

SHEFFIELD COOPERATIVE DEVELOPMENT GROUP



DOUBLING THE SIZE OF THE COOPERATIVE SECTOR

Monday 17 September 2018

CONTENTS

Figures and Tables	3
About the Sheffield Cooperative Development Group.....	3
Summary.....	4
1: Background	5
1.1 Conservative Entrepreneurial Culture: Lawson’s Mais Lecture	6
1.2 Labour and Cooperative Policies.....	7
1.3 An Alternative to Financialisation	7
2: Policy Recommendations	8
2.1 A Cooperative Economy Act.....	8
2.2 A National Investment Bank.....	9
2.3 New Models for Cooperative Financing.....	10
2.3.1 Cooperative and Community Finance	10
2.3.2 US Community Reinvestment Act 1977	11
2.3.3 External Financing for Cooperatives	11
2.4 Mutual Guarantee Societies.....	12
2.5 Tax Relief on Retained Profits	12
2.6 Employee Buyouts.....	13
3: Procurement	14
3.1 EU Procurement Directive.....	14
3.2 NEF Confusion on EU Procurement	16
3.3 World Trade Organisation and Government Procurement Agreement	16
3.4 Labour’s 2006 Health and Social Care White Paper and 2007 Freud Report.....	17
3.5 Cooperative Party, Cooperatives UK and a Competitive Procurement Market	18
4: Restoring Economic Democracy	19
4.1 Economic Democracy: Better Government for Older People	19
4.2 Economic Democracy: Public Social Partnerships.....	21

4.3	Funding for Economic Democracy	22
5:	Labour has already Doubled Cooperative Numbers.....	23
5.1	Labour’s 1976 Industrial Common Ownership Act	23
5.2	Cooperative Development Agencies.....	23
5.3	Numbers of Cooperatives	24
6:	Role of Local Authorities	25
6.1	Labour Councils and Cooperatives.....	25
6.2	More Powers for Local Authorities	27
7:	Conclusions	28
7.1	Procurement, Commissioning and Tendering in the Market.....	28
7.2	Labour, Trade Unions and Cooperatives Working for Economic Democracy	28
8:	References	29

Figures and Tables

Figure 4.3.1 ICOM Registrations (Laycock and Coops UK, 2017)	24
Figure 4.3.2 ICOM Registrations (Laycock and Coops UK, 2017)	25

About the Sheffield Cooperative Development Group

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

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

Working with the Aizlewood Group (cooperators, trade unions and academics) SCDG continues in a proud tradition of cooperatives and third sector organisations working with trade unions, the Labour Party and Labour Councils, in association with newly emerging industrial and servicing cooperatives on the basis of mutual aid. SCDG collaborates with other national organisations to receive financial support or advise for individuals wishing to form a cooperative.

Summary

Based on the need to restore economic democracy and accountability, Sheffield Cooperative Development Group offers an alternative approach to the New Economics Foundation (NEF) reports “Cooperatives Unleashed: Doubling the Size of the UK’s Cooperative Sector” (Lawrence et al., 2018) and “Sustainable Social Care: What Role for Community Business?” (Bedford and Harper, 2018). Following the political rupture with the Cooperative Movement under the 1997 and 2001 Labour Governments, Labour and Conservative policies for cooperatives and the wider third sector have emphasised a marketised direction. Third sector organisations are now expected to compete in a market against the private sector to win contracts for delivery of public services to reduce their cost.

Section 1 Background highlights growing political pressure to return outsourced services in house, union opposition to outsourcing and the need to shift a political culture based on entrepreneurialism, financialisation and the market towards rebalancing the economy.

Section 2 examines in detail some NEF policy recommendations, with comments and additional pointers. While supporting a Cooperative Economy Act, National Investment Bank and new models for cooperative financing, SCDG advances further options.

Section 3 highlights misunderstandings on procurement processes from the Democracy Collective and problems with NEF, Cooperative Party and Cooperatives UK proposals for more cooperatives’ and third sector structures’ involvement in public service delivery through procurement competitions. Similar difficulties could arise under the World Trade Organisation’s Government Agreement on Procurement. Labour’s previous policies have been unduly influenced by its 2006 White Paper “Our Health, Our Care, Our Say: a New Direction for Community Services”, which sought to outsource more NHS service delivery to third sector providers (Department of Health, 2006, p. 175) and by David Freud’s 2007 Report on the benefit system, which proposed more outsourcing and payment by results. Recent Government proposals to move more NHS services into community delivery, where they may be privately funded, are also outlined. Recent Coops UK and Cooperative Party recent proposals still advocate cooperatives’ participation in a competitive procurement market.

Section 4 highlights other approaches which seek to restore economic democracy, such as “Better Government for Older People”, which, though trialled in 2003, was sidelined. Other approaches might be based on the Scottish Government’s Public Social Partnerships, which should involve trade unions. Funding should be made available for economic democracy projects.

Section 5 describes policies of a previous Labour Government and Labour Councils to double numbers of cooperatives.

Section 6 explores local councils’ economic powers for doubling numbers of cooperatives.

Section 7 Conclusions highlights the need for a change of direction when local councils may lose up to 77% of their central government funding between 2010 and 2020 (Bounds, 2017).

Above all, SCDG seeks to challenge NEF’s policy direction through a different approach which promotes economic democracy. In all this, SCDG and the Aizlewood Group seek to restore previous relationships between the Labour Party and the Cooperative Movement.

1: Background

As projected in its 'Alternative Models of Ownership' Report (Report to the Shadow Cabinet, 2017), Labour is committed to double the number of cooperatives operating in the UK economy. To interpret this, Cooperatives UK commissioned New Economics Foundation to provide further details in a report, which was launched in the House of Lords on Tuesday 03 July 2018 as "Cooperatives Unleashed: Doubling the Size of the UK Cooperative Sector" (Lawrence et al., 2018). Similar proposals have emerged in a further NEF Report "Sustainable Social Care: What Role for Community Business?" (Bedford and Harper, 2018). While welcoming these detailed NEF Reports, SCDG offers a different interpretation which seeks to restore economic democracy and accountability through moving away from a competitive procurement process for the delivery of public services.

Many of the NEF Report's recommendations are not new and coincide with those from "A Cooperative Economy" (Cooperative Party, 2017) and "The Cooperative Advantage" (Mayo, 2015). Over the last ten years, there have been reports making similar proposals for public service delivery by third sector organisations (Hopkins, 2009). Based on a culture of entrepreneurialism, these seek to fit cooperatives and social enterprises within a market economy.

In a different interpretation in Section 5 below, SCDG recognises progress made to promote cooperatives by previous Labour Governments and Labour Councils in the 1970s and 1980s, using 'anchor institutions' and others, and as outlined in Labour's 'Alternative Models of Ownership' (Report to the Shadow Cabinet, 2017, p. 26). These include an augmented role for Labour councils, working with trade unions, cooperatives and third sector organisations.

SCDG also recognises Labour movement concern, especially following the Carillion collapse, to return outsourced services to in house provision and that trade union pressure against outsourcing and the procurement market is increasing. Resolution 59 at the June 2018 UNISON National Delegate Conference was carried overwhelming and included:

"To make clear to the Cooperative Movement via all available channels:

- That UNISON does not support the privatisation of public services to cooperatives, mutuals or social enterprises;*
- That UNISON rejects the spinning-out of in-house services in any sector to PSMs and reaffirms our commitment to in-house service delivery;*
- That attempts by some to promote PSMs risk a permanent split between the trade union and cooperative movements that have successfully worked in solidarity since the 19th Century.*

Other trade unions are developing similar positions.

1.1 Conservative Entrepreneurial Culture: Lawson's Mais Lecture

To provide context for the NEF Report and SCDG proposals below, it is necessary to revisit the last period when a Labour Government doubled the number of cooperatives. Many of these policies changed abruptly with the election of a Conservative Government under Margaret Thatcher in 1979. During a period of massive deindustrialisation, in his Mais Lecture "The British Experiment" of June 1984, instead of a programme of increased support for hardest hit areas, Chancellor Nigel Lawson issued a clarion call to the new enterprise culture (Lawson, 1984):

"It is the rediscovery of the enterprise culture, operating within the framework of markets progressively liberated from rigidities and distortions, that will provide the only answer to the curse of unemployment, and the only true generator of new jobs. So far, although the numbers in work are now rising, unemployment has yet to fall. But that is no reason to accept the dismal thesis that in the technological world of today, rising unemployment is inevitable".

