Making It Mutual

The ownership revolution that Britain needs

Edited by Caroline Julian

ResPublica

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The ResPublica Trust (which operates under the trading name ResPublica) is an independent, non-partisan think tank. We focus on developing practical solutions to enduring socio-economic and cultural problems in the UK.

Our ideas are founded on the principles of a post-liberal vision of the future which moves beyond the traditional political dichotomies of left and right, and which prioritise the need to recover the language and practice of the common good.

Based on the premise that human relationships should once more be positioned as the centre and meaning of an associative society, we aim to foster a 'one nation' approach to social and economic inequality so that the benefits of capital, trade and entrepreneurship are open to all. A vibrant democracy and market economy require a stronger focus on virtue, vocation and ethos. Consequently our practical recommendations for policy implementation seek to strengthen the links between individuals, institutions and communities that create both human and social capital, in order to achieve a political space that is neither dominated by the state nor the market alone.

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ResPublica's work draws together some of the most exciting thinkers in the UK and internationally to explore the new polices and approaches that will create and deliver a new political settlement. Our network of contributors who advise on and inform our work include leaders from politics, business, civil society and academia. Through our publications, compendiums and website we encourage other thinkers, politicians and members of the public to join the debate and contribute to the development of forward-thinking and innovative ideas. We intend our essay collections to stimulate balanced debate around issues that are fundamental to our core principles.

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Foreword

The Rt Hon Francis Maude MP
Minister for the Cabinet Office and Paymaster General

Britain is in a global race for the jobs and opportunities of the future. We cannot afford to ignore the potential of co-operative and mutual business models to drive growth and help build a more resilient economy. Employee-owned firms have, on average, 4-5% higher productivity than other businesses and 98% of co-operative start-ups are still trading after their first three years, compared to 65% of all businesses. The Coalition Government is taking action to enable these models to flourish in both the private and public sectors. This paper provides a valuable insight into the current debate as we move beyond the United Nations Year of the Co-operative.

Early last year, the Prime Minister set out the Government's vision for a fair economy. He spoke passionately about our determination to go beyond paying down the deficit and encouraging growth in these difficult economic times, to give more people a stake in the economy and a share in the rewards of success. As part of this, he committed to an overhaul of the long neglected legal framework for co-operatives. This will make it much simpler for people to set up co-operatives and mutuals, which typically out-perform mainstream businesses and create more jobs, particularly during times of recession.

The Deputy Prime Minister continued to drive momentum when he announced an independent review of employee ownership. Led by Graeme Nuttall, the review set a blueprint for growing the number of employee-owned businesses in the economy. We are now implementing the recommendations made across three main barriers: raising awareness with new businesses and those transitioning from other models; exploring a perceived lack of resources; and reducing the legal and regulatory complexities. This is good news for employees and good news for the economy – the Employee Ownership Index has outperformed the FTSE All Share Index by an average of 10% annually since 1992.

There are clear advantages to diversifying ownership and freeing people to work together, for each other and for their communities. Nowhere is this more true than in the public sector. Here, one of the most dedicated and highly trained workforces is shackled to a hierarchical state monopoly. All too often this results in a 'one-size fits all' approach, stifled innovation, low morale and low customer satisfaction. ResPublica's 2009 report, 'The Ownership State', highlighted the shocking productivity gap between the public and private sectors. As more borrowed money was pumped in, the gap just got bigger. Now, burdened with debt, the choice is either to cut vital services or to find better ways of doing things. The evidence is clear; mutuals raise productivity by unleashing the dedication and innovation of frontline staff.

Today, there are nearly seventy mutuals, from just nine in 2010, delivering around a billion pounds of public services. They are raising the bar for competition, driving growth, improving services and saving tax-payers money. For example, Social adVentures in Salford increased its annual turnover by 262%; employees at Hull City Health Care Partnership found efficiency savings of £600,000 and boosted patient satisfaction; and Central Surrey Health raised productivity in its stroke ward by 41%. That's why I am backing frontline staff with the £10m Mutuals Support Programme and encouraging new projects in services ranging from healthcare to libraries and housing to fire and rescue.

This Government is on the side of people who work hard and want to get on. We are reversing decades of centralisation, returning power to citizens and making it possible for more people to share the rewards of success. The conditions are right for a resurgence of co-operative, mutual and reciprocal activity. And we will keep cutting back the red-tape and breaking the monopolies which constrain people who simply want to help each other. This is what our economy needs, it is what our public services need and I have no doubt it is the way of the future.

Introduction

Caroline Julian, The ResPublica Trust

ResPublica's inaugural report, *The Ownership State: Restoring excellence, innovation and ethos to public services* (2009), argued that despite increased expenditure in our public services, productivity was in decline. A new approach was needed – an approach that could harness both the insight and dedication of frontline workers, and the engagement and involvement of citizens and communities, and that drew on the 'power of shared ownership' as its driving principle.

Since this time, the present Government has thoroughly embraced the importance of such models and of participation, mutuality and co-operation more broadly within and across the services accountable to the public purse. The mutual model has been adopted by the Cabinet Office as crucial to public service reform, and has engendered much-needed debate regarding the fundamental nature and role of the State.

Within the business and community sectors also, we have witnessed unprecedented interest in the employee-owned model, primarily advocated by the Deputy Prime Minister, Nick Clegg, and the Ministerial teams at the department for Business, Innovation and Skills. Amongst the Shadow Ministers too, the importance of mutuality, trust and transparency in banking and energy market reform has gained great momentum. There is an appetite to restore faith in the long-term social and economic value generated through such engagement, beyond the short-term pursuit of 'shareholder value' which has come to characterise the plc model.

Diverse and devolved ownership, power and capital, alongside user, consumer and employee participation in governance and decision-making, are principles that we can all agree with. Unlike any other policy agenda, mutual, employee-owned and co-operative models, and their underpinning ideals, have attracted cross-party support and have been promoted as foundational players to our public institutions, private services and businesses, not just in this Government's lifetime, but the ones that have preceded it also.

This is not to say that mutual models are a 'silver bullet' for all of our economic and societal problems, or indeed, that such models have been or will be successful in all sectors and public services. We have argued elsewhere that it must be right for the locality, the employees and the industry, and, as many of the contributors within this collection point out, must be considered as one model amongst others that could seek to promote similar principles. Greater plurality and competition within markets – both public and private – matched with greater participation, ownership and control, is first and foremost needed.

Mutual models also vary in legal type, governance and wider outreach. For the purposes of this collection, we have not restricted the definition of 'mutual' to a particular business model, but have included, and encouraged authors to draw upon, the importance of distributed and devolved ownership, alongside 'mutuality' and 'co-operation' in their broadest sense. Again, no single model or legal form will be suitable for every community's and industry's needs.

ResPublica has, however, particularly advocated models that can offer a real ownership stake – an entry point into a given market that has become closed and out of reach for so many. This model must also be capable of transforming the drive of such markets from what has often been a consumerist, individualist and self-interested enterprise, to one where communities, employees and users can take control and shape such markets for themselves.

As highlighted through our previous research into the energy market, for example, and as Rebecca Willis and Alan Simpson also argue within this collection, campaigns that promote 'collective switching' from one energy provider to another may deliver cheaper energy bills in the short-term, but will not in the long-term deliver the paradigm shift needed to decentralise and open up what has become a distanced and consolidate market. New owners, entrants, producers and suppliers, in which communities and consumers play a key and engaged part, and benefit directly from a real stake in such a market, should rather be promoted.

Similarly, in ResPublica's submission to the recent Communities and Local Government Select Committee's call for evidence on Co-operative Councils, we highlighted the importance of models that, rather than simply offer the opportunity to users to co-produce and co-design local services, should make available some form of ownership stake for all stakeholders involved – whether they be the employees, users or the wider community. We were pleased to see that this was recognised by the Committee, and also by its Chair, Clive Betts MP, who has kindly contributed to this collection.

Many of these points were discussed throughout ResPublica's successful event series, which comprised of public panel discussions, seminars and private roundtables, throughout 2012, to coincide with the United Nations International Year of Co-operatives 2012. To conclude this activity, we invited a number of those who have engaged with us during this time, from a number of different sectors of society – including academics, practitioners, politicians, policy-makers and those who represent the range of models that might be classed under the broader 'mutuals' framework – to contribute to this essay collection.

To reflect this diversity, we invited a selection of our contributors to write 'case studies', in the form of a reflective essay, in order to profile the benefits and opportunities of their mutual model, but also to highlight the hurdles and barriers to greater success. We have encouraged others to write comment and 'thought leadership' pieces, in order to explore a particular topic or policy idea in greater detail. These extend to policy innovations, such as Dame Tessa Jowell's proposal to mutualise the BBC, George Freeman MP's 'mutual rail' proposals, and others' explorations into the possibility for mutual prisons. Needless to say, such insights can be found throughout the case studies also: we have largely left the style and level of policy intervention up to each individual.

We have grouped the essays into their respective sectors of society, and to cover 'economy and business' (Part One) and 'public services' (Part Two) more broadly. Further breakdown in terms of sector is provided for ease of reference, but many of the themes and ideas will of course cross-pollinate, and find increased support or indeed challenge from other contributions within the collection. We have encouraged all contributors to not only consider the benefits of co-operatives and mutual models in and of themselves, but their (potential) contribution to the wider economy and society.

This collection of essays emerges from the Models and Partnerships for Social Prosperity workstream, one of the three core workstreams of The ResPublica Trust. It concludes our co-operatives and mutuals seminar series, and also sets the scene for much of our forthcoming work, which will include the importance of mutuality, ownership and plurality in markets across and between public services, businesses and communities, from the banking and financial services sector to the energy market and social care. This research will also interface with corresponding activity on the future of localism and the possibility for hybrid and peer-to-peer business models.

Warm thanks are due to all of the contributors, particularly those who have enabled our past year's activity on co-operatives and mutuals to be such a success, and our formal sponsors for this collection: City Health Care Partnership, John Lewis Partnership, NASUWT – the teachers' union, CCLA Investment Management and the Community Development Finance Association (CDFA). I would like to thank the ResPublica team for their support during this project, namely our research assistants, Lorena Papamanci and Rowan Allport, and Adam Wildman, Research Manager at ResPublica.

Part One:
Economy and Business

1. Achieving the Economic Benefits of a More Plural Economy

Charlie Mayfield

Interest in employee ownership is, in my experience, most often motivated by a desire for a fairer and more responsible form of capitalism and a drive to encourage personal responsibility among employees. Those benefits are certainly real, and the interest in the former is stronger than ever in the aftermath of the financial crisis. But I believe that such attention should not just be driven by dissatisfaction with the dominant model of capitalism, but by the positive benefits of other models. A greater plurality of ownership in the UK would be good not only for workers but for the competitiveness of the economy as a whole.

