Policies for Doubling Co-operatives

### 4.1 Numbers of Co-operatives

Labour’s previous attempts to support co-operatives included a definition for a common ownership co-operative in the 1976 Industrial Common Ownership Act, based on a private member’s bill from David Watkins MP. With the 1978 Co-operative Development Agency Act, this formed the basis for a rapid expansion of co-operatives through the Industrial Common Ownership Movement, creating 2,000 co-operatives and other institutions, as shown in tables below.

Figure 4.1.1 ICOM Registrations (Laycock and Co-ops UK, 2017)

1976	22	1986	231	1999	57
1977	31	1987	206	2000	65
1978	66	1988	210	2001	46
1979	44	1989	178	2002	68
1980	69	1990	119	2003	80
1981	95	1991	147	2004	94
1982	159	1992	110	2005	73
1983	235	1993	93	2006	58
1984	248	1994	98	2007	30
1985	203	1995	87	2008	48
				2009	58

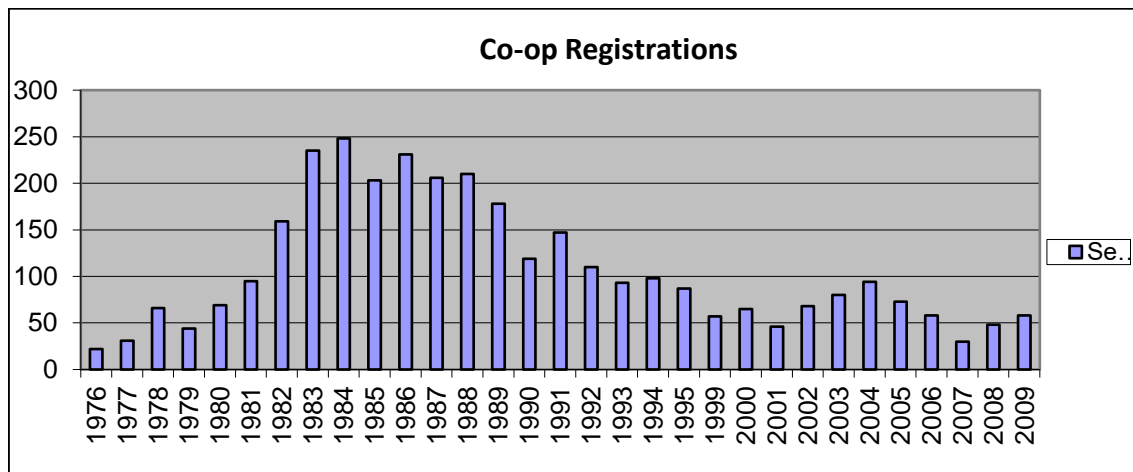
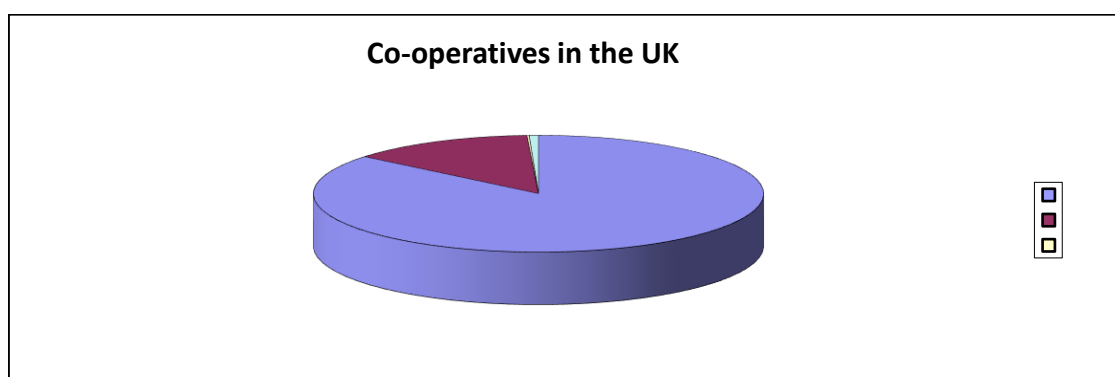