This was described elsewhere (O'Toole, Mo, 1996, p. 34):

"The new accumulation strategy was announced in 1984 (in Lawson's Mais Lecture) and the definition of a hegemonic project. In place of jobs for all and social democracy, Thatcherism would offer the entrepreneurial society and popular capitalism' (Jessop et al. 1988)".

For cooperatives and third sector organisations this enterprise culture was driven further forward under a Labour Government with the formation of Social Enterprise London (Social Enterprise London Ltd, 1998), the Social Enterprise Coalition in 2002 (Financial Conduct Authority, 2002), the Department of Trade and Industry's 'Strategy for Success' document (Department of Trade and Industry, 2002), the Treasury 'Cross Cutting Review' (HM Treasury, 2002) and the birth of the Community Interest Company structure (Department of Trade and Industry, 2004).

These rapid policy developments not only transposed cooperatives and the third sector to become a welfare reform policy solution within a competitive market for bidding against the private sector to deliver public services, but caused a major political rupture with the Industrial Common Ownership Movement and other parts of the Cooperative Movement. Instead of providing an alternative to previous Labour and Conservative policies for the marketisation of coops and the wider sector, through its continued emphasis on enterprise, much of the NEF report seeks to ensure that they remain in the market (Lawrence et al., 2018, p. 3,6):

"Cooperatives are at heart free enterprises. In the countries in which they have thrived, they are often rooted in resistance to oppressive government or the march of a market economy that is prejudiced in favour of an extractive and financialised model".

"Central to this must therefore be a 21st century enterprise agenda that democratises the ownership and control of business. This is because how businesses are owned – who has distributional and control rights within the firm and also who captures the value they add – vitally shapes how they operate, in whose interests, over what time horizon, and how they distribute their profits. In turn this determines the nature of enterprise and the distribution of economic power and reward in society"

1.2 Labour and Cooperative Policies

In Section 2 below, SCDG considers the “Cooperatives Unleashed” Report’s main recommendations but seeks to take these forward in a different direction. Both Labour and Cooperative Movements have a proud history of defending and creating jobs, extending cooperatives and working together with trade unions and communities.

Despite its own previous recommendations on an alternative macroeconomic policy (Meadway, 2013) the NEF Report does not expand on the overdue need for economic and financial reform or the extent to which coops and third sector organisations are now corralled as part of a public service delivery mechanism, increasingly dependent on private funding. All of this is now overshadowed by the UK’s exit from the European Union, with immediate projected consequences of a severe reduction in growth and GDP. Though predicted job losses may not in the short and medium term be as serious as those during 1970s and 1980s deindustrialisation, manufacturing sectors with EU wide supply chains and distribution, including aerospace and automotive will be seriously affected, with an increased need for alternative employment.

Financialisation is now working its way into the delivery of public services, with a plethora of funding schemes from Big Society Capital (using dead peoples bank accounts) and Government directed Big Lottery funding. To subsidise private social investment in public services there has been so far £1,062,720,000 from programmes funded by Government Departments and Big Lottery, (Floyd, et al., 2017, p. 22), with 120 social investment intermediaries (Floyd, 2017b).

Local government finance organisations recently published a guide to alternative service delivery models, using social investment and social impact bonds. “Social impact bonds (SIBs) allow governments to try out new social services on a no-win, no-fee basis, bringing in non-government investors to provide funding and transfer risk” (Chartered Global Management Accountant (CGMA) and Chartered Institute of Public Finance and Accountancy (CIPFA), 2018, p. 14). None of these proposals envisage delivery within the public sector. Outsourcing to third sector organisations, including cooperatives, forms a key part of this delivery system in a process already described as the commoditisation of London homeless (Cooper et al., 2016) and turning Essex children at risk into an investment proposition (Neyland, 2018). A new career grade of local government and NHS sustainability and transformation officers excels in driving these policies forward. But there is little recognition of any of this in the NEF Report.

Access, the Foundation for Social Investment now offers £40mn to support enterprise development and has a range of funds to encourage social investment. There also other significant programmes like the £150mn Power to Change for community businesses. In March 2017, the Dormant Assets Commission Report (O’Donohoe and Dormant Assets Commission, 2017) suggested there might be up to £2bn available from dormant charity assets for further support. Big Society Capital’s social investment funds, which encourage private funding for public services, have been supported by Cooperatives UK, Social Enterprise UK and third sector organisations.

1.3 An Alternative to Financialisation

SCDG believes that doubling the size of the cooperative sector can only take place within a context of fundamentally different economic policies, with their emphasis on moving away from financialisation and dependence on the City of London (Dowling, 2017, p. 306):

“Financialisation is not a simple process of allocating resources to one place or another; it imposes a set of disciplinary measures that shape the social processes they affect, in turn privatising gains and socialising risks and costs.....co-imbrication between the state and the financial sector in which the state is using finance to intervene in society in ways that ostensibly seek to reduce costs and welfare dependency, while at the same time the state is used as a vehicle for financial capital accumulation.”

After the 2008 financial crisis, a wide range of different economic perspectives have highlighted the need for the UK to become a more diverse economy, favouring manufacturing and offering a better balance for the regions (Blackburn, 2018; Gowan, 2009; Meadway, 2013; Mellor Mary, 2010; Pettifor, 2017; Streeck, 2014). Though these are not unanimous in their projections, they agree that after the 1986 Stock Exchange ‘Big Bang’ change of rules, which encouraged financialisation, there is a need for a new approach (Meadway, 2013, p. 13):

“The IMF estimate the total cost to the UK of bailouts during the credit crunch to be £1.28 trillion – about 88% of GDP. To put this in perspective, The Fund’s estimate for the global costs of government bailouts is £6.8 trillion. The UK figure, more than twice the US equivalent, is the highest cost, relative to GDP, for any large developed country”

Gowan expands on this (Gowan, 2009, p. 61):

“This has been the model adopted in the US and the UK since the 1980s: making money-capital king. It entails the total subordination of the credit system’s public functions to the self-expansion of money capital. Indeed, the entire spectrum of capitalist activity is drawn under the sway of money capital, in that the latter absorbs an expanding share of the profits generated across all other sectors. This has been the model that has risen to dominance as what we have called the New Wall Street System”

Bank bailouts followed increasing financialisation in capital markets, which through social investment and social impact bonds, is now extending increasingly into public service delivery. Though these policies may not appear related to doubling the size of the cooperative sector, they form the context within which third sector structures, including cooperatives, are encouraged to participate. SCDG believes that cooperatives and third sector organisations cannot expand without different economic policies. But little of this features in the NEF Report.

2: Policy Recommendations

2.1 A Cooperative Economy Act

SCDG favours a new Act, as outlined in the NEF Report, with cooperatives underpinned with an asset lock to prevent benefits from “cashing out” or selling the cooperative, provision for “co-operatisation” of existing businesses and more recognition for cooperatives. SCDG also supports the proposal for a Cooperative Development Agency in England – similar to existing structures in Scotland and Wales.

Most common ownership cooperatives are companies limited by guarantee. But since Cooperative Societies are now registered, processed and monitored under the Financial Conduct Authority, while Companies Limited by Guarantee are registered by Companies House through a different system, these two different registration procedures should not be a longer term situation. SCDG also advocates re examination of Community Interest Companies, which were introduced by Labour in 2004 to transfer emphasis for social ownership from a collective to an individual basis and which permits payment of dividends to external investors. Though there are now 12,000 Community Interest Companies, there is currently “light touch regulation”, with a part time Registrar job share post and a small staff.

