



policy platform

IN YOUR HANDS: Benefits and challenges of mutual and community cooperatives in public services

introduction

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Recent rhetoric from both Labour and the Conservatives has shown a great deal of interest in the concept of co-operatives and mutual societies. Much hope is placed in their ability to reform public services, and to increase productivity, efficiency and to give the owners of the services a real stake in their improvement. So, in this edition of Policy Platform we discuss the benefits and challenges of moving towards such a system, with more employees and service users taking control of public services. We have articles written from three different perspectives, including Mary Rayner from Co-Operatives UK – an umbrella body for co-operatives; Karen Wilkie from the Co-Operative Party, and; Simon Randall from the Conservative Co-Operative Movement.

In the first article by Mary Rayner, we learn that there is already a thriving and growing co-operative community in the UK. She points to evidence that highlights that businesses which are more than 10% owned by employees outperform the market by more than 10% per annum. In the current climate, there has also been a growth in community owned local services, especially in rural areas. She suggests that the interest in such schemes has been largely fuelled by the banking crisis.

All three contributors agree that co-operatives offer a positive solution to the current problems associated with low public sector productivity and the rising debt, especially around the positive culture, economic benefits and potential for the future of public services. But although the political rhetoric is exciting, there is also agreement that

there is still some way to go.

In the second article by Karen Wilkie, we learn that there is a lack of understanding about the benefits of co-operatives, especially from trade-unions who see them as 'privatisation by the back door'. But there is also a lack of understanding from citizens and government too, and this is seen as a significant challenge both in the transfer of ownership and in ensuring that the right type of co-operative organisation is used in the most appropriate situation.

There are a number of lessons drawn from existing experiences of co-operatives, particularly for central and local government. In particular, the contributors agree that the support from local government in the set-up and trading can make the difference between success and failure, and; as with any business, due care needs to be paid to ensure that there is sufficient expertise, capacity and financial rigour applied to the operation of the organisation.

In summary, as Simon Randall alludes to in the final article about the benefits of employee-owned co-operatives, there is a great deal of potential in the Conservatives policy paper for the future improvement of public services. There are some strong proposals which could begin to revolutionise public services in the UK. But while the political rhetoric is good, there is still some way to go to turn proposals into concrete actions. What is clear is that local government will need to take a lead on this if it is to become a reality. Localis is planning a stream of work around how these ideas can be tuned into reality, and particularly what the role of local government should be going forward.

We hope you enjoy reading these articles and find them useful background for the direction of things to come.

The Co-operatives UK

Mary Rayner, Policy and Research Officer



Cooperatives and mutuals are about empowering people using the principles of self-help and democracy to deliver efficient, effective services or goods. They are a form of business that is extremely relevant in today's society and increasingly popular among the general public.

The recent rise in interest in mutualism from the UK's two main political parties comes on the back of the sector's recent, self-led renaissance. The rebranding of The Co-operative Group – commonly known as The Co-operative – and its buyout of the Somerfield brand and merger with Britannia

“Communities round the country are turning to self help to save local services”

have secured its place as a leading brand. Communities round the country are turning to self help to save local services. Last year for instance saw a huge rise in numbers of community owned shops – 39 new shops opened compared to just eight a decade before. Threatened pubs are being saved in the same way. The rise in ethical consumerism, which has enjoyed strong support from co-operatives, shows that people want business to be more than just profit. Employee ownership has demonstrated its economic worth: the share prices of public companies that are more than 10% owned by employees outperform the market as a whole by on average 10% per annum.

Mutual Insurers too have seen a surge in business with brands names such as LV, NFU Mutual and engage Mutual being high profile and regularly seen on TV. Mutual insurers increased their market share by over 18% last year. Most put the increase down to a flight to quality and security as customers prefer the mutual model to the alternative plc model as they become more aware and discerning where their insurance is placed. Building Societies and Credit Unions are also experiencing a renaissance as customer prefer them and their values to the capital based financial services model that has been seen to cause the global recession.

The broader shift in all this is that people – whether they are consumers, users of services or employees – increasingly want the benefits that come when those who use, or are employed by,

an organisation, have an equal say in how the organisation is run. Competition has long been dominant in economic and political discourse but now the role of co operation in driving innovation, economic success and social responsibility is coming increasingly to the fore.

This enthusiasm for bottom up approaches has of course been further fuelled by the banking crisis and the recession. Politicians are keen to pick up on this shifting mood and the opportunity to run more efficient public services in the context of ever tighter public spending. The recent announcements – of employee owned co-operatives from the Conservatives and 'co-operative councils' and mutualised local services from Labour – are a welcome start in the debate about how we might bring about a more co-operative economy focused on the users of the services and owned by the communities in which they operate.