Figure 4.1.2 ICOM Registrations (Laycock and Co-ops UK, 2017)



1. 4131: Companies Limited by Guarantee
2. 637: Limited Liability Partnerships
3. 8: Company Other
4. 32: IPS Co-operatives

#### 4.2 Co-operatives and Community Organisations and Local Councils

In 1974 13 organisations were registered with ICOM, modelled on the Scott Bader system of common ownership. After Labour's 1976 Act, ICOM drew up and registered a set of model rules which became widely used by groups wishing to set up worker controlled enterprises (Spreckley, Freer, 1981, p. 9). In 1976 the Northern Federation of Wholefood Collectives (FNWC) included 40 wholefood collectives and an extensive network of collective bookshops. By 1977 FNWC had 60 wholefood collectives (Spreckley, Freer, 1981, p. 9).

By the early 1980s contributors were already writing about a new "third sector economy". "Third sector enterprises are defined as those which release the talents and energy of the community to build its own future; pursue social objectives ... a broadening of the intrinsically important common ownership concept beyond worker co-operatives alone, to include a range of social enterprises generically described as Community Business Ventures (CBVs) (Murgatroyd, Nick and Smith, Peter, 1985, p. 9). The role of Beechwood College in this was significant. In 1981 Beechwood published the Social Audit Toolkit ("A Management Tool for Co-operative Working) (Spreckley, Freer, 1981).

There are various estimates of co-operative numbers. 60 Local Co-operative Development Agencies supported by local authorities provided start up assistance. Over ten years, this triggered the creation of 1,176 co-ops employing 6,900 people – an average of six staff per co-op (Cornforth, Thomas et al. 1988). Worker co-operative numbers rose from 73 in 1975 to 1200 in 1992 (Cornforth et al., 1988a) As the main registration body, after 1976 ICOM registered over 2,700 co-operatives (Cooperative Commission, 2001a, p. 73). Many accounts of the development of co-operatives during the 1980s showed up to 1500 of these organisations across the UK (Sawtell 2009a, Sawtell 2009b, Cornforth, Thomas et al. 1988, Cornforth 1983, Ridley-Duff 2009a). Spear (Spear 2006) wrote that worker co-ops are a widely recognised form of social enterprise and have close local community and/or trade union links. He described more than 20 employee owned local bus companies (Spear 1999).

EU funding was important. The European Commission's 1983 paper on Local Economic Initiatives described those which "seek to operate by commercial criteria and be operationally viable" and which "operate without any continuing public subsidy and the objective of achieving or maintaining financial independence". This referred to contemporary social enterprises, including worker co-operatives, non profits and voluntary organisations (European Commission, 1983, p. 5,6). Though worker co-operatives had increased from 6500 to 13,900, with an increase in employment from 298,000 to 540,000, "it would seem likely, on the basis of the Commission's consultations, that a considerably larger number of people are involved in other enterprises which could be categorised as LEIs" (European Commission, 1983, p. 9). The Commission's Communication also mentions 80 Co-operative Development Agencies in the UK.

The Commission 'endorsed' local initiatives and organised events in specific localities of different Member States and regions, to convince local and regional authorities of the potential value of bottom up approaches rather than their more instinctive top down responses. Simultaneously, this gave credibility to local activists, "many of whom had been toiling in the wilderness for years, even decades" (Morley, 2017). Centres against unemployment, for women's employment projects, industry-wide campaigns against closures, trade union and community resource centres, welfare rights campaigns and training projects for young people, women and ethnic minorities, "mushroomed over the past 4 years, and have altered the pattern of non-governmental activity in several cities" (Benington, 1986, p. 16).

