ALTERNATIVE MODELS OF OWNERSHIP

REPORT TO THE SHADOW CHANCELLOR OF THE EXCHEQUER AND SHADOW SECRETARY OF STATE FOR BUSINESS, ENERGY AND INDUSTRIAL STRATEGY

Labour
labour.org.uk

CONTENTS

We would like to thank Cheryl Barrott, Cllr Matthew Brown, Andrew Cumbers, Christopher Hope, Les Huckfield, Rob Calvert Jump, Neil McInroy, Linda Shaw and one other anonymous author for their contributions to this document. The document reflects the views of a number of these, and others; its contents should not be taken as representing the views of any of its authors.

This report is the work of external experts and constitutes a report to members of the Shadow Cabinet. It should not be taken to represent Labour Party policy.

EXECUTIVE SUMMARY

- The economic system in Britain, in its current guise, has a number of fundamental structural flaws that undermine economic strength and societal well-being. The predominance of private property ownership has led to a lack of long-term investment and declining rates of productivity, undermined democracy, left regions of the country economically forgotten, and contributed to increasing levels inequality and financial insecurity. Alternative forms of ownership can fundamentally address these problems.

- These issues are all the more pronounced given the increasing levels of automation in our economy. Automation has an emancipatory potential for the country's population, but the liberating possibilities of automation can only be realised – and the threats of increased unemployment and domination of capital over labour only countered – through new models of collective ownership that ensure that the prospective benefits of automation are widely shared and democratically governed.

- Cooperative ownership has the ability to increase employment stability and increase productivity levels, as well as making firms more democratic. To support the expansion of cooperatives in the UK it is necessary to improve their access to finance, and examples from Italy and Spain point in the direction necessary to achieve this. Cooperatives can further be supported by national legislation and a re-worked government procurement policy.

- Municipal and locally-led ownership can improve service provision and guarantee that economic prosperity is not concentrated in certain regions of the country. A variety of policies, including place-based budgets, increased powers being handed to local authorities, and the relocation of various major institutions outside of London can foster this type of ownership.

- National ownership of certain industries promotes long-term planning of the economy, helps to provide modernising infrastructure, quality health and social care, and to combat climate change. Examples around the world point to the positive contribution of national ownership, but in the UK national state ownership has historically tended to be too centralised, with power in the hands of a private and corporate elite. To improve national ownership in the UK requires taking measures to increase the democratic accountability of state ownership.

- To turn the proposals of this report into practical and popular policy will necessitate, amongst other things: the examination of sectors of the economy which may require national government intervention; the drawing up of a list of policies to develop and to have an open consultation with stakeholders on the biggest proposals; the establishment of a network of activists/experts to discuss governance issues in collectively/publicly owned organisations; and the preparation of a policy document for publication ahead of the September Party conference.

ONE

Why alternative ownership models are needed

In recent times, the economic system in Britain has been dominated by a particular form of ownership, that is to say, private property. This standard capitalist model of business organisation may be loosely defined as a legal structure in which private capital investors have the collective right to appoint management, as well as ownership rights to any residual income generation.

The hegemonic position of this form of ownership does not necessarily imply that it is the most beneficial method through which to provide economic and social well-being to our society. The following outlines the reasons why it is necessary to consider alternative ownership structures to improve our economy.

To encourage long-term economic activity and to make the economy more productive

Our current economy is detrimentally 'short-termist' in its outlook – with private firms, through financial intermediaries, "weighing near-term outcomes too heavily at the expense of longer-term opportunities and thus forgoing valuable investment projects and potential output".[1] Because of this Britain has low rates of investment and productivity relative to other countries of similar levels of development. This has become particularly stark in recent times: from 2000-2005 Britain's productivity rate (output per worker) was almost the same as the other G7 economies, but since then the gap between Britain and these nations has widened considerably, with Britain's GDP productivity rate now 18% lower than the average for the remaining members of the G7.[2]

A low rate of productivity means Britain is less effective at turning labour and other inputs into outputs than other countries, which, over time, will make the country less wealthy. Beyond general economic growth, there is also a close association between low productivity and low wages. When cheap labour is widely available, firms have less incentive to invest in labour-saving, productivity-enhancing, capital. On the other hand, when productivity is higher, firms can afford to pay workers higher wages. Productivity is therefore an important component of economic well-being, especially in the long run.[3]

Tackling short-termism and low investment is key to improving productivity, and thus wealth, in our economy. Both phenomena are linked to an undue focus on shareholder value, with companies being used to pay out dividends or, in the extreme, asset-stripping, instead of being treated as viable, long-term concerns. More collective and inclusive forms of corporate governance may discourage the use of companies for individual or short-term gain, or the use of low wage labour at the expense of productivity. Similarly, reassigning responsibility for running companies away from those with an interest in extracting value towards those whose interest lies in their long-term viability and growth, such as the workforce or other stakeholders, will help to tackle these problems.

To strengthen democracy

There is a commonplace implicit assumption in UK society that there is a natural separation between the political and economic realms, with democratic structures and processes only applying to the former. The economic realm, unlike the political realm, is deemed too complex and sensitive to be

[1] Davies, R., Haldane, A., Nielsen, M, & Pezzini, S. 2014. "Measuring the costs of short-termism". Journal of Financial Stability, 12: 16-25.

[2] See the ONS's 'International comparison of productivity', available at: https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/internationalcomparisonsofproductivityfirstestimates

[3] For a discussion of 'causality' at shorter frequencies see Tuckett, A. 2017. "Does productivity drive wages? Evidence from sectoral date." Available at: https://bankunderground.co.uk/2017/03/30/does-productivity-drive-wages-evidence-from-sectoral-data/

treated in the same way, and in consequence of the lack of democratic process, economic decisions are often made by, and on behalf of, a narrow elite, with scant consideration of the well-being of the general population. The process of privatisation has further increased the areas of society that are not subject to democratic decision-making.

Increasing the role of democracy and representation in governing our economy would serve as a means of broadening the range of voices involved in making economic decisions, which would in turn help to ensure that our economy meets a wider range of needs and serves a more diverse set of interests. This objective can only be realised through ownership models that embody genuine agency and collectivism, which requires attention to the social and cultural aspects of ownership models as well as their economic ones. It also raises the question of how economic ownership interlinks with devolution – the experience of localities that are already exploring alternative forms of ownership is that they could go further if local areas had their own institutions and legislative powers.

To promote equality and financial security

Over the last 40 years, inequality in Britain has increased dramatically across households and regions, with wealth becoming increasingly concentrated around landed property and finance, particularly in London and the South East. The growth of precarious work and the ad hoc ("gig") economy has also increased insecurity (defined on a social and familial, as opposed to national, level). The failure of the state, not only to democratise and redistribute wealth, but also to prevent it from sliding away from localities, raises the question of whether alternative ownership models can help to increase economic equality and security. Wage gaps tend to be lower in cooperatives, and, during periods of economic difficulty, cooperatives tend to reduce labour costs by wage reductions/time off rather than job losses, boosting security (see Section 3a).

To remedy a lack of public funding

A decreased tax take and shortage of inward investment in certain areas has created a lack of funding for regeneration and public services. Alternative models of ownership can help to address this by serving as a means to capture local wealth and channel it back into the area. For example, Preston council have sought to create a network of local cooperatives to fill procurement gaps (see Section 3b).

To address the failure of privatisation

There is growing international awareness that, instead of improving the efficiency of public service provision, privatisation has damaged service quality and facilitated the ciphering of public money for profit. As a result, around the world, countries are now rejecting privatisation. This is creating the space for a range of alternative models of ownership, such as national ownership, to flourish, improving both public service provision (at national and local levels) and to making the process more democratic (see Section 3c).

To tackle increasing automation and the digitisation of the economy

As will be discussed in greater detail in Section 2, the rise of machine learning and automation will shift power decisively from labour to capital in important ways. In particular, such technological advancement is associated with increased monopolisation and increased rent extraction. Alternative ownership of enterprises will help to ensure that the consequences of increased automation will not be detrimental to labour. Similarly, alternative ownership of the digital economy and data generated by and about us – the potential value of which is £200 billion – would prove beneficial in numerous respects.

TWO
Increased automation in the economy

Automation is both a promise and a threat, offering the possibility of material abundance and greater leisure set against the risk of growing economic inequality and mass unemployment. It describes the process through which control of decision-making systems become increasingly independent of human intervention. Although this is a process that has been going on for centuries, a reinforcing combination of rapidly improving technologies – machine learning, robotics, automation technology, artificial intelligence, the Internet of Things, digital technologies – mean the coming wave of automation may well be different.

Crucially, the coming wave of automation will be able to do both cognitive and physical work, routine and non-routine work. This will have very significant impacts on the quantity and type of work in the economy, profoundly reshaping production, consumption, transportation and logistics systems. At the same time, widespread automation is likely to have significant economic effects in terms of the distribution of economic winners and losers.

A number of factors will shape the pace and extent to which automation occurs, including technical feasibility, the cost of development and deployment, the state of labour markets, regulatory costs, and social acceptance. Estimates vary over the speed and scale at which automation will take place:

- The Bank of England estimate that two thirds of jobs in the UK today are at risk of automation in the next two decades

- McKinsey Global Institute suggest half of today's work activities could be automated by 2055, but this could happen up to 20 years earlier or later depending on various factors/policies adopted. They also suggest that 60% of occupations have at least 30% of their activities that are automatable.

- Michael Osborne and Carl Frey have stated that almost half of jobs are at risk of automation in the UK.

- The OECD suggest only 10% of jobs are at risk of automation in next two decades, but suggest that 50% of all jobs may radically change in terms of how they are organised and what tasks people do at work.

Irrespective of the precise rate of automation, core effects under a 'business as usual' policy world are likely to include:

- **Significant job losses:** Up to 15 million jobs in the UK are at risk of automation in the next two decades

- **Rising inequality:** An increasing concentration of income and wealth as a result of growing returns to high-level, niche and intellectual/creative skills, and to the ownership of capital. This will further polarise the labour market while deepening wealth inequalities

- **Productivity boom?** Automating technologies hold out the potential for significant gains in productivity

- **Work but not as we know it?** Human labour will increasingly complement rather than compete with machines, requiring new system of education and skills

- **Time, income and work changing:** Changes in the nature of work, the distribution of income and potentially of working time

- **New jobs and industries created:** As in other periods of technological change, new jobs and sectors are likely to be created. However, the scale and speed of change will be convulsive.

In the next decade, we are not likely to be a 'post-human economy'. We may, however, be at peak-human in terms of the central role of human labour within the production process. This will bring immense challenges and potential opportunities, which politics will have a vital role in shaping so that we all benefit from technological change.

The risk is that, as Daniel Susskind recently wrote, "increasingly capable machines drive down relative wages and the labour share of income and force labour to specialise in a shrinking set of tasks", or in a more dynamic model of technological change, "the endogenous accumulation of capital drives labour out the economy at an endogenously determined rate, and absolute wages fall towards zero. In the limit, labour is fully immiserated and 'technological unemployment' follows".[4]

In other words, labour's share is progressively cannibalised by capital, the automation of the economy risks entrenching a new form of economic feudalism: those who own the robots will reap the rewards, the rest will struggle as human labour becomes less and less important in the production process.

However, the bigger immediate challenge is not the imminent rise of the robots but that too many people will remain trapped in robotic, drudgery-filled and low-productivity jobs. In this context, accelerating automation is a key political project. The goal should be to embrace the technological potential of modernity, accelerating into a more automated, productive future with all its liberating possibilities, while building new institutions around ownership, work, leisure and investment, where technological change is shaped by the common good.

We should therefore seek to accelerate technological change – rapid automation should be a political project – while building institutions that ensure that its benefits are widely shared and democratically governed. Potential policies to do this could include:

- New models of collective, democratic ownership to ensure the economic benefits of automation are widely shared. This could range from introducing national profit sharing schemes, to incentivising the growth of cooperatives and mutuals, to establishing a sovereign wealth fund where FTSE listed companies are required to issue a percentage of stock on incorporation.
- Higher wage floors to incentivize automation and boost pay
- An education and skills system that promotes creativity and skills that complement machines and heightens the comparative advantage of humans
- A shorter working week to fairly share productivity gains, that could be introduced gradually
- And potentially in time a universal basic income to supplement labour market income.

Further reading:

- **Melanie Arntz, Terry Gregory, and Ulrich** Zierahn of the OECD, who have written extensively on the likely impact of automation across developed economies, and conclude that lesser-skilled, lower-paid jobs will be most profoundly affected
- **Alex Williams and Nick Srnicek,** co-authors of Inventing the Future (2015) argue that rapid automation should be an explicit project to move to a lower work, higher productivity economy, and argue for a basic income and reduced working time
- **IPPR's Future Proof: Britain in the 2020s** (2016) examined many of the key technological and economic trends, including automation and its likely impact

[4] Susskind, D. 2017. "A Model of Technological Unemployment." University of Oxford Department of Economics Discussion Paper Series

- **Andy Haldane,** Chief Economist at the Bank of England, who has written on the impact of automation and potential policy responses, including in his 2015 speech, 'Labour's share'

- **Daniel Susskind and Richard Susskind**, co-authors of The Future of the Professions: How Technology Will Transform the Work of Human Experts (2015) argue that technological change will lead to the decline of today's professions and describes the people and systems that will replace them

- **McKinsey Global Institute and the World Economic Forum** have both published reports on the potential impact of automation and how policymakers should respond

THREE

Different models of alternative ownership

There exists a wide array of alternative models of ownership that could, as indeed they do in various other parts of the world, prove of benefit to our economy. This section will outline a number of these, starting at the micro level (cooperatives), before discussing municipal and local-led ownership, and finally at the most macro level (that of national ownership). For each the report will consider their merits, existing examples, and what is required to expand or create them in Britain.

a) Cooperatives

Description

A cooperative is essentially an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity.[5]

In the tradition of their founders in the 19th century, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others. Generally speaking there are five types of cooperatives: worker cooperatives, consumer cooperatives, purchasing cooperatives, producer cooperatives, and multi-stakeholder cooperatives.[6] The following principles are guidelines by which cooperatives put their values into practice:

a) Cooperatives are voluntary organisations, open to all able to use their services and willing to accept responsibilities of membership, without gender, social, racial, political or religious discrimination.

b) Cooperatives are democratic organisations controlled by members, who participate in setting policies and making decisions.

c) Members contribute equitably to, and democratically control, the capital of their cooperative.

d) If cooperatives enter into agreements with other organisations, including governments, or raise capital from external sources, terms ensure democratic control and maintain cooperative autonomy.

e) Cooperatives provide education and training for their elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives.

f) Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

g) Cooperatives work for sustainable community development through policies approved by members

Worker cooperatives

Cooperatives UK defines worker cooperatives as those businesses where the members and beneficiaries work for the cooperative and have direct ownership and control. The UK legal framework for cooperatives is not as prescriptive as in many countries where a worker cooperative would have a precise legal definition. Hence in the UK, the boundaries between employee ownership and a worker cooperative are difficult to pin down. Many would argue that there has to be at least 51% ownership by workers and that the business should adhere to the core coop values and

[5] For a more detailed overview of types of cooperatives, see Appendix 1.
[6] For more information, see: http://www.iwdc.coop/why-a-coop/five-types-of-cooperatives-1

principles.[7] Does that make John Lewis a worker coop? The jury is still out.