A thriving co-operative economy already exists in the UK. There are 4,800 co-operative businesses, owned by 11 million people - one in five of the population - and sustaining more than 200,000 jobs. The sector has a combined turnover of almost £29 billion - this works out at £550 million per week. As a whole, the UK's co-operative and mutual sector turns over more than £95 billion a year and employs almost a million people.

Co-operatives are independent businesses, but as with any other form of enterprise, self help and mutual aid needs the right environment to thrive. Ask most people on the street what a co-operative is and the response will probably be that it's a 'business with a heart' but beyond the most high profile co-operatives awareness is low. Mainstream economic and social policy shows a lack of understanding of how co-operatives work and how they can best be supported and encouraged to thrive.

There is of course a role for central government in providing an enabling environment for co-operatives. The Mutuals Manifesto – the first of its kind to bring together the whole mutual sector - calls for a fit for purpose legislative environment, recognition in key areas of economic and social policy and a diverse economy where a variety of business models are able to thrive.

The co-operative and mutual model is already employed across a range of health and social care markets that operate at a local level including home care, out of hours GP co-operatives, and foster care. Mutual leisure trusts such as Greenwich Leisure involve users, employees and the local authority as members in the provision of sporting facilities. There are now 130 Co-operative Trust

Schools, with a target of 200 by 2011. Most recently a Department of Health funded project, led by us, has explored mutual models for self-managed care. Mechanisms for opening up public service provision to co operatives and other social enterprises already exist in the form of 'Right to Request'. What is new about recent proposals from Labour and the Conservatives is the sheer scale of the possibility.

Confronted by large scale change a sensible option is often to go back to basics, in this case looking at what fundamental characteristics define a co operative. They are self-help enterprises, formed to meet the common need of their members. They are democratic and equal – the 'one member one vote' principle means that more money does not mean more of a say. All of this fits well with a public

“Customers prefer them and their values to the capital based financial services that has been seen to cause the global recession”

sector ethos. But does it work to scale? Experience says that on the whole yes, co operatives can and do work to scale. The Co operative Group with its 2 million members is a case in point. The French model of providing pillar II pensions for all workers run and managed by mutuals and their second tier non-emergency health system run and managed by 2,500 local mutuals under the Mutualite Francaise' banner shows that mutuals and cooperative can provide efficient services on a national scale.

Many lessons have been learnt by the co operative sector over the years that tell us what we must consider if they are to successfully deliver public services:

- That co operation cannot be enforced from above, only enabled. People should be enabled to make an informed decision as to whether co operation is the best route for them.
- That support from local authorities can be vital. This need not necessarily be in the form of direct financial support, which will be in short supply in years to come. A willingness to understand the co operative model of business, be a partner and critical friend during set-up and trading can make the difference between success and failure.
- That the shift from a public sector to co operative working environment is not straightforward. Moving from being an employee or service user to the owner and controller of a service is a fundamental shift in role and responsibility. Packages of training and reskilling must be available. Local authorities can play an important part in this.

- That in the context of local service provision co operatives often work best with a range of stakeholders – service users, carers as well as employees. There can be no single model: in some cases the co-operative could be made up of local residents, in other cases it might be service users who are the members, or employees – the 'John Lewis way'. Multiple stakeholders allow each group to check and balance the other(s) and prevent domination by any one stakeholder group.
- That co operatives work well when their values and principles are understood within the context of the particular organisation. There is no one-size-fits-all answer to democracy, as we know from our own political system.
- That good governance and quality control are key. People need clear roles and responsibilities and the opportunities to network and learn with others in similar roles.
- That like any business it pays to plan for the bad times as well as the good.
- That it is important to track the lessons learnt as co operatives develop in new markets – the experience of housing co operatives for instance will differ in many ways from GP co operatives.

There are many other big questions that will need to be answered and debates to be had. Trade unions, despite a track record of co operative development (the Wales Co operative Centre was formed by the Wales TUC), remain publicly opposed to externalisation through whatever route. We must also define what we mean by 'community' in 'community co operatives'. Does this include employees and does it refer to communities of interest as well as geographical communities?

We ought also to think beyond service provision to the role of co operatives in meeting other needs – in decentralised energy provision, local sustainable food and sport. There will be local businesses that want to band together in a co-operative structure, which is the basis of a very prosperous local economy in Emilia Romagna, Italy and Mondragon, Spain. Local authorities would do well to wake up to the growing appetite for participation, fairness and shared ownership.