The endeavours of the Greater London Council, including those arising from development strategies arising from the Lucas Aerospace Shop Stewards, are well known in the wider Labour movement. Newman summarises these endeavours from the Greater London Enterprise Board: (Newman, 1986, p. 59):

*"Despite the emphasis on restructuring and large companies, GLEB's most successful investments have been predominantly venture capital investments in new enterprises. .... The co-operatives in the sector have grasped the opportunities that exist. More realistic aspirations in relation to restructuring would have resulted in a more practical and successful strategic approach."*

Brown also wrote about these activities (Brown, 2003):

*"The GLC poured millions of pounds into co-operative development. This contributed to the spectacular growth of workers' co-operatives, from a handful in the mid-1970s to over 1,500 a decade later"*.

From 1972 to 1986, the Metropolitan County Councils of Greater Manchester, Merseyside, South Yorkshire, Tyne and Wear, the West Midlands and West Yorkshire sought to develop local social economies through co-operative development agencies. "A whole number of grassroots community organisations and rank and file trade union initiatives are enabled to move beyond hand-to-mouth survival, and to use local authority grants to come in out of the cold, to employ staff, develop campaigns and make a more visible mark" (Benington, 1986, p. 16). The scale of activity from Greater London Enterprise, West Midlands, West Yorkshire and Lancashire County Councils, "including their district authorities, preserved or created well over 10,000 jobs" (Benington, 1986, p. 19). SCDG recommends wider examination of these successful policies of Labour Councils during the 1970s and 1980s.

Many Labour local authorities, especially Sheffield City Council, placed employment growth at the centre of economic development strategies. Sheffield set up an Employment Committee, an Employment Department and the Sheffield Co-operative Development Group. Co-operatives were an "alternative to 'capitalist-oriented economic development policies" (Cochrane, 1991, p. 362). "Sheffield... has formed an Employment Department of more than 50 staff, with an annual budget of around £2mn to £3mn, and has charged it with a variety of objectives" (Lawless and Brown, 1986, p. 200). The Sheffield Employment Coordinator job description included (Cochrane, 1991, p. 374):

- *to assist the Employment Committee on approaches for advice and financial assistance from enterprises and potential enterprises*
- *to encourage the development of co-operatives*
- *to work towards setting up a local enterprise board with a system of planning agreements*
- *to develop municipal enterprise (although without responsibility for running it on a day to day basis)*

Benington summarises these initiatives (Benington, 1986, p. 12):

*“The new left economic initiatives can be clustered into 3 broad categories:*

- *Job-creation and business development*
- *Resourcing trade union and community employment initiatives*
- *Using the economic leverage of the local authority*

Local government in Scotland was equally active, promoting of community businesses. A contemporary description of 1980s community businesses was "a trading organisation which is set up, owned and controlled by the local community and which aims to create ultimately self-supporting jobs for local people" (Buchanan, 1986, p. 19). Community employment initiatives pre-date central government's renewed interest in involving 'the community' ....by 1993 it was estimated there were 329 community businesses and enterprises in England and Wales (Pearce, 1993 ) (Hayton, 1996, p. 2).

“During the 1980s local authorities engaged in a wide range of economic development activities.....Many encouraged co-operative and community enterprise to provide permanent local jobs in socially useful products for people marginalised by market forces” (Parkinson, 1989, p. 430). A survey of 1970s structures described “community companies (limited by guarantee or by shares), community co-operatives, workers co-operatives, neighbourhood co-operatives, and a variety of 'purpose-built' models” (Gostyn et al., 1981, p. 3). These community controlled enterprises placed far less emphasis on the distribution of profits or gains to the membership. Indeed, these may be excluded (Stares, 1982, p. 14). “Hart in 1997 estimated that members from urban areas held assets worth £29mn, which dwarfed the £92,000 held in rural settings. ...The assets were areas of land or buildings that were used mainly for managed workspace, offices or community centres” (Aiken et al., 2008).