2.2 A National Investment Bank

SCDG seeks to expand on the NEF’s National Investment Bank or “establishing a public bank focused on providing long-term funding to the cooperative and social economy, learning from the successful Green Investment Bank prior to its ill-advised privatisation” (Lawrence et al., 2018, p. 36). But a National Investment Bank within a wider unsupportive environment can only be a partial remedy to UK banking problems and supporting cooperatives. A previous NEF Report recommended much wider reforms (Meadway, 2013, p. 29):

“But transforming the entire economic system will require more than the repetition of good examples, or appeals to existing power structures: it will require the mobilisation of the creative energies of millions of people and the formation of a movement able to make a decisive break with the past”.

Other commentaries on the current economic system recommend more fundamental changes. “Expenditure on social or public needs must be secondary to privatised economic forces. The private sector will authorise how much can, or cannot, be afforded since public expenditure is seen as a drain upon the private sector” (Mellor Mary, 2010, p. 2). “The provisioning of necessities and public services has to piggy-back on profit-driven activities, extracting reluctantly paid taxes or other contributions to public welfare” (Mellor Mary, 2010, p. 155). Others advocate the need for “public utility banking” (Gowan, 2009, p. 61):

“Thus public ownership of the credit and banking system is rational and, indeed, necessary, along with democratic control. A public-utility model along these lines can, in principle, operate within capitalism. Even now the bulk of the German banking system remains in public hands, through savings banks and Landesbanken”

Greater public control of the banking system is emphasised elsewhere (Blackburn, 2018, p. 14):

“While backing for coops and small business has long been a staple of Labour manifestos, the commitment to a public-utility finance system is new, as is the nod to commitment to a public-utility finance system is new, as is the nod to Germany’s Fraunhofer Institute or Norway’s State Pension Fund”

2.3 New Models for Cooperative Financing

Though the NEF Report has a small section on non member financing without participation rights, since this is an issue on which the Financial Conduct Authority has intervened in detail, SCDG believes there should also be consideration of some of the following:

2.3.1 Cooperative and Community Finance

SCDG recommends that an approach based on Mondragon in Spain, or Cooperative and Community Finance (Cooperative and Community Finance (formerly Industrial Common Ownership Finance or CCOF) in the UK might be further explored. Under these options, all borrowers automatically become members. CCF encourages local economic regeneration by enabling people to create, own and democratically control the businesses in which they work, or which operate in their local community. Its funds are available to enterprises which practice or support principles of cooperation, common ownership, employee, community or social ownership, equal opportunity and workplace democracy, and sustainable development. It prioritises organisations where the management is representative of and relevant to the community, with directors elected on a rotational basis. Cooperative and Community Finance actively supports businesses which benefit employees, communities and environment. In particular, it actively supports the following (Cooperative and Community Finance, 2016, sec. Ethical Policy):

- Cooperatives and community-owned enterprises
- Development and promotion cooperatives, community-owned enterprises, credit unions and charities with trading subsidiaries.
- Promotion of cooperative values and principles: Cooperative & Community Finance endorses and abides by the internationally recognised cooperative values and principles and expects borrowers adhere to them as appropriate.
- Social responsibility: Fair trade organisations and products.
- Companies promoting sound employment practices.
- Companies with policies and procedures that encourage good principles of business behaviour and ethics.
- Environment: Companies which provide solutions to climate change through the development, promotion and/or use of renewable energy and energy efficiency.
- Companies which promote recycling and sustainable waste management.
- Companies which operate good environmental practice.

With more funding, as under Labour's 1976 Industrial Common Ownership Act (see later), an augmented structure based on Community and Cooperative Finance, might be considered.

2.3.2 US Community Reinvestment Act 1977

SCDG also advocates further examination of the US Community Reinvestment Act (CRA) 1977 (Board of Governors of Federal System, 2016) might be explored. This encourages deposit institutions, including banks and savings institutions, to help meeting the credit needs of the communities in which they operate, including low- and moderate-income neighbourhoods, consistent with safe and sound operations.

This ensures that financial institutions should make investments in the communities where they are located, including Community Development Financial Institutions. The regulation was substantially revised in May 1995 and updated again in August 2005. The CRA requires that each deposit institution's record in helping meet the credit needs of its entire community be evaluated by the appropriate US Federal financial supervisory agency periodically. Members of the public may submit comments on a bank's performance. Comments are taken into consideration during the CRA examinations. A bank's CRA performance record is taken into account in considering an institution's application for deposit facilities.

A further examination might be made of the applicability of this model in the UK.

2.3.3 External Financing for Cooperatives

There are difficulties for cooperatives in raising capital from their own members. Raising and rewarding capital from external investors which are non members also poses problems, especially since the detailed intervention of the Financial Conduct Authority has reinterpreted who may become members. Cooperative capital needs to offer 'a financial proposition which provides a return, but without destroying cooperative 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).

SCDG advocates further examination of several other reports on this issue, most of which involve further amendments to basic legislation for tax relief:

- The Financing and Taxation of Cooperatives in the United Kingdom (Plunkett Foundation, 1996) presented a comprehensive review covering the five main cooperative sectors in considerable detail
- Cooperative Capital (Brown, Jim, 2004) broke new ground in several areas, including its clear analysis of the issues surrounding capital finance, the connection with initiatives outside the movement in the area of ethical investment, and its proposals for institutional design.
- Cook and Taylor (2007) reported on a change in the regulator's attitude towards external capital investment in industrial and provident societies, partly prompted by the risk of regulatory arbitrage (e.g. the proposals in Brown (2004) assumed incorporation as a company).
- Rodgers (2009) outlines a new approach to the capital finance of housing cooperatives, involving two key elements, the Community Land Trust (CLT) and the Mutual Home Ownership Society (MHOS).

- Murray (2010) calls for a new model for financing the growth and integration of the movement, along the lines of the Mondragon bank during its formative era. It does not directly address capital finance but recognises the potentially powerful role of financial intermediaries in institutional development.
- The ICA Blueprint for a Cooperative Decade (Mills and Davies, 2012) contains two key sentences which summarise the challenge. Cooperative capital needs to offer ‘a financial proposition which provides a return, but without destroying cooperative identity; and which enables people to access their funds when they need them’.

2.4 Mutual Guarantee Societies

SCDG supports NEF’s advocacy of Mutual Guarantee Societies. “Mutual guarantee societies are private guarantee institutions created by small and medium sized businesses who benefit from mutual loan guarantees and better access to finance. Critically, the UK is almost unique in Europe in terms of not supporting” (Lawrence et al., 2018, p. 36). These organisations play a useful role (AECM, 2017):

“A guarantee provided by a guarantee society on behalf of the SME to the bank replaces this missing collateral and enables the bank to grant the loan. In essence, the guarantee is a financial commitment by the guarantee society to repay up to a certain percentage of the loan to the financial institution in case the SME customer should not be able to honour his payments”.

But there are legislative problems in the UK. “The UK’s legislative framework, however, does not recognise the model...mutual guarantee societies would, under current arrangements, face onerous capital requirements, meaning that we do not see businesses in this country benefiting from them” (Mayo, 2017). Some of these would have been remedied in a House of Commons in a Private Members’ Bill in January 2017 (Rees, 2014):

“In many ways, this Bill is a no-brainer. Mutual guarantee societies provide access to finance, achieve better credit conditions, provide assessments of companies’ intangible and qualitative elements, serve as a bridge between SMEs and financial entities, and can provide better advice and supervision in financial management. The creation of such societies in the UK would also be good for the banks because...they reduce banks’ overall risk, provide qualitative information for the banks, provide more detailed risk assessment at no cost, and allow them to work with supervised and reliable financial intermediaries. The OECD concluded in 2013 that mutual guarantee schemes “represent a key policy tool to address the SME financing gap, while limiting the burden on public finances.”

2.5 Tax Relief on Retained Profits

As detailed above, tax relief has previously been advanced by various parts of the Cooperative Movement and should be further explored. NEF recommends (Lawrence et al., 2018, p. 36):

“Introduce tax relief on profits reinvested in asset-locked indivisible reserves and on profits paid into a coop development fund to incentivise common wealth creation. The UK should adopt the model that is common and successful in many European countries, in which cooperatives receive a discount on corporation tax if the eligible profits are paid into their asset locked indivisible reserves”

While not opposing tax relief, SCDG recognises that Social Investment Tax Relief has been promoted to encourage private investment in public services and assisting social impact bonds.