The International Cooperative Alliance and Institutional Organisation of Industrial and Service Companies issued the following summary:

"Worker cooperatives have the objective of creating and maintaining sustainable jobs and generating wealth, in order to improve the quality of life of the worker-members, dignify human work, allow workers' democratic self-management and promote community and local development." [8]

As of 2012, Cooperatives UK estimated that there are around 500 worker co-ops, with just under 80,000 workers in the UK being members of worker cooperatives - although this relies to a great extent on defining the John Lewis partnership as a cooperative - and a further 78,500 workers were employed on a non-member basis by worker cooperatives.[9] As there were approximately 30,000,000 people employed in the UK in 2012, worker cooperative members constituted approximately 0.27% of total employment. BIS estimated in 2012 that employee owned businesses were worth approximately £25 billion annually, constituting around 2% of UK GDP.[10]

The number of cooperatives in the UK is far less than in many other developed countries. Spain, for example, has 20,000 worker cooperatives including the Mondragon – one of the most successful worker co-ops globally (discussed below). In Spain, Italy and France legal frameworks facilitate the transfer of family businesses to worker cooperatives which has helped to greatly boost their number.[11]

Advantages

There are a number of well understood benefits to worker cooperatives and employee stock ownership plans (ESOPs)[12], including the stability of employment rates among cooperative members during recessions, and productivity and efficiency gains.[13] Craig and Pencavel (1995) is considered to be one of the more reliable studies in the literature, and finds that worker cooperatives in the US plywood industry (see below) are more efficient than conventional firms, with some estimates showing a 6-14% productivity advantage.[14] A more recent study examined a sample of 26 Italian worker cooperatives over the period 1981 to 1988, and 51 conventional firms over the period 1981 to 1989, and concluded that there is no significant productivity differential between worker cooperatives and capitalist firms.[15] Finally, firms with ESOPs appear to outperform firms without ESOPs along productivity lines in the USA and UK, with the evidence here being more straightforward.[16]

Existing examples and pitfalls to be avoided

If worker owned and controlled firms are prima facie viable given the apparent productivity advantage over conventional firms, or at least the apparent lack of a productivity disadvantage, why are they rarely observed? This is an important question to answer if we wish to increase the diversity of ownership structures in the UK. The following will illustrate an important explanation which is commonly proposed in the academic literature, by examining case studies from the USA, UK, Italy, France, and Spain.

The argument is that worker owned firms are intrinsically limited in their ability to attract finance, as capital providers (either via capital markets or banks) are unlikely to provide long term funding to firms over which they have no control.[17] As a result, worker owned firms may

[7] Ambrose, J. 2011. "What is an employee owned cooperative?" Available at: http://www.uk.coop/newsroom/what-employee-owned-cooperative
[8] CICOPA. 2005. "World Declaration on Cooperative Worker Ownership." Excerpts available at: http://www.geo.coop/archives/cicopa604.htm
[9] Cooperatives UK, 2012
[10] BIS. 2012. "The employee ownership advantage: Benefits and consequences".
[11] CECOP. 2013. "Business Transfers to Employees under the Form of a Cooperative in Europe."
[12] For more information on ESOPs, see: https://www.nceo.org/articles/esop-employee-stock-ownership-plan

[13] Pencavel,J., Pistaferri, L., & Schivardi, F. 2006. "Wages, employment, and capital in capitalist and worker-owned firms." Industrial and Labour Relations Review, 60(1), 23.
[14] Craig, B., and Pencavel, J. 1995. "Participation and productivity: A comparison of worker cooperatives and conventional firms in the plywood industry", in Baily et al, eds., Brooking Papers on Economic Activity: Microeconomics, Washington DC: Brookings Institution Press, 121-174.
[15] Jones, D. 2007. The Productive Efficiency of Italian Producer Cooperatives: Evidence from Conventional and Cooperative Mills. In Cooperative Firms in Global Markets: Incidence, Viability, and Economic Performance, eds Novkovic, S., and Sena, V. Oxford: Elsevier.
[16] See, for example, Kruse, D., and Blasi, J. 1995. "Employee Ownership, Employee Attitudes, and Firm Performance". NBER Working Paper Series 5277; Dow, G. 2003. Governing the firm: Workers' control in theory and practice. Cambridge: Cambridge University Press; Pendleton, A., and Robinson, A. 2010. "Employee Stock Ownership, Involvement, and Productivity: An Interaction-based Approach". Industrial and Labor Relations Review, 64, 3-29.
[17] Most commonly this means the unavailability of equity as a source of external finance. Additionally, however, debt-financed investment may be harder to come by if perceptions of risk and/or motivation by factors other than profit maximisation lead lenders to ration credit.

under-invest relative to capitalist firms, and when under financial stress, worker owned firms are particularly vulnerable to acquisition by capitalist firms. For this reason, although worker owned firms enjoy static productivity advantages, they suffer dynamically. Following Vanek (1975), this suggests the need for "shelter" organisations for worker owned firms, which would fund and promote the sector.[18] This insight will be discussed in further detail following the case studies.

Plywood worker cooperatives in the USA

The plywood worker cooperatives of the US Pacific Northwest are some of the best researched worker cooperatives in the world. Most of these firms originated in the 1940s and 1950s, when 24 were founded. During 1942-57 worker cooperatives accounted for 20-25% of total plywood production in the USA, which had fallen to 14% by 1964. While 24 cooperatives were still active in 1964, this fell to 21 in 1972, 10 in 1989, 7 in 1990, and only three in 2001.[19]

By all accounts, these cooperatives were at least as productive as their rival non-cooperative firms.[20] In addition, they appear to have suffered no difficulties in gaining access to short term finance. However, widespread degeneration has been reported, in the sense that the membership of the cooperatives relative to non-member employees of the cooperatives declined over time, and/or the firms were sold. Three plywood cooperatives were sold to capitalist firms within 30 years of their founding - for sums that realised the members large capital gains - and this type of exit is also known to have occurred in cooperage (barrel making) cooperatives in the USA.[21]

Historically, worker cooperatives in the USA are also known to have suffered from low levels of investment. For example foundry cooperatives, which maintained relatively low capital stocks compared to the industry average, were usually founded with lower initial levels of capital.[22] Although equivalent data for plywood cooperatives do not appear to exist, it has been reported that the period of declining plywood cooperatives in the Pacific Northwest coincided with a shift in plywood production to the South, which was mainly organised by capitalist firms using less labour-intensive production methods.[23]

It has been argued that one of the elements contributing to the success of the US plywood cooperatives in the middle twentieth century was the existence of a supportive trade association.[24] This corresponds to Vanek's argument that, "it is imperative to establish a shelter organization... whose express function would be to fund and promote the self-managed sector".[25] Given this, the trade association was not able to prevent the long term decline of the cooperative sector. Low levels of investment correspond to reduced access to long-term finance - unsurprisingly so, as outside investors (whether via banks or capital markets) are unlikely to put funds into an enterprise over which they have no control, particularly in a society which is committed, historically and ideologically, to capitalist forms of firm organisation. For the same reason, when a worker cooperative or worker owned firm is under financial stress, the pressure to issue stock, or sell to a capitalist firm with greater access to long term finance, is high. This appears to have been the case in many US workers cooperatives over the twentieth century, including in the plywood cooperatives and cooperage cooperatives.

Employee stock ownership plans (ESOPs) in the UK

ESOP firms are peculiar in that the relation between worker ownership and control is less straightforward than worker cooperatives, and as a result firms are more heterogeneous in this respect. Furthermore, while worker cooperatives have traditionally been associated with the Left, increasing worker ownership via ESOPs has commonly been a goal of the Right.[26] Nevertheless, it does represent an alternative ownership structure to capitalist firms, and some of the features of firms with ESOPs can be found

[18] Vanek, J. 1975. Self-management: Economic liberation of man: Selected Readings. Hammondsworth: Penguin Education.
[19] Dow, 2003
[20] Dow (2003) reports that a tax court in 1931 ruled that Olympia Veneer, the first plywood cooperative in the USA, was justified in paying higher wages than conventional mills because it had higher labour productivity, despite the fact that higher wages meant that the mill paid less corporate income tax.
[21] Jones, D. 1979. "U.S. producer cooperatives: The record to date". Industrial Relations, 18(3), 342-357
[22] Jones, 1979
[23] Dow, 2003
[24] Dow, 2003
[25] Vanek 1975, 34-35
[26] Pendleton quotes Ronald Reagan, via Russell (1984), as enquiring whether there, "could there be any better answer to the stupidity of Karl Marx than millions of workers sharing in the ownership of the means of production?" Pendleton goes on to argue that ESOPs have been seen as a useful way of reducing unionisation, and a way in which firms can off-load income risk onto workers.

in worker cooperatives. In particular, a major study by the US General Accounting Office in the 1980s found that ESOPs by themselves appeared to have no productivity effects, but when combined with worker participation were found to increase productivity.[27]

Private firms with ESOPs emerged in the UK as a by-product of privatisations in the 1990s, particularly in bus transport and similar industries, although another group of firms emerged from "rescue" operations for conventional firms, in a similar manner to a number of the plywood cooperatives considered above.[28] In total, 29 bus firms were created with ESOPs during privatisation in the early 1990s (Table 1 summarises the schemes). These bus companies tended to be under pressure after deregulation of bus routes in the 1980s, and union involvement during the creation of ESOPs was high. In particular, it appears to have been seen as a way to maintain wage levels after privatisation. Aside from these idiosyncratic reasons, ESOPs appear to have been common in industries such as bus transport for similar reasons to the arguments presented by economists examining worker cooperatives in the USA. In particular, industries such as bus transport have limited research and development needs, and limited investment requirements. The need to raise long term finance is therefore relatively low. Moreover, the capital goods (e.g. buses) are easy to lease in these industries, and are therefore a reasonably good source of collateral for short term borrowing.[29]

While ESOPs do not disappear due to degeneration – unlike worker cooperatives, as there is less to degenerate from – firms in stable markets with limited long-term borrowing requirements will still run into financial stress intermittently. In this way they are still as vulnerable to take-over from conventional firms as are worker cooperatives. Pendleton (2001) reports only two remaining worker owned bus firms at the time of writing, and that a large number of early UK ESOPs were taken over by other companies within a couple of years of becoming employee owned. Again, this suggests the need for a "shelter organisation", and such organisations are rare in the UK.

Table 1: Bus company ESOPs in the UK[30]

Table 5.6 **Employee ownership in the bus industry (firms converting to employee ownership)**

Name of firm	Date of privatisation	Employee ownership (% of equity)	Insider ownership (% of equity)	Number of employeers at buy-out*
Luton and district	1987	100	100	641
People's Provincial	1987	100	100	281
Yorkshire Rider	1988	49	100	3,457
Busways	1989	49	100	1,897
Derby City Transport	1989	59	75	349
Grampian Transport	1989	33	84	369
Chesterfield Transport	1990	100	100	359
Lowland Scottish	1990	30	70	264
Eastern Scottish	1990	30	N/A	1,094
Cleveland Transit	1991	49	100	411
Clydeside 2000	1991	70	85	828
Kelvin Central	1991	92	100	1,336
Tayside Buses	1991	100	100	617
West Midlands Transport	1991	90	100	5,912
Western Scottish	1991	68	100	1,934
Lincoln City	1991	60	60	80
Merseyside Transport	1992	100	100	2,646
Brighton Borough	1993	100	100	264
Hartlepool Buses	1993	100	100	160
Mainline Partnership	1993	100	100	2,806
Preston Buses	1993	100	100	274
Southampton Citybus	1993	100	200	446
Strathclyde Buses	1993	80	100	2,543
Centrewest	1994	19	73	1,486
Greater Manchester North	1994	25	25	2,440
Greater Manchester South	1994	51	51	2,000
London General	1994	14	28.9	2,112
London United	1994	9.5	54.5	1,544
Metroline	1994	25	55	1,189

Notes
*Number of emplyees at the end of the financial year immediately preceding the buy-out except for Western Scottish and Clydeside 2000 where is is the number of employees a the buy-out.

Worker cooperatives in France

Estrin and Jones (1992) oppose the general view amongst orthodox economists that non-capitalist organisational structures are bound to fail in market economies, and note that much of this view stems from research into American firms.[31] They study a large sample of French worker cooperatives, where the majority are concentrated in construction, mechanical engineering, printing, consultancy, electrical products, and general services. Most of these sectors are similar to those considered above, i.e. sectors with relatively low requirements for long term borrowing.

[27] Pendleton, A. 2001. Employee ownership, participation, and governance: A study of ESOPs in the UK. London: Routledge.
[28] Pendleton, 2001
[29] One might also consider ESOPs in the airline industry as an example of this effect in action.
[30] Reproducing table 5.6 in Pendleton, 2001 (one column from the original has been removed for the sake of clarity).
[31] Estrin, S., and Jones, D. 1992. "The viability of employee-owned firms: Evidence from France". Industrial and Labor Relations Review, 45(2), 323-338.

The authors consider a number of hypotheses on survivability, including the potential for worker cooperatives to degenerate by reducing their membership as a percentage of total employees, and the propensity of cooperatives to under-invest. While they find a degree of degeneration in membership for young cooperatives, membership tends to pick up as firms age, and although capital-labour ratios appear to be steady in their sample, the levels are not compared to conventional firms.

Given the above, although the authors argue that French cooperatives appear to be relatively robust, at least compared to their US or UK equivalents, they do not raise external finance, and stop growing as a result despite their ability to survive in the marketplace. They suggest that the problem is mainly sectoral, and that an "international cooperative capital market" may be a solution to the growth problem of worker cooperatives.

More recently it has been noted by Perotin (2006) that the oldest French worker cooperative trading was founded in 1882, and that 16 contemporary cooperatives were founded prior to the First World War.[32] This study is in broad agreement with Estrin and Jones (1992) that, "SCOPs [French worker cooperatives], like Italian and Spanish cooperatives, are immune to the main exit processes identified in the theoretical literature, namely, self-extinction by underinvestment and degeneration to the capitalist form", and this is reflected in the longevity of French co-ops.[33] The reason for this is a sympathetic legal system, which requires the allocation of a certain part of annual profit to an indivisible reserve. Nevertheless, total employment accounted for by French worker cooperatives is approximately 36,000, and therefore accounts for a similar proportion of total employment as worker cooperatives in the UK.

Perotin's empirical evidence suggests that cooperative creation is counter-cyclical and largely born of necessity, in a similar manner to the emergence of ESOPs in the UK in early 1990s. Given this, higher rates of cooperative density (rates of existing cooperatives to conventional firms) appears to encourage the creation of new cooperatives, suggesting an importance for institutional support structures and cooperative infrastructure, as well as a simple virtuous cycle of existing cooperatives encouraging the creation of new cooperatives. Her results are therefore broadly in line with the suggestion for cooperative "shelter institutions" and financing bodies considered above. Despite a favourable legal system compared to the USA and UK, effective institutions of this type do not appear to exist in France.

[32] Perotin, V. 2006. "Entry, exit, and the business cycle: Are cooperatives different?" Journal of Comparative Economics 34, 295-316.
[33] Perotin, 2006.

Legacoop worker cooperatives in Italy

The Italian and Spanish worker cooperative movements are arguably the most successful in the high income countries. Between these, the Italian movement is the largest, with over 800,000 people estimated to be working in the cooperative sector.[34] Although the Italian statistics should be taken with a pinch of salt, the cooperative movement here is undeniably successful compared to the USA, UK, and other continental European countries. In the region of Emilia Romagna, in particular, around 10% of the workforce is employed in the cooperative sector, and 6% of the workforce are members of worker cooperatives.[35]

Like the French cooperative legal framework, Italian law requires the allocation of a certain part of annual profit to an indivisible reserve (currently 30%), and in the event of the cooperative being privatised, this reserve cannot be accessed by members or investors. Instead, it must be donated to a federation or another cooperative. This relieves, to some extent, the capital funding problems faced by cooperatives and worker owned firms in the USA and UK, and makes Italian (and French) cooperatives relatively immune to the pressure of privatisation due to financial stress.