The following examples were funded by local authorities, by foundations including Calouste Gulbenkian, German Marshall Fund and Barrow Cadbury, MSC Programmes, European Social Fund and the private sector (IDOX Group from Planning Exchange, 2017):

- Aston Reinvestment Trust in 1989
- Community Businesses in Scotland throughout the 1980s (following the Local Enterprise Advisory Project and Local Action Resource Centre)
- Community Enterprise in Strathclyde in 1984

- Eldonians Development Trust in Liverpool in 1987
- Local Co-operative Support Organisations throughout the 1980s
- London Co-operative Training
- Radical Roots in the West Midlands in the 1980s
- Sheffield Co-operative Development Group in 1981
- Tyneside Economic Development Company in 1983.
- Unemployed Workers' Centres from 1980 to 1985 under the auspices of the TUC

### 4.3 More Powers for Local Authorities

Many initiatives above could be revived without additional legislation. The Mayor of Greater Manchester is already setting up a Co-operatives Commission. But local government faces continued funding reductions. "The National Audit Office estimates a 37% real-term reduction in government funding to local authorities between 2010/2011–2015/2016" (Hoare, George et al., 2016, p. 8). Despite this, SCDG recognises that enhanced economic development powers may not be a priority for many councils (Glover, 2017)

*"The first change, of course, is that local government has seen huge cuts to its funding since the financial crash. Local authorities lost 27 per cent of their spending power between 2010/11 and 2015/16 in real terms (JRF) and are unsurprisingly feeling a huge strain, particularly social care and increasingly children's services".*

Against a background of renewed emphasis on council outsourcing, more discussion is needed on restoration of powers for local council economic development beyond immediate issues such as Business Rates Retention. Further emphasis is needed on local development through:

- Development of appropriate skills training, including in co-operative development
- Community Led Development
- Finance, including Tax Increment Funding
- Civic Leadership for Corporate Social Responsibility
- Planning, including Integrated Investment
- Procurement, including working with third sector organisations

## 5: Restoring Economic Democracy

### 5.1 Better Government for Older People

As shown above, NEF, Co-operatives UK, the Co-operative Party and others offer proposals for promoting health and social care co-operatives within commissioning and procurement by local authorities. But in the procurement market described above, tenders with lower wages and terms of employment, whether from private or third sectors, usually win contracts.

As an alternative to all of this, SCDG advocates a restoration of economic democracy and accountability. As a process example, SCDG refers to Labour's previous 'Better Government for Older People' (BGOP) programme (Younger-Ross, 1998, p. 237). "Bids were encouraged from agencies interested in becoming pilot sites demonstrating or exploring positive engagement of older people" 28 sites were chosen and activities were evaluated in reports from Warwick University (Jolley, 2002, p. 90).

BGOP was led to an Older People's Advisory Group to influence national and local policy and service provision for older people. This national action research initiative was steered by a consortium of six partners: Service First Unit in the Cabinet Office (Office of Public Service), Age Concern, Anchor Trust, Carnegie Third Age Programme, Help the Aged and Warwick University Local Authorities' Research Consortium. As an example, for Devon, the Programme included work on (Younger-Ross, 1998, p. 238):

- engaging older people in the Exeter City best value programme and the Mid Devon locality GP commissioning group national pilot
- employment prospects for the over-50s in a rural area
- engaging elders in planning and community profiling initiatives
- working with older volunteers as peer researchers looking at users' views of a community re-ablement service
- the authority's own position as an employer of older people
- lifelong learning opportunities
- social services care management arrangements to enable older people to take more control of the services they require.