2.6 Employee Buyouts

NEF recommends “Employees should be able to purchase part or all of the target business through a variety of ways: share capital purchases made via their savings and/ or redundancy payments in the case of a potential business closure; advances of up to three years of their cash transfer based and employer portions of their unemployment insurance benefits (Lawrence et al., 2018, p. 40). The Democracy Collective advocates similar routes (Guinan and Hanna, 2017, p. 23):

“In some cases, this might mean assistance in allowing workers or localities to buy up facilities and keep them running under worker or community ownership. In other, more difficult cases it might involve re-training workers for new skills and re-fitting facilities for work in a different industry. In either case, affected localities would be able to draw on public resources whose aim is to help secure the long-term stability of the community and to sustain national production in key sectors and industries”.

But SCDG recognises that an employee ownership route is not the same as forming a cooperative and that this takes place within a market setting (Employee Ownership Association, 2018):

“... these businesses only start to thrive (and therefore become better able to compete with corporate competitors in the marketplace) once they are able to unleash the innovation, enterprise and commitment of their employee owners – through the development of a culture of ownership”.

To assist employees in forming worker cooperatives in firms where they work, SCDG recommends analysis of Italy’s successful Marcora Law. This offers dept capital financing from either the cooperative fund within the National Investment Bank for large businesses or the network of coop 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 types of worker buyouts, saving or creating around 9,300 jobs and 257 known labour managed firms. Almost all are transformed into worker cooperatives under employee management and ownership (Vieta, 2015, p. 40):

“Employees in Italy can begin to consider a 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”.

“Once employees form into a worker cooperative they can begin the process of purchasing part or all of the target company via share capital purchases financed by their personal savings, or advances of up to three years of their cash transfer-based and employer”

“Workers can also pursue debt capital financing from either the cooperative sector or an institutional financier. If they do so, the funds can be secured by projections on future revenues of the worker cooperative and/or by the collateral offered from the acquired assets of the target company. The minimum contribution per worker to the start-up capital of the WBO can be no less than €4,000...”

Provisions also include technical assistance and funding from the cooperative movement mutual fund. There were similar proposals in Labour’s General Election Manifesto of June 1983, with these commitments (Labour Party, 2003):

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

3: Procurement

3.1 EU Procurement Directive

SCDG offers a different interpretation from NEF on the 2014 EU Procurement Directive. NEF advocates “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 cooperatives” (Lawrence et al., 2018, p. 41). Apart from the minimal treatment in its Report of the procurement process, NEF relies on an interpretation from the Democracy Collective, which seems to have misunderstood the purpose of the EU Directive (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’”

But the exact opposite is the case. The procurement process has already been modified by the EU for cooperatives and mutuals to become involved in public service delivery, but in such a way that it forms a stepping stone 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”.

Despite the Directive’s intention, its UK Government interpretation into the UK 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”

Solicitors Bates Wells and Braithwaite are clear in explaining the Government’s motives (Ville-neuve-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”

But this EU reserved participation procedure only lasts for three years. After that the service must be retendered without any restrictions – an open invitation for the private sector to undercut (GMB Scotland, 2015):

“the wording contained in Article 77 was not introduced to benefit and help promote genuine cooperatives, mutual and not-for-profit employee ownership, but rather to effectively open a route to further privatisation of public services, allowing commercial private sector operators to “morph” their characteristics to suit the contracting criteria”.

In spite of these Article 77 difficulties above, Cooperatives UK continues to advocate that the Government should “make sure the Mutuals Reservation in Public Procurement is maintained through Brexit”, with a future outside the EU “to develop a better procurement framework for care and wellbeing which allows and encourages commissioners to develop real public-social partnerships with providers that employ cooperative approaches”(Coops UK and Wright, 2017, p. 13). If there is an Article 50 transition period, it may take until a new Parliament to transpose this into new UK Regulations.

3.2 NEF Confusion on EU Procurement

The NEF Report on “Sustainable Social Care” makes recommendations in a context where the current procurement market does not seem to exist (Bedford and Harper, 2018, p. 28):

“Scaling them out is most likely to be successful if coordinated action is taken by local government on a number of fronts, including:

- *“setting a strategic objective to increase the provision of care from community-led care models*

Experience shows that, apart from the “Light Touch Regime” above, it is difficult for third sector organisation to compete in this procurement market. A further recommendation in this publication fails to take account of subsequent UK Procurement Regulations (Sanchez-Graells and Telles, 2016) (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*

As shown above, it is currently possible for local authorities to award increase waiting for three years within the restrictive “Light Touch” framework. But this offers no guarantee that this does not become an interim stage to full privatisation.

3.3 World Trade Organisation and Government Procurement Agreement

The future trading relationship between the UK, the EU and the rest of the world is still uncertain. If there is no agreement on a UK relationship with the EU Single Market, so that more trade is conducted under World Trade Organisation rules, UK procurement will be affected by the Government Procurement Agreement. The Agreement establishes rules for open, fair and transparent competition in government procurement. In discussions for the inauguration of the International Trade Organisation in 1946 the US administration sought a “framework of rules for trade in services based on principles of liberalisation of market access, transparency and national treatmentand the elimination of controls on foreign direct investment” (Nicol, 2010, p. 59). For the General Agreement on Tariffs and Trade and the World Trade Organisation, the US and others continue to argue for private access to public provision and support a dispute resolution mechanism which supports this. The Government Procurement Agreement strengthens private access to public services (Nicol, 2010, p. 77):

“The GPA, as one commentator has said, ‘should not be considered only as a trade issue but also as a means to smoothly accompany and prepare privatization of utilities where the latter is envisaged: Public procurement gives private companies an ever-increasing involvement in public sector service provision before a full rearrangement can be effected. At the same time it acclimatises public opinion to the prospect of private sector provision. The final stage is then the inclusion of the relevant sector in GATS, thereby precluding renationalisation. This process is arguably already well under way in the British National Health Service”.

SCDG recognises that alongside its proposals below for extricating public service delivery from outsourcing and procurement markets, procurement mechanisms will still be needed. Though, as shown above, Coops UK has advocated continuing EU Article 77 provisions, which often form an intermediary stage to full privatisation, the Labour Party, trade unions and organisations representing coops and third sector organisations must develop a new procurement regime.

3.4 Labour’s 2006 Health and Social Care White Paper and 2007 Freud Report.

SCDG believes that Labour’s previous approaches to procurement for public service delivery have relied on interpretations such as its 2006 Health and Social Care White Paper, which widened the market to Primary Care Trusts and third sector organisations and set up a Third Sector Commissioning Task Force to “promote equality of access for third-sector providers alongside other sectors in the provision of public sector health and social care services” (Department of Health, 2006, p. 175). Funding was provided through a new Department of Health Social Enterprise Unit and Social Enterprise Investment Fund.

A further but neglected report “Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work” from David (now Lord) Freud to Labour’s Department of Work and Pensions in 2007 sought to shift more Annually Managed Expenditure from the £37bn spent on working age benefits into £420mn of Departmental Expenditure Limit programmes to support claimants into employment using payment by results. Freud is now a Conservative peer and until recently was a Conservative Government Minister. His Report formed the basis for the Work Programme using outsourcing through payment by results, paving the way for Universal Credit and Social Impact Bonds (SIBs) (Freud, 2007, p. 67).

These initiatives laid foundations for a competitive markets in health and social care and other provisions – approaches which SCDG recommends should now reexamined.

Proposals to transfer more health and care services outside NHS delivery are now made regularly, with little public awareness. Examples include the VCSE (Voluntary, Community and Social Enterprise) Health and Wellbeing Fund 2017-2018, where the Department of Health has offered up to £300,000 for funding social prescribing “generally understood to be an intervention through which people are supported to access non-medical services in the community”(Department of Health, 2017, p. 9). This is based on a pilot project in the southwest, with the South West Academic Health Science Network and five local authorities, whose report includes “investor-led outcomes-based commissioning with VCSEs, where a social investor or group of investors work in partnership with a commissioner to develop a new intervention model commissioned using an outcome based contract” (Forster and Gregory, 2016, p. 7).