At the same time, the sector enjoys tax advantages, preferential access to public contracts, job creation loans, and access to the financial expertise of banks and research institutions.[36] These are all relatively straightforward ways to encourage cooperative creation, and the peculiarity of the legal status of cooperative reserves are an apparently successful

[34] Corcoran, H., and Wilson, D. 2010. "The Worker Cooperative Movements in Italy, Mondragon and France: Context, Success Factors and Lessons". Canadian Social Economy Research Partnerships Working Paper.
[35] Corcoran & Wilson, 2010
[36] Dow, 2003

way to encourage cooperative survival. At the same time, Italian cooperatives receive a great deal of support from national federations, which are a good example of Vanek's "shelter" institutions.

The oldest cooperative federation is La Lega Nazionale delle Cooperative e Mutue, otherwise known as Legacoop. It was founded in 1886, and is essentially an umbrella organisation for a number of cooperative associations. Its central goal during its formation was to lobby for tax concessions and access to public work programs, and its first financial institution, the Institute for Cooperative Credit, was founded in 1904.[37] After the Second World War, when cooperatives were suppressed by Mussolini, the post-War constitution enshrined the promotion of cooperative enterprise in the Italian legal system, and various preferential laws were passed. Legacoop expanded through the 1950s and 1960s, during which time it was closely linked to the Italian Communist Party. It helped convert hundreds of failing private firms into cooperatives, involving tens of thousands of workers, and by the late 1980s it had 3.4 million workers as members. In Emilia Romagna, Legacoop directly accounted for 12.75% of GDP in this period, and became the fourth highest exporter in Italy.[38]

While this is not the place to engage in a detailed analysis of the Italian cooperative federations, three main points stand out. First, the federations lobby on behalf of their constituent cooperatives, work closely with trade unions and political parties (at least historically), and own financial institutions dedicated to providing credit and advice to cooperatives. Second, they are actively engaged in converting failing private enterprises into cooperatives. And finally, they are aided immensely by a sympathetic legal system and sympathetic tax system.

The Mondragon cooperative group in Spain

The Mondragon cooperative group is probably the most famous group of cooperatives in the world. Its forerunner was founded in 1954 by graduates of a technical school set up by a Basque priest, Don Jose Maria Arizmendi-Arrieta, who had supported the Republican side during the Spanish civil war and narrowly escaped execution.[39] After failing to raise funds by the usual means, alongside other problems relating to the Spanish legal system, Arizmendi-Arrieta discovered that a financial support organisation could be created to lend money to cooperatives, which led to the creation of the Caja Laboral Popular in 1959. This would become the central institution of the Mondragon group, and today has 1,800 employees and generates a revenue in the order of 300 million euros annually. As of 2008, the group as a whole employed around 100,000 people, and includes around 250 cooperatives and affiliated organizations, including 73 manufacturing plants overseas. At the same date, Mondragon was the ninth largest group of cooperatives in the world, and its largest retail chain, Eroski, had sales of a similar magnitude to the John Lewis Partnership.[40]

Interestingly, it has been reported that Mondragon cooperatives maintained a greater investment rate than the overall rate in Spain between 1971 and 1989 (after which data is hard to come by), and that investment per employee is both higher and less sensitive to business cycles in Mondragon firms than conventional firms in the Basque region.[41] This is no doubt due, at least in part, to the central role of the workers credit union – Caja Laboral Popular (CLP). The CLP closely monitors the performance of individual cooperatives, and can impose recovery plans if need be. Second, the CLP makes strategic decisions on behalf of the group, along with the other central councils and institutions.[42] In addition, profits can be pooled between different cooperatives - like their Italian and French counterparts, Mondragon firms are required to hold a large proportion of retained profits as reserves.

Most importantly, the CLP supplies a source of long term finance to the Mondragon group that is ideologically supportive of the cooperative form of organisation. Interestingly, via a quirk of Spanish financial regulation during the 1950s, the CLP was permitted to charge slightly higher rates of interest than conventional banks, and therefore attracted large amounts of deposits. At the same time, it was only permitted to lend to cooperatives or invest in bonds with a low yield. As a result - and in direct opposition to the majority of other cooperatives - the CLP and Mondragon were over-capitalised during their first decades. Eventually, this led to the CLP requesting the ability to lend to external firms.[43] Like the Legacoop, Mondragon's Caja Laboral Popular is

[37] Dow, 2003
[38] Dow, 2003
[39] Dow, 2003

[40] Arando, S., Freundlich, F., Gago, M., Jones, D., and Kato, T. 2010. "Assessing Mondragon: Stability & Managed Change in the Face of Globalization". William Davidson Institute Working Paper Number 1003.
[41] Arando et al (2010)
[42] Dow, 2003
[43] Dow, 2003

thus an ideal example of the "shelter" organisation crucial to the survival and growth of worker cooperatives.

What is required to improve and expand cooperatives in the UK?

Improving cooperatives' access to finance

Worker owned firms tend to suffer from limited access to long term finance in capitalist economies, as conventional finance institutions are unlikely to lend to firms over which they have no control. Without support, this leads to a tendency to underinvest, and a tendency to degenerate when under financial stress, and/or become susceptible to acquisition by capitalist firms with better access to finance. This is made particularly clear by the experiences of the cooperatives and worker owned firms in the USA and UK considered above. So, while worker managed and owned firms appear to have higher static levels of productivity compared with capitalist firms, they appear to have lower dynamic productivity, due in the main to underinvestment and a lack of long-term finance.

A lack of dynamic productivity is one explanation for the rarity of worker cooperatives in most countries. This, along with other explanations for the rarity of worker cooperatives, has been attributed to the 'fundamental inalienability' of labour compared to the fundamental alienability of capital.[44] Whatever the underlying reason, examples such as the Italian cooperative federations and the Mondragon group suggest that Vanek's proposal for "shelter" institutions - particularly those that supply long-term finance - are crucial to the economic viability of worker owned firms and worker cooperatives. In this manner, the competitive disadvantages suffered by worker cooperatives due to low dynamic productivity may be overcome.

The foregoing may be compared to the proposals in the 2012 report of The Ownership Commission, one of which is the creation of new capital instruments for mutuals[45] and cooperatives.[46] This recommendation follows the identification of a lack of access to long-term finance hampering the development of this type of firm, and the report also provides a useful summary of additional legal restrictions on the ability of mutuals and cooperatives to raise capital in the UK.[47] As well as the creation of alternative capital instruments, the Ownership Commission report also parenthetically mentions the creation of new banking support networks, via a brief review of mutual capital raising in continental Europe.[48] The case studies and literature briefly reviewed here suggest that the creation of new banking support networks, as well as "shelter" institutions more generally, would be more successful than the creation of new capital instruments in improving the economic viability of worker owned firms and cooperatives.

An approach based on Mondragon in Spain, or Cooperative and Community Finance (formerly Industrial Common Ownership Finance, or CCOF) in the UK might be further explored. In these systems, all borrowers automatically become members. CCOF 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 practise or support principles of co-operation, 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. CCOF actively supports businesses which benefit employees, communities and environment.

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

Further reading:

- **Jim Brown**, in Cooperative Capital (2004) broke new ground in several areas, including its clear analysis of the issues surrounding capital

[44] Dow, 2003

[45] 'Mutuals' are organisations based on the principle of mutuality. Unlike a true cooperative, members usually do not contribute to the capital of the company by direct investment, but derive their rights to profits and votes through their customer relationship. Examples in the UK include the Benenden Healthcare Society.

[46] The Ownership Commission also recommends that European principle of disinterested distribution be introduced to British law, so that when mutuals are wound up their assets have to be placed with another mutual. As mentioned in above, this seems to have been particularly important in increasing the economic viability of French, Italian, and Spanish cooperatives.

[47] Ownership Commission. 2012. Plurality, stewardship, and engagement: The report of the ownership commission. Westminster: Mutuo.

[48] Ownership Commission, 2012.

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.

Providing funds for worker cooperative buyouts

To assist the setting up of worker cooperatives, a possible UK version of the Italian Marcora Law, which provides funds for worker buyouts, might be examined. In Italy since the 1980s, worker-controlled enterprises have emerged from various types of worker buyouts (WBO), saving or creating around 9,300 jobs and at least 257 labour managed firms. Almost all are transformed into worker cooperatives under employee management and ownership.

A detailed paper from the European Research Institute on Cooperative and Social Enterprises provides a good briefing on this:

"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 [new company]."

"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." [49]

Institutional investors are assisted by additional Government funding and invest in these structures on a 50/50 basis with workers initial start-up or capital investments. Under the Marcora Law, members of the new company can access technical assistance and know-how, and secure share capital or debt capital financing, through the cooperative movement's 'fondo mutualistico':

"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. Moreover, most WBOs in Italy under the Legge Marcora provisions are limited liability worker cooperatives, thus protecting participating workers form risking personal assets should the cooperative venture fail." [50]

Re-establishing previous Government support of cooperatives' development

Labour's 1976 Industrial Common Ownership Act provided: a legal definition of "common ownership"; £100,000 in seed funding to the Industrial Common Ownership Movement; and £250,000 to the Industrial Common Ownership Loan Fund. This was followed by the 1978 Cooperative Development Agency Act, promoting grants to Cooperative Development Agencies. 60 Local Cooperative Development Agencies, supported by local authorities, provided start up assistance. In 1984 the funding for the national Cooperative Development Agency was increased to £3 million.

Resulting from this, the growth of cooperatives, especially worker cooperatives, was rapid:

[49] Vieta, M. 2015. "The Italian Road to Creating Worker Cooperatives from Worker Buyouts: Italy's Worker-Recuperated Enterprises and the Legge Marcora Framework." Available at: http://www.euricse.eu/wp-content/uploads/2015/08/WP-78_15_Vieta.pdf
[50] Vieta, 2015

"Between 1970 and 1990, the most influential organisation promoting and servicing worker co-ops was the Industrial Common Ownership Movement (ICOM). Established in 1971, model rules were produced in 1976. Over ten years, this triggered the creation of 1,176 co-ops employing 6,900 people – an average of six staff per co-op." [51]

"A directory published by the Cooperative Research Unit (CRU. Open University) in 1989, listed 1400 worker cooperatives, probably the highest figure recorded." [52]

Many Labour local authorities, especially the Greater London Council and Sheffield City Council, placed employment growth at the centre of their economic development strategies. Sheffield set up an Employment Committee, an Employment Department and a Sheffield Cooperative Development Group, with cooperatives being seen as an "alternative to capitalist-oriented economic development policies".[53]

The endeavours of the Greater London Council, including those arising from development strategies from the Lucas Aerospace Shop Stewards, are well known in the wider labour movement. It has been written of these that "the GLC [Greater London Council] 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".[54]

Reform of government procurement policy

In the UK, reform needs to be undertaken to ensure that cooperatives and the like have a reasonable chance of securing procurement from government. In spite of recent attempts to improve this, there are major difficulties for cooperatives, mutuals and third sector structures in becoming involved in the Government's strategy for outsourcing to so-called third sector structures under the March 2015 Procurement Regulations, as a consequence of the manner in which the regulations were phrased.[55]

Trade Unions have expressed strong opposition to the March 2015 regulations, since the vague wording could mean for profit organisations spawning non-profit subsidiaries. For example, a union submission to the Scottish Government stated that:

"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." [56]

Similar reservations were expressed by the TUC:

"Article 77 of the Directive, promoted by the UK government, aims to reserve contracts for mutuals and cooperatives without the need for open competition for periods of up to 3 years. However, far from reserving contracts for tightly defined cooperatives, mutuals or social enterprises, the wording is so ambiguous that it would allow a contracting authority to reserve a contract for a wide variety of hybrid and private sector organisations who could arguably qualify".[57]

[51] Cornforth, C., Thomas, A., Lewis, J., & Spear, R. 1988. Developing Successful Worker Cooperatives. London: Sage
[52] Sawtell, R. 2009. "UK Worker Cooperatives: Part 2: The Surge of the 1970s and its Aftermath." Worker Cooperatives Blogspot. Available at: http://workerco-operatives.blogspot.co.uk/2009/07/part-2-surge-of-70s-and-its-aftermath.html
[53] Cochrane, Allan. 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.
[54] Brown, J. 2003. "Defining Social Enterprise." Presented at the Small Business and Entrepreneur Development Conference, University of Surrey 2003, University of Bristol.
[55] For further detail on government procurement policy, see Appendix 2.
[56] GMB Scotland. 2015. "GMB Scotland Reponse to Scottish Government Consultation on Changes to Public Procurement Rules in Scotland." Scotland: GMB Union. Available at: http://www.gov.scot/Resource/0048/00482638.pdf
[57] Dykes, Matt, & TUC Touchstone. 2015. "Public Contracts Regulations: Government getting it badly wrong on public procurement." TUC Touchstone. Available at: http://touchstoneblog.org.uk/2015/03/public-contracts-regulations-government-getting-it-badly-wrong-on-public-procurement/

b) Municipal and locally-led ownership

Description

Municipal ownership (that is, ownership by a town or district's governing body) refers to municipal control and operation of property, services, and systems. The idea of municipal ownership was popularised at the end of the 19th and beginning of the 20th centuries, when in countries such as the UK control of local services was transferred from either private firms or from the national level of government. It can include the running of waste collection, the running of parks, the provision of broadband services, and the operation of public transport.

Locally-led ownership refers to the encouragement of local involvement in the decision making of business entities operating within the region, with consequent focus from these entities in the progression of the local community. Examples of locally-led ownership include a host of community businesses, development trusts, community interest companies, and registered societies, which will be outlined in detail in the 'existing examples' section below.

But locally-led ownership is not necessarily as simple as ownership in the physical sense. More to the point, the term indicates that the economy in an area is not 'owned' by corporate interests, but rather it is 'owned' by the local community. As such, it refers to the localisation of economic control. This means that economic decisions, made locally, are used to try to advance the interests of the community as a whole, to strive to achieve 'Community wealth building'. It is about empowering communities to address the challenges that they face.

Organisations such as the Centre for Local Economic Strategies (CLES) are at the forefront of this agenda. Through a range of activity and action across the UK and beyond, the community wealth building activities of CLES are looking to maximise the fruits of the economy, creating a context for greater economic and social inclusion.

Community wealth building includes an array of activities already happening across the country.[58]

This includes:

- Work around 'anchor institutions' and realising and harnessing their potential. Including how the commissioning and procuring of goods and services needs to be more local and flood through local supply chains
- Recognition of how land and property holdings and pensions funds should benefit local economies more
- New movement of social innovation, with a growth in local currencies, local banks, community shares and community energy schemes
- Living Wage activities
- Advancing the 'Foundational Economy' of everyday life (utilities, care sector, local retail)[59]
- The development of ownership models which circulate wealth rather than extract it – cooperatives, mutual, CiC's etc.
- Work around the collaborative economy and the circular economy, including how smart technologies herald a new open source collaborative economy, where peer to peer activities take economic wealth production away from the few within a vertical hierarchy, to many within horizontal systems. And creating a deep relationship between producers and consumers, and more sensitivity to social concerns and unmet social needs.
- Work stimulating the growth and social responsibility of business. Including the advancement of employee involvement in the board room, adoption of voracious corporate social responsibility activity.