The Programme "developed ways to meet older people's needs better through improved information dissemination and different service delivery, including greater involvement of older people themselves" (Comptroller and Auditor General, 2003, p. 23). From 28 different pilots, as an example (Comptroller and Auditor General, 2003, p. 27):

*"Warwickshire County Council, a founder Network member, developed a subsidised gardening scheme to help older people live independently at home. The scheme worked in partnership with the Environmental Trust element of the New Deal for Young People"*



Some pilots undertook ground breaking work on user-focused arrangements for joint care assessment and management (Comptroller and Auditor General, 2003, p. 34). As a legacy from the BGOP Programme, the co-operative Change AGENTS (ChangeAgents, 2015) began to develop a Fair Care concept, following events and conversations with older people and partner organisations, within and outside the Co-operative Commonwealth, with the intention of exploring a just and fair co-operative solution to care provision across the UK.

All this forms a basis for co-operative and supportive adult health models which might be developed outside current procurement and commissioning processes. While SCDG accepts that considerable further discussion is needed on these models, they are superior to the market and seek to restore economic democracy.

## 5.2 Public Social Partnerships

The Scottish Government's alternative approach of Public Social Partnerships (PSPs) is based on needs to be addressed, rather than existing services available. Much of this approach was echoed in the Report of the Christie Commission on the Future Delivery of Public Services, which included (Christie Commission, 2011, pt. 10):

*“public service organisations work together effectively to achieve outcomes - specifically, by delivering integrated services which help to secure improvements in the quality of life, and the social and economic wellbeing, of the people and communities of Scotland”*

Between 2005 and 2007, three PSP pilots in Scotland were funded under the EU EQUAL Programme. In 2011, the Scottish Government funded a further ten pilots and in 2011 also published a detailed practical guide (Scottish Government, 2011). Under the Developing Markets programme, around 40 PSPs have been supported.

Though SCDG supports collaborative approaches rather than marketised procurement competitions, there are still difficulties with this approach so far adopted in Scotland:

- despite the PSP model and the Christie Commission focus on collaborative provision, in most pilots and their supporting documentation, there is little or no mention of the role or involvement of trade unions.
- despite considerable funding and support for PSP projects, ongoing funding after 18 month pilots is problematic. If a local authority and other providers have together designed service delivery, a non participating organisation may win the delivery tender afterwards, having benefited from previous PSP design

## 5.3 Funding for Economic Democracy

Based on the approaches of Better Government for Older People or Public Social Partnerships, SCDG recommends that funding bids could be invited for Economic Democracy Projects. The key component of these must be that, together with service users, they must include service providers, trade unions and third sector organisations. They should also cover services currently outsourced to the private sector.

In January 2018, DCMS allocated a further £280mn funding, including £125mn to Big Society Capital (the Government social investment wholesaler) and £10mn for the Access Foundation for Social Investment. £50mn was allocated to Big Lottery. These funds were raised under Labour's 2008 Dormant Bank Accounts Act – with a total of £400mn now allocated to Big Society Capital (Preston, 2018). In addition to dormant bank accounts, the Commission on Dormant Assets estimated that inclusion of further asset categories could lead to an extra £1-2bn of funding being transferred from “multiple financial services and non financial services products” for the “eventual benefit of good causes” (O'Donohoe and Dormant Assets Commission, 2017, p. 6,9).

Currently, most funding from these dormant assets is used to encourage external private social investment for public service delivery, with a range of funds and programmes, including private investment for social impact bonds (SIBs) for the achievement of specific public service outcomes (Floyd, 2017a, 2017b). SCDG believes that public service delivery should not be driven by subsidies and rewards to external investors and that these funds should be more appropriately targeted for approaches above which seek to restore economic democracy to service delivery.

## 6: Next Steps

### 6.1 Proposals for an Election Manifesto

While many proposals above could be revived or promoted within existing legislation and structures, SCDG recognises that additional legislation is necessary if the size of the UK co-operative sector is to be expanded significantly. With the Labour Party advocating policies to double co-operative numbers and promote different ownership structures, the Co-operative Movement is offered one of the most significant opportunities in its recent history. But little detail has yet emerged for insertion into a Labour Party Election Manifesto - which may be needed sooner than expected. Especially, the Labour and Co-operative Movements should learn lessons from Conservative Party think tanks, whose proposals were translated readily into a series of Government White Papers and Bills immediately following the May 2010 General Election.