Alongside this, under the national “Health as a Social Movement” programme, NESTA, New Economics Foundation and the Royal Society of Arts were part of a £700,000 project to create six “health vanguard sites”. Members of these “social movements” would be “people managing chronic health conditions or adhering to complex medication regimes, the people who have grievances with the status quo and can translate them into inspirational visions of a better life and society” (Castillo et al., 2016, p. 9).

SCDG believes that proposals like this seek to remove support for those with longer term conditions from immediate access to NHS services. All these initiatives are supported by the various programmes offered by the Access Foundation (Access Foundation, 2018) and ‘Power to Change’ (Power to Change, 2018), with their aim of injecting funding, initially enabling communities to fund local business opportunities but in the longer term to encourage private funding for setup, development and infrastructure costs for public service delivery. Cooperatives UK and Social Enterprise UK have not opposed these policies nor dissuaded their members from making funding application to these programmes.

3.5 Cooperative Party, Cooperatives UK and a Competitive Procurement Market

Cooperatives UK and the Cooperative Party continue their advocacy of participation of cooperatives in a competitive procurement market. Social Enterprise UK has recently advocated this role for community businesses to deliver more health and care services (Stumbitz et al., 2018), in procurement competitions where even Amazon is now becoming interested (Parker, 2018).

The NEF Report provides a routemap to the market (Lawrence et al., 2018, p. 41):

“As a first step, anchors should commit to using local small and medium sized businesses, community sector, third sector, social enterprise and cooperatives where possible and appropriate. 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 cooperatives when sub-contracting. Larger procurement should be broken into smaller lots where possible, to enable and encourage local SME, third sector, cooperative and social enterprise participation”.

In “A Cooperative Economy”, the Cooperative Party also advocates market based structures and an ongoing market in care provision (Cooperative Party, 2017):

“There is an urgent need for reform of the ‘market’ in social care – reducing profit leakage, improving the quality and accountability of care, preventing the continual downward pressure on terms and conditions for the workforce, and better aligning the values of social care with those of the NHS to support the transition to an integrated system”.

“National policymakers should learn from Social Services and Well-being (Wales) Act 2014, which goes further than the Social Care Act 2014 by putting a duty on local authorities to promote cooperative organisations to deliver care in their area.

“To support this, guidance must be given to social care procuring authorities to ensure that the special features and sometimes sizes of cooperative and social enterprise delivery models are taken account of and included in procurement exercises”.

Coops UK in “Cooperative Approaches to Care and Wellbeing in England” offers cooperative models for health and social care, including micro providers, user and community owned cooperatives, worker owned cooperatives and multi stakeholder models (Coops UK and Wright, 2017, p. 5). On commissioning, Coops UK states that “the current framework, which includes the Public Procurement Regulations, the Social Value Act and the Care Act, provides ample space and some legislative nudges to commission cooperative approaches to care and wellbeing”. But it also acknowledges that “bigger standardised contracts are easier for stretched public authorities to manage”, with a “deeper tendency to contract in competitive, highly commercialised public service markets, rather than creating nurturing ‘public-social partnerships’”(Coops UK and Wright, 2017, p. 11).

Both Cooperatives UK and Social Enterprise UK promote public service delivery by their members. Though they may not emphasise their ability to deliver public services at less cost, commissioners are under heavy pressure to reduce costs. Within a competitive bidding competition against the private sector, where cooperatives and social enterprises include specific and adequate costings to fund additional social value, they are unlikely to win the contract. Even where there may be occasional and exceptional circumstances where cooperatives and social economy organisations rely on volunteers or deliver additional social value through external philanthropic or charitable contributions, these may not be able to be used for public service delivery.

External commissioning is now a major source of cost savings, so that central and local government and NHS procurement departments do not seek tenders from external providers in a stable funding environment. Each round of procurement usually requires savings – often of 10%, 15% or even 20%. In labour intensive service delivery in health and care, reduced wages, terms and conditions are the only way these cost reductions can be achieved. For cooperatives and social economy organisations bidding against private providers, cost reductions are less achievable within organisations which are democratically accountable since their members are being asked to cut their wages and conditions.

4: Restoring Economic Democracy

4.1 Economic Democracy: Better Government for Older People

As shown above, NEF, Cooperatives UK and the Cooperative Party continue to offer proposals for promoting health and social care cooperatives within commissioning and procurement by local authorities. Others seeks to bring together those receiving Supported Living or Personal Independence Payments. 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 processes to restore economic democracy and accountability. Health and social care offers ideal territory for local councils, trade unions and cooperatives together to explore future delivery models. This must include delivery which is already outsourced to the private sector.

As a process example, SCDG advocates a reexamination of 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 also promoted by the cooperative ChangeAgents (ChangeAgents, 2015) and 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"

Others changed how they delivered services, leading to better transport provision and improved house design and repair services to help people stay in their homes. Some pilots undertook ground breaking work on user-focused arrangements for joint care assessment and management (Comptroller and Auditor General, 2003, p. 34).

Within the BGOP Programme, ChangeAgents began to develop a Fair Care concept, following events and conversations with older people and partner organisations, within and outside the Cooperative Commonwealth, with the intention of exploring a just and fair co-operative solution to care provision across the UK.

Working towards greater economic democracy, the Fair Care model is for all people engaged in giving and receiving care, including workers, informal carers and service users:

- Fair Care achieves this by developing clusters of micro-cooperative enterprises, of mutual owners, to deliver care, supported by secondary coops, for legal and administrative functions.
- Fair Care coops maintain or develop, a person's 'Circle of Support' - the group of family, friends, neighbours and supportive workers who come together to give and receive, care and support.
- Circles are an established, successful way of achieving person centred support.
- Things a Fair Care coop will help with, depends on a person's situation and circumstances, together with the agreement of other cooperative members
- This "Circle of Mutual Care and Support" within the coop, enables all members (paid and unpaid) to have needs met and to achieve their aspirations.

To contribute to greater economic democracy and accountability, Fair Care Cooperatives would thus consist of:

- People seeking care, who want to have ownership and control of their care, in a mutual setting, where they also share responsibility for the wellbeing of all other members of the coop, including workers and unpaid carers
- People wanting to work in a cooperative that ensures workers' rights, while enabling and supporting the wellbeing and aspirations of all other members and co-owners
- Friends, family and unpaid carers, who would like to be co-owners and members, with their loved ones and care workers or a cooperative that respects and sustains their relationships.

All this forms a basis for cooperative and supportive adult health models to 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.

4.2 Economic Democracy: Public Social Partnerships

The Scottish Government has supported the alternative approach of Public Social Partnerships (PSPs), which are 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). Further funding programmes have sought to encourage collaborative provision of services and under the Developing Markets programme around 40 PSPs have been supported.

Though SCDG supports collaborative approaches rather than marketised procurement competitions, there are two significant 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. Trade union participation should be intrinsically a part of these discussions
- despite considerable funding and support for PSP projects, ongoing funding after 18 month funded 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

4.3 Funding for Economic Democracy

Based on the approaches of Better Government for Older People or Public Social Partnerships, SCDG advocates 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 statutory 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 from dormant accounts 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 support or encourage external private social investment for public service delivery, with a range of funds and programmes, including private investment for social impact bonds (SIBs) - the achievement of specific public service outcomes. SCDG believes that public service delivery should not be driven by rewards to external private investors and that these funds should be more appropriately targeted for approaches above which seek to restore economic democracy to service delivery.

5: Labour has already Doubled Cooperative Numbers

5.1 Labour's 1976 Industrial Common Ownership Act

In the NEF Report, most of Labour's previous policies on doubling cooperative seem to have been forgotten or overlooked. A Labour Government and Labour councils have direct experience of "doubling cooperative numbers". Labour nationally and locally has done all of this before, though without any intention that cooperatives should become involved in public service delivery. The main aim of previous policies was to save, protect and create jobs in a period of massive deindustrialisation – policies which are still relevant today.