The Co-operative Party

Karen Wilkie, Deputy General Secretary



Local councils have a special place in our economy. They are the providers and commissioners of the services that sustain our local infrastructure – homes, schools, roads – and how they choose to do

this also has a direct impact on the local economy. Councils have a responsibility not just to provide the best services they can, but to do this in a way that enhances the social, economic and environmental well-being of their communities. There is plenty of evidence that promoting the growth of co-ops and mutuals has a direct, positive influence on the local economy.

As councils battle to protect local jobs in the current climate, research shows that employee owned companies are more resilient and demonstrate a lower risk of business failure. Employee owned firms also create new jobs more quickly and add more value to output and human capital than conventionally structured businesses, whilst demonstrating the same levels of profitability.

Consumer-led co-ops are also thriving. Even Ambridge will soon have a community shop.

There is now a greater demand in the media and by the public for businesses that are ethical and transparent. Witness the dramatic increase in business with financial mutuals and credit unions. In the eyes of the public, profit is no longer seen as the primary measure of a good business. Local councils must take account of this when determining the types of business that they nurture, encourage or support.

Mutually owned businesses and social enterprises are the ideal vehicles for local economic development. They generate wealth and employment; their profits are retained locally to the benefit of local businesses or – often - used for the benefit of the community. Co-operative businesses mean co-operative ethics.

Co-operatives co-operate rather than compete. They actively encourage new enterprise. The Co-

operative Group's Enterprise Hub will provide business support to the value of £4m over the next three years to new and existing co-operatives.

Mutuals too can be catalysts for wider economic

development. An example is RCT Homes, the UK's first community housing mutual, with a housing stock of nearly 11,000 homes. They are committed to driving economic regeneration by developing skills training and generating local jobs. RCT Homes has now established a regeneration-focused social enterprise with subsidiary social businesses that employ tenants as volunteers to help boost their

skills.

There are many new ways in which local authorities and mutual organisations can work together to promote economic, environmental or social benefits.

In energy, mutual ownership structures have the potential to unite sustainable production with energy conservation to combat fuel poverty as well as global warming. They can also generate profits for use in other community regeneration projects. A model enabling communities to come together to reduce carbon emissions and save energy costs was outlined in the Co-operative Party's recent publication, *Collective Power*. However, the development of such community energy schemes will be dependent on the support of local government.

In housing, we need to bridge the gap between social rented and private housing. The new foundations model uses community land trusts to take the price of land out of the formula to create homes that are permanently affordable. This too will need local government support.

The challenges? There are some. Some trade unions continue to equate mutuals with privatisation. But like councils, mutuals and co-ops work only in the interest of the users, staff and community, and can provide a solution where everyone gains.

Greenwich Leisure Ltd runs 70 leisure centres around London, controlled by a Board made up from local councils, staff and users. Its surpluses are invested back into services. Before the creation of GLL in 1993, Greenwich Council faced a 30% cut in the funding of leisure services, meaning closure of several leisure centres and the loss of 28% of permanent staff. GLL not only saved jobs but has continued to increase employment and services in Greenwich and fourteen other boroughs.

Not only have the jobs been saved, but the empowerment of the staff through their role in the direction of the organisation led to improved commitment and motivation. GLL is not unique in demonstrating that giving employees a stake in the business means better service. Look at John Lewis Partnership, whose customer service reputation is linked to its 69,000 employees knowing that each has a direct stake in the success of the business.

If councils are to benefit from an expansion in the number and range of co-operatives and mutuals that can provide services and promote local economic development, what can they do?

More could be done to raise the profile of co-

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operatives as a business model, including changes to school and college curricula and strengthened support for co-operative development agencies. In schools, the co-operative Trust model can promote co-operative values to the next generation of entrepreneurs as well as help make best use of resources.

When contracts to provide services are put out to tender, local authorities should have processes that ensure co-operatives can bid. The long term economic and environmental benefits to the community have to be factors in the contract.

To thrive, smaller businesses also need help to work together to achieve economies of scale and to procure contracts. Support for secondary co-operatives

“In the eyes of the public, profit is no longer seen as the primary measure of a good business”

and consortia, encouraging co-operation between SMEs in joint tendering and delivery would secure more contracts for local firms and sustain

local employment. Facilitating business ‘bonding’ – bringing together enterprises such as a post office, credit union and local shop in shared premises to make them sustainable would also protect local jobs.

Rural councils in particular can also give support to mutual social enterprises, such as agricultural co-operatives, farmers’ markets, community owned shops, pubs and post offices, community bus services, credit unions, housing co-operatives, childcare co-operatives and community land trusts.

Organisations that effectively harness the commitment and expertise of their users and staff are destined to succeed. And organisations that are focussed on the needs of users and staff rather than shareholders are the natural soul mates of local government.