### 6.2 Lessons from 1976 Industrial Common Ownership Act and 1978 Co-operative Development Agency Act

There have been two significant periods when the Co-operative Movement has been found wanting. On Wednesday 05 March 1975, funding and guarantees for the new workers' co-operative at Triumph motor cycles at Meriden had to be provided under Section 8 of the Conservatives' 1972 Industrial Development Act, since there was no available Labour legislation (Benn, 1975). Though the 1976 Industrial Common Ownership Bill, introduced by David Watkins MP, was a Private Member's Bill (Watkins, 1976), it benefited from input from the Industrial Common Ownership Movement (ICOM). The Act produced a definition of common ownership and a revolving loan fund for ICOM.

The 1978 Co-operative Development Agency Act (Cryer, 1978) provided funding up to £900,000 for what later became 60 Local Co-operative Development Authorities, which generated more than 2,000 new co-operatives (Co-operative Commission, 2001b, p. 73; Cornforth et al., 1988b; Sawtell, 2009a, 2009b). Though it was fortuitous that David Watkins had been briefed by ICOM before 1976, in 1978 the Co-operative Development Agency might have taken on a different form with more input from the Co-operative Movement.

In 1983, the Labour Party Manifesto included proposals for a UK version of the Italian Macora Law (see below) with commitments to (Labour Party, 1983):

- *“give generous encouragement and help to worker co-operatives and local enterprise boards*
- *establish a Co-operative Investment Bank*
- *development agencies and local authorities will be empowered to support and to help establish co-operatives and local enterprise boards*
- *new rights to workers to convert their firms to co-operatives”*

These commitments derived from a 1981 Labour Party National Executive Committee Working Party Report on workers’ co-operatives, which highlighted funding difficulties for workers’ co-operatives at Meriden, Scottish Daily News, Kirkby Manufacturing Enterprises and the Taunton Shirt Co-operative. NEC Working Party members had been involved with these co-operatives.

### 6.3 Lessons from 1997 and 2001 Labour Governments

The second difficult period for the Co-operative Movement was during the 1997 and 2001 Labour Governments. “The Co-operative Advantage” report from the Co-operative Commission included one page on a social economy (Cooperative Commission, 2001b, p. 67), which was not taken further. In September 2001 the Labour Government set up a Social Enterprise Unit in the Department of Trade and Industry and in July 2002 introduced a “Strategy for Success” for social enterprise – with co-operatives inserted only through determined intervention by Pauline Green. But in 2004 the Co-operative Movement was unable to prevent legislation for Community Interest Companies as an initiative to dilute ownership and democracy (Department of Trade and Industry, 2004).

From these two periods above, the lesson for the Co-operative Movement is it should at least have reached the same stage of preparedness as ICOM in 1975 and the Labour Party NEC Working Party in 1981. ICOM and the NEC Working Party both offered detailed proposals for a draft bill and the Manifesto. The remainder of this paper seeks to form basis of discussion on detailed commitments on which the Labour and Co-operative Movements might fight the Election and makes proposals for speedily and readily taking forward recent proposals into legislation.

### 6.4 Finance Bills, Company Law and Other Legislation

An incoming Labour Government will face enormous pressures on Parliamentary time, especially during its first years. Rather than NEF’s “Co-operatives Unleashed” proposed Co-operative Economy Act (Lawrence et al., 2018, p. 34), which is examined in detail below, proposals for amending taxation, governing co-ops, registration of societies and on co-operative capital might more easily be progressed as possible clauses for insertion into other appropriate bills. There are previous examples of these insertions. The Department of Trade included clauses for Community Interest Companies into the Companies (Audit, Investigations and Community Enterprise Act 2004 (Department of Trade and Industry, 2004). The Financial Conduct Authority (FCA) was given its initial remit in the Financial Services and Markets Act 2000. FCA registration powers were later conferred within the Co-operative and Community Benefit Societies Act 2014.