The Industrial Common Ownership Act 1976 (Watkins, 1976) provided a legal definition of a common ownership enterprise, a £20,000 per annum (for 5 years) grant for ICOM and £250,000 grant for on-lending to Common Ownerships via ICOF (Campbell, Mike, 1983, p. 1). Before the Act, most structures were registered as private companies limited by shares (Social Enterprise Advisor, 2017):

"... so, that process was going on and then the relationship with ICOM was that people started to say, "Well, we need to register our business," because they basically weren't, they were an unregistered, they were, you know, just private people"

Only organisations conforming to the definition of common ownership were eligible for funding assistance. This was followed by the Cooperative Development Agency Act in 1978, with funding of £900,000. ICOM lobbied for provision in the Inner Urban Areas Act for grant aid availability specifically for common ownership and for changes in the Finance Act to enable conversion of conventional firms into cooperatives without attracting capital gains tax (Campbell, Mike, 1983, p. 2). The Inner Urban Areas Act 1978 provided designated district authorities with powers to make loans or grants to groups of people intending to set up cooperatives, provided they meet the definitions in the 1976 Act (Pearce, John, 1979, p. 5).

5.2 Cooperative Development Agencies

As shown in Figure 1 below, ICOM was soon registering more than 200 new cooperatives each year and soon registered more than 1,000 cooperatives (Sawtell 2009b):

"The first Directory published by the CDA in 1980 listed 330 worker cooperatives and the third Directory in 1984 showed 911. ...A directory published by the Cooperative Research Unit (CRU. Open University) in 1989, listed 1400 worker cooperatives, probably the highest figure recorded."

60 Local Cooperative Development Agencies supported by local authorities provided start up assistance. Over ten years, this triggered the creation of 1,176 coops employing 6,900 people – an average of six staff per coop (Cornforth, Thomas et al. 1988). Worker cooperative numbers rose from 73 in 1975 to 1200 in 1992 (Cornforth et al., 1988) As the main registration body, after 1976 ICOM registered over 2,700 cooperatives (Cooperative Commission, 2001, p. 73).

Many summaries of cooperatives 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 coops were a widely recognised form of social enterprise, with close local community and trade union links. He described more than 20 employee owned local bus companies (Spear 1999). Woodin et al (Woodin, Crook et al. 2010) described cooperative housing and other cooperative developments during this period.

There was a similar expansion in Scotland. “January 1997 CBS Network - 110 community businesses in Scotland, 1,095 full-time employees, 68 part-time, combined turnover £13.67mn” (Kay, Community Business Scotland Network 2003). The CENTRIS Report shows that in 1991 there were about 150 community businesses and cooperatives with about 8,400 members and shareholders, and an annual turnover of more than £15 million. Community businesses employed 700 people full-time, with another 200 part time, and 450 on a sessional or outworker basis (Knight, 1993, p. 181).

5.3 Numbers of Cooperatives

Figure 5.3.1 ICOM Registrations (Laycock and Coops 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

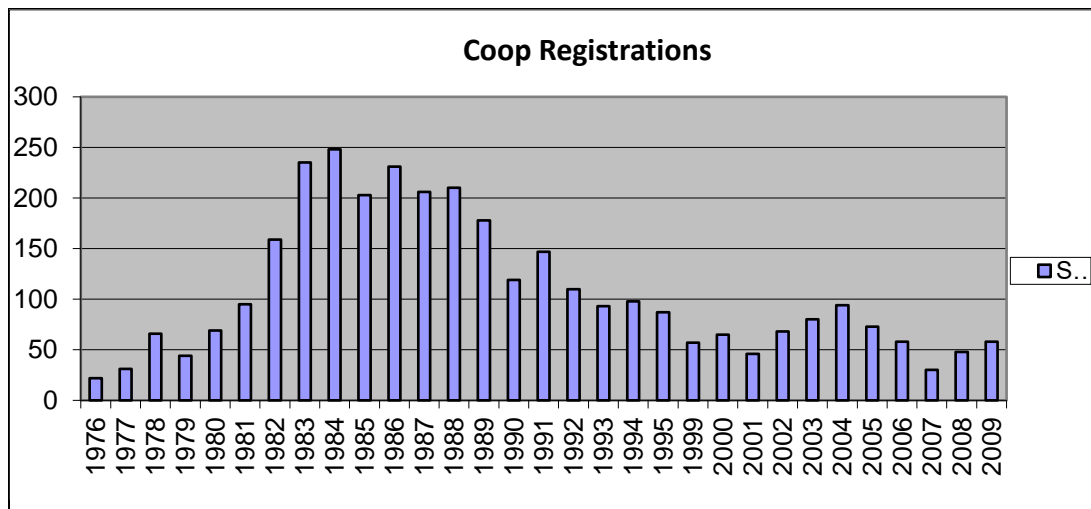
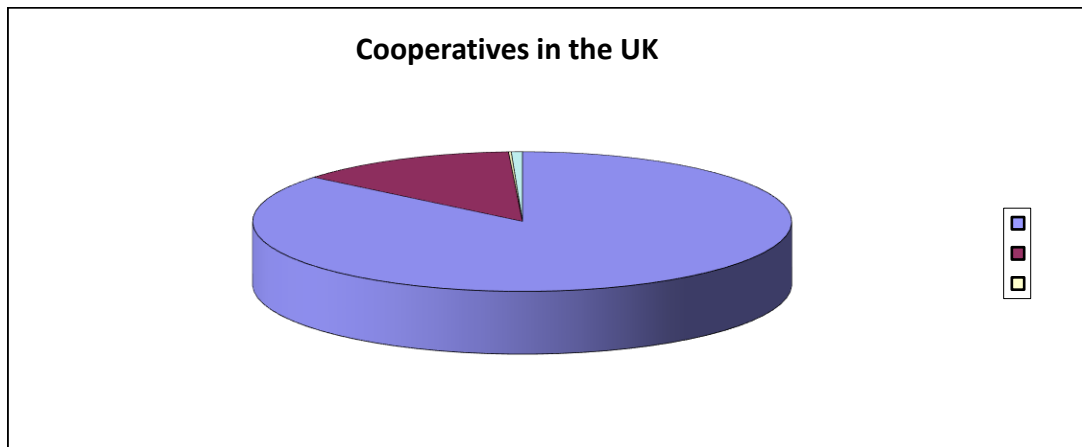


Figure 5.3.2 ICOM Registrations (Laycock and Coops UK, 2017)



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

6: Role of Local Authorities

6.1 Labour Councils and Cooperatives

Many Labour local authorities, especially Greater London Council and Sheffield City Council, placed employment growth at the centre of their economic development strategies. 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.

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*

Newman summarises similar 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 cooperatives 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 writes about these activities (Brown, 2003):

“The GLC poured millions of pounds into cooperative development. This contributed to the spectacular growth of workers' cooperatives, from a handful in the mid-1970s to over 1,500 a decade later”.

SCDG recommends further examination of these successes of Labour Councils during the 1970s and 1980s. In the face of Conservative Government policies, many Labour councils stimulated economic activity through cooperative and community structures. Centres against unemployment, 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).

From 1972 to 1986, the Metropolitan Councils of Greater Manchester, Merseyside, South Yorkshire, Tyne and Wear, West Midlands and West Yorkshire sought to develop local social economies through cooperative development agencies. Outside London, 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 a Sheffield Cooperative Development Group, with cooperatives as 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 cooperatives*
- *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)*

“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).

Local government in Scotland was equally active, with promotion of community businesses. “By 1993 it was estimated there were 329 community businesses and enterprises in England and Wales (Pearce, 1993) (Hayton et al., 1993, p. 2). 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). Others describe this period as a struggle between municipal socialism and urban entrepreneurialism “During the 1980s local authorities engaged in a wide range of economic development activities.....Many encouraged cooperative and community enterprise to provide permanent local jobs in socially useful products for people marginalised by market forces” (Parkinson, 1989, p. 430). Many of these structures are still in existence.

Despite Conservative Government resistance to these activities, Labour controlled councils sought common ownership of the vehicles of regeneration, through local community and workers’ control structures. Central government sought to curtail local government’s involvement and participation in these strategies and devolve ownership to various elements of local capital (O’Toole, Mo, 1996, p. 29). Stoker described increasing levels of central intervention in the local democratic arena during the 1980s, using five strategies of intervention: legislation, minimal consultation, targeted funding, the by-passing of local government and a major reorganisation of local government (Stoker 1988) (O’Toole, Mo, 1996, p. 63).