There is a growing consensus that the plc model, at least in the way that it currently tends to operate – based on a narrow and short-term pursuit of 'shareholder value' – is not always the best way to maximise long-term value for shareholders or the health of the economy. Last year, the Government commissioned the Nuttall Review, which found that employee owned businesses are associated with long term economic benefits – they out-perform other businesses in job creation, and are more resilient with a lower risk of failure – as well as being happier and more satisfying places to work. Research also suggests that businesses owned and run by their employees exhibit higher productivity and greater innovation.

Despite these advantages, employee ownership is relatively rare in Britain. There are some well established examples: the engineering firm Arup, the chemicals manufacturer Scott Bader, and many less well-known but innovative and thriving companies in sectors from hi-tech engineering to architecture to media. But employee-owned businesses still only account for about 2% of GDP. This is below the EU average, and far lower than countries like the US, France or Germany. The anatomy of our corporate landscape differs in other important ways too. In the UK it includes a number of global giants, and thousands of much smaller companies, but compared to other economies there are fewer mid-sized companies in between. We also lack the plural mix of ownership that has come to characterise the markets of other countries. In Germany, for example, there are four times as many non-plc owned companies as in the UK.

Growth takes time. It requires patience and long-term investment. It requires the accumulation of capability and the development of people. These are natural strengths for employee-owned businesses, and many family-owned businesses. I'm talking here about culture; and while to some that might sound like a vague term, it in fact goes to the heart of the matter of competitiveness and growth. At the John Lewis Partnership, shared ownership means engaging our Partners and inspiring them to deliver more for our customers and more for the business, and then to share in the rewards. It means having elected directors on the Board who represent the interests of Partners, and an elected Council which meets twice a year to discuss issues from business planning to pay to pensions.

Conventional business thinking tends to shudder at the potential 'loss' of power or speed from this sort of participation. But that misses the point completely – this isn't about participation, it's all about performance. In our experience, where people have responsibility they most often they rise to it. In our business, Partners don't simply perform the roles of employees; they are expected to perform as owners, and to take responsibility for some of the difficult decisions. In exchange they have a right to know how the business is performing, and to hold the management to account for that performance. For example, a recent internal debate regarding efficiency quickly developed – at the urging of Partners themselves – into a debate around how partners can take greater ownership of the drive for efficiency through a stronger performance management framework and changes to training and skills development.

Partners own the business today and they will own it tomorrow. As a result, it's completely natural that everyone looks not just to performance this year, but what's needed in the future. In a retail market which is changing so rapidly, along term focus provides a powerful competitive advantage. It is also highly relevant to how the UK secures its position in a global economy. If we want more long termism and a fairer and more sustainable sharing of the rewards in our economy, then a good place to start is to encourage forms of ownership that are naturally focused on those outcomes. But we have to ask ourselves whether the conditions are in place to encourage those forms of ownership; at present there are some serious imbalances, which do exactly the opposite. The playing field is currently weighted against businesses owned by their employees via a trust – the form of employee ownership recommended in the Nuttall Review. The tax system makes it much less advantageous for employees who own their business in this way to share in its success, compared to employees who are given shares or options in publicly listed companies. At the same time, tax incentives for entrepreneurs are mostly triggered on the sale of companies. If entrepreneurship is a good thing, surely we should be giving entrepreneurs an incentive to stay in rather than exit?

The Government is starting to take forward many of the recommendations of the Nuttall review, including raising awareness of employee ownership, making it easier to establish employee-owned firms and improving access to finance. But a step change will only happen if the imbalances in the underlying incentives are addressed.

We know that giving all employees a direct personal stake in the long term success of their business is a powerful way of aligning their interests, to the benefit of the wider economy. Let us be clear: employee ownership is not a panacea for our economic ills. But it does represent a different, and arguably better, way of doing business; and a way of addressing a fundamental problem in the way we think about ownership in this country. For too many and for too long, ownership has implied the right to sell, when I would contend that good ownership really amounts to the responsibility to nurture, develop and sustain organisations for the long term. This requires a change in culture, which is never easy. But if we can get this right, the outcome couldn't be more important or optimistic: a new generation of high-growth businesses, greater productivity and job growth, and a more resilient economy to cope with the turbulence we will face in the decades ahead.

Charlie Mayfield is Chairman of the John Lewis Partnership.

2. The Case for a Co-operation Policy[1]

Ed Mayo

The UK has a competition regime, but still lacks some of the essential ingredients it needs for the nation to be competitive on the world stage in a tough economic climate.

At the heart of this is the need for a model to allow enterprises and their partners to co-operate in order to compete. My argument is that we have had a competition policy for some time. We now need a co-operation policy as a vital complement for economic renewal.

1 This paper is drawn from work to be published on the idea of a co-operation policy by Co-operatives UK. I am particularly grateful for the substantive input of Greg Fisher, as well as the opportunity to discuss these ideas with Phillip Blond, Diane Coyle, Gordon Pearson, Robin Murray and Giles Simon at different stages for their comment and input.

The conceptual framework for co-operation

The idea of co-operation as central to how society works is not new. For example, Adam Smith, thought to be the grandfather of western economics, argued in his Theory of Moral Sentiments that 'sympathy' was a central emotion. And, within evolutionary biology, there is a growing consensus on the role of co-operation over the long time frames of evolutionary processes.

Co-operation and modern economics, however, sit awkwardly together because within free market theory. The interaction of people within a market is extreme simple: agents with resource endowments bump in to each other, and both parties choose whether they want to engage in a transaction or not. The co-operation that sits behind someone coming to market at all is assumed. The co-operation that can make (non zero-sum) exchanges of greater mutual benefit is set aside.

We are lucky that the world doesn't conform to theory, because then it might indeed be nasty, brutish and short. In reality, forms of social and economic co-operation emerge through a range of emotional, rational, legal, institutional, and organisational means. Sociologists and anthropologists have explored the extent to which our willingness to subordinate our interests to those of the group is part of human culture and nature. Biologists have explored how co-operation is the result of reciprocity designed to maximise the long-term self-interest of the species – in short, that the selfish gene can be best served by hosts that act in non-selfish ways.

In economics, in a paper entitled System Fitness and the Extinction Patterns of Firms under Pure Economic Competition, Paul Ormerod and Helen Johns examined models involving competition and co-operation.[2] The models described were Agent-Based Models, which are based on computer simulations rather than the limited mathematics of neoclassical economics. One model described by the authors was equivalent to perfect competition in free market theory: co-operation was non-existent. A second type of model allowed for a type of co-operation between agents. There were two results from this work that are important to note.

- First, the behaviour of the model that involved co-operation approximated the real world better than the model that involved only competition (technically speaking, the co-operative model followed a power law that was broadly similar to that observed in the real world).
- Second, the model that involved co-operation was far less volatile than the competition-only model, which suggests that co-operation helps in making an economy more resilient.

In Ormerod and Johns' own words: "…models of pure economic competition do not provide a good description of how many industries actually behave, and … a certain amount of collaboration and co-operation between firms is required for the survival of an industry." The implication for policy, in their view, is striking. "The enforcement of strict economic competition between firms by regulatory

2 Ormerod, P. and Johns, H. (2001) "System Fitness and the Extinction Patterns of Firms under Pure Economic Competition", *Volterra Consulting* [Online]. Available at: http://arxiv.org/ftp/cond-mat/papers/0110/0110052.pdf [Accessed 26th February 2013].

authorities, particularly in industries in which entry is relatively easy, runs the risk of causing large scale extinctions of companies."

This is not to suggest that firms within industries ought to collude – there are unquestionably 'bad' forms of co-operation that reduce market competition and mean that consumers lose out. This is the enduring insight and value of competition economics and competition policy.

But it does emphasise that there is a space for 'good' forms of co-operation. Good co-operation can enhance consumer and market outcomes and should be at least understood and at best enabled by government and regulators. In work I am exploring on the economics of co-operation, there are six forms of good co-operation that I would identify.

1. Co-operation in the firm
2. Co-operation between firms
3. Co-operation and innovation
4. Co-operation and culture
5. Co-operation and well-being
6. Co-operation and the future

An example of the dynamics of these is included in the work by ResPublica in relation to northern Italy. The traditional districts and meta-districts in Lombardy contain important mechanisms of inter-corporate co-operation. Lombardy's regional neighbour, Emilia Romagna, has developed one of the most productive co-operative manufacturing enterprise clusters in the world. Included within this is the extensive use of co-operative models of guarantee societies with small businesses as members – a European demand-side model of small business finance wholly absent in the UK. Their experience suggests that co-operation can and does co-exist with competition – economic co-operation at one level can indeed increase competitive advantage at another.

Similarly, the economist Robin Murray points, for example, to the key role of co-operation in the remarkable success story of the UK broadcast and film digital imaging industry. This was an industry that President Clinton said was more crucial to the US now than the auto industry, and where Britain became a world leader. "The reason was," Murray explains, "that the industry and broadcasters, notably the BBC, worked together to develop a set of common standards (a 600 page manual constantly updated - which was adopted by continental Europe and the US) and a shared testing facility to ensure that inter-operability of products before they went into full production. Large firms co-operated with the small, the public BBC with the private. The state itself followed this shared pool of technical expertise."[3]

Inter-firm co-operation can also change the market dynamics faced by businesses of different scale. The Italian, German and Danish examples of co-operative consortia relate to small and medium enterprises. They have a collective interest in accessing services with high economies of scale, which the large firms commonly provide internally. Here the contrast is not between competition and co-operation, but between co-operation and hierarchical management.

3 Murray, R. (2012) [Personal Communication].

Co-operation also shapes economic competitiveness through the influence of culture. Mario Grondona has explored the role of culture in supporting or hindering economic development. He found that there were three groups of characteristics that explained success: norms relating to individual behaviour (strong work ethic, individual accountability, agency); norms relating to co-operative behaviour (value generosity and fairness, and sanction those who free-ride and cheat); and norms around innovation.

On these, the UK does not necessarily score highly. We have, for example, a very high proportion of workers (23%) that report, according to international surveys, that they do not feel engaged in their workplace. Staff engagement, remember, is often conceptualized as a two-way process – that employment is seen as a co-operative process, shaped not just by a formal contract but also a psychological contract. Low levels of economic co-operation in the workplace therefore come at a cost. Drawing on a methodology developed for the USA, I have estimated the annual economic cost of low co-operation in the UK workplace to be around £36bn. Boosting UK productivity comes down, for this part, to boosting UK workplace co-operation.