From this Act, in both its Guidance Consultation (Financial Conduct Authority, 2015a, p. 11) and its published “Guidance on the FCA’s Registration Function” (Financial Conduct Authority, 2015b) the FCA leaves no one in doubt that it is the central arbiter of what constitutes a co-operative or community benefit society, including financial and other powers, with a comprehensive section on “Capital” (Financial Conduct Authority, 2015b, pp. 34–41). Though discussion continues throughout the Co-operative Movement on the results and implementation for these structures, they are all examples which show how bills and acts on different topics may be utilised for the insertion of clauses and to make progress.

Co-operative capital needs to offer ‘a financial proposition which provides a return, but without destroying co-operative identity; and which enables people to access their funds when they need them. It also means exploring wider options for access to capital outside traditional membership, but without compromising on member control’ (Hayes, Mark, 2013, p. 4). Other reports make similar recommendations to become clauses for insertion into bills (Brown, 2004; Murray, 2010; Rodgers, 2009). Further urgent consultation is needed within the Co-operative Movement on which of these recommendations should be prioritised. Depending on the outcome, a way forward might be an amendment to a Finance Bill or the Co-operative and Community Benefit Societies Act 2014, either as a clause in another Government Bill or as a Private Member’s Bill. These examples show that knowledge of Parliamentary process is more important than external reports with policy proposals.

## 6.5 Co-operative Economy Act

Even with an overall majority, an incoming Labour Government will face enormous pressures for policy prioritisation in each Queen’s Speech. The NEF Report’s proposals for a Co-operative Economy Act misreads the Parliamentary process, with its “Five Steps for a Co-operative Economy”(Lawrence et al., 2018, p. 34) :

- *an asset lock*
- *a right to own to support employee buyouts*
- *a “duty to develop the diversity” of corporate form*
- *a Co-operative Development Agency in statute*

Among NEF’s Co-operative Economy Act proposals, only a resurrected Co-operative Development Agency may need new legislation within its own Bill – and this could easily be based on updating the 1978 Act, for which drafting could be done now. Other Co-operative Economy Act proposals might become clauses inserted into other Parliamentary Bills.

Labour and Co-operative MPs could readily introduce new clauses as backbench amendments to other Government Bills or through Private Members’ Bills. David Watkins’ 1976 Private Member’s Bill was “adopted” by the Department of Trade and Industry. Gareth Thomas’ Private Member’s Bill to raise voting thresholds later became law as the Industrial and Provident Societies Act 2002. Following the Performance and Innovation Unit’s “Private Action Public Benefit” (Cabinet Office, 2002, p. 52), Mark Todd’s Private Member’s Bill proposals for an asset lock become the Co-operative and Community Benefit Societies Act 2003 (Blair, 2003, p. 30).

Christina Rees' in 2017 introduced a Mutual Guarantee Societies Bill (Rees, 2017). There are other procedures too. Despite recent misunderstandings on Statutory Instruments, or "Henry VIII clauses", whether these follow Affirmative or Negative Resolution procedures, they must still be laid before Parliament. Under the former, they need approval by Houses of Commons and Lords.

## 6.6 Draft "Macora" Bill

For possible inclusion in a Labour Queen's Speech, at least one Draft Bill is needed. Arising from the 1983 Election Manifesto, Alternative Models of Ownership (Report to the Shadow Cabinet, 2017, p. 18) and the NEF Report (Lawrence et al., 2018, p. 24), a possible draft bill might seek to replicate the Italian 'Macora Law' (Banca Nazionale del Lavoro, 2017; Italian Parliament, 2018). To assist employees in forming worker co-operatives, this offers debt capital financing from either the co-operative fund within the National Investment Bank for large businesses or from the network of co-op development funds for medium to small firms secured on projections of future revenues of the business and/or collateral offered through assets acquired from the target business. In Italy since the 1980s, worker-controlled enterprises have emerged from various worker buyouts, saving or creating around 9,300 jobs and 257 known labour managed firms. Almost all are transformed into worker co-operatives with employee management and ownership (Vieta, 2015, p. 40):