Advantages

The localisation of economic activities and control serves to strengthen economic resilience and to enhance the democratic nature of decision making. By being more closely managed, the economy can be geared in such a way as to place a priority for the well-being of its constituents above a devout

[58] For a summary, see New Start. "Good City Economies". Available at: https://newstartmag.co.uk/good-city-economies/
[59] Bentham, T., et al. 2013. "Manifesto for the Foundational Economy." CRESC Working Paper No. 131. Available at: http://www.cresc.ac.uk/medialibrary/workingpapers/wp131.pdf

commitment to the interests of private corporations. Concerning municipal ownership, as has been stated above, it is evident that service provision for communities was worsened in private hands, and that government ownership would improve community experience of service-use.[60]

The history of economic development has taught us that the state has always played an active and essential role in achieving prosperous economic activity and increased well-being.[61] Without state regulation, involvement, and management of business it has proven extremely difficult to increase wages, improve working conditions, encourage economic linkages (e.g. between a factory and a prospective local uniform supplier), establish new sectors, or to ensure the continued competitiveness of firms in existing sectors.

This same economic logic applies to local development. If a given town or region wants to ensure economic well-being it requires a) that economic activity continues to function well, and b) that the benefits of economic activities are shared amongst all members of society; and to achieve these requires active involvement from local government. Municipal and local-led ownership, by entrusting local government and local communities with more power, gives communities the opportunity to shape and secure their economic future, and to avoid parts of a given country being economically forgotten.

The following table, taken from a CLES report, highlights the potential advantages of having municipal and local-led ownership.

Table 2: The advantages of having good municipal and local-led ownership [62]

***Table 5.6* Employee ownership in the bus industry (firms converting to employee ownership)**

'GOOD' LOCAL ECONOMIES	TRADITIONAL LOCAL ECONOMIES
Resilient	Fragile
Bottom up and pluralistic	Designed from the centre
Co-designed with communities	Consults with communities
Enables growth of well-being and agency	Priorities GVA growth
Asset-based development	Inward investment
Small and particular to place	Big and 'broad brush'
System changing	Not actively reducing inequality
Supports community/co-operative ownership	Incentivises big business
Enhances the existing foundational economy	Focused on high growth sectors
Local supply chains allow multipler effect	Money leaks out of the community
Finance that is relevant to local needs	Finance that serves self
Enabling, collaborative leadership	Top down leadership
Local policies are realistic and aligned with need	Local plans devised with boomgoggles on

Existing examples and pitfalls to be avoided

The following details a variety of locally-led business entities, outlining their existing status in the UK. It also provides a case study of a successful recent model of municipal and locally-led development in Preston.

Community Businesses

The following are examples of different community businesses:

- Buying group – a group of consumers who, by pooling their buying power and ordering food in bulk, direct from farmers or suppliers, buy good quality food at a more affordable price
- Community enterprise – a trading organisation set up, owned and controlled by a geographical community or community of interest. They generally trade for a social purpose
- Community owned shop – a shop owned and generally also run by a local community
- Community supported agriculture – an organisation which is generally a partnership between grower and consumer
- Cooperative – an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise which conforms to the seven cooperative principles shown above
- Development Trust – a community-owned and led organisation, which develops community assets and community enterprise
- Farmers' Market – a public market at which farmers and other producers sell directly to consumers. Some are privately run, some are run by local authorities and some are cooperatives of the farmers and producers

[60] The Trade Union Co-ordinating Group. 2013. "The Real Cost of Privatisation."
[61] For an overview see Chang, H-J. 2002. Kicking Away the Ladder: Development Strategy in Historical Perspective. London: Anthem Press. See also Appendix 3 for further information
[62] CLES. 2017. "RSA Inclusive Growth Commission: Open call for Evidence." Available at: https://cles.org.uk/wp-content/uploads/2017/02/RSA-Inclusive-Growth-Commission.pdf

- Social Enterprise – a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. Social enterprises tackle a wide range of social and environmental issues and operate in all parts of the economy. However, the Government is now content to recognise more organisations which proclaim a social purpose as 'social enterprises'.

Irrespective of the legal form or organisational type for a community enterprise, it will generally have a governing body and a wider membership. Once an organisation has a membership greater than 12-15, it becomes harder for its membership to be directly involved in governance. It also becomes harder for all members to attend meetings and the decision-making becomes challenging for a larger group. It is common in this situation for the membership to elect a smaller committee (the governing body) and delegate some of its powers to it. This committee can meet more easily and make decisions between general meetings of the entire membership.

Development trusts

Development trusts are a particular type of partnership organisation that offers benefits to the local community and has advantages for many public bodies, non-profit agencies and funders.

A development trust is usually a Company Limited by Guarantee with Charitable Status. Profits cannot be distributed to members, and are used for the benefit of the local community. The membership of a trust is drawn from a geographically-defined area. Members may be individuals and organisations or just organisations. The board of a trust is made up of representatives from the public, voluntary, community and private sectors. These, with individuals and additional funders if appropriate, may be elected from 'voting sections' of the membership.

The board is the policy-making body, and is unpaid; paid staff may be employed to carry out the day-to-day operations of the trust. A trust may set up subsidiary organisations to further its objectives, for example trading companies whose profits are covenanted back to the trust.

Development trusts are community organisations which:

- Are owned and managed by the local community
- Aim to achieve the sustainable regeneration of a community or address a range of economic, social, environmental and cultural issues within a community
- Are independent but seek to work in partnership with other private, public and third sector organisations
- Aim to reduce dependency on grant support by generating income through enterprise and ownership of assets. Trading surpluses principally reinvested in organisation or community.

A development trust is an organisation that is engaged in the economic, environmental and social regeneration of a defined area. It is independent and aims for self-sufficiency and not for private profit. It is community based, owned and managed and is actively involved in partnerships and alliances between the community, voluntary, private and public sectors.

Community Interest Companies

Community Interest Companies (CICs) started in 2005 from New Labour's Companies (Audit, Investigations and Community Enterprise) Act 2004, designed for organisations seeking to use profits and assets for the public good. CICs are easy to set up, with the flexibility and certainty of a company form, but with special features to ensure they should be working for the benefit of the community. It was argued that charities (including charitable Industrial and Provident Societies, or IPSs) were not suited to social entrepreneurs who wished both to control an organisation and receive a salary from it.[63] They have proved popular and more than 10,000 have been registered in the first 10 years. CICs are loosely regulated with a part time regulator and small staff.

Their fastest growing component is Community Interest Companies based on Companies Limited by Shares, which has led to fear that these are

[63] Lloyd, S. 2010. "Creating the CIC." Vermont Law Review, Vol 35(1): 31–43

private limited companies using a CIC "wrapper" to augment their public acceptability. The principal feature of a CIC is that it contains a lock on its assets, which prevents profits being distributed to members or shareholders other than in certain circumstances. A CIC is obliged to pursue the community interest and must report on how it does this to the CIC Regulator.

A Company Limited by Guarantee with an asset lock allows the CIC to demonstrate to funders its not for profit status. But there have been some concerns about the asset lock since it may place restrictions on the organisation's ability to raise external finance. In some cases, some stakeholders believe that CIC status might deter potential investors.

CICs operate in a broadly similar way to normal companies, except in certain aspects described above. Like ordinary Companies Limited by Shares and Companies Limited by Guarantee, a CIC's constitution is its Memorandum and Articles of Association. In addition, CIC legislation requires that the Memorandum and Articles of Association of a CIC must contain certain protections.

Though CICs are regulated by the CIC Regulator, it was always intended that regulation should be 'light touch'. However, the Regulator is committed to responding to complaints from stakeholders and has considerable powers to act to protect the community interest. A CIC is required to file a community interest report each year. This report must include details of the remuneration of directors, dividends paid on shares and interest paid on certain types of loans. It must explain how it has pursued the community interest and how it has involved stakeholders. However, many observers have commented on the Regulator's inadequate staffing for all this.

A CIC Limited by Shares or Guarantee may apply for grants and take out secured and unsecured loans in the same way as a normal company. Interest rates on CIC borrowing must be at normal commercial rates, and performance-related interest is restricted. A CIC Limited by Shares may obtain equity finance. There are caps on interest and dividends to limit the amount of assets which can be transferred out of the CIC. For the cap on the amount of performance related interest that a CIC can pay on a loan, from October 2014 the cap is 20% of the average amount of a CIC's debt during the 12 months immediately preceding the date on which the interest is due to be paid. There is a cap for dividends:

a) Though shareholder dividends were restricted to 20% as a percentage of nominal value, this was removed in the Community Interest Company (Amendment) Regulations 2014

b) The profit distributed in dividends by the CIC must not be greater than 35% of its total distributable profit

c) If the shares are bought back by the CIC from the investor they can only be bought back at the nominal value of the share stated in the articles.

Registered Societies – Formerly Industrial and Provident Society Community Benefit Societies

An Industrial and Provident Society (IPS) Community Benefit Society (a Bencom) is an incorporated Industrial and Provident Society (Registered Society) that conducts business for the benefit of its community. Profits are not distributed among members, or external shareholders, but returned to the community. The legislation requires that a Community Benefit Society must have some special reason for seeking registration as a society and not as a company.

In practice this means a standard constitutional provision requiring that benefits will not be returned to members, demonstrating that business is conducted for benefit of the community, and including an attachment to the cooperative principle of one member, one vote, regardless of contribution.

Because Community Benefit Societies can issue shares to raise funds, they can raise their own funds, thus avoiding intermediation. Since 2009, 120,000 people have invested over £100 million to support 350 of these communities throughout the UK. The FCA does not provide guidance on who can be a member of a Community Benefit Society. In the context of community shares, it is assumed that membership is open to any person who supports the purpose of the society, without the distinction found in cooperative societies between user and non-user members.

Box 1: Progressive Procurement: Encouraging local investment and economic activity in Preston

In 2005, amid much fanfare, a £700 million regeneration initiative for Preston city centre was announced, but in 2011 the scheme was abandoned after one of the major partners, John Lewis, pulled out.[64] In response to the difficulties in securing inward investment, Preston and Lancashire have embarked on a pioneering experiment in democratic local economy, looking to replicate the "entrepreneurial state" – as described by Mariana Mazzucato – at the local level. [65]

Over the last 3 and half years, the Preston City Council and the Centre for Local Economic Strategies (CLES) have been working in partnership on a "Community Wealth Building" initiative, which seeks to harness the spending power of six "anchor institutions" (organisations with an important presence) based in the city – Preston City Council, Lancashire County Council, Preston's College, Cardinal Newman College, Lancashire Constabulary and Community Gateway – in order to stimulate local economic activity. The project began by assessing the process of procurement for these institutions, particularly the extent to which they utilised local organisations to provide goods and services. It was found that of a combined annual spend of some £750 million, only 5% was with organisations based in the Preston boundary and just 39% with organisations based across Lancashire. This meant that more than £450 million leaked out of the Lancashire economy.

The work targeted what has been termed 'influenceable spend' in the anchor institutions. These are goods and services which are not tied up in long-term framework agreements and not specialist and therefore unlikely to be found in Lancashire: goods and services for which there are local organisations that could potentially act as suppliers in the future. The partnership then sought to develop an understanding of local organisations, build up their capacity, and raise their awareness of potential opportunities.

Preston City Council has now identified around £3 million of opportunities that are potentially 'influenceable'. Lancashire County Council has revisited its commissioning and procurement strategies and has broken contracts into lots to enable smaller organisations to be supported to bid. Lancashire Constabulary now requires quotes from local organisations on procurement opportunities between £10,000 and £50,000. As a consequence millions of pounds have been repatriated to the local economy.

The impact of this work will be more measurable in the longer term, but changes that are bringing benefits for the local economy in the form of jobs and business development are visible. Preston has already improved its status in the 'Index of Multiple Deprivation', with better paid jobs and wealth rippling into its communities.[66] If the amount spent in Preston by the anchor institutions increased from 5% to 10% and was sustained over the next ten years, this would mean a further £370 million being spent with organisations based in the city over that period.

Multiply that across the UK and it's easy to see how influential anchor institutions could be in their local economies if they harnessed the full potential of their procurement spend.

This work is bold and innovative with the EU spreading Preston's ideas in 9 European countries through 'URBACT III', and it has been road-tested before with CLES working with Manchester City Council to increase spend on goods and services to the Manchester economy to over 70% supporting 5000 plus jobs.[67]

Joining this progressive procurement strategy is a range of other activity which Preston has been advancing. This includes:

- Support for credit unions, Community Development Financial Institutions, and local banking. In Preston, Labour launched a new city wide credit union "Guild Money" as part of a financial inclusion strategy attracting nearly 200 members since last year
- Exploring possibilities of a community bank

[64] BBC News. "Preston Tithebarn scheme abandoned after John Lewis withdraws." 3 November 2011. Available at: http://www.bbc.co.uk/news/uk-england-lancashire-15571764

[65] Mazzucato, M. 2013. The Entrepreneurial State: Debunking Public vs. Private Sector Myths. London: Anthem Press

[66] Labour List. "McDonnel aims to unlock £40 billion economic boost with co-op sector expansion." 20 April 2016. Available at: http://labourlist.org/2016/04/mcdonnell-aims-to-unlock-40bn-economic-boost-with-co-op-sector-expansion/

[67] URBACT EU. "Procure – creating a good local economy." 19 April 2016. Available at: http://urbact.eu/procure-%E2%80%93-creating-good-local-economy

- Working with the local Chamber of Commerce to encourage retiring business owners to sell their companies to their employees
- Exploring possibilities of using local pension fund resource for local investment
- Trade unions like Unite and PCS promoting credit unions to their members
- Creating a cooperative infrastructure similar to Mondragon Cooperative Corporation in Spain with its federation of 257 worker cooperatives. In Preston a number of charities, Community Interest Companies (CIC's) and social enterprises already work to cooperative principles. The plan, working with University of Central Lancashire, is to merge these with existing cooperatives and employee owned businesses in a Mondragon style infrastructure.

What is required to improve and expand municipal and locally-led ownership in the UK?

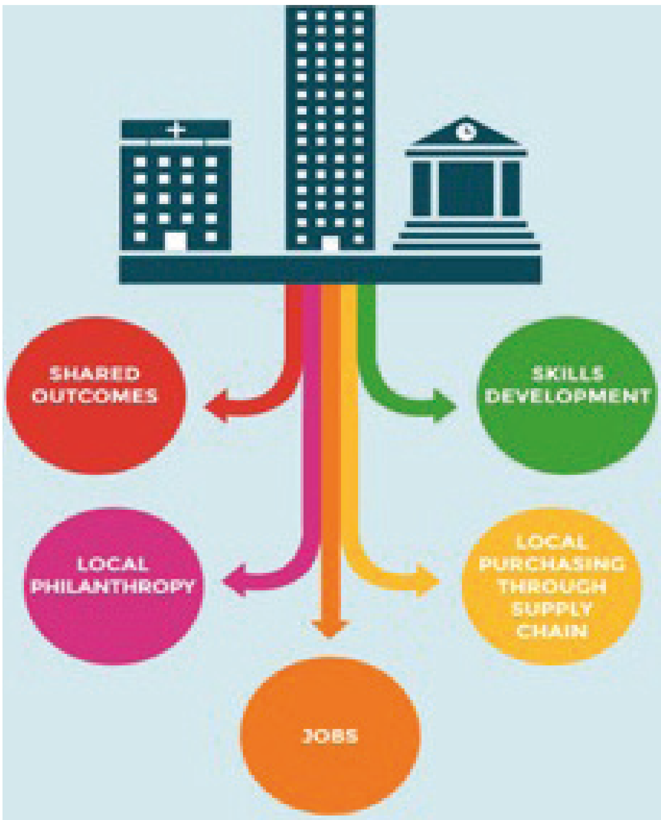
Using 'Anchor Institutions' as hubs for local economies

A key component of the Community Wealth Building initiative described in Box 1 has been around anchor institutions. The term 'anchor institutions' is commonly used to refer to organisations with an important presence in a place, examples include local authorities, NHS trusts, universities, trade unions, local businesses and housing associations. CLES has conducted extensive work on anchors in Belfast (2014), Preston (2014-present)[68] and recently began work in Birmingham[69], Oldham (and at time of writing early conversations are taken place in Greater Manchester).