6.2 More Powers for Local Authorities

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 ... Wixley, Sue, 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 cooperative 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

7: Conclusions

7.1 Procurement, Commissioning and Tendering in the Market

While SCDG New Economics Foundation and previous Cooperative Party and Cooperatives UK policies represent a basis for increasing numbers of cooperatives in the UK, SCDG is concerned that these policies are advanced within a market economy, advocating procurement mechanisms which either seek to accommodate more cooperatives or to adjust those procurement mechanisms for cooperatives. This is a policy route recently championed by Social Enterprise UK, based on ‘entrepreneurial and management capabilities’, ‘community business related health innovations’ and ensuring that ‘community businesses and other social enterprises are not disadvantaged compared to other private and public sector providers (Stumbitz et al., 2018, pp. 40–42).

Section 3.1 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 rejects the use of these market mechanisms because they lead to commissioning, procurement and 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 afford to 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 Cooperatives Working for Economic Democracy

Before Labour’s political rupture with the Cooperative Movement under Labour Governments of 1997 and 2001, the three parts of the Labour Movement engaged in joint discussion to seek a way forward. SCDG believes that previous Labour proposals for Better Government for Older People in Section 3.3 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 these 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”.

Based on its founding principles, for these reasons, SCDG will work with Labour councils, trade unions and cooperatives to restore economic democracy in public service delivery.

8: References

- Access Foundation, 2018. Access - The Foundation for Social Investment [WWW Document]. ACCESS. URL <https://access-socialinvestment.org.uk/> (accessed 8.28.18).
- AECM, 2017. Guarantee Institutions? AECM.
- Aiken, M., Harris, M., 2017. The “hollowing out” of smaller third sector organisations? *Volunt. Sect. Rev.* 8, 333–342. <https://doi.org/10.1332/204080517X15090106925654>
- Bedford, S., Harper, A., 2018. Sustainable Social Care: What Role for Community Business? (New Economics Foundation), New Economics Foundation. New Economics Foundation, London.
- Benington, J., 1986. Local economic strategies: Paradigms for a planned economy? *Local Econ.* 1, 7–24.
- Blackburn, R., 2018. The Corbyn Project. *New Left Rev.*, *New Left Review* 5–32.
- Board of Governors of Federal System, 2016. Community Reinvestment Act (CRA) [WWW Document]. Community Reinvestment Act. URL https://www.federalreserve.gov/communitydev/cra_about.htm (accessed 1.2.17).
- Bounds, A., 2017. Local councils to see central funding fall 77% by 2020 [WWW Document]. *Financ. Times.* URL <https://www.ft.com/content/9c6b5284-6000-11e7-91a7-502f7ee26895> (accessed 8.8.18).
- Brown, J., 2003. Defining Social Enterprise, in: Bristol, U. of (Ed.), *Defining Social Enterprise*. Presented at the Small Business and Entrepreneur Development Conference, University of Surrey 2003, University of Bristol.
- Brown, Jim, 2004. *Cooperative Capital (Cooperative Action)*, Cooperative Action. Cooperative Action, Manchester.
- Buchanan, G., 1986. Local economic development by community business. *Local Econ.* 1, 17–28.
- Campbell, Mike, 1983. ICOM -Note by Mike Campbell, Secretary.
- Castillo, J. dei, Khan, H., Nicholas, L., Finnis, A., 2016. Health as a Social Movement: The Power of People in Movements [WWW Document]. Nesta. URL http://www.nesta.org.uk/sites/default/files/health_as_a_social_movement-sept.pdf (accessed 9.17.17).
- ChangeAgents, 2015. Fair Care: The Three C’s of Fair Care [WWW Document]. Chang. Fair Care. URL http://www.changeagents.coop/Change_AGEnts/Fair_Care.html (accessed 1.2.17).
- Chartered Global Management Accountant (CGMA), Chartered Institute of Public Finance and Accountancy (CIPFA), 2018. Transformation: How Finance Teams are driving Local Government Innovation (No. Volume 5). CIPFA, London.

- Christie Commission, 2011. Commission on Future Delivery of Public Services (No. ISBN: 978-1-78045-214-2). Scottish Government, Edinburgh.
- Cochrane, A., 1991. The Limits of Local Politics: Local Socialism and the Local Economy in the 1980s A Case Study of Sheffield's Economic Policies. (PhD Thesis). Open University, Milton Keynes.
- Comptroller and Auditor General, 2003. Development Effective Services for Older People [WWW Document]. Natl. Audit Off. URL <https://www.nao.org.uk/wp-content/uploads/2003/03/0203518.pdf> (accessed 9.14.18).
- Cooper, C., Graham, C., Himick, D., 2016. Social impact bonds: The securitization of the homeless. *Account. Organ. Soc.* 55, 63–82. <https://doi.org/10.1016/j.aos.2016.10.003>
- Cooperative and Community Finance, 2016. Ethical Policy – Co-operative and Community Finance [WWW Document]. Cooperative Community Finance. URL <https://coop-finance.coop/ethical-policy/> (accessed 1.2.17).
- Cooperative Commission, 2001. The Cooperative Advantage: Creating a Successful Family of Co-operative Businesses. Cooperative Commission, London.
- Cooperative Party, 2017. A co-operative economy (Cooperative Party). Manchester.
- Coops UK, Wright, J., 2017. Co-operative approaches to care and wellbeing in England [WWW Document]. Coops UK. URL <https://padlet.com/huckfield/4jcaog0bv8fs> (accessed 9.17.17).
- Cornforth, C., Thomas, A., Lewis, J., Spear, R., 1988. Developing Successful Worker Cooperatives, Worker Cooperatives. Sage, London.
- Crouch, C., 2003. Commercialisation or Citizenship. *Fabian Soc. Fabian Ideas* 606, pp-1-76; pp 1–76.
- Crown Commercial Service, 2015. Guidance on the New Light Touch Regime for Health, Social, Education and Certain Other Service Contracts [WWW Document]. Crown Commer. Serv. URL https://www.uk.coop/sites/default/files/uploads/attachments/guidance_on_the_new_light_touch_regime_for_health_social_education_and_certain_other_service_contracts1.pdf (accessed 3.19.17).
- Department of Health, 2017. Health and Wellbeing Fund 2017-2018: Social Prescribing Information pack for voluntary, community and social enterprise (VCSE) sector organisations [WWW Document]. Dep. Health. URL https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/640469/HWB_Fund_Application_Pack.pdf (accessed 9.17.17).
- Department of Health, 2006. Our Health, Our Care, Our Say: a New Direction for Community Services. Department of Health, London.
- Department of Trade and Industry, 2004. Companies (Audit, Investigations and Community Enterprise) Act 2004 [WWW Document]. Legislation.Gov. URL http://www.legislation.gov.uk/ukpga/2004/27/pdfs/ukpga_20040027_en.pdf (accessed 1.2.18).