Towards a co-operation policy

There is a long history of interest in economic co-operation. John Stuart Mill argued in the nineteenth century that "we may through the co-operative principle, see our way to a change in society which would combine the freedom and independence of the individual, with the moral, intellectual and economic advantages of aggregate production."[4]

How the UK harnesses the potential of economic co-operation is not straightforward, because yesterday's policies for co-operation may not be the same as tomorrow's. What can one nation state do, anyway, in the context of the free flow of capital, goods and business? Well, it helps to ask the question, rather than assume there is no answer. Even on issues such distributive justice, the fairness that underpins effective co-operation, there is more scope than often assumed. Samuel Bowles, who together with Herbert Gintis is one of the leading theorists of co-operation in economic life, argues for example in his book 'The New Economics of Inequality and Redistribution' that there are still national policies that are positive in terms of both equality and productivity. Widening ownership, in the co-operative and mutual model, is one policy that is recognised by both Bowles and Wilkinson and Pickett.

In reality co-operation is rife in all economic systems because it has value. And the circle of interest in co-operation has come round again. There is a growing interest in its role in economic success. In the pioneering book on economics by Eric Beinhocker, The Origin of Wealth, there were five times as many references to co-operation than there were to competition. In the context of new thinking in economics, Beinhocker noted that "co-operation is as vital an ingredient in economic development as 'survival of the fittest' individualism."[5]

This does not mean that co-operation and competition are simple opposites. Nor that competition policy is any less important. Competition policy has developed and changed over time and will continue to do so. Its early days focused on supply-side interventions around antitrust, mergers and price fixing, while in more recent decades, this has broadened to encompass wider market competition, state aids controls, consumer choice and consumer behaviour. It is not inconceivable that there could

4 Mill, J.S. (1848) *Principles of Political Economy with some of their Applications to Social Philosophy,* London: Longman's, Green and Co.

5 Beinhocker, E.D. (2007) *Origin of Wealth: Evolution, Complexity, and the Radical Remaking of Economics,* London: Random House.Green and Co.

be a grand unifying theory of market and economic policy that embraces both competition and co-operation, with the aim of finding the blends and contexts for effective wealth creation.

Co-operation and competition operate to a degree in balance and there are good and bad forms of competition, just as there are for co-operation. Good co-operation, though, as the nineteenth century Rochdale Pioneers saw it, is open to new people coming in, and open in the way it works. Bad co-operation includes closed cartels, and forums that are captured by those with economic power, such as multi-national companies that invest significant sums to pressure and lobby national governments. Co-operation mechanisms must therefore be designed with care, and they must be sensitive to changing requirements as the economy evolves. This paper has been a sketch, no more, towards such an approach.

By emphasising competition, the economic literature and our actual economic systems undervalue the gains to be made from good co-operation. It is time to consider the case for a national co-operation policy.

Ed Mayo is Secretary General of Co-operatives UK. Ed is co-author of Consumer Kids on the commercialisation of childhood and was until 2003 Chief Executive of the New Economics Foundation.

3. Employee Ownership Is Our Industrial Future

Iain Hasdell

Employee ownership is now the most prominent and popular alternative to conventional forms of business ownership in the UK. Interest in it within business communities is increasing daily. It is currently growing at an annual rate of around 10%.[1]

1 Hasdell, I. (2012) "Staying true to the mission", *Employee Ownership Association* [Online]. Available at: http://www.employeeownership.co.uk/about-us-3/ceoblogs/eoa-ceo-december-blog/ [Accessed 1st March 2013].

Employee ownership makes an important contribution to the UK economy and has vast potential. This should and must be reflected in future UK industrial policy.

The current level of UK fascination with and enthusiasm for employee ownership is unprecedented. More and more people are listening to and endorsing the argument that employee ownership is a permanent key part of our economic growth strategy. There is a growing realisation that employee ownership in its many forms drives economic growth, innovation and quality whilst spreading wealth and optimising the fulfilment of employees.

Employee ownership is the model in which a business is totally or significantly owned by its employees. It already contributes, according to figures from the Employee Ownership Association, more than £30bn each year to UK GDP.[2] It flourishes in every sector of the economy from information technology through to retail, with professional services and manufacturing being the two most prominent sectors within which it thrives.

There is hardly any part of the economy in which employee ownership is not now an important part of the growth agenda. From the global infrastructure provided by Mott MacDonald, to the agriculture and leisure products of Galloway and MacLeod, through to the chemicals of Scott Bader, the paper and packaging of Tullis Russell, the precision engineering of Gripple, the brilliant cash and carry operations of Parfetts, the advanced textiles of Scott and Fyfe, the world leading blades and scalpels of Swann Morton and the project and programme powerhouse that is CH2M Hill, employee ownership is leading the way on economic growth.

Employee ownership takes one of three forms: the workforce directly owning a large proportion of the share capital of the business; the share capital of the business being held indirectly in trust for the benefit of the employees; or a hybrid of these two approaches. These various forms of employee ownership are all in use across the economy.

The fact that it is a growing economic force in the UK is partly a reaction to our economic context. The UK economy remains in transition as we face up to the mistakes of the past. Stagflation is an ongoing risk. This context has called into question the short termism of conventional forms of business ownership and the consequences of that on the economy and our communities.

But the emerging popularity of employee ownership is also a response to the compelling evidence of its benefits. Employee ownership makes massive economic sense.

Employee-owned business tend to have higher productivity, greater levels of innovation, better resilience to economic turbulence and more engaged, happy workers who are less stressed than colleagues in conventionally owned organisations. Economic competitiveness and high performance are a central part

2 Employee Ownership Association (2013) *Front Page* [Online]. Available at: http://www.employeeownership.co.uk [Accessed 1st March 2013].

of the DNA of employee-owned companies. Crucially, over the last 15 years, shares in employee-owned businesses have considerably outperformed those in the FTSE All-Share Index.[3]

Employee-owned businesses out there in the real economy, selling high quality services including world class public services and making marvellous products, compete, succeed and outperform others as a direct result of being employee-owned.

Employee-owned organisations adhere to a unique set of corporate governance principles. All of them combine ownership by their workforces with deep engagement of their employees in the management of the business, transparency about financial performance and equitable distribution of rewards. They make prudent decisions for the long term.

Traditionally structured businesses in the UK tend to operate with a dominant goal of driving shareholder and investor value. Value is often seen almost exclusively in terms of financial returns, especially when external investors are involved, and much of the corporate sector operates on the basis of short or medium term gain both in terms of product and staff development, and the strategic vision of the business. Too many in UK businesses are constantly looking to create opportunities to sell the business they are leading and have some equity in.

When the employees are the owners, the emphasis is different. They create environments in which people are able to develop and progress, and in which they permanently focus on exceeding customer expectations. Employee-owned businesses think and plan for the very long term and are driven by the development of broad value rather than short-term financial gain. By doing so they retain the associated jobs, skills and wealth in local communities by redefining the company as much more than a set of liquid and fixed assets to be financially valued and cashed.

A crucial part of UK industrial policy

However, employee ownership has not yet secured a position in the mainstream of UK industrial policy. Industrial policy is, broadly, an attempt by Government in partnership with business to chart a strategy on skills, inward investment, infrastructure, exports, finance, growth sectors and regulation that can lead to sustainable prosperity.

Employee ownership deserves to be in the strategy from both a macroeconomic and a competitiveness perspective. On the macroeconomic side, we all know that one of the fundamental issues that must be addressed as part of UK industrial policy is economic ownership.

Business ownership and wealth in the UK has become, as the recent report of the Ownership Commission testifies, incredibly concentrated amongst a small number of individuals and institutions with the plc model for businesses being over-dominant. 50% of the people in the UK own just 1% of the wealth, with the wealthiest 20% owning a huge 84% of the wealth.[4]

This unequal nature of economic ownership in the UK will, if unaltered, have major negative social consequences and costs. There is, therefore, a burning need for UK industrial policy to help nurture and achieve greater diversification of ownership of wealth and business. Employee ownership can and should play a significant role in this structural reform and rebuilding of the UK economy.

3 Field Fisher Waterhouse (2012) *Employee owned companies' shares continue to outperform* [Online]. Available at: http://www.ffw.com/latest-news/2012/oct/employee-owned-companies.aspx [Accessed 1st March 2013].
4 Co-operatives UK (2012) *The UK Co-operative Economy 2012* [Online]. Available at: http://coop.carboncode.net/wp-content/uploads/2012/07/The-UK-co-operative-economoy-2012-final.pdf [Accessed 1st March 2013].

On the second front, that of competitiveness, productivity growth remains the key determinant of our ability to compete in world markets. UK industrial policy should focus squarely on this. The capacity for productivity growth lies largely within domestic businesses, although foreign investment will continue to play a role.

Thus, promoting economic environments that make domestic firms thrive, grow and compete is critical. Because of the growth and competitiveness contribution it makes, including in the smaller knowledge-based companies on which the UK economy increasingly relies, employee ownership needs to be a much more prominent and become a bigger part of our future economic environment. This should be reflected in our industrial policy.

So what should UK industrial policy include about employee ownership?

It should contain a long term vision for the major role that employee ownership will play in the future. This should be accompanied by a target for increasing the number of employee-owned organisations so that they contribute 10% of UK GDP by 2020.

It is also imperative that UK industrial policy has short term ambitions for employee ownership. These should focus on four priorities.

Firstly, by raising awareness of employee ownership, its benefits and options for implementation. This requires a brilliantly resourced and creative marketing and profile raising campaign sustained over several years throughout the UK. It is vital that Government invests significant financial and human resources in this.

Secondly, the simplification of implementation is a massive part of the way forward. This is the agenda that Nick Clegg refers to as employee ownership 'in a box' – the provision of standard legal and financial documentation and procedures to ease the journey for those who want to create employee-owned organisations.

The third priority is access to finance. The creation of an asset class of patient capital and social investment that aligns with the financial requirements of employee ownership remains imperative.

Fourthly, the policy needs to broker significant tax measures that help grow employee ownership. The options span a long continuum from the limited re-introduction for employee-owned businesses of profit related pay reliefs for standard levels of remuneration linked to profitability and paid on an equivalent basis to all employees, through to such things as raising the upper limit for entrepreneur's relief to incentivise owners to transfer their ownership to employees or broadening the availability of entrepreneur's relief to owners of less than 5% of the shares in the business they work in.

If we are to drag ourselves out of the economic downturn we will need to continually challenge and refresh UK industrial policy. Through industrial policy, Government can play a vital role to support business innovation and growth through funding, inducements for overseas investors and changes to the business and personal tax regime. The policy challenge is to identify and nurture the right parts of the economy. Employee ownership is one of these parts.

The conditions for employee ownership achieving this appropriate recognition and importance within UK industrial policy appear to be in place. This context was boosted in late 2012 when Government and opposition parties formally endorsed employee ownership as an important part of the UK growth agenda. At the same time, the Coalition announced its intention to bring to the table a range of resources to increase the number of employee-owned businesses.