Anchor institutions are significant because they have a large stake in their local area as, due to their activities, they cannot easily relocate. For example, while many corporations may be able to move, an airport or a hospital probably will not. While the primary objective of anchors may not always be about creating excellent local economies, the scale of these institutions, their fixed assets and activities and their links to the local community mean that they are 'sticky capital' on which progressive local economics can be based.

The key to an effective anchor is to ensure that the resources it has (financial, time and social energy) and the general day-to-day operation are supportive of effective local economies. There are a range of ways in which different anchor institutions can leverage their assets and revenue to benefit the local area and local people.[70] In terms of economic development, anchors can act as purchasers, using local suppliers and producers; as employers, recruiting locally, and as incubators, supporting start-up businesses and community organisations. For example, universities can provide technological innovation and research expertise for local businesses and support the economy through student spending. Housing organisations and hospitals can support local businesses through the purchase of local goods and services, such as food, bed linen and information technology.

They also have a significant role as employers, holders of sizeable land and property assets to be used for local benefit, and also as investors within the economy.



[68] Jackson, M and McInroy, N. 2017. "Community Wealth Building through Anchor Institutions." Centre for Local Economic Strategies (CLES). Available at: https://cles.org.uk/wp-content/uploads/2017/02/Community-Wealth-Building-through-Anchor-Institutions_01_02_17.pdf
[69] McInroy, N. and Jackson, M. "Making wealth work for all." The MJ. Available at: https://www.themj.co.uk/Making-wealth-work-for-all/205981
[70] Jackson and McInroy, 2017
[71] CLES, NEF, & New Start. 2016. "Creating Good City Economies in the UK." Friends Provident Foundation.

Figure 1: Anchor institutions and their role [71]
Active government policy at the national level
There are numerous ways in which national policy can support progressive local economies. The fact of the matter is that much of the successful activities of the likes of Preston City Council have been achieved despite of the absence of a strong, supportive national framework. In this regard, there is much to consider:

- Development of national anchors in local areas. Phased relocation of major institutions/quangos outside of London (e.g. big lottery, OFSTED). These could become significant players in local economies, as employers, building owners, etc.

- Place-based budgets for some devolved English areas with corresponding totality of public spend

- Legislation to create a duty for all areas to produce an employment charter for local employers (public, private, and social), with some guidance on expectation of local employees and other terms and conditions

- Local authorities could be given new powers over all publicly owned land in their jurisdiction, including the authority to instruct different parts of the public sector (for example, Network Rail, the NHS, and the Ministry of Defence) to release land for economic development

- Devolution to local authorities of tax receipts from the environmental taxes (such as the Climate Change Levy and CRC Energy Efficiency Scheme). This would provide a new revenue stream for local authorities to develop bespoke initiatives including: providing loans and seedbed funding to support and nurture community energy schemes, and establishing or expanding large municipal energy schemes like District Heating Networks or cooperative energy companies

- The creation of a national agency for community wealth building. This would be a clearing house for good ideas, national support, and possibly funding

- Community wealth building zones. Like enterprise zones, but for local place based co-ops, CIC's, community and voluntary sector groups to enjoy relaxation of planning, local business taxes, etc.

- As discussed in Section 3(a), a new UK procurement law which supports local supply chains (especially in poorer areas). Currently some forms of progressive procurement practices are thwarted by European procurement law which does not permit the specification of 'Local' in tender briefs and thus favours larger business, and discourages local enterprise and cooperatives, so there may be more space for such policy 'post-Brexit'

- New social value act, which legislates for not just local authorities, but other parts of the public sector. At the moment NHS, the Police, etc. are wired into national purchasing frameworks

- Social innovation funds, which support micro-experimentation and innovations.

c) National ownership

Description

National ownership is when certain enterprises are owned by the government. So-called 'state-owned enterprises' (SOEs) are legal entities created (or taken over) by the government to partake in commercial activities on the state's behalf. They can be wholly or partially owned by a government, and are normally designated to operate in commercial activities. There is some debate about how much government ownership is necessary to define an enterprise as being state owned, but a common working definition of SOEs is "enterprises where the state has significant control through full, majority, or significant minority ownership."[72] The OECD states that "the ultimate purpose of state ownership of enterprises should be to maximise value for society, through an efficient allocation of resources" [73]

National ownership is an "enduring feature" of the global economic landscape, and SOEs have in fact been rising in influence in the world economy over the past decade – the proportion of SOEs amongst the Fortune Global 500 grew from 9% in 2005 to 23% in 2015.[74] Though this increase was largely due to the rise of Chinese SOEs, the proportion of non-Chinese SOEs in the Fortune Global 500 also rose during this period, exemplifying their increasing prevalence. SOEs are most common within 'natural monopolies' (such as railways and telecommunications) and natural resources and energy, but have also historically been used in a host of other industries.

The national ownership model is similar to the prevailing private property model in our economy in the sense that the capital investor usually has the right to appoint management, as well as ownership rights to any profits. However, if the capital investor is a national state with a democratically elected government, state ownership gives some democratic accountability to the organisation of production.

Government ownership in the UK is still relatively prevalent, and includes organisations such as the BBC and various NHS agencies, and infrastructure agencies such as Highways England, Network Rail, and until recently the Royal Mail. Other examples include the Student Loans Company and the Green Investment Bank.[75] Until the 1980s, nationalised industries were common, and the economic viability of state ownership is therefore uncontroversial - although its desirability is of course contested.

Advantages

While it is possible and desirable from the point of view of creating more democratic forms of ownership to encourage decentralisation, local and regional models of ownership, public ownership through national state level institutions remain important for economic and social policy. This is particularly the case where the government wishes to secure important public policy objectives, such as combating climate change, modernising infrastructure or providing 'patient capital' for the development of particular economic sectors. National level forms of public ownership that are capable of providing an overall strategic compass can work alongside public and collective forms of ownership at lower geographical scales.

There is a lot of prejudice in mainstream business, media and political circles against SOEs, but there are a significant number of examples around the world of well-run and effective organisations.[76] Moreover, many of the problems typically ascribed to state owned entities, for example, that they are complex organisations that can be overly bureaucratic and are subject to capture by vested interests (such as managers and workers), are equally true of large private corporations. Indeed, it has been argued that state owned enterprises that have effective corporate governance structures to represent diverse interests, may be less susceptible to so-called 'principal agent capture' than private corporations with dispersed shareholders.

There remain several critical reasons for state ownership in an economy.[77] First, in those sectors that are 'natural monopolies', because the technical conditions of the sector mean that it is impossible to have more than one supplier (e.g. railways, electricity, water), a private supplier will be

[72] PWC. 2015. "State-Owned Enterprises: Catalysts for public value creation ?" Available at: https://www.pwc.com/gx/en/psrc/publications/assets/pwc-state-owned-enterprise-psrc.pdf
[73] OECD. 2015. "OECD Guidelines on Corporate Governance of State-Owned Enterprises: 2015 Edition." Available at: http://www.oecd-ilibrary.org/docserver/download/2615061e.pdf?expires=1490954483&id=id&accname=guest&checksum=D9C0A3FCF84965DE33F0BD3EEBE275F5
[74] PWC, 2015

[75] Privatisation of the Green Investment Bank was launched on 3 March 2016. See here for more information: http://www.greeninvestmentbank.com/about-us/privatisation-process/
[76] See Chang, 2007.
[77] See Chang, 2007.

able to extract monopoly rents against the broader common good. This is the case in many of the utility sectors today, despite government attempts at regulation and price control.

Second, in areas that require significant capital investment with long horizons to realise any return on investment, private capital is often unwilling to invest unless it can be given guaranteed returns. As mentioned in Section 1, capital markets are infamously short-termist, preferring sectors that produce high returns at low risk. Private firms therefore often require massive guaranteed subsidies or government underpinning of market activities. The best recent example of this is the UK Government's Private Finance Initiative, initially envisaged as public infrastructure investments where the private sector would supply the capital and absorb the risk. The reality has been that to attract private capital governments have had to offer extremely generous terms that at the same time often leaves critical public assets in private hands. A recent report has suggested that the 860 PFI projects that have been constructed in the UK since 1991 have resulted in £239 billion of liabilities for future generations of taxpayers.[78] Another pertinent example comes from the UK's privatised energy sector where the government has provided massive subsidies and incentives for private and foreign energy operators (often themselves SOEs) to build renewable and nuclear energy generating capacity.[79]

A third critical argument for national state ownership is providing equality of service for customers. Under privatised systems, poorer customers and rural areas often face either higher prices or a diminished service compared to higher income groups and those in larger urban areas where profit margins are much higher. The paucity of internet and telecoms provision in much of the UK, compared to other countries is testimony to the inequalities produced by a profit oriented system that does not invest sufficiently in national service provision. Providing a nationalised state owned service in such circumstances is more equitable.

While the context of globalisation has undoubtedly changed the economic environment within which national economies are embedded, and the growth of a more open, dynamic global economy and powerful financial markets does serve to constrain some traditional forms of national economic policy, national level state intervention is likely to become more, rather than less important. Achieving critical national policy objectives such as modernising infrastructure, providing decent health and social care and combatting climate change all require a long term strategic approach that is incompatible with commercial considerations. These are areas where private capital, driven by short term profit and revenue maximisation, is inappropriate and unwilling without massive public subsidy. Given the ability of state owned corporations to borrow at much cheaper rates than the private sector, public ownership is the cheaper and more desirably long term option, ensuring also that revenues generated can be returned to the public purse.

Existing examples and pitfalls to be avoided

National state ownership has been a critical factor in the successful modernisation and development of many economies around the world since the end of the Second World War, from France, to Norway, to Singapore, South Korea and most recently, China. One seldom-discussed European success story is Austria, which achieved the second highest level of economic growth (after Japan) between 1945 and 1987, with the highest state owned share of the economy in the OECD.[80] A common denominator in virtually all sustainable economic success stories in recent years has been the role of state owned banks and investment funds that promote longer term industrial development programmes.

Globally, the countries that have enjoyed the most dramatic success in achieving economic growth and prosperity in the second half of the twentieth century – Asian economies such as Singapore, South Korea, Taiwan and China – have all had state owned corporations and institutions that have provided long term development capacity. Singapore, for example, which is often held up as a free market economic model, has a large number of state owned or partially state owned corporations operating across sectors, co-ordinated by the state holding company Temasek, which have enabled the state to interact with and steer the private sector along a particular trajectory.[81]

[78] Parker, D. 2012. "The Private Finance Initiative and Inter-Generational Equity." Intergenerational Foundation.

[79] Keay, M. 2012. U2K Electricity Market Reforms: Cash is King." Oxford Energy Comment, November 2012. Oxford Institute for Energy Studies, Oxford.

[80] Chang, H-J. 2009. "Under explored treasure troves of development – lessons from the histories of small rich European countries," in M. Kremer, P. van Lieshoust and R. Went (eds) Doing Good or Doing Better – Developing Policies in a Globalising World, Amsterdam University Press.

Existing models of national ownership can broadly be broken down into two types: full state ownership and partial state ownership. Taking an industry into full state ownership (FSO) will in theory secure the objectives of being able to influence key sectors and undertake longer term strategic planning to secure important goals, such as dealing with climate change, building and maintaining modern electricity or transport systems, etc.

Partial state ownership (PSO) is perhaps the most common form of state ownership in the contemporary global economy, largely resulting from partial privatisation processes, and is a feature in many European countries. While these forms can be used to secure wider public policy goals or to provide some public influence in different parts of the economy, the trend in recent years – as with many fully owned state companies – has been to allow such firms complete commercial freedom, with the state effectively as a sleeping partner that benefits from profit and dividends alone with firms effectively operating as purely profit-seeking entities. In too many cases, this means that state owned corporations become closed off from public scrutiny and wider debate. New models of state ownership at the national level should aspire to be publicly accountable and open to democratic scrutiny so that they do not in effect become captured by a purely commercial agenda over broader societal goals.

Older forms of national state ownership in the UK have tended to be highly centralised, top-down and run at 'arms-length from various stakeholder groups, notably employees, users and the tax paying public that ultimately funds them. The post 1945 nationalisation programme set the trend here with what has been termed the 'Morrisonian Model' (after Herbert Morrison, the Minister overseeing the programme). The model was justified at the time as being about enlisting 'business' or 'expert' groups who would manage in the 'national' interest, rather than give voice to 'vested' interests, which was usually aimed at trade unions or the idea of worker representatives.

The result was that a small private and corporate elite – in some cases the same people who had been involving in managing the pre-nationalised private sectors (which were riddled with underinvestment, deteriorating infrastructure and poor performance) - ran and oversaw the nationalised industries. While they were nominally under the control of a particular minister and government department, there was little democratic scrutiny or debate around their operation.[82] Unlike the parallel nationalisation programme in France, where industries had access to finance from state owned banks, the British nationalised industries were also heavily constrained in their ability to borrow to finance investment, meaning a chronic lack of infrastructure modernisation by the 1970s.

[81] See Chang, H-J. 2007. "State-Owned Enterprise Reform." UNDESA Policy Notes, for a fuller discussion.

Public ownership in the UK in recent times has continued the trend towards narrow elite representation over a broader sense of the public. Following the financial crisis and the nationalisation of much of the banking sector, the appointees to run the nationalised assets came from the same commercial banking cartel that had precipitated the crisis.[83] To take another example, the governing boards of the BBC have typically been dominated by appointees from the corporate and financial sectors rather than reflecting a more diverse spread of interests. The new chair of the BBC, Sir David Clementi, with a background in finance and no experience in television or media, continues the dominant trend.

Box 2: Energy policy for the whole of society: Norway's oil nationalisation in the 1970s

The 'Norwegian model' is rightly acclaimed around the world for its approach to North Sea oil and gas development, particularly for dispersing the benefits throughout the country's economy and society rather allowing resources to be captured for vested interests. After almost forty years of oil development, Norway remains one of the most egalitarian societies on the planet, and consistently ranks near the top of the United Nations Human Development Index league table (number one for the most recent rankings in 2011). Much of this progress is due to the basic philosophy behind its energy policy in the 1970s, which insisted that resources be used for "the whole of society".[84]

[82] A lengthier critique is provided in Cumbers, A. 2012. Reclaiming Public Ownership: Making Space for Economic Democracy. Zed-Books.
[83] Brummer, A. 'Mr Brown' bankers', New Statesman, January, www.newstatesman.com/economy/2336/34/governmentbanks-bankers
[84] Ryggvik, H. 2010. "The Norwegian Oil Experience: A toolbox for Managing Resources." Centre for Technology, Innovation and Culture, Oslo.

A key plank of oil policy following the discovery of North Sea resources was the establishment of a state owned oil company, Statoil, to act in the national interest to ensure oil development served the common good. Although Statoil was set up as a 'top-down' model of state ownership, run largely by corporate and state elite groups, over time, as the magnitude of oil resources became apparent, a much more wide-ranging debate over the impact of oil on Norwegian society and culture developed that went beyond narrow economic considerations.

In the process, a number of other important mechanisms and institutions to secure the national collective interest and ensure that society as a whole both benefited from oil and gas, but also shared in the public debate during the 1970s about the future direction of the nation's resources, were created. From a democratic governance perspective, two institutions were critical. The first was the creation of a Petroleum Directorate as a separate organizational actor to Statoil charged with administering, regulating and controlling oil and gas resources and independent of the oil companies. One of the consequences was the development of the safest offshore oil and gas regime in the world from the early 1980s onwards. But the Directorate also developed its own professional and technical expertise in all matters to do with oil. The second feature was the establishment of what became known as the Paragraph 10 clause in the legislation that created Statoil. While Statoil was always meant to be a commercial operation at arm's length from government, the clause meant that the company had to present an annual report to parliament on "significant issues relating to principles and policy". [85] The effect was that the company and the broader impact of oil on Norway was the subject of continuing scrutiny and debate into the 1990s.