*"Employees in Italy can begin to consider a workers' buyout (WBO) project as soon as they (a) anticipate the closing of a firm or (b) if part of or all of a firm is offered to employees by its owners, (c) if a group of employees have been or will be laid off due to the closing of a business, and (d) after at least nine workers from the closing target company form a newco".*

## 6.7 National Investment Bank

Labour proposals for a National Investment Bank are already overloaded with policy expectations. NEF is too simplistic on roles already ascribed to this projected Bank, which needs to become a public utility bank (Blackburn, 2018, p. 14; Gowan, 2009, p. 61; Mary, 2010, pp. 29, 155; Meadway, 2013, p. 29). Mondragon's Laboral Kutxa, its Caja Laboral credit union, German Sparkasse and other public or co-operative banks all gradually evolved as banking systems rather than through one piece of legislation. Though opportunities for funding co-operatives under a National Investment Bank should be pursued, Preston and other local initiatives are already exploring community investment banks. A further opportunity might be solutions based on enhancement of Co-operative and Community Finance (the former ICOF) and Community Development Finance Institutions, especially following a report on their sustainability for a previous Conservative Government (Price Waterhouse Cooper, 2015). Another possibility is a UK version of the US Community Reinvestment Act 1977 (Federal Deposit Insurance Corporation, 2018), which requires deposit taking institutions to meet credit needs of local communities.

## 7: Conclusions

SCDG offers this paper as a discussion document for implementation of some of the concepts, ideas and proposals which abound throughout the wider Co-operative Movement and welcomes comments and amendments.

### 7.1 Procurement, Commissioning and Tendering in the Market

While New Economics Foundation and previous Co-operative Party and Co-operatives UK policies represent a basis for increasing co-operatives, SCDG is concerned that these policies are advanced within a market economy, within procurement mechanisms to encourage co-operatives to compete against the private sector. Section 3 above shows that for England the UK Government's interpretation of Article 77 of the EU 2014 Procurement Directive has exacerbated the problem by using 2015 Public Contract Regulations to encourage public sector spin outs as a stepping stone to full privatisation.

SCDG does not favour using market mechanisms because they lead to contracts based on lowest price tenders, with a deteriorating standard of service. More councils now recognise that these policies are failing, with growing numbers of private and third sector providers "handing back" contracts because they cannot recruit or retain staff or deliver at the contract price. There is also growing evidence of 'hollowing out' and difficulties posed for third sector organisations forced to depend on their existence through tendering and contracting (Aiken and Harris, 2017).

### 7.2 Labour, Trade Unions and Co-operatives Working for Economic Democracy

SCDG believes that previous Labour proposals for Better Government for Older People in Section 5 above (ChangeAgents, 2015; Younger-Ross, 1998) and Public Social Partnerships offer an effective political route for joint discussion among providers, workers and service users. Though an incoming Labour Government will need time to reverse market based policies, the immediate future should not be determined by the market.

Restoration of economic democracy is a pre requisite since once a service is contracted, elected councillors, trade unions and service users are often told that contractual conditions are confidential and cannot be democratically adjusted. Describing what has already taken place for many councils, Crouch continues (Crouch, 2003):

*"This process becomes self-fulfilling. As government contracts out an increasing range of its activities, its employees really do lose competence in the areas being covered by the contractors, areas within which public servants have until now had unrivalled expertise".*

### 7.3 Preparing for a Labour Government

Alongside all this, the Co-operative Movement should be actively preparing in anticipation of a future Labour Government. Based on its founding principles, for these reasons, SCDG will work with the Labour and Co-operatives Movement, with Labour councils, trade unions and co-operatives to restore economic democracy in public service delivery.

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