2013 is absolutely the time for the words of support to be reflected in bold radical action via industrial policy. Progress towards much more employee ownership is a natural part of the on-going modernisation of our country. It completely fits with the Marquis de Condorcet philosophy of development that foresees continuous improvement in the freedoms and rights of individuals in society and the economy. It is a successful business model in every sector of the economy that constantly challenges the conventional wisdom of how businesses should be owned and run.

The overall case for employee ownership being a core part of UK industrial policy is overwhelming.

Iain Hasdell is Chief Executive of the Employee Ownership Association.

Business

4. Seizing the Decade for Employee Ownership

Graeme Nuttall

Employee ownership has to overcome fundamental obstacles in order to become part of the mainstream UK economy. In 2012, Westminster and Whitehall acknowledged these obstacles and committed to working with the employee ownership sector and others to help dismantle them. All of the recommendations in the Nuttall Review were supported, partly accepted or for the most part completely accepted by the Government.[1] There is a tremendous opportunity to make the employee ownership business model widespread, and to make this the decade of employee ownership.

All those interested in this aim now have to concentrate on implementation: they need to recognise just how well ideas coalesced in 2012, understand what was achieved and build on this, rather than go back over old ground.

1 Nutall, G. (2012) *Sharing Success: The Nutall Review of Employee Ownership* [Online]. Available at: http://www.bis.gov.uk/assets/BISCore/business-law/docs/S/12-933-sharing-success-nuttall-review-employee-ownership.pdf [Accessed 26th February 2013].

Employee ownership is Government policy

There is obviously no need to spend time trying to attract the attention of the Government.

There has long been all party support for employee ownership. This is reflected in the work of the All Party Parliamentary Group on Employee Ownership. In its first report in May 2008, the Group identified inadequate Government appreciation of the sector as a possible barrier to the development of the employee ownership sector. This is no longer a concern.

The first breakthrough was in relation to public service delivery. The previous Labour administration backed NHS employee ownership pathfinders. The Coalition Government extended this policy area. The Minister for the Cabinet Office, Francis Maude, is in charge of the public sector mutualisation programme.

On 16 January 2012 the Deputy Prime Minister, Nick Clegg, launched a Government drive to introduce the concept of employee ownership into the mainstream British economy. On 8 February 2012, Business Minister Norman Lamb was appointed to lead the cross-Whitehall work on how the Government can support this growing business model. The momentum continued throughout the year. Jo Swinson, the Minister for Employment Relations and Consumer Protection, became the 'Minister for Private Sector Employee Ownership', and the Autumn Statement confirmed support for employee ownership. Chief Secretary to the Treasury, Danny Alexander, said at the time: "The Government supports employee ownership as a business model that offers benefits to employers and the wider economy".

There is clearly unprecedented support in Government for employee ownership extending beyond public service mutuals. The focus must now be on "making the most of the purchase that Government has in convening action and ensuring things happen".

Terms are defined

Definitions are now clearer. There was a lack of clarity over definitions when the Government launched its drive to promote employee ownership. It was helpful that Nick Clegg returned to the theme of employee ownership on 15 March 2012 and confirmed that "we are talking about a big chunk of a company belonging to a significant number of staff".

Employee ownership is not focussed on executive incentives or using shares as a tax effective means of paying staff, even if all staff benefit in this way. Employee ownership means a significant and meaningful stake in a business for all its employees. What is meaningful and significant goes beyond only financial participation. The employee's stake must underpin organisational structures that promote employee engagement in the company. In this way, employee ownership can be seen as a business model in its own right. There are no boundaries as to what percentage of issued share capital is substantial. If the significant and meaningful stake amounts to a controlling stake then the company can call itself employee-owned. What is important is that clarity over definitions is maintained.

Employee ownership embraces diverse forms

The basic forms of employee ownership are understood as follows:

- Direct employee ownership, using one or more tax advantaged and other share plans; employees become individual owners of shares in their company;
- Indirect employee ownership – where shares are held collectively on behalf of employees, normally through an employee benefit trust; and
- Combined direct and indirect ownership – where there is a combination of individual and collective share ownership.

The Nuttall Review's recommendations cover all these forms of employee ownership and look further afield, to the broader mutual and employee ownership sector. Businesses in this sector have much in common. On international definitions, many of the UK's companies which are majority owned by employees would be classified as co-operative. As implementation work proceeds it is important to maintain this inclusive approach as to the forms employee ownership can take.

A plurality of business models is needed

Employee ownership must be seen as a business model in its own right, something that should be as familiar as a charity, a franchise or a management buy-out. There are employee-owned companies of varying sizes, in diverse business sectors and spread across the country. This is not to say that employee ownership is for everyone. Employee ownership is obviously only one of a number of business models. What is important is that each business has the right business model. A plurality of models should be readily available for the reasons set out in the Ownership Commission report: Plurality, Stewardship and Engagement. The UK must get away from the plc monoculture as described in that report. The promotion of employee ownership must continue to be in the context of encouraging a plurality of business models.

The obstacles are agreed

The obstacles to promoting employee ownership are clear:

- There is a lack of awareness of the concept of employee ownership. Employee ownership does not come about because the concept is common knowledge; no-one is taught about employee ownership on any professional course.
- The resources are not there, whether in financial institutions or among professionals, to help someone who wants to go down this route.
- The actual or perceived complexities of employee ownership must be reduced. Even if an enthusiastic individual gets his professional team and bank on side he will be told there are complications and that it is not worth the time and expense of trying to overcome them.

Those working to promote employee ownership must obviously address these obstacles. They also have to recognise that the same obstacles also impact on how best to go about implementing change. The

Nuttall Review's informal consultation illustrated the dilemma of implementation. The lack of awareness meant that a proactive approach to consultation was essential. No-one will publicise a consultation they don't realise is relevant to them, no-one will comment on an unknown concept; no-one will feedback their experience of something they haven't experienced.

The press are better informed

The announcement of the Nuttall Review was misunderstood by many. It was assumed that the resulting report would deal with tax effective pay mechanisms, executive share plans or tax planning through employee trusts. In the course of 2012, attitudes changed. The concept of employee ownership became more of a given in published works, as demonstrated by the references to employee ownership in the reports of the Office of Tax Simplification on tax advantaged employee share schemes and unapproved share schemes. There is still a long way to go but there is now improved media coverage.

The controversy over 'employee shareholder status' was helpful in getting more commentators to understand what employee ownership is about. The Chancellor of the Exchequer announced a headline grabbing idea for a new employment status on 8 October 2012 at the Conservative Party Conference: an employee shareholder can agree to have fewer employment rights in return for fully paid up shares, the gains which can be exempt from capital gains tax. This controversial measure provided an important push to consolidate the increased understanding of employee ownership. In the House of Lords debates on the measure, Lord Adonis and Baroness Brinton readily stated their support for wider share ownership among employees and the proposals in the Nuttall Review, in contrast to the Chancellor's proposal. The Employee Ownership Association generated publicity from its clear view that "[t]here is no need to dilute the rights of workers in order to grow employee ownership".

Tax is not a primary barrier

In 2012, the employee ownership debate moved away from an historical focus on tax. The Nuttall Review's 28 recommendations were all non-tax recommendations. HM Treasury examined the role of employee ownership in supporting growth and options to remove barriers, including tax barriers, to its wider take-up. The Autumn Statement reported on the key outcomes. One of which was that the majority of businesses who met with HM Treasury did not identify the tax system as a primary barrier to greater uptake of the model. This is helpful. It is harder to make a business model mainstream if it is tied to tax breaks for its success.

Tax does nevertheless have a key role in overcoming the obstacles to promoting employee ownership. As seen with the Chancellor's proposal on employee shareholder status, tax is an excellent way to raise awareness. A targeted tax relief could achieve all aims: raise awareness, increase resources and simplify employee ownership.

Employee engagement is not a separate agenda

Employee-owned companies provide really good examples of employee engagement. The Macleod Review acknowledged that "[e]mployee ownership was a profound and distinctive enabler of high engagement".[2] Employee engagement is much harder to dismiss as a management mechanism when it is underpinned by actual employee ownership.

2 MacLeod, D. and Clarke, N. (2009) *Engaging for success: enhancing performance through employee engagement*. London: Department for Business, Innovation and Skills. Available via: http://www.bis.gov.uk/files/file52215.pdf [Accessed 26th February 2013].

The employee ownership sector has started to build stronger links with the employee engagement agenda. It is easier to focus on this given the strides made in explaining the legal forms of employee ownership and in understanding employee ownership's relationship with tax. There is now room to promote the good employee engagement practices of employee-owned companies.

It is safe to build on the existing research

The benefits of employee ownership are so strong that they can seem too good to be true. The Mutuals Taskforce, like others before it, carried out its own literature review, as if to check that the advantages really are as good as research suggests. The Nuttall Review also gave in to this prerequisite. Together with Department for Business Innovation and Skills (BIS) it reviewed the literature and identified key outcomes as:

- improved business performance;
- increased economic resilience;
- greater employee engagement and commitment;
- driving innovation;
- enhanced employee wellbeing; and
- reduced absenteeism.

In other words, there is a winning combination of better business outcomes and happier staff.

There should be more research, but there is no need to wait for this: the Government and others can safely promote employee ownership by relying on the bedrock of existing research. No client has ever said "show me the research and I will introduce employee ownership". The benefits of employee ownership are best demonstrated by the many and increasing number of successful employee-owned companies.

The broader business community is interested

The employee ownership sector is a sizeable sector, but is seen as niche and irrelevant to the broader UK economy. 2012 drew out a wide range of support for employee ownership, from beyond its heartland of enthusiasts. The Ownership Commission's report showed how a diverse group of Commissioners could support employee ownership. The launch of the Nuttall Review at the ICAEW, in the City of London, with over 200 present, included many from outside the employee ownership sector. This was proof that attitudes are changing. Members of the broader business community do support employee ownership. Jo Swinson is chairing an implementation group to try to ensure that all stakeholders get behind the Nuttall Review recommendations and other initiatives. These initiatives will, however, only succeed through a combination of the Government, the mutuals and employee ownership sector and the wider business sector getting behind them.

In conclusion, employee ownership in private companies has moved from a lobbying topic into Government policy. This means old priorities and concerns can be forgotten. Instead, a new mindset is needed, one aimed at effective and timely implementation.

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5. Governance and Voice: How mutuals and employee-owned businesses create stability, resilience and legitimacy

Dr Ruth Yeoman

Mutual and employee-owned organisations (MEOs) are public and private enterprises, which have the potential to provide social, as well as economic, benefits. *As a philosophy,* mutualism is a set of ideas and principles governing the relations between individuals; *as an organisational practice,* mutuality is characterised by distinctive ownership and governance structures which express the values of equality, fairness and mutual respect through democratic decision-making.