Additionally, a whole series of committees in the Storting (Norwegian Parliament) set up their own consultation exercises, including Social Affairs, Foreign Affairs and Local Government to consider all aspects of oil development, in the process drawing upon a diverse range of knowledge and expertise from all sectors of civil society, including professional association, trade unions, fishing and farming interests, church groups and trade unions. Overall there was an impressive process of wide-ranging deliberation on questions of oil policy as well as collective learning so that many parliamentarians also developed extensive knowledge of oil affairs. The outcome was probably the most progressive approach to energy development ever seen which involved the following radical proposals. Norway committed itself to a 'socialized' model of oil, key elements of which were the priority that oil should create a "qualitatively better society" and crucially a "moderate rate of oil extraction" with a 90 million tonne ceiling that was not breached until the early 1990s.[86] Additionally, emphasis was put on developing the resource in the most environmentally friendly manner as well as using revenues to boost the country's spending on international development.

[85] Ryggvik, 2010

What is required to improve and expand national ownership in the UK?

Increasing democratic accountability

The issue of diverse interest representation in creating more democratic and accountable forms of state ownership is critical.

Nationalisation is often criticised for bringing political interference into the running of sectors at the expense of managerial efficiency and specialist expertise, although, as outlined above, the reality in existing forms has been very different. An underlying assumption in the critiques is that commercial expertise and narrow economic considerations should dominate over other priorities. However, if state owned corporations have important objectives that are not purely commercial – such as for example, helping to deliver a post-carbon energy infrastructure, modernise transport networks, ensuring universal access to advanced communications and infrastructures – then it is logical and consistent that they have governing bodies and institutions that reflect such broader goals.

It is important in this sense not to conflate two different issues: the efficient day-to-day running of operations and the overall governance of a sector or corporation. The governing body or board of an operation is responsible for the setting of goals and monitoring of performance against the stated goals. The management of the corporation is then responsible for the delivery of operations consistent with achieving these goals in as effective and efficient a manner as possible.

[86] Ryggvik, 2010

It is quite possible – and indeed advisable – to have a democratic governance structure so that key services and utilities are properly public accountable to the plurality of stakeholder groups in society that are involved and affected by the operations of basic public services and utilities. Making state owned enterprises accountable to a diversity of 'publics' is the most effective way of working against principal agent problems. These issues can never be fully resolved; whether in a private or public operations, those involved in the day to day operation and administration of corporations will always have the advantage over board members acting on a more casual basis, but such a structure would at least provide some measure of checks and balances against internal capture by elite groups.

How to achieve increased democratic accountability

There are different ways of achieving more democratic and accountable forms of state ownership. One option would be a traditional model of state ownership, largely staffed and managed by professionals and expert groups but open to greater democratic scrutiny by the wider body politic. A good example of this type would be Statoil, the Norwegian national oil company, set up in the 1970s to safeguard the nation's interest against foreign oil multinationals (Box 2).

Although Statoil was largely run as a separate commercial entity, through the setting up of a number of other institutions and mechanisms, its operations and goals were set by a broader democratic consultation process, although these limits were relaxed in favour of greater commercial freedom from the mid-1980s onwards. Although Statoil has become more like any other oil multi-national corporation in recent years, and has been partially privatized, it remains subject to broader democratic governance, notably through the requirement that one third of its board is elected by employees (typical of Scandinavian co-determination principles) and the government requirement that half of its board is female. At the same time, democratic scrutiny of oil development more generally remains important, including strict social and environmental constraints on the investments by the state owned oil pension fund, the Government Pension Fund Global.

Alternative approaches

An alternative approach to state ownership would be to develop a more democratic governance structure within the organisation itself that provides representation for a range of different interest groups on the main board of corporations. Of interest here is the model used in the French nationalisation programme in the 1940s – in contrast to the British experience – where for the newly nationalised electricity and gas corporations, the 12 person board was made up of four appointees from the state, four from technical and expert groups (including two to represent the consumer interest) and four trade union representatives.[87]

In developing more democratic forms of governance, there is no one size fits all model that can be applied everywhere, given the social, economic and technical requirements of different sectors but different configurations could be applied to suit particular circumstances. In all instances, there will need to be a mixture between professional and technical expertise and providing democratic representation for different interest groups.

In the railways, for example, a new national corporation that brought together track infrastructure, maintenance and passenger services for inter-city and trans-metropolitan routes could have a board structure that provided representation for both employee and passenger groups while also having managerial and government appointees with sector experience. Local, regional and commuting services could have more decentralized ownership structures that devolved power to the devolved parliaments and local government.

In the energy sector, national state ownership of the grid and infrastructure of electricity and gas sectors could be combined with local, regional and community ownership.[88] Board representation could be split between state appointees, local and devolved government nominees, consumer, and employee representatives. Even existing national state corporations like the BBC could have more democratic structures that give voice to the diversity of public interests.[89]

[87] See Bliss, B. 1954. "Nationalisation in France and Great Britain of the electricity supply industry." International and Comparative Law Quarterly, vol. 8: 277-90.
[88] Models for this have been developed by: Cumbers et al. 2013. "Repossessing the Future: a Common Weal Strategy for Community and Democratic Ownership of Scotland's Energy Resources." Jimmy Reid Foundation; Hall, D. 2016. "Public Ownership of the Energy System – Benefits, Costs and Processes." PSIRU.
[89] See Cumbers, A. 2016. "The BBC'S biggest problem: the public has no control over it." The Conversation May 2016: https:theconversation.com.

FOUR
NEXT STEPS

This report has identified specific, critical failings with the existing model of the British economy: the short-term focus of its decision-makers; the lack of control most of us have over those decisions; and the inequality and insecurity it promotes. These are not minor issues, subject to easy policy solutions, but deep, structural flaws that stem from the dominant model of firm and asset ownership and management.

What we have presented, as an alternative, amounts to the first steps in challenging that dominant model of ownership and control. We have shown, in simple, practical terms, how a government committed to addressing those profound, structural problems could implement key policies that would rectify them. Its goal would be nothing other than the creation of an economy which is fairer, more democratic, and more sustainable; that would overturn the hierarchies of power in our economy, placing those who create the real wealth in charge; that would end decades of under-investment and wasted potential by tearing down the vested interests that hold this country back

The historic name for that society is socialism, and this is Labour's goal. To begin the process of turning the proposals here into practical and popular policy, further work will be required as a matter of urgency. Some can take place concurrently while others will need to wait for the completion of others. These should include but not necessarily be limited to:

- **Examine key sectors of the economy which may require national government intervention and undertake or commission work into the practicalities for areas where Labour may want most urgently to develop policy**
  Important sectors such as those relating to energy or transport, where the Labour Party has already spoken about intervention, will require further investigation of the steps required to enable and deliver stated goals. Labour should engage in particular with academics specialising in privatisation/nationalisation and the legislative framework.

- **Draw up a priority list of policies to further develop, including a Right to Own and the role of government in key specific areas, and open consultation with stakeholders (including Party members and trade unions) on bigger and more complex proposals**
  This report has laid out some of the necessary legislative and other changes which would be required to implement policies that encourage or enforce wider democracy in economic decision-making. Taking this forward will require more detailed work on specific areas in the cooperative sector and beyond, involving academics, policy experts, Labour Party affiliates and other stakeholders.

- **Establish ongoing network of activists/experts to discuss issues of governance in collectively/publicly owned organisations**
  There is an urgent need to develop alternative models of governance for publicly-owned enterprises, given the shortcomings of the 'Morrisonian' model discussed in Section 3(c). To discuss the specific democratic governance issue Labour should engage with those who have experience of self-managed institutions and – when looking at specific industries – with those working in those sectors, via trade unions.

- **Prepare a policy document for publication at the earliest possible opportunity**
  Given the urgent need to push issues of economic ownership and control to the front of the political agenda, Labour should commence work on a strategy to win support for the ideas discussed in this paper and others which may arise from it.

APPENDIX 1:
Overview of cooperative structures and legal forms

An extended overview of some issues covered in Section 3a

1. Cooperatives (General)

Though different cooperatives started as grassroots organisations in Western Europe, North America and Japan in the middle of the nineteenth century, the Rochdale Pioneers are regarded as the prototype of the modern cooperative society and founders of the Cooperative Movement in 1844. 28 workers in cotton mills in Rochdale established the first modern cooperative business, the Rochdale Equitable Pioneers Society. The weavers faced miserable working conditions and low wages, and could not afford the high prices of food and household goods. They decided that by pooling scarce resources and working together they could access basic goods at a lower price. Initially, there were only four items for sale: flour, oatmeal, sugar and butter.

These principles that underpinned their way of doing business are still accepted today as the foundations upon which all cooperatives operate. Today the sector is estimated to have around 1 billion members and account for more than 100 million jobs around the world.

A cooperative is essentially an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others. These following seven cooperative principles are guidelines by which cooperatives put their values into practice:

a) Voluntary and Open Membership
Cooperatives are voluntary organisations, open to all able to use their services and willing to accept responsibilities of membership, without gender, social, racial, political or religious discrimination.

b) Democratic Member Control
Cooperatives are democratic organisations controlled by members, who participate in setting policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote). Cooperatives at other levels are also organised in a democratic manner.

c) Member Economic Participation
Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for developing their cooperative, setting up reserves, benefiting members in proportion to their transactions and supporting activities approved by membership.

d) Autonomy and Independence
If cooperatives enter into agreements with other organisations, including governments, or raise capital from external sources, terms ensure democratic control and maintain cooperative autonomy.

e) Education, Training and Information
Cooperatives provide education and training for their, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public on the nature and benefits of co-operation.

f) Cooperation among Cooperatives
Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

g) Concern for Community
Cooperatives work for sustainable community development through policies approved by members

2. Worker cooperatives

In the UK there is no special cooperative legislation, so that worker cooperatives can use any legal form, including companies, societies and partnerships. Worker cooperatives are trading enterprises, owned and run by the people who work in them, who have an equal say in what the business does, and an equitable share in the wealth created from the products and services they provide. As well as benefiting their members, all cooperatives share internationally agreed principles, and act together to 'build a better world through co-operation'. The International Cooperative Alliance and Institutional Organisation of Industrial and Service Companies issued the following summary:

"Worker cooperatives have the objective of creating and maintaining sustainable jobs and generating wealth, in order to improve the quality of life of the worker-members, dignify human work, allow workers' democratic self-management and promote community and local development." [90]

Though there are around 500 worker cooperative organisations in the UK, some of these are employee owned and have different constitutions.

3. Multi-stakeholder cooperatives

Multi stakeholder cooperatives (MSCs) are a relatively recent development within the sector. Their distinctiveness lies in their membership, which includes two or more interest groups. Traditionally co-ops have sought to meet the needs of one main type of member, i.e. consumers, workers or producers but typically not more than one at a time.

The first MSCs emerged in Italy during the 1990s following a change in Italian law. They are often called social co-ops and were set up to provide a range of social services which can include mental health provision, care, work integration, prison services etc. Their membership can include service users, workers, volunteers, local authorities etc. Today there are more than 14,000 social cooperatives in Italy delivering a wide diversity of care services. The sector has now a work force of over 400,000, an annual turnover of more than €9 billion and service provision to over five million people. There is a growing academic literature on social co-ops and a growing interest in the possibilities of using the model to deliver care services in the UK.[91]

The main sector in which MSCs have developed in the UK has been in education where a number of cooperatives schools have been set up (400+) which use a MSC model. Membership is drawn from pupils, staff, teachers and the local community.[92] A version of the MSC model has also been used by the German renewable energy co-ops which now provide around half of all the country's renewable energy.[93]

4. Mutuals

Though technically set up as mutuals, many previous local authority and arm's length organisations now conduct their affairs like private corporate structures. As an example, Greenwich Leisure Ltd has used a £5 million bond issue to open London 2012 Olympic venues to the public. Triodos Bank worked with GLL to raise £5 million through a five-year bond paying 5% fixed gross interest per year and GLL is developing its Olympics legacy strategy, including the Copperbox, launched in July 2013, and the Aquatic Centre which reopened to the public in 2014.

Public Service Mutuals

In 2010, the Cabinet Office defined a new variant - 'Public Service Mutuals' – as "organisations that have left the public sector but continue delivering public services. Employee control plays a significant role in their operation". This does

[90] CICOPA. 2005. "World Declaration on Cooperative Worker Ownership." Excerpts available at: http://www.geo.coop/archives/cicopa604.htm

[91] See, for example: Borzaga, C and Galera, G. 2016. "Innovating the provision of welfare services through collective action: the case of Italian social cooperatives." International Review of Sociology Vol 26:1; and Conaty, P. 2014. "Social Cooperatives: a Democratic Co-production Agenda for Care Services in the UK." Cooperatives UK.

[92] Shaw, L. 2014. "A Quiet Revolution: Cooperative schools in the UK." Stories.coop, available at: http://stories.coop/wp-content/uploads/2014/10/Cooperative-schools-in-UK-case-study.pdf

[93] Harvey, R. 2016. "NIMBYism, cooperatives and Germany's Energy Transition." Cooperative News, available at: http://www.thenews.coop/108839/news/cooperatives/nimbyism-cooperatives-germanys-energy-transition/

not mean that these are controlled by former public sector employees. The best example of a Public Service Mutual “spin out” is MyCSP, part of the Civil Service Pensions Department. A report on "Progress towards MyCSP as a Public Service Mutual" was delivered by the National Audit Office. Its introduction says: "The transaction was complex, and the Department had to fulfil several different roles, for example being vendor and owner of MyCSP’s shares, as well as purchaser of MyCSP’s services for scheme members.” [94]

Since MyCSP is now effectively privatised, a private company now controls administration of Whitehall Civil Service, MPs, MEPs and Judicial Pensions: *“A private company has taken a controlling stake in the organisation that administers the UK civil service pension scheme, as the government presses ahead with its ambition to spin off parts of Whitehall.*

“MyCSP was established in 2012 as a “mutual joint venture” in which Equiniti Group owned 40%, the government 35%; and employees 25%.

“The government will announce on Thursday that it is to sell 11% of its stake, handing majority ownership to Equiniti Group, which will own 51% of the joint venture”.[95]

To ensure security and privacy, the Judiciary, MPs and MEPs are not permitted to file HMRC tax returns online. Equiniti styles itself as “intelligent provider of sophisticated technology, administration, processing and payments services, delivered by over 3,500 employees across 28 locations. Apart from providing significant back office financial operations for the NHS, central and local government, Equiniti is a main share registration administrator and nominee for a portfolio of private companies. There is no information on its internal controls and procedures.