The Conservative Co-operative Movement

Simon Randall CBE, Member Conservative Committee



Last month David Cameron launched a policy paper “Power to Public Sector Workers” to encourage public sector workers to form co-operatives to run local services which has been described as one of the most significant shifts in power since the

right to buy legislation created over a million home owners.

Here, we examine the background to the policy paper, the advantages and disadvantages of the co-operative approach and previous experience in the area.

There has been a long history of externalisation of the public services to a range of different organisations. These include the compulsory competitive tendering following legislation introduced by Margaret Thatcher and applying to most local government services; The continuation of the competitive tendering requirement by the Labour Government under the so-called “Best Value” approach; Some management buyouts by local authority professionals; The transfer of local authority housing stock to newly created or existing local housing associations invariably involving consumer/tenant board membership; And finally, the transfer of leisure, heritage and cultural facilities to charitable (and often local) not-for-profit or non-profit distributing organisations or in some cases workers’ co-operatives.

Co-operatives and other not-for-profit entities have also been used in a range of other areas, such as co-operatives, involving local people, which have been created to own and manage village shops; The Department of Health has, with limited success, to date been encouraging hospital staff to opt for a measure of self-governance through the “Right to Request” scheme, with some successful projects in Surrey and South London; The range of co-operative managed schools involving parents and teachers; The “Tenant Management Organisations” where residents control a not-for-profit entity which manages their own homes.

The next Conservative Government will actively encourage workers co-operatives to take over public services. These entities will reflect the values and principles of the co-operative movement. They will thus stress self-help and self-responsibility and each co-operative will be based upon:

- Voluntary and open membership.
- Democratic member control.
- Members sharing economic participation.
- Autonomy and independence (from the state).
- Concern for the community.

As the paper indicates employee owned co-operatives will be able to decide on management structures, innovate to cut costs and improve the quality of service. They could also decide to share financial surpluses amongst the staff (like the John Lewis Partnership) or reinvest these into the service.

“The opportunity for public sector employees to create their own co-operatives could revolutionise our public services”

The paper proposes six specific policies on co-operatives:

- Creation of a powerful new right to become your own boss.
- Enable share(d) ownership of the businesses or enterprise.
- Creation of the freedom to innovate.
- Permit staff co-operatives to utilise best expertise through joint ventures.
- Power for these co-operatives to grow through trading.
- Balance between incentives to encourage innovation to enhance surpluses and need to avoid profiteering.

Every public service could in theory be transferred to make a co-operative and there are a number of key advantages. Firstly, employees will have a stake in their “business” and thus have pride in its performance, quality and success. They will have

an interest in ensuring the services provide value for money through introduction of innovative delivery options.

Employee-owned entities with the creation of an “engagement ethic” will restore the desire and enthusiasm for public service improvement. The new co-operatives could

have freedoms from the bureaucratic control of local or central government so that they could negotiate their terms and conditions of employment, purchase goods and services from any supplier and generally have power of self determination.

The new vehicles will have contractual arrangement, with the relevant local authority or government department which will set out the obligations of each party including service standards and contract payments.

The employee co-operatives will have some challenges; Firstly, staff transfers would take place on the basis of same terms and conditions under the Transfer of Undertakings (Protection of Employment) Regulations 2006 and possibly could be protected likewise with staff remainder within existing schemes. Secondly, whilst research indicates considerable support for the new policy, a promotional programme will be necessary to win hearts and minds. Thirdly, seedcorn funding for any new co-operative will be a challenge and thus the Government may well need to consider creating a start-up fund by way of grant or loan to new applicants. Fourthly, some EU procurement by way of light market

testing will be required and procedures should be introduced to facilitate smooth transfers to new co-operatives. And finally, a range of corporate models could be introduced all of which would require employee ownership creating a new and vibrant sector within the social enterprise area.

The opportunity for employees throughout the public sector to create their own co-operatives and be responsible for owning and managing the services which they are undertaking could revolutionise our public services. Co-operatives enable employees to have a financial stake in the services they provide and immeasurably enhance public services as a whole.

For more information

Localis is an independent think-tank dedicated to issues related to local government and localism more generally. We carry out innovative research, hold a calendar of events and facilitate an ever growing network of members to stimulate and challenge the current orthodoxy of the governance of the UK.

For more information, please visit www.localis.org.uk or call 0207 340 2660.

To find out more about the work of The Cooperatives UK please visit www.cooperatives-uk.coop. For more information on the Co-operative Party, please visit www.party.coop. To find out more on the Conservative Co-operative Movement, please visit www.conservativecoops.com.

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