At the political level, Kellner describes mutualism as "a doctrine that individual and collective well-being is obtained only by mutual dependence".[1] At the organisational level, Birchall defines a mutual as a member-owned business that is "owned and controlled by members who are drawn from one (or more) of two types of stakeholder – consumer and producer – and whose benefits go mainly to these members".[2] Single and multi-stakeholder organisations are a way of structuring organisational life which goes with the natural flow of human relationships, normally characterised by inter-dependence, the desire for belonging and the need to do something worthwhile in co-operation with others. When MEOs succeed in aligning their governance architecture with their culture, values and organisational practices, then they become highly effective vehicles for realising basic human needs for belonging and meaningful work, as well as producing goods and services for their customers and communities.

Governance: Establishing the rules to live by

Mutuals and employee-owned businesses are distinctive responses to the classic political question: where does power lie? Organisational life is characterised by a struggle over whose interests have primacy in the distribution of burdens and benefits generated by the organisation's activities. This means that all groups of people engaged in a common endeavour must decide how their relationships to one another are to be regulated. The terms of such decisions might range from conciliating differences in order to secure basic organisational stability to ensuring justice and fairness for all those involved in the enterprise, and affected by what it does.

In order to settle questions of stability and justice, people establish ownership and governance architectures which specify how, and by whom, the purpose and means of the organisation are to be determined. Establishing and maintaining governance architectures, however, is no easy task, because institutions are prone to decay, due to their dependence upon supportive background conditions, including the norms, values and beliefs which guide the way people behave towards one another. In other words, stable and just governance requires a sympathetic culture which helps people to understand who is entitled to do what, in pursuit of the organisation's purposes.

When people perceive there to be a coincidence of governance institutions, values and culture, and entitlements which takes their interests into account, then the organisation is understood to be legitimate, and people are more likely to consent to their interactions with the organisation being conducted by its rules. However, when the rules of the organisation appear to benefit investors or managers to the exclusion of other stakeholders, then the sense of legitimacy which sustains its institutional fabric will be eroded. The employment contract is no protection against the corrosive effects of a degraded governance system or ossified culture and values. People who are fearful of unemployment may passively submit, but they may also manifest resistance in various forms of sabotage, organisational vandalism or simply work to rule, expending no effort beyond that which is demanded by their formal job description.

1 Kellner, P. (1998) *New Mutualism: The Third Way*, p. 7. London: Co-operative Party.
2 Birchall, J. (2010) *People-centred Businesses: co-operatives, mutuals and the idea of membership*, p. 4. London: Palgrave Macmillan.

Sustained and resilient organisational performance depends upon there being a shared sense of legitimacy; that is, upon stakeholders being confident that the rules of the enterprise work in the interest of everyone, and that those who occupy powerful roles can be held to account. In organisations, as well as in politics, this is achieved by enabling everyone to have a say in determining the rules governing their common life.

Voice: Sharing authority over decision-making

So, one way of binding people to the organisation is to give them a say over determining the purposes and rules of the organisation – in other words, to give them a Voice in decision-making. And MEOs hardwire an entitlement to Voice through governance architectures which provide for a plurality of strong, but equally balanced, constituencies of members (whether community, customers or employees) in which no single constituency gains ascendency over another, resulting in oligarchic or autocratic rule. This means that an organisation which takes Voice seriously as a substantive concept will have a distinct culture rooted in the values of equality, fairness and mutual respect, where Voice exceeds simple participation by establishing an entitlement to co-decision which belongs to all those who are members of the organisation.

Hirschman describes Voice as "any attempt at all to change, rather than to escape from, an objectionable state of affairs[…]".[3] In more conventional terms, Lavelle et al define Voice as "any type of mechanism, structure or practice which provides employees with an opportunity to express an opinion or participate in decision-making within their organisation".[4] The value of stakeholder Voice can be expressed in both intrinsic and instrumental terms – *intrinsically,* stakeholder Voice is part of a long tradition of industrial democracy and economic citizenship in which having a share in decision-making is a right owed to all workers; *instrumentally,* stakeholder Voice makes good business sense because it enables managers to tap into workers' tacit knowledge, and to conciliate conflict and differences in the direction of organisational harmony.

Conceptually, Voice goes beyond having a say, since having a say does not automatically imply influence.[5] For example, Heller distinguishes between having a share in participation (as taking part in an activity)[6] and having a share in power (as having a degree of influence over an activity). If Voice means to actually experience having a share of power, then Voice is not realised by a purely structural or procedural approach. Simply setting up structures will not guarantee that each individual worker will actually experience voice as influence-sharing, because many voice systems have "deaf ears".[7] Having a Voice is the social and interactive experience of being listened to by others, and being treated as an equally worthy person with an equally valid point of view - it is not the experience of simply knowing structures are in place.

3 Hirschman, A. (1970) *Exit, Voice and Loyalty,* p. 30, Cambridge, Mass.: Harvard University Press.
4 Lavelle, J., Gunnigle, P., & McDonnell, A. (2010) "Patterning employee voice in multinational companies", p. 396, *Human Relations,* 63 (3), pp. 395-418.
5 Strauss, G. (2006) "Worker Participation – Some Under-Considered Issues", *Industrial Relations,* 45 (4).
6 Heller, F. (2003) "Participation and Power: A Critical Assessment", *Applied Psychology: An International Review,* 52 (1), pp.144-163.
7 Harlos, K. (2001) "When organizational voice systems fail: More on the deaf ear syndrome and frustration effects" *Journal of Applied Behavioural Science,* 31 (3), pp. 324-342.

Wilkinson & Fay suggest that "voice may need to be bundled and embedded. Once implemented, voice can shrivel. There seems to be a life cycle in relation to specific schemes [...]".[8] In particular, a Voice system can be kept alive by ensuring there are multiple channels for Voice to be expressed, including direct individual participation, such as team meetings and strategy days, and indirect collective representation, such as employee representatives on the board and a strong union presence.[9]

When a MEO combines ownership and governance architecture, a multi-channel Voice system, and a philosophy of work grounded in each person's equal status as co-authorities in decision-making which supports their sense of worthiness to be a co-owner, then it maximises a shared sense of legitimacy. Furthermore, co-ownership, by adding a dimension of 'democratic consciousness' distinct from socialisation, sensitises people to their entitlements and obligations; that is, of what is due to a person because of their co-owner status, and of what that person has a duty to contribute because of their acceptance of such entitlements, provided the organisation does its part to enable people to meet their obligations.

Legitimacy, change and stability

As part of their change agenda, many organisations seek to create high performance work systems (HPWS) which elevate levels of employee engagement, but fail to sustain such systems because they do not pay attention to a shared sense of legitimacy, grounded in mutual entitlements and obligations. It is possible for improved organisational outcomes to be achieved at the expense of employees because, although HPWS intensifies work by increasing workers' responsibility for getting work done, it does so without increasing their autonomy, understood as their control over how to get the work done. For instance, the European Working Conditions Survey (EWCS) 2000-2001 showed that, whilst team workers reported experiences of an increased social learning environment, and more task complexity, they also reported "increased pace of work and having to work to tight deadlines, and indicate that their health is affected by work".[10] In other words, workers experienced increased levels of responsibility without a corresponding increase in their control capacity – specifically, without an increase in their ability to participate in the decision-making necessary for getting the work done. As a consequence, they suffer from diminished self-efficacy, characterised by: reduced confidence in their capabilities; lowered trust that they will be support by colleagues and the wider organisation if things go wrong; inability to influence the rules governing co-operation and decision-making; and reduced capacity to recruit the involvement of others in their work activities.

Organisations risk de-legitimacy when they implement HPWS in a manner which secures the discretionary effort of workers to the exclusive benefit of managers and shareholders.[11] De-legitimised organisations no longer work in the interests of all their members, and workers may come to feel that their discretionary effort has been expropriated without reference to their welfare, or their interest in fairness. Such a state of affairs damages employee engagement, potentially undermining organisational resilience. Workers experience a lack of fairness as an injustice, and a growing sense of organisational injustice may be one reason why organisational change programmes have limited lifetimes, requiring regular renewal.

8 Wilkinson, A. & Fay, C. (2011) "New Times for Employee Voice?", *Human Resource Management,* 50 (1), pp. 65-74.
9 Pyman, A., Cooper, B., Teicher, J., & Holland, P. (2006) "A Comparison of the Effectiveness of Employee Voice Arrangements in Australia", *Industrial Relations Journal,* 37 (5), pp. 543-559.
10 Pot, F. & Koningsveld, E. (2009) "Quality of Working Life and Organizational Performance – two sides of the same coin?", p. 421, *Scandinavian Journal of Work and Environmental Health,* 35 (6), pp. 421-428.
11 Ramsey, H., Scholarios, D., Harley, B. (2000) "Employees and High-Performance Work Systems: Testing Inside the Black Box", *British Journal of Industrial Relations,* 38 (4), pp. 501-531.

However, MEOs may break into this repetitive and costly cycle because co-ownership enables workers to share in making the rules which govern the form and implementation of high performance work bundles, generating higher levels of trust as a result of perceived fairness. Furthermore, since they will be reaping the rewards of their own efforts, workers will have new and motivating reasons for the expenditure of discretionary effort. Consequently, high performance work initiatives in MEOs are potentially more resistant to decline.

Thus, MEOs can sustain a HPWS when co-ownership becomes an institutional mechanism supporting each individual worker or member in developing the Capability for Voice, where Voice means having a share in control over decision-making. By developing the individual Capability for Voice, a MEO bridges the responsibility and control gap, thereby underwriting the just distribution of the benefits and burdens of the HPWS.

In addition, where there is employee ownership, either in a single or a multi-stakeholder mutual, this can help to transform the experience of work. This is because mutual governance combined with democratic practices, both representative and direct, brings to a lived reality the development and exercise of a Capability for Voice as part of the daily activity of working. In the process, increased levels of organisational performance can be rendered stable and sustainable, reducing the costs involved in cyclical renewal of organisational practices. Finally, the quality of the conversation which maintains and reproduces the fabric of organisational life is vastly improved, contributing not only to better decision-making, but also to the well-being of employees, and the communities they serve.

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Case study

6. The Co-operative Group: Lessons from the past – advice to the future

Len Wardle

As this collection of essays is published, The Co-operative Group is celebrating its 150th anniversary. Inevitably, it's a moment to look back and reflect on where we have come from and what we have achieved. And that achievement should be seen as stretching well beyond the confines of the Co-operative Movement. We have staked out a space in the marketplace that is neither shareholder capitalism nor state ownership, building a business that now enables millions of our customers to have ownership in an enterprise in which they and their communities can share in the profits. However, maintaining the strength of that model has been far from straightforward though and I believe there is value in understanding the journey we have taken, not so much to get a perspective on the past, but to get a grip on the future.