The Cabinet Office continues to promote Public Service Mutuals, with support from the Labour led Cooperative Councils' Alliance. Cooperatives UK and Social Enterprise UK are members of the Government's Mutuals' Information Service. The Cooperative Group has set up a Public Service Mutuals Support Group. The TUC and Cooperatives UK in September 2013 published "Best Practice Guidance" on setting up Public Service Mutuals, but little has been done to promote this.[96]

The Coalition and Conservative Government's agenda for Public Service Mutuals has always been clear. Under "Clarifying the future size and shape of the Civil Service", the Civil Service Beta site shows that:

“By the end of March 2015 approximately 500 bodies will be reformed and the total number reduced by over 250. The Government estimate that public bodies will deliver administrative savings of £2.6 billion over the spending review period. All remaining NDPBs are now subject to review every three years, which will seek to identify innovations and new models for delivery, such as mutualisation, joint venture partnerships and transferring to the voluntary or private sectors, and strengthen accountability and governance arrangements for NDPBs that remain".[97]

A typical example is the "employee led mutual" for providing school support services in London Boroughs of Hammersmith and Fulham, Kensington and Chelsea and the City of Westminster. "Key Legal Principles" include:

“Three Boroughs Mutual Trust and ISP (Independent Service Provider) and the operation of the ELM (Employee Led Mutual) will be governed by a framework of legal documents which will largely be driven by the nature of the relationship between these parties, as agreed upon through dialogue. The legal documents dealing with this relationship could include any or a combination of [further sub clauses].” [98]

In practice this means that, as with MyCSP and other Public Service Mutuals, alongside other controlling interests, employee representation is minimised through a trust. This Three Boroughs Mutual Trust example of legal advice

[94] Comptroller and Auditor General, & National Audit Office. 2013. Spinning-out MyCSP as a Mutual Joint Venture. London: National Audit Office.
[95] Neville, S., & Plimmer, G. 2014. “Equiniti takes controlling stake in Whitehall pensions body.” Financial Times 1 October 2014.

[96] Cooperatives UK, & Trades Union Congress. 2013. Public Services, Co-operatives and Mutuals: Best Practice Guidance. London: Cooperatives UK and Trades Union Congress.
[97] Civil Service Beta Site. 2013. Clarifying the Future Size and Shape of the Civil Service. London: Civil Service Beta site. Available at: http://my.civilservice.gov.uk/reform/the-reform-plan/clarifying-future-size/
[98] Field Fisher Waterhouse. 2013. London Borough of Hammersmith and Fulham ELM Project: Key Legal Principles. London: Mutuals Information Service. CDS Cooperatives. 2016. “CDS Co-operatives: Housing

and documentation, funded by the Cabinet Office, shows that employees' operation and administration is difficult, if not impossible, without continuing legal and financial advice being provided.

5. Housing associations

Housing associations are independent, not-for-profit social businesses set up to provide affordable homes for people in housing need. They vary in size from fewer than ten homes, to more than 50,000. Chief Executive salaries of larger Housing Associations exceed £300,000 annually.

Housing associations are not part of the public sector. Many are Registered Social Landlords and Industrial Provident Societies, now "Registered Societies" (see later). There are also trusts and companies. They may be also Registered Charities. Most housing associations have paid staff, a committee or board of management with volunteers or paid non executive members. Boards many include residents, representatives from local authorities, community groups, business and elected representatives.

Housing associations provide around two and a half million homes for rent in England They receive Government funds for building new homes, providing specialist housing or regenerating neighbourhoods, but most income is from rents. They borrow against property assets on the private market. In England, Housing Associations are regulated and funded by the Homes and Communities Agency, which focuses on governance, improving services and financial health.

The reality is that many now behave like mainstream property developers. After raising huge sums through bond issues, financial markets recognise that many RSLs in England own estates worth significant sums because of their location.

More RSLs are selling properties in central London areas 'too expensive' to provide for social housing tenants. Their explanation is that they sell valuable properties and use proceeds for cheaper-to-build housing in less affluent areas. Housing associations with heavy borrowing face increasing pressure from lenders.

Cooperative Housing Associations

The cooperative housing sector in the UK is small in relation to other forms of housing provision. In the UK the percentage of cooperative housing is 0.6%. This varies significantly from other countries across Europe and the world. In the USA housing cooperatives provide homes for approximately 1.5 million American families. In Canada housing cooperatives provide homes for 250,000 families. In Norway they provide homes for 14% of families in the country.[99]

Glasgow and the West of Scotland have the highest concentration of community-controlled housing associations and cooperatives working in local communities, with around 70 examples, which have:

- Democratically-elected management committees
- Committee members who are local residents who volunteer for their communities
- Housing which is community-owned
- Income raised from rents is spent and re-invested in our local communities

One of the best examples is West Whitlawburn Housing Cooperatives, Cambuslang, South Lanarkshire, registered under the Cooperative and Community Benefits Society Act 2014. It holds charitable status and is a Registered Social Landlord with the Scottish Housing Regulator. The Cooperative was formed in 1989 by local tenants determined to challenge social deprivation on their estate. With support from Government, they began a community-led regeneration. Recent achievements include biomass heating and a rent freeze for 2016-2017.

Elsewhere experience of community control of local housing is limited. Though some housing associations may claim to be cooperatives or "community controlled", some have two tier board structures with tenant representation limited to a lower and less important structure. There are also around 200 Tenant Management Organisations with powers to manage buildings

[99] Cooperatives in the UK." Available at: Retrieved 1 January 2017, from http://www.cds.coop/coop_movement/housing-co-operatives-in-the-uk

and services, and several hundred Tenant Panels with informal advisory powers in England. WATMOS in Walsall is a tenant controlled housing cooperative. Key features in all these structures are governance arrangements, based on tenants' representation and participation.

6. Community businesses

The following are examples of different community businesses:

- **Buying group** – a group of consumers who, by pooling their buying power and ordering food in bulk, direct from farmers or suppliers, buy good quality food at a more affordable price.
- **Community enterprise** – a trading organisation set up, owned and controlled by a geographical community or community of interest. They generally trade for a social purpose.
- **Community owned shop** – a shop owned and generally also run by a local community.
- **Community supported agriculture** – an organisation which is generally a partnership between grower and consumer
- **Cooperative** – an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise which conforms to the 7 cooperative principles shown above.
- **Development Trust** – a community-owned and led organisation, which develops community assets and community enterprise.
- **Farmers' Market** – a public market at which farmers and other producers sell directly to consumers. Some are privately run, some are run by local authorities and some are cooperatives of the farmers and producers
- **Social Enterprise** – a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. Social enterprises tackle a wide range of social and environmental issues and operate in all parts of the economy. However, the Government is now content to recognise more organisations which proclaim a social purpose as 'social enterprises'

Irrespective of the legal form or organisational type for a community enterprise, it will generally have a governing body and a wider membership. Once an organisation has a membership greater than 12-15, it becomes harder for its membership to be directly involved in governance. It also becomes harder for all members to attend meetings and the decision-making becomes challenging for a larger group. It is common in this situation for the membership to elect a smaller committee (the governing body) and delegate some of its powers to it. This committee can meet more easily and make decisions between general meetings of the entire membership.

7. Credit unions

a) Common Bond criteria

A credit union's customers are its members. Credit unions can only offer services to members. This is because credit unions are cooperatives - self-help organisations owned and democratically controlled by their members. Members must meet Common Bond criteria set by the credit union. This might be that you live or work in a certain area, belong to a particular organisation or work for a certain employer.

b) Promoting responsible lending

Credit unions promote responsible lending. The services they provide should give all members access to:

- Banking services – offering members a current account to access their savings at any time
- Savings accounts –members are encouraged to build up assets and accumulate savings
- Affordable loans – taking into account members personal circumstances, payment history and ability to repay loan
- Financial education and access to money advice - empowering members to make informed choices about financial products.

- Insurance products – enabling members to build on and protect assets.

c) Credit Union Rules

Credit unions have a number of clear objectives enshrined in their constitution. These rules are:

- Promoting thrift – members must be encouraged to save as well as borrow
- Providing credit and loan products with fair and reasonable interest rates
- Efficient use and control of members' savings for mutual benefit to earn return (dividend)
- Training members to use money wisely, devise a budget and manage their financial affairs
- Members own and control their credit unions

Because credit unions are cooperatives, members have a say in how the credit union is run and the directors are elected from the members, by the members, to represent their interests.

d) Distribution of profits

Credit unions distribute their profits to members in dividends which means that money stays in the community rather than going to external shareholders. They are also committed to improving the economic and social well-being of members.

8. Development trusts

Development trusts are a particular type of partnership organisation that offers benefits to the local community and has advantages for many public bodies, non-profit agencies and funders.

a) Structure

A development trust is usually a Company Limited by Guarantee with Charitable Status (see below). Profits cannot be distributed to members, and are used for the benefit of the local community. The membership of a trust is drawn from a geographically-defined area. Members may be individuals and organisations or just organisations. The board of a trust is made up of representatives from the public, voluntary, community and private sectors. These, with individuals and additional funders if appropriate, may be elected from 'voting sections' of the membership.

The board is the policy-making body, and is unpaid; paid staff may be employed to carry out the day-to-day operations of the trust. A trust may set up subsidiary organisations to further its objectives, for example trading companies whose profits are covenanted back to the trust.

b) Basic Features

Development trusts are community organisations which:

- are owned and managed by the local community
- aim to achieve the sustainable regeneration of a community or address a range of economic, social, environmental and cultural issues within a community
- are independent but seek to work in partnership with other private, public and third sector organisations
- aim to reduce dependency on grant support by generating income through enterprise and ownership of assets. Trading surpluses principally reinvested in organisation or community.

c) Activities

A development trust is an organisation that is engaged in the economic, environmental and social regeneration of a defined area. It is independent and aims for self-sufficiency and not for private profit. It is community based, owned and managed and is actively involved in partnerships and alliances between the community, voluntary, private and public sectors.

Cooperative and third sector governance and legal structures

1. Community interest companies (CICs)

(These are detailed notes since CICs are used by private Companies Limited by Shares to assume a 'community role')

Community Interest Companies started in 2005 from New Labour's Companies (Audit, Investigations and Community Enterprise) Act 2004, designed for organisations seeking to use profits and assets for the public good. CICs are easy to set up, with the flexibility and certainty of a company form, but with special features to ensure they should be working for the benefit of the community. It was argued that charities (including charitable IPSs) were not suited to social entrepreneurs who wished both to control an organisation and receive a salary from it.[100] They have proved popular and more than 10,000 have been registered in the first 10 years. CICs are loosely regulated with a part time regulator and small staff.

Their fastest growing component is Community Interest Companies based on Companies Limited by Shares, which has led to fear that these are private limited companies using a CIC "wrapper" to augment their public acceptability. The principal feature of a CIC is that it contains a lock on its assets, which prevents profits being distributed to members or shareholders other than in certain circumstances. A CIC is obliged to pursue the community interest and must report on how it does this to the CIC Regulator.

A Company Limited by Guarantee with an asset lock allows the CIC to demonstrate to funders its not for profit status. But there have been some concerns about the asset lock since it may place restrictions on the organisation's ability to raise external finance. In some cases, some stakeholders believe that CIC status might deter potential investors.

The CIC was developed in order to address the lack of a legal vehicle for non-charitable social enterprises. Both non-charitable Industrial and Provident Societies (see below) and existing company forms were seen as insufficient, since they did not allow for a 'lock' on their community assets – although since April 2006 this has changed for IPSs which are non-charitable Community Benefit Societies.

CICs thus represent a "wrapper" for different types of company. They may be Companies Limited by Shares, Limited by Guarantee or may be PLCs.

[100] Lloyd, S. 2010. "Creating the CIC." Vermont Law Review, Vol 35(1): 31–43.

Certain structures are excluded from being CICs, including political parties, those controlled by political parties or engaged in political activities. The rules regarding what are political activities and the extent to which a CIC may engage in such activities are similar to the rules regarding charities and political activities. Charitable companies cannot also be CICs.

CICs operate in a broadly similar way to normal companies, except in certain aspects described above. Like ordinary Companies Limited by Shares and Companies Limited by Guarantee, a CIC's constitution is its Memorandum and Articles of Association. In addition, CIC legislation requires that the Memorandum and Articles of Association of a CIC must contain certain protections.

CICs register with Companies House in the same way as a normal company. However, there is one additional form to complete, which contains:

a) Statement that the CIC is pursuing the community interest (including a description of the community and how its interest is pursued)

b) Declaration that the company is not an excluded company.

Companies House passes applications to the CIC Regulator who assesses whether the 'community interest test' has been passed. If it has, the CIC Regulator returns the application to Companies House, which then incorporates the company. A normal CLS or CLG can be converted to a CIC. It would need to amend its constitution appropriately and then submit the required forms to Companies House.

Though CICs are regulated by the CIC Regulator, it was always intended that regulation should be 'light touch'. However, the Regulator is committed to responding to complaints from stakeholders and has considerable powers to act to protect the community interest. A CIC is required to file a community interest report each year. This report must include details of the remuneration of directors, dividends paid on shares and interest paid on certain types of loans. It must explain how it has pursued the community interest and how it has involved stakeholders. However, many observers have commented on the Regulator's inadequate staffing for all this.

A CIC Limited by Shares or Guarantee may apply for grants and take out secured and unsecured loans in the same way as a normal company. Interest rates on CIC borrowing must be at normal commercial rates, and performance-related interest is restricted. A CIC Limited by Shares may obtain equity finance. There are caps on interest and dividends to limit the amount of assets which can be transferred out of the CIC. For the cap on the amount of performance related interest that a CIC can pay on a loan, from October 2014 the cap is 20% of the average amount of a CIC's debt during the 12 months immediately preceding the date on which the interest is due to be paid. There is a cap for dividends:

d) Though shareholder dividends were restricted to 20% as a percentage of nominal value, this was removed in the Community Interest Company (Amendment) Regulations 2014

e) The profit distributed in dividends by the CIC must not be greater than 35% of its total distributable profit.

f) If the shares are bought back by the CIC from the investor they can only be bought back at the nominal value of the share stated in the articles

2. Companies limited by shares

CLSs may be private companies (the great majority) or public limited companies (PLCs), which are subject to stringent accounting standards and can offer their shares to the general public. Many (but not all) PLCs are listed on the stock market so that their shares can be easily bought and sold. Although there are some PLCs that are social enterprises they are rarely listed.

The main difference between the two company forms is that a CLS has share capital, whereas the CLG (Company Limited by Guarantee) does not. This share capital is a nominal figure which is used to represent the total net assets of the company and is the technical mechanism that allows CLS to be used to raise equity finance.

3. Companies limited by guarantee

In a Company Limited by Guarantee (CLG) there is no share capital and no shareholders. Instead, the members give a guarantee to cover a company's liability. However, the guarantee is nominal, normally being limited to £1. The members of a CLG become its owners and have broadly the same powers as shareholders in a Company Limited by Shares (CLS). CLGs may receive grants and take out loans, but equity finance is not available to them, so that there may be difficulties in raising finance.

Sometimes the word 'members' is used for individuals who do not have any constitutional rights but simply have a contractual right to receive certain benefits from an organisation. These benefits might be a minimal as access rights or a newsletter. It is important that organisations maintain a clear understanding of the different types of membership.

A slight complication is that some Companies Limited by Guarantee style themselves as cooperatives, since registration as a CLG has been easier and cheaper than an Industrial and Provident Society Cooperative or Registered Society.

4. Registered societies – Formerly industrial and provident society cooperatives

The International Cooperative Alliance describes a cooperative as 'an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise'. All cooperatives operate under the International Cooperative Alliance cooperative values and principles.

Industrial and Provident Society (IPS) Cooperative Societies are a type of society with a cooperative structure established for member benefit rather than public benefit. Under the Cooperative and Community Benefit Societies Act 2014, the Financial Conduct Authority (FCA) now registers cooperative or community benefit societies. There are around 7,500 societies registered in the UK. The FCA describes the new arrangements after the 2014 Act:

"Before 1 August 2014, all societies registered under the Industrial and Provident Societies Act 1965 (or its predecessors) were legally referred to as 'industrial and provident societies', whatever they called themselves. From 1 August 2014 they are referred to as 'registered societies'.