- Department of Trade and Industry, 2002. *Social Enterprise: a Strategy for Success*. Department of Trade and Industry, London.
- Dowling, E., 2017. In the wake of austerity: social impact bonds and the financialisation of the welfare state in Britain. *New Polit. Econ.* 22, 294–310. <https://doi.org/10.1080/13563467.2017.1232709>
- Employee Ownership Association, 2018. *EOA Bigger Thinking Series part 5: Supporting the Spin-outs*. Empl. Ownersh. Assoc.
- Financial Conduct Authority, C.H., 2002. *Memorandum and Articles of Social Enterprise Coalition*.
- Floyd, D., 2017. *Subsidy in the social investment market – part 3*. ACCESS.
- Floyd, D., Davis, K., Merryfield, A., 2017. *Mapping the Use of Subsidy in the UK Social Investment Market (Access Foundation)*, Access Foundation. Access Foundation, London.
- Forster, S., Gregory, D., 2016. *Innovation in Health and Care: the Opportunity for VCSEs – a South West Perspective [WWW Document]*. *South West Acad. Health Sci. Netw.* URL <http://www.swahsn.com/wp-content/uploads/2016/05/Innovation-in-Health-Care-The-Opportunity-for-VCSEs-SW.pdf> (accessed 9.17.17).
- Freud, D., 2007. *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work. An Independent Report to the Department for Work and Pensions*. Department of Work and Pensions, London.
- Glover, J., 2017. *Councils and their role in local growth*. LGIU Local Gov. Inf. Unit.
- GMB Scotland, 2015. *GMB Scotland Response to Scottish Government Consultation on Changes to Public Procurement Rules in Scotland. April 2015 (Submission to Scottish Government)*, Scottish Government Consultation on EU Procurement. GMB Union, Scotland.
- Gowan, P., 2009. *Crisis in the Heartland*. *New Left Rev.*, II 5–29.
- Guinan, J., Hanna, T.M., 2017. *Forbidden fruit: The neglected political economy of Lexit*. *IPPR Progress. Rev., IPPR Progressive Review* 24, 14–24. <https://doi.org/10.1111/newe.12032>
- Hayes, Mark, 2013. *The Capital Finance of Cooperative and Community Benefit Societies: A Discussion Paper for Cooperatives UK. (Report for Cooperatives UK)*, Cooperatives UK Discussion Paper. Cooperatives UK, Manchester.
- Hayton, K., Turok, Ivan, Gordon, Joan, Gray, John, 1993. *Community Business in Scotland: Final Report submitted to Scottish Local Authorities and Scottish Enterprise National. (Centre for Planning, University of Strathclyde)*. University of Strathclyde, Glasgow.
- HM Treasury, 2002. *The Role of the Voluntary and Community Sector in Service Delivery: A Cross Cutting Review*. HM Treasury, London.

- Hoare, George, Murray, Patrick, Wixley, Sue, 2016. *Boldness in Times of Change: Rethinking the Charity Sector for the Future* (New Philanthropy Capital), New Philanthropy Capital. New Philanthropy Capital, London.
- Hopkins, A., 2009. *The Users' Experience*, in: *Social Enterprise for Public Service: How Does the Third Sector Deliver?*, Smith Institute. Smith Institute, London, p. 100.
- Jolley, D., 2002. Better government for older people. *Int. J. Geriatr. Psychiatry* 17, 90–90. <https://doi.org/10.1002/gps.531>
- Knight, B., 1993. *Voluntary Action: The Centris Report* (CENTRIS No. ISBN 1 85893 064 2), CENTRIS. Centris, Newcastle.
- Labour Party, 2003. "New Hope for Britain" Labour Party Manifesto 1983 Public and Cooperative Enterprise.
- Lawless, P., Brown, F., 1986. *Urban Growth and Change in Britain: An Introduction*. Harper and Row, London.
- Lawrence, M., Pendleton, A., Mahmoud, S., 2018. *Co-operatives unleashed* [WWW Document]. *New Econ. Found.* URL <https://neweconomics.org/2018/07/co-operatives-unleased> (accessed 7.29.18).
- Lawson, N., 1984. *Economic policy: The British Experiment (The Mais Lecture)* | Margaret Thatcher Foundation [WWW Document]. Margaret Thatcher Found. URL <https://www.margaretthatcher.org/document/109504> (accessed 5.31.18).
- Laycock, E., Coops UK, 2017. *ICOM Registration details* (No. Registration Figures from 1976 till 1999), ICOM Registrations. Coops UK, Manchester.
- Mayo, E., 2017. *Comment: Ed Mayo on Mutual Guarantee Societies proposal in Parliament* | Co-operatives UK Newsroom [WWW Document]. Coop. UK. URL <https://www.uk.coop/newsroom/comment-ed-mayo-mutual-guarantee-societies-proposal-parliament> (accessed 7.30.18).
- Mayo, E. (Ed.), 2015. *Co-operative Advantage*. Cooperatives UK.
- Meadway, J., 2013. *Why we need a new macroeconomic strategy*. [WWW Document]. *New Econ. Found.* URL https://neweconomics.org/uploads/files/66609d0bb3c446660a_z6m6b6zxt.pdf (accessed 7.27.18).
- Mellor Mary, 2010. *The Future of Money : From Financial Crisis to Public Resource*. PB - Pluto Press.
- Newman, I., 1986. Greater London enterprise board: Vision and reality. *Local Econ.* 1, 57–67.
- Neyland, D., 2018. On the transformation of children at-risk into an investment proposition: A study of Social Impact Bonds as an anti-market device. *Sociol. Rev.* 66, 492–510. <https://doi.org/10.1177/0038026117744415>
- Nicol, D., 2010. *The Constitutional Protection of Capitalism*, 2010th ed. Hart Publishing, Oxford and Portland, Oregon.

- O'Donohoe, N., Dormant Assets Commission, 2017. Tackling Dormant Assets. Recommendations to Benefit Investors and Society [WWW Document]. Gov UK. URL https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/596228/Tackling_dormant_assets_-_recommendations_to_benefit_investors_and_society__1_.pdf (accessed 3.8.17).
- O'Toole, Mo, 1996. Regulation Theory and the British State: The Case of Urban Development Corporations, 1996th ed. Avebury, Aldershot.
- Parker, K., 2018. Amazon's Worst Bargain Yet [WWW Document]. Counterpunch. URL <https://www.counterpunch.org/2018/08/03/amazons-worst-bargain-yet/> (accessed 8.6.18).
- Parkinson, M., 1989. The Thatcher Government's Urban Policy: A Review. Town Plan. Rev. 60, 421–445.
- Pearce, John, J., 1979. Sources of Finance for Small Cooperatives. (ICOM Pamphlet No. ICOM Pamphlet No 7), ICOM Pamphlets. ICOM. Industrial Common Ownership Movement, London.
- Pettifor, A., 2017. The Production of Money: How to Break the Power of the Bankers. Verso, London.
- Power to Change, 2018. Power to Change [WWW Document]. Power Change. URL <https://www.powertochange.org.uk/> (accessed 8.8.18).
- Preston, R., 2018. £330m from dormant accounts to be spent over next four years [WWW Document]. Civ. Soc. URL <https://www.civilsociety.co.uk/news/330m-from-dormant-accounts-to-be-distributed-in-next-four-years-government-says.html> (accessed 6.14.18).
- Rees, C., 2014. Mutual Guarantee Societies (Private Members' Bill).
- Report to the Shadow Cabinet, 2017. Alternative Models of Ownership (Report of Shadow Cabinet). Labour Party, London.
- Sanchez-Graells, A., Telles, P., 2016. Public Contracts Regulation Commentary Regulation 77 – Reserved contracts for certain services [WWW Document]. Public Contracts Regul. Comment. URL <http://pcr2015.uk/regulations/regulation-77-reserved-contracts-for-certain-services/> (accessed 9.16.17).
- Scottish Government, 2011. Public Social Partnerships. Scottish Government, Edinburgh.
- Social Enterprise Advisor, 2017. Interview with Social Enterprise Advisor.
- Social Enterprise London Ltd, 1998. Certificate of Incorporation of a Private Limited Company: Company No 3502587. Co. House 1–39.
- Streeck, W., 2014. How Will Capitalism End? New Left Rev., II 35–64.
- Stumbitz, B., Vickers, I., Lyon, F., Butler, J., Gregory, D., Mansfield, C., 2018. The role of community businesses in providing health and wellbeing services: Challenges, opportunities

and support needs [WWW Document]. Soc. Enterp. UK. URL <https://www.socialenterprise.org.uk/the-role-of-community-businesses-in-providing-health-and-wellbeing-services-challenges-opportunities-and-support-needs> (accessed 8.6.18).

Vieta, M., 2015. The Italian Road to Creating Worker Cooperatives from Worker Buyouts: Italy's Worker-Recuperated Enterprises and the Legge Marcora Framework [WWW Document]. EURICSE. URL http://www.euricse.eu/wp-content/uploads/2015/08/WP-78_15_Vieta.pdf (accessed 1.3.17).

Villeneuve-Smith, F., Blake, J., 2016. The art of the possible in public procurement.

Watkins, D., 1976. Industrial Common Ownership Act.

Younger-Ross, 1998. Better Government for Older People. J. Integr. Care, Better Government for Older People 6, 236–239. <https://doi.org/10.1108/14769018199800048>