The long arc of our history shows our story to be one of constant adaptation. Hardly surprising when you recall what has taken place in retailing, financial services and the wider cultural and political environment since our foundation in the middle of the 19th century.

Although we have been constantly changing, for most of our history we haven't always been as fleet-footed as we should have been. In fact, our failure to react quickly enough to change in the past and stay attuned to the needs of our members and customers accounts for the steady decline we, along with the whole Consumer Co-operative Movement, suffered through-out the second half of the 20th century.

So from the vantage point of our 150th anniversary, what lessons should we learn from our past and what advice can we offer to the future?

Collective enterprise

In 1863, in modest premises on Cooper Street in Manchester, The Co-operative Wholesale Society (CWS) - our direct corporate ancestor - was established with the aim of serving the needs of the many hundreds of local Co-op Societies that sprang up from the mid-19th century, inspired by the achievements of the Rochdale Pioneers in 1844. The fabled story of how the Pioneers trekked with a wheelbarrow to Manchester and back to collect their first provisions for the store's opening, was already a prophesy of our beginnings. Through most of our history we were owned not by individual customers but by the independent co-operative societies looking for collective ways to enhance their ability to compete commercially. This in itself was novel enough – co-operation between separate businesses through a shared political philosophy looking to improve the membership dividend of local co-operative members. It was all in stark contrast to the mainstream Victorian story of an aggressive and unfettered industrialising economy.

So, for much of our history we were a major manufacturing operation, providing a vast array of Co-op branded products to the independent societies that jointly owned the business. By the turn of the 20th century, we were also supplying goods from our factories to Co-operatives world-wide.

I suspect that an elected CWS Board Director in 1913 would today find the business almost unrecognisable, even if some of our oldest buildings on Corporation Street in Manchester might perhaps bring some familiarity. We no longer manufacture any of our own branded products. Instead, through decades of mergers, amalgamations and acquisitions and in response to global changes in manufacturing and supply chain economics, we have become a retailer and financial services provider that is now the largest mutual business in the UK and which dominates the consumer Co-operative Movement.

We are not just a big fish swimming in the small pool of the co-operative sector. Our food business is the 5th biggest in the UK, our funeral business is the largest single provider in Europe, our Pharmacy chain is the third biggest in the UK. Meanwhile, our Banking business, which dates back to 1872, has grown significantly in the last few years, with further expansion in prospect, and without having been tarred with the reckless behaviour of the bigger high street names.

Renaissance

There is little doubt that in recent years the Group has addressed some fundamental (and long-overdue) structural and organisational issues that had held co-operative business back for many decades. We have ended the crippling fragmentation of the Movement that made nimble decision-making so difficult and pitted Co-op against Co-op when our real rivals were the emerging supermarket giants. In the 1990s, we even had to fend off City carpet baggers who thought we were easy prey for de-mutualisation and asset stripping.

In the last five years we have seen a rapid change in our fortunes. As well as economies of scale achieved through Co-op amalgamations, we have addressed the need to grow scale in our core markets, not only through Co-op Society mergers, but through acquisitions, such as the Somerfield food chain and the Britannia Building Society. During this time we have also have also revitalised our brand and shed much of our old fashioned and dowdy look and feel. The Co-operative is now associated with trust and integrity which is allowing us to open up whole new markets such as the provision of legal services where such virtues are highly sought after by the public.

Staying rooted

For me, the key lesson to take forward (with all the advantages of hindsight) is how easy it is to lose sight of our original reason for existence – to serve the needs of our members through a well-run, ethically responsible business. We cannot forget that we are not like other businesses. We are founded on a different ownership model with a democratic structure that demands close engagement with our members based on a set of values that seeks to harmonise commerce and community without compromising either. But somewhere along the journey we allowed bureaucracy and complacency to get the better of us. Perhaps we started behaving like an ordinary business (although not a very successful one)? We allowed our management processes to stagnate and our strategic vision to become blurred. Only through a sometimes painful recognition of our failings have we been able to move forward. Finally, we have got the message, learnt the lesson and acted upon it.

None of this has gone unnoticed in the business world, especially as we announced a run of exceptionally healthy performance results between 2007 and 2010, doubling our profits and our membership along the way. The very same financial commentators that had almost written us off in the 1990s, were now describing a renaissance for co-operative values and recognising that the co-operative model of business should be considered as, once again, a serious alternative to state controlled nationalisation and free market capitalism. There was an argument to say that we had indeed come back from the dead – or at least the seriously unwell!

Integrity in the marketplace

The new found popularity for The Co-operative, and mutuals generally, found even more support in the immediate aftermath of 2008's economic meltdown as the debate began about how to bring responsibility, trust and integrity back to the market place.

Co-operative models have been held up as examples of good practice where responsibility and accountability go hand in hand through an ownership structure that ensures that boardroom decision making does not lose touch with the needs or concerns of customers. It's worth re-stating just what our much mentioned, but rarely fully articulated, co-operative values actually are and why this business model adds not only financial value but social value as well, including environmental sustainability.

The language we inherited from Rochdale speaks of: 'Self-help, self-responsibility, democracy, equality, equity and solidarity'. To this the International Co-operative Alliance has more recently added to the lexicon: 'honesty, openness, social responsibility and caring for others'. There's no doubt that this amounts to a compelling proposition at any time.

Life in the age of austerity

But what about the future? What still needs to be done to ensure The Co-operative renaissance remains resilient and our co-operative values remain relevant? What action must we take now and what helpful advice can we offer, not only to our successors, but to commerce and enterprise in general?

In the short term the economy is going to play a big part in our thinking. It's now clear that the nation's road to recovery is going to be a very long haul. The government has officially extended the 'Age of Austerity' to 2018 at least. It feels as if the angry first reaction to the banking collapse, exemplified by the sudden rise of the Occupy protest movement, has given way to a bleaker resignation among consumers. The depth and length of this downturn has finally shown through in our performance figures. Hardly surprising when one Bank of England official described the scale of the impact on the economy as equal to a world war. For The Co-operative Group that means investing all we can in price promotions and strong offers to ensure that we are offering not just co-operative values but co-operative value as well. We have to acknowledge though, that for many of our customers, ethics will be of secondary concern to simply making ends meet. If we rely only on ethics to distinguish ourselves we risk making The Co-operative uniquely virtuous in its irrelevancy to our customers. In these circumstances, we have to work even harder to keep our commercial operation focused, up to date and responsive to the market place.

One aspect of this on-going modernisation is around workplace culture. How should we understand The Co-operative brand internally and how do we use it to unlock the full potential of our employees for the benefit of our customers and members?

Another issue we must address is our relationship to the wider community. The challenge we face is how to make stronger connections with our members and customers and turn those relationships into ones that gives us both a community and a commercial dividend. We often refer to this as creating a 'virtuous co-operative circle' whereby our commitment to building local communities creates a clear commercial benefit which in turn allows us to generate profits to put even more into the communities in which we trade.

Commerce and community

We currently put enormous effort and resource into our community programmes and social action campaigns. In 2011 we supported 10,000 community initiatives across the UK from funding brass band instruments and local choirs to food banks and anti-social behaviour projects. But this is not your traditional corporate social responsibility (CSR) agenda. It's our members that make these decisions at a local level or who bring the causes that matter to them to a national debate that then informs our UK and international campaigning priorities.

Maintaining a sound business approach, keeping our management philosophy up to date, enhancing community links and finding new ways to express our ethical leadership - these are the challenges we face as we look ahead to the next part of our story. And all of this must be carried out within the framework of our co-operative structure and values. The non-co-operative business world faces this challenge too. Mainstream CSR has to be more than an adjunct of corporate marketing departments if it is to change the way business operates and is perceived by customers. All business has to redefine the bottom line to include what it puts back into communities and not just what it takes from them.

We have learnt many lessons from the past – some might say, just in the nick of time – and we now have solid foundations on which to build a successful future. If the very fact that we have reached our 150th anniversary tells us anything, it must be that constant adaptation is a necessity in business as well as in nature. What a co-operative solution to ethical enterprise looks like for one generation will almost certainly not look the same for the next generation. My advice to our successors would be that they must be willing and open to constantly revisit and challenge how to maintain co-operative values in ways that maintain the creative tension between being ethically driven and commercially focused. It is a challenge that is not ours alone though. While we must act within our co-operative framework, the marketplace as a whole must address the fundamental question for business in the 21st century – what should be the relationship between individuals, communities and commerce?

Len Wardle is the Chair of The Co-operative Group.

Retail

7. Community Owned Shops: The modern co-operative pioneers

Peter Couchman

The General Election in 2010 saw a major landmark in the development of the Co-operative Movement. For the first time ever, the three largest political parties all made glowing reference to the role of co-operatives in British society and how they would support them if elected. It marked a major breakthrough both in terms recognition and in terms of cross-party support.

Yet, behind this, was an even more important learning point for co-operatives, for not all co-operatives were recognised equally. Only three forms of co-operatives appeared in all three parties' election materials. These were community-owned village shops, co-operative pubs and co-operative football clubs.

The choice is no accident. These very diverse forms of enterprise share three important attributes. Firstly, they involve saving something that people care deeply about. Further, they care so deeply about it that they are willing to take action themselves to save them. Thirdly, in each case there is a ready-made co-operative way for people to come together which has been tested by ordinary people like themselves.

So the message is clear that, in this modern age, co-operatives are at their strongest when they are solving the problems of ordinary people.

The history of the community shop movement

The emergence of this modern Co-operative Movement has much in common with the emergence of co-operatives in the Nineteenth Century. They tend to start small, drawing on local support in terms trading loyalty, investment and time.

The modern village shop movement can been seen as emerging in England in the early 1990s. Although there had been a number of individual shops before then, including a few survivors from Victorian times, it was at this point that a momentum was built up where each new shop encouraged another community to try. In Scotland, a similar process has started some ten years before, aided by the Co-operative Group, to meet the needs of Scottish islands and remote communities.

The early pioneers started small and relied heavily on volunteer labour. They also had a strong tradition of mutual help and soon formed an organisation to help new starts, called The Village Retail Shop Association (ViRSA). It merged with the Plunkett Foundation in 2005 to create the modern support service for community-owned shops and other community-owned enterprises.

Community shops today

Today, these co-operatives have become the dominant way for a rural community to save a shop in danger of closure. Three hundred are operating today with even more in the pipeline.

In challenging economic times, it is an incredibly sustainable model with only 13 projects failing in those twenty years, far more resilient than just about any other form of enterprise.[1] No store closed in 2012 despite the state of the economy.

The commitment of these 300 communities as co-operative members far outstrips those of the more traditional co-operatives. They not only trade with their co-operative, they invest their own money to create it, often using community shares as their main form of investment. Also, in many cases the shop will be reliant on volunteering. Across the UK, 1.2 million hours of volunteering goes into community shops (compared to one million hours donated to the RSPB).

1 Brown, J. (2011) *The Practitioner's Guide to Community Shares* [Online]. Available at: http://www.uk.coop/sites/storage/public/downloads/practitioners_guide_to_community_shares_jul11.pdf [Accessed 5th March 2013].

Often operating out of small premises, many without previous retail experience and running shops which the private sector failed to run, they are showing just what co-operation can do. Last year, their like-with-like sales growth of 9.6% outstripped every major retailer in the UK. Their growth rate of over 8% also beat all bar one the major retailers.[2]

Another major economic impact is their connection to the local food economy with 97% of shops having a commitment to local food. It accounts for 26% of sales, compared to less than 1% of supermarket sales. This gives new local food enterprises a chance to develop. One village reported that four new food enterprises had been created in the village within a year of the shop opening.

Their impact is not restricted to the economic. On average, 24% of their profits were used for community use. In terms of environmental impact, if each member of a community shop shopped once a year at the shop instead of travelling to the nearest supermarket, then the movement would save 4 million miles of travel.

The secret of community shops lies in the fact that they do not seek commercial success for its own sake. Their passion is to provide a service for their whole community in a shop owned by their community. They are often formed by the fear of what will happen to their community if the shop is lost.

Perhaps the greatest sign that they had become the accepted way for rural communities to tackle their loss of shops came when five million people listened each week in 2010 to the residents of Ambridge saving their village shop by forming a co-operative on The Archers, Britain's longest running soap opera.

This form of retailing doesn't take a lack of traditional land for development as a barrier. Lodsworth in Sussex pays 1p rent a year to site its beautiful wooden store in the pub car park. Lanreath in Cornwall developed its successful store from the village toilet (bringing a whole new meaning to "convenience store"). Whilst Exbourne, denied the chance to build up, built down and created an underground store.

The role of the volunteer varies in each store. Some only have paid staff, whereas others have only volunteers. Most have a mix and there is no right or wrong combination, only what works for each community. To sit with volunteers and listen to why they give up their time is an education. Most will talk of how they value their community and what to save its basic fabric. Yet, soon the conversation will also turn to their own lives and they will start to talk of how volunteering has given them a new role. Some will talk of it being a lifeline after the loss of a partner, the loss of a job or a major health event. There is a complexity to volunteering that is lost to any who see it simply as a way of keeping the door open.

In recent times, the ambition of most shops has grown. Many have become sophisticated enterprises able to compete with mainstream supermarkets by positioning themselves as the hub of the community and local supplier networks. One report last year showed that they were far better at surviving shocks to system, such as bad weather, than their mainstream competitors.[3]

They have also come together to form the Plunkett Community Shop Network, which enables them to buy electricity, insurance, telecommunications, credit card services and till systems together. They also have attracted the support of traditional co-operatives, such as Co-operative Group which allows them to source electricity through its buying power and supports new entrants through its Co-operative Enterprise

2 Plunkett Foundation (2012) *A Better Form of Business* [Online]. Available at: http://www.plunkett.co.uk/templates/asset-relay.cfm?frmAssetFileID=1420 [Accessed 5th March 2013].

3 The Plunkett Foundation (2011) *Oxfordshire community shops report huge increase in sales in snowy December* [Online]. Available at: http://www.plunkett.co.uk/newsandmedia/news-item.cfm/newsid/464 [Accessed 5th March 2013].

Hub. Others, such as the Midcounties Co-op, allow food purchasing designed for smaller store.

If shops are the flagships of this rural revolution, they are certainly not the only member of the fleet. In essence, there would appear to be no aspect of rural life which doesn't lend itself to a co-operative solution. The loss of village pubs has led to an increasing number of villages choosing to own their own local, with 11 new co-operative pubs in the last two years and more in the pipeline. In the volatile world of pub ownership, not one has failed so far.[4]

The pioneer of this approach, the Old Crown in Hesket Newmarket, Cumbria, has co-operatives running both the local pub and the brewery. The pub has even reinvented the co-operative dividend by paying its shareholders their dividend in beer. Across the border in Yorkshire, the George & Dragon in Hudswell has gone from saving the pub to also running the village shop, library and allotments.

The number of Co-operative Pubs remains small, but rising. It is also proving to be a model which can be used in urban settings as well as rural. The nature of how they are run is different from shops. They require more capital to start and tend not to use volunteers. The standard model sees the co-operative owning the pub, deciding what type of pub it should be, then appointing a tenant to run it for them.

The rethinking of traditional uses of rural buildings has gone as far as challenging the assumption that the church is a building used for two hours on a Sunday. Yarpole in Herefordshire created its village shop and café in their church, whilst Shipbourne in Kent holds its farmers' market between the pews.

Even farming, for so long a bastion of individual ownership, flourishes with this co-operative approach. Fordhall Farm in Shropshire was saved when 8,000 people came forward to buy it, leaving tenant farmers Ben Hollins to run the enterprise for the benefit of the whole community.

But the services don't have to be traditional ones. Alston in Cumbria is home to Cybermoor, a co-operative broadband service. It is even experimenting with a new service where pilotless drones are used to save shepherds having to go up onto the fells in bad weather.

Opportunities for the future

There may be a limit to what these forms of co-operative enterprises can tackle, but it isn't clear where that lies at present. The Big Lottery Fund created Village SOS to offer help to communities taking this approach. In one year, over 1,400 communities came forward with a broad range of ideas on how to apply this approach to meeting their needs.

The Plunkett Foundation, founded by Sir Horace Plunkett, the pioneer of Irish agricultural co-operation, has found that his Nineteenth Century ways are precisely what is needed in the modern world. Sir Horace would ride into a village, sit down and listen to the needs of the villagers and then convince them that some of those needs could be met through co-operative enterprise. Today, the tools have changed, but the need to inspire people that they too can take co-operative action is as real as ever.

The lesson for both politicians and the Co-operative Movement is a simple one. When a community has an issue that matters so much to them that the thought of failure is too much to bear, then forming a co-operative is often the solution. It is an answer for today, a modern incarnation of the self-help tradition.

4 The Plunkett Foundation (2011) *Impact Report 2011* [Online]. Available at: http://www.plunkett.co.uk/templates/asset-relay.cfm?frmAssetFileID=1427 [Accessed 5th March 2013].

In a world filled with problems created by short-term thinking, these modern day co-operative pioneers think differently. As one pub shareholder put it to me, "Buying a share in the pub meant we didn't have a holiday that year. But we saved the pub not just for us, but also for our children and probably their children as well".

Peter Couchman is the Chief Executive of the Plunkett Foundation, which supports rural communities to save vital services through co-operative ownership.

Case study

8. The People's Supermarket: For the people by the people vs 'every little helps'

Kate Bull

The People's Supermarket, has attracted worldwide interest, won numerous awards and has established a ground breaking business model.

In early 2009, three people came together: a well respected and innovative ecologically minded Chef, Arthur Potts Dawson, an urban regeneration expert, David Barrie and Kate Bull, (myself), a highly experienced retail executive. We all shared the same passion; anger even – a dislike of the major supermarket chains.

Arthur was very much concerned about the provenance of the food we eat, the effect of food miles on the environment, the huge amount of waste generated from supermarket food production. David was fired up about the damage they cause to local communities, killing off small independent traders and creating wastelands in towns. I was disillusioned by their total lack of respect: for the farmer or producer by constantly forcing prices lower; and for their employees – enforcing zero hour contracts, de-skilling jobs and capping pay. Not forgetting the customer, to whom larger supermarkets offer food that damages their health, provide packaging that is designed to mislead and encourage customers to buy more than they need.

Our positive response was to open our own supermarket. One that provided good value, healthy food, that was produced as locally as possible (a hard ask in central London); a store that was welcomed by the local community and served its needs. To achieve this neighbourhood focus, we felt that a member's co-operative would provide us with the right governance structure.

Setting up shop

Finding the right location proved very difficult, we wanted a selling space of around 180 square metres, with a similar size back of house, as do is the case for other large retailers. However, we stumbled across an empty unit in Lambs Conduit Street and found that the landlord was in fact a charity with very a similar community focus to our own.

To create a modern supermarket takes a lot of money, to buy fridges, counters, tills and stock roughly around £750,000. Money we just couldn't access. As a co-operative, we had no collateral and an uncertain number of potentially shareholders. We were also attempting to break into a mature and cut throat market. These factors made the supermarket idea far too risky for any money lender. So to raise capital, we courted a television production company and we sold our story to Channel 4, which paid for the deposit on the property.

Rights, responsibilities and rewards

Having secured the place, we set about attracting members. For us, membership was not intended to be a passive activity; we wanted people to be fully engaged with the store and what it stood for. So inspired by a model already in use by the Park Slope Food Co-op in Brooklyn, New York, we set out the three principles of The People's Supermarket (TPS) membership: Rights, Responsibilities and Rewards.

Firstly *Rights:* everyone has the right to vote. In true co-operative style, we all have just one vote. This right can be exercised at the monthly members' meetings as well as at the AGM. We agree on anything from food buying policy, promotional events to local government lobbying. It is vitally important to us that the business is transparent. Margins, sales and expenditures are all readily discussed and available for all members to see.

Then *Responsibilities:* everyone is expected to contribute four hours a month to the running of the store. This could be anything from filling the shelves, assisting our in-house chefs, or upgrading the website. It's your responsibility as a member to contribute.

Finally *Rewards:* every member gets 20% off all of their purchases. But on top of this cash incentive, our research shows that what people value most is the social interaction and the opportunity to influence where they buy their food from.

In the beginning, we put out appeals on networking sites, such as Gumtree and Freecycle, held open days and talked to an awful lot of people. Much to our surprise and relief, people wanted to join and help make 'it' happen, and before we had even put stock into the store, our first 100 members had signed up. Last year, membership stood at 1000 and they had contributed 14,000 hours to making it a success.

The doors opened in June 2010, on to a shop fitted out in donated fridges and shelving. Our tills were found in the street and the shop was scrubbed clean by volunteers who brought their own gloves, mops and even cleaning materials.

From the outset, we acknowledged that the organisation could not run totally on volunteers as there are legal, financial, health and safety and personnel obligations that need to be met. Someone is required to take responsibility at all times and that role was to be undertaken by paid members who are employees. We now employ 17 people from the local community, who have all been long-term employed. Such as Nigel – a 55 year old ex-butcher, whose life fell apart when he lost his job. Just like many others, he felt that he had been discarded by society, because of his age and lack of education. Under the TPS wing, he has not only become the fully qualified health & safety officer, he also runs the in-house sandwich making business, supplying store and catering customers.

We are also proud of our in-house kitchen, which produces 20,000 meals a year, uses up around 3 tonnes of food that would have gone to landfill and meets our customers' needs for ready meals. We have been able to secure local products, such as our own bread made by a local baker, to our own recipe with only five ingredients or salad packs from a community garden project just 500 metres away. At any one time, 20% of our products are sourced within the M25.

Beyond everyday business

All great stuff, but even given the increased public awareness of the socially harmful activities of the large corporations, and the plausibility of an alternative path, do I think that we have created a viable alternative to the Tescos and Starbucks of the world? In a word: yes!

Whether it's the economic crisis or the recent food scandals, we seem to have lost our trust in big business and I believe things need to change, and I'm not alone. Globally, we have witnessed mass demonstrations objecting to the way that many large companies dominate our lives. But when you stand back you will see, the anger isn't about making money, it's about two things: How these companies do business and what they do with their profits.

Many companies exist only to benefit external shareholders. The traditional business model consists of three drivers or considerations: commercial, legal and corporate social/sustainable responsibilities:

- Commercial: the need to meet the insatiable demands of the banks, stock markets and investors to make larger and larger financial returns.
- Legal: the commitments that the company is forced to meet by law: legal and due diligence requirements such as environmental, health & safety and employment regulations.
- Corporate social/sustainable responsibilities (CSR): the obligations undertaken to demonstrate how the business is reinvesting in their communities and sustainable measures..

The final priority – CSR – has recently been brought to life around the world by social media, highlighting concerns that can now damage a brand far more quickly and effectively than ever before. For example, the concept of 'tax shaming', the idea that a major company can be publicly ostracised by everyone from the ordinary consumer to the Prime Minister for being perceived to be failing to make their contribution, is now a reality thanks to campaigns and protests that the online environment has enabled. Think of the Starbucks UK debacle. The company more than met both its commercial and legal obligations. But that didn't make it a good company in the hearts and minds of many of its customers. They bought their coffee elsewhere. Starbucks is not alone: Amazon, Google, Vodafone, Topshop and others have been the target of protests regarding their tax arrangement and operating practices.

This tipping point is causing many large companies to wobble. The public awareness generated by social media has created a desire amongst many to see an alternative to the profit-centric provider take its place on the high street.

The People's Supermarket has set out to use an existing retail model, but has added a twist. Rather than giving central focus to shareholder value, creating positive sustainability is the TPS's main driver. The business balances the tensions of maintaining commercial, environmental and social sustainability:

- Commercial sustainability: all costs are met, everyone gets paid and money is saved to re-invest. Members have a say in how profit is spent.
- Environmental sustainability: the environment footprint of the operation is kept to a minimum – from seed to plate or product to waste.
- Social sustainability: work and training opportunities are created, as well as more mechanisms for community engagement and local focus. Creating and supporting the local micro-economies is a key part of our work.

In conclusion: does it work? The People's Supermarket is yet to make a profit, but boasts a turnover close to a £1.2m, without any financial backing or support from banks. It has provided work experience for 100 people, had been the academic focus of 12 degrees, 4 masters and 2 doctorships. We have over 40 suppliers and have supported many new start-up businesses. Our members run regular social events such as London beer evenings, bake offs and art shows. They have learnt new skills, met new people and are proud to wear the t-shirt.17 new jobs created, and of every pound spent by the co-operative, 70p is spent locally. Our members have given a total of 14,000 hours of their time to make it work. We have sold 20,000 meals cooked from food that would have otherwise gone to waste.

I believe that being a co-operative business provided us with a workable solution to the short falls of the current supermarket system: it creates new currencies and new measures of success, where society receives a multitude of returns not just hard cash, and where you can be a good business and a business that does good.

Kate Bull is the Commercial Executive Director at Action on Hearing Loss and a co-founder of The People's Supermarket.

Banking

9. Returning to Core Values: The role of building societies in reshaping financial services

Alison Robb

The financial crisis of 2008 took the world by surprise and toppled some previous leading names in the UK banking sector: Lehmans, Royal Bank of Scotland, HBOS and Northern Rock among others. From being a major contributor to economic growth and a focal point for politicians eager to drive additional revenue for the UK, banks became a pariah in polite society. This change was based not only on the catastrophic impact reeked by the collapse and subsequent bail-outs of the banks, but also by customers realising that those banks may not have their best interests at heart.

In response to the crisis, politicians and commentators have all concluded that the previous system needs to change; not only must the taxpayer be protected against future bail-outs in the event of failure, but the banking sector should become a more open, dynamic environment in which diversity and competition can flourish. These dual aims were addressed through the Independent Commission on Banking (ICB), which recommended that retail banking activities should be ring-fenced and that measures should be taken to encourage more effective competition. Whilst the ICB was not specific in terms of what that competition should look like, it did recognise that there was only one true challenger to the established banks: the UK's largest mutual, Nationwide Building Society.

This has not happened by accident, since Nationwide has grown steadily for over 150 years, using its mutual approach to business to take ever growing market shares, expand its product range and attract more customers. And whilst it is true that it is the only building society with sufficient scale to take on the banks at a national level, it is not the only society to offer customers what they are looking for: excellent service and an honest, open approach to financial services.

This paper argues that the UK deserves a better, more open financial services sector that offers a diversity of business models and encourages competition for the benefit of customers, and that building societies should be a major driver of this change.

A compelling alternative to the banks

The continuing focus for policy-makers and regulators is to shore up the system so that it is better able to deal with the next crisis and avoid further huge taxpayer bail-outs. But there is also increasing attention being paid to ensuring consumers get a better deal and to addressing the dominant UK market position of the big five plc banks: Barclays, HSBC, Santander, Lloyds Banking Group and Royal Bank of Scotland.

There is a clear desire amongst customers, journalists and politicians for the banking sector to 'get back to basics', with customers being the central focus. This is both a laudable aim and one which building societies heartily welcome, since it is exactly what they have been doing for well over a century. Whilst the plc banking model is designed to add value to shareholders through the provision of banking services to customers, the building society model is much simpler: since the customers are also the owners, societies exist solely to add value to those customers. There are no shareholder dividends to pay; instead, customers are rewarded through a combination of better pricing, service and a transparent, fair approach to financial services. Without the need to meet shareholder demand for short term returns, societies are able to optimise, rather than maximise, profits, thereby ensuring the mutual business model remains sustainable in the long term. This has generally resulted in building societies adopting lower risk profiles than listed banks, with tangible evidence of success:

- Building societies, with over 25 million members, routinely top independent customer service polls for financial services;
- Customers have a defined role in influencing the future direction of their societies' organisations. Clear governance structures are in place – from internal Customer Committees to voting at AGMs – to ensure members' needs remain the priority;
- Despite difficult conditions, they remain open for business. Indeed, building societies have increased their gross lending over the past twelve months. Nationwide alone is responsible for 14% of all gross lending and 82% of all net lending, with 19% of the first-time buyer market;
- In general, building societies weathered the financial crisis well, requiring little direct taxpayer support. They operate within a legal framework that limits the amount of non-residential mortgage lending they can do and non-retail funding they can rely on, and hence ensures that they remain focused on their core purpose. It is interesting to note that not one of the societies that demutualised and moved away from this framework now exists in its own right – all have failed or have been taken over by plc rivals.

This is not to argue that building societies are always better than plc banks, nor is it right to claim that customers will always be better off by using a mutual. Indeed, it is important to note that even within the building society sector there are a wide range of business models – from the small scale, locally-focused society offering a limited array of simple products, to mass market players, such as Nationwide (which comprises 60% of the sector by asset value) providing the full range of personal financial services.

The key point is that there is huge value in greater corporate diversity. A vibrant, competitive mutual sector means more genuine alternatives and choice for consumers. It also adds to the resilience of the banking sector as a whole; whilst it is difficult to predict the origins of the next crisis, a wider range of business models with different incentives reduces the risk that all institutions are impacted by, and react in the same way to, economic and market change.

There is potential for a greater mutual influence in UK retail banking. The prime responsibility for strengthening the sector lies, of course, with the societies and other mutuals themselves. We must continue to develop a compelling alternative for customers. Whilst at present there is a clear anti-bank feeling amongst the public, we must not expect the vast majority of consumers to choose a building society simply because it is mutually owned. Rather, we must continue to make the case strongly and demonstrate that our presence in the market makes a positive difference, with mutuality translating into better consumer outcomes both now and in the future. If building societies are unable to meet changing customer demands then they will, and should, face the same consequences as any other business. This may be particularly true after the ICB ring-fence is established, and once the regulators force all institutions to have a clearer focus on their customers, since at first sight those institutions may look more similar than they have in the recent past.

Nationwide's position and growth in key markets is evidence of our long term success in providing a meaningful alternative to the established banks. We were identified by the Independent Commission on Banking as the primary challenger brand in retail banking and are the only financial mutual with the scale and product diversification to influence market behaviour. As the UK's third largest mortgage lender and second largest retail deposit taker, we already have scale in these markets and a huge customer base. But we cannot afford to stand still, and a core element of our strategy is to grow our current market share by attracting new and existing customers with our honest, open and fair approach to banking.

This combination of mutuality, scale and product diversification brings with it the opportunity to influence through our actions the approach of UK retail financial services in the way it prioritises and services the needs of customers. We are able to lead industry change and campaign for a better deal for consumers – whether that is through transparency initiatives such as our Savings Promises and Savings Watch or through successfully campaigning for free access to ATMs or a fairer way to pay off credit card debt.

Small, local building societies face different challenges. For many, their size dictates that their role can only ever be to focus on their local communities, providing mortgages and savings underpinned by a strong mutual ethos and excellent service. In a world of rapidly developing technology and consumer behaviour, it is likely that such societies will have to compete on the provision of local, face to face service, since they will be unable to match the investment of major banks.

Regional building societies may find life less certain, since many have neither the scale to pose a long term challenge to the large banks, nor the ability to generate sufficient business from a traditional attachment to local communities. If they wish to pose a genuine challenge at national level, it may be that mid-ranking societies could consider mergers to provide scale. This remains, of course, for the societies and their members to decide, but moves in this direction have the potential to create a stronger mutual sector, bring greater benefits to current and future members and help shape the landscape of retail banking.

Supporting the mutual model

Whilst the success of financial mutuals will be determined largely by how they adapt to changing market and economic conditions, there is also a vitally important role for policy-makers and regulators. It was welcome therefore that all three main parties highlighted the importance of mutuals in their 2010 General Election manifestos and that the Coalition Agreement set out a commitment "to foster diversity in financial services, promote mutuals and create a more competitive banking industry". Some progress has been made, but there is still a long way to travel.

Too often the mutual model has been an afterthought, with changes tending to create unintended consequences and leading to disproportionate impacts on non-