Any new societies registered on or after 1 August are referred to as:

- a cooperative society, or
- a community benefit society"[101]

From 2014, they can raise equity finance up to a maximum of £100,000.

A key feature is summarised as 'one member, one vote'. There are several different types of cooperatives (eg. worker, consumer, community, agricultural). IPS Cooperatives (Registered Societies) cannot be charitable, except possibly in a case where a necessary condition of membership is to be within a class of charitable beneficiaries (for example, being a resident in financial need in an area of deprivation).

5. Registered societies – Formerly industrial and provident society community benefit societies

An Industrial and Provident Society (IPS) Community Benefit Society (a Bencom) is an incorporated Industrial and Provident Society (Registered Society) that conducts business for the benefit of its community. Profits are not distributed among members, or external shareholders, but returned to the community. The legislation requires that a Community Benefit Society must have some special reason for seeking registration as a society and not as a company.

In practice this means a standard constitutional provision requiring that benefits will not be returned to members, demonstrating that business is conducted for benefit of the community, and including an attachment to the cooperative principle of one member, one vote, regardless of contribution.

Because Community Benefit Societies can issue shares to raise funds, they can raise their own funds, thus avoiding intermediation. Since 2009, 120,000 people have invested over £100 million to support 350 of these communities throughout the UK. The FCA does not provide guidance on who can be a member of a Community Benefit Society. In the context of community shares, it is assumed that membership is open to any person who supports the purpose of the society, without the distinction found in cooperative societies between user and non-user members.

6. Limited liability partnerships

A limited liability partnership (LLP) retains the organisational flexibility of a partnership and is taxed as a partnership but members have the benefit of limited liability. It is a legal entity. It is a single tier structure. Partners are the equivalent of directors of a company and shareholders combined. Two or more individual or corporate bodies that carry on a lawful business with a view to profit may form an LLP.

Members sign an incorporation document, or join by agreement with existing members. Individuals or corporate bodies may be members of an LLP. A person may cease to be a member of an LLP by death, dissolution, in accordance with an agreement with the other members or, in the absence of agreement, on 'reasonable notice' to the other members. The rights and duties of members have to be governed by agreement between members (and the LLP). In the absence of any LLP agreement, there are default provisions for LLPs.

Members are liable in the winding up of an LLP up to the amount they have agreed (which can be nothing). An LLP is governed by a partnership agreement which can be tailored to reflect a social purpose. It can also be a useful vehicle in a group structure. It cannot be a charity because it is established for the benefit of its members not for the benefit of the public.

7. Charitable companies

A Charitable Incorporated Organisation (CIO) is a new incorporated form - with SCIOs in Scotland since January 2012 and CIOs in England since January 2013 for small and medium charities which employ staff, enter into contracts, with trustees having limited or no liability. Many aspects of the CIO are similar to those of a Company Limited by Guarantee, but the CIO can only be used by an organisation which is charitable. CIOs provide a means for charities to incorporate and gain the benefits currently available to companies without the burden of dual

[101] Financial Conduct Authority. 2015. "Guidance on the FCA's registration function under the Cooperative and Community Benefit Societies Act 2014." Financial Conduct Authority Guidance, FG15/12 GMB Scotland.

regulation by both the Charity Commission and Companies House. CIOs are administered by the Charity Commission which has sole responsibility for formation and registration. Trustees or members will have limited or no liability and the organisation will need only to register once with the Charity Commission rather than also going to Companies House. The aim is to reduce administrative burdens and CIOs will also not be subject to company law.

A CIO, like a company, has a two tier structure of trustees and members. Like companies, the trustees and members can be the same people – called a 'foundation CIO'. A CIO that has members other than its trustees is referred to as an 'association CIO'. There are important differences between the CIO and Charitable Company Limited by Guarantee:

- The CIO is intended to have all the advantages of incorporation, namely limited liability and the ability to hold assets in its own name, without the burdens of dual registration and requirements to comply with two sets of law, as the CIO is regulated solely by the Charity Commission

- A CIO only comes into being once registered with the Charity Commission. In contrast, a company can register in a day at Companies House and start operating immediately

- CIO legislation makes no provision for the maintenance of a register of charges, which may make it more difficult for a CIO to borrow, as a lender will not be able to obtain the protection of registering a charge at Companies House

- The rules which apply to CIOs, while having the advantage of being tailored specifically for charities, are as yet untested, and there may be some gaps and grey areas.

New charities must consider whether a CIO is an appropriate vehicle. Smaller charities are likely to find limited liability and less red tape an advantage. New charities which plan to hold significant assets, or borrow funds, may still prefer a company form. The Cabinet Office assumed that the target market for CIOs will be charities with incomes of between £10,000 and £500,000.

Existing unincorporated charities may convert into CIOs in a staged introduction. Existing charitable companies may convert into CIOs at some stage, subject to further regulations.

8. Unincorporated associations

An unincorporated association is an organisation made up of a group of individuals, who have decided to come together for a particular purpose. The individuals are described as members of the association. It usually has a written constitution which sets out various details including how members are appointed and removed and how meetings are held amongst other things. An unincorporated association usually has a management committee elected by the members. Since it is unincorporated, it does not have limited liability. The individuals involved will be personally liable for the debts of the association.

9. Trusts

A voluntary and community trust may be established when a donor gives an asset (usually money) to a group of individuals (trustees) and asks them to use it for a particular purpose. In general, for the trust to be legally enforceable, that purpose needs to be charitable. Charitable trusts are subject to slightly different rules from private family trusts.

The agreement between the donors and the trustees is set out in a "trust deed". This usually also sets out how the trustees are appointed and removed and how meetings are held amongst other things. A trust does not have members.

A trust is unincorporated and so it does not have limited liability. The trustees will be personally liable for the debts of the trust.

APPENDIX 2:
Overview of cooperatives and procurement process

Despite representations from UNISON and public sector unions, the UK Government has introduced 2014 EU Procurement Directives into UK Public Contract Regulations 2015 in ways favourable to the private sector. Article 77, though supposedly designed to favour the third sector, requires:

- The tender needs to be in pursuit a public service mission linked with contracts. It does not appear though that they are precluded from bidding for other reserved contracts
- Profits and surpluses need to be reinvested in a social objective and "any distribution of profits is based on participatory considerations", which are not specified. Bids are possible from for profit companies if they comply with the "participatory considerations"
- Management and ownership structures need to be "based on employee ownership or participatory principles" or as an alternative "require the active participation of employees, users or stakeholders". Though might be adaptable in Germany where employees of companies tend to have a say in management, this is not the case in the UK
- The contract will last for three years.

Unions expressed strong opposition since this could mean for profit organisations spawning non-profit subsidiaries. This was expressed by a union submission to the Scottish Government:

"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." [102]

Similar reservations were expressed by the TUC:

"Article 77 of the Directive, promoted by the UK government, aims to reserve contracts for mutuals and cooperatives without the need for open competition for periods of up to 3 years. However, far from reserving contracts for tightly defined cooperatives, mutuals or social enterprises, the wording is so ambiguous that it would allow a contracting authority to reserve a contract for a wide variety of hybrid and private sector organisations who could arguably qualify." [103]

Though the purpose of this EU Directive is restriction of tendering to third sector organisations, there will be significant potential problems for cooperatives and third sector providers of public services, not only through competition they face, but for fully open re tendering in three years.

Procurement in Practice

1. National Cooperatives and Third Sector Infrastructure Organisations

a) Cooperatives UK, Social Enterprise UK, National Council for Voluntary Organisations, the Association of Chief Executives of Voluntary Organisations and other third sector national infrastructure organisations encourage and proclaim the advantages of their members and subscribers delivering public services more cheaply and with additional social value.

[102] 015. "GMB Scotland Reponse to Scottish Government Consultation on Changes to Public Procurement Rules in Scotland." Scotland: GMB Union. Available at: http://www.gov.scot/Resource/0048/00482638.pdf
[103] Dykes, Matt, & TUC Touchstone. 2015. "Public Contracts Regulations: Government getting it badly wrong on public procurement." TUC Touchstone. Available at: http://touchstoneblog.org.uk/2015/03/public-contracts-regulations-government-getting-it-badly-wrong-on-public-procurement/

b) Each new phase of public service competitive tendering, whether through private sector prime contractors, mechanisms for payment by results, social investment and impact measurement, under both New Labour and Conservatives has never been opposed by these organisations, despite consequential deterioration in service standards for clients.

c) Under the 2014 EU Procurement Directive, without full open private sector tendering, where a cooperative or third sector organisation may be awarded a contract on a restricted basis, they have failed to warn their members that these contracts must be opened to a fully competitive tendering procedure after three years. Since this future full competition will attract private bidders who will undercut to gain market share, these national third sector organisations have thus supported a process whereby cooperative and a third sector organisations thus become an interim staging post towards full privatisation.

d) Where public authorities operate Self Directed Support mechanisms with allocated individual "expenditure pots", using private sector software to reduce administration costs, third sector organisations should be wary about forming cooperatives for SDS recipients. Those with statutory responsibility for public services offload responsibility, risks and costs to a range of small external contractors, often in fragile markets to the detriment of socially excluded users.

2. The Myth of Cooperatives and Third Sector Organisations

a) Some national third sector providers hold no privileged position for delivery with additional social value unless they are contractually rewarded for this. National third sector organisations have promoted a myth that because of their structures they are able to deliver public services at less cost, with dedicated professionalism and with additional social value. However, within a competitive bidding competition against the private sector, they are not usually able to include adequate costs to fund delivery of additional social value or they will not win the contract.

b) Major private sector bidders employ fulltime professional teams of bid writers who often do not tell the truth, especially where a "self-cleansing" process is permitted. This process permits concealment of past contractual failings.

c) Though there may be occasional and exceptional circumstances where cooperatives and third sector organisations rely on volunteers or can deliver additional social value through external philanthropic or charitable contributions, some of these may not be able to be used for public service delivery.

3. Commissioning, Tendering and Procurement

a) As shown above, central and local government and NHS procurement departments do not procure service delivery from external providers within a stable funding environment. Each round of procurement usually requires savings – often of 10%, 15% of even 20%. Especially in labour intensive service delivery in health and care, reduced wages, terms and conditions are the only way these cost reductions can be achieved.

b) Any encouragement of participation of cooperatives in this bidding process against private providers is thus misleading, since these examples of cost reductions are rarely achieved in cooperative organisations which are fully democratically accountable.

4. Payment by Results and Impact Measurement

a) Under many existing bidding competitions, especially under Payment by Results mechanisms led by private sector prime contractors, as in the Work Programme or in Transforming Rehabilitation, cooperatives and third sector providers often eke out a meagre existence since services in which they were tendering partners are given to cheaper smaller private providers for actual delivery. They are thus used as "bid fodder" or "bid candy". The national third sector organisations above have failed to protect their members against this.

b) Many studies now show that Performance Measurement, Payment by Results and Impact Measurement focus on those outputs and outcomes which can be more easily measured and monetised. Measurement systems are moving in a direction where those outputs and outcomes which cannot be measured and monetised – which is often the case with complex social problems – will not get funded or delivered.

c) National Audit Office reports on Payment by Results (PbR) since 2012 have been very clear that Government Departments have no viable systems to measure these processes:

“If PbR can deliver the benefits its supporters claim – such as innovative solutions to intractable problems – then the increased cost and risk may be justified, but this requires credible evidence. Without such evidence, commissioners may be using PbR in circumstances to which it is ill-suited, with a consequent negative impact on value for money…Despite central government’s support for PbR, neither the Cabinet Office nor HM Treasury currently maintains an inventory of PbR schemes across the public sector. They were unable to tell us how many PbR schemes are in operation or how much money departments have allocated to such schemes, without requesting this information from departments.” [104]

[104] National Audit Office. 2015. Outcome-based Payment Schemes: Government’s Use of Payment by Results. London: National Audit Office.

APPENDIX 3:
The problem of service provision by private sector firms

Politics and democracy interfere with delivery of services

There is a continuing shift into public service delivery by private and so called 'third sector' providers, which since the 1980s and 1990s represents much more than basic marketisation or outsourcing. In 2003 Colin Crouch described the competition between 'public service brands':

"Extreme though this might seem, it is only an extension of a process with which we have become so familiar that we no longer even notice it: the approximation of the democratic electoral process highest expression of citizenship rights, to a marketing campaign based quite openly on the manipulative techniques used to sell products."

Apart from a role as client or consumer without choice, ordinary citizens have no direct link with the provision of services. Freedland draws attention to a triangular relationship: government, citizen, privatised supplier of services – which represents a bigger shift than that from public to private or from local authorities into outsourcing.

This fundamental shift is a large scale removal of service delivery from the political process so that democracy and the political process are increasingly seen as disruptive to the utopian models being established:

"The citizen has a link, through the electoral and political system, to government (national or local). Government has a link, through the law of contract, with the privatised supplier. But the citizen has no link, neither of market nor of citizenship, to the supplier; as we have noted, service users are not technically customers. And following privatisation they can no longer raise questions of service delivery with government, because it has contracted such delivery away. Henceforth government is responsible only for policy, not for operations." [105]

The platform for much of this was erected and maintained by New Labour and represents much more than can be corrected or re-engineered through Parliamentary or local elections. As long ago as 1965, Easton defined input into the political system as consisting of citizens' demands and support, conferred through elections, citizen identity and a sense of system legitimacy, and defined output as government decisions and actions, leaving what went on within the political system itself largely blank.[106]

Scharpf shows differences between processes of inputting and outputs.[107] His input legitimacy refers to the participatory quality of a process leading to laws and rules as ensured by the 'majoritarian' institutions of electoral representation. Output legitimacy is concerned with the problem-solving quality of laws and rules, and has a range of institutional mechanisms to ensure it.

But the practical reality is that under local government cabinet systems, with fulltime portfolio holders overseeing contracted services, individual councillors are unable to represent their interests and complaints about services can only be handled through contractual processes shrouded in commercial confidentiality. Many NHS and local government procurement processes now require 10% to 15% service cost reductions. With further outsourcing and subcontracting, contract retention rather than adherence is now a

[105] M.R. Freedland 2001. "The Marketization of Public Services." In C. Crouch, K. Eder, & D. Tambini (Eds.), Citizenship, Markets and the State. Oxford: Clarendon Press.
[106] D. Easton 1965. A Systems Analysis of Political Life. New York: Wiley.
[107] E.W. Scharpf 1999. Governing in Europe. Oxford: Oxford University Press.
[108] Business Services Association, & Ernst and Young. 2016. UK Business

major issue. The “race to the bottom,” especially in health and social care, means that more contracts are not completed since private or third sector delivers are unable to hire and retain staff.

The Business Services Association represents private providers of outsourced services. Its “State of the Union 2016” Report said:

“Customer contracting decisions are increasingly being left to procurement departments, (which can be less flexible with contract terms, show less interest in past relationships, and be overly price-conscious at the expense of more subjective, innovative or long-term assessments of value).” [108]

Many larger social enterprises, mutuals and third sector structures must now be accommodated within processes fashioned by what is contractually possible rather than by what might be politically desirable or acceptable. The biggest casualties have been voluntary and community organisations, since by their very nature they find it difficult to participate in what remains of the political process and within commissioning and procurement procedures. Since political input or "input legitimacy" is now largely removed from the mainstream political process, the politics of delivery are dominated by contractual possibilities determined by procurement departments. Crouch accurately describes the processes:

"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. As they become mere brokers between public principals and private agents, so professional and technical knowledge pass to the latter. Before long it will become an argument in favour of private contractors that only they have the relevant expertise."

Services Industry Survey: 'State of the Union' 2016. London: Business Services Association. Available at: http://www.bsa-org.com/uploads/publication/file/238/EY-BSA_Survey_Report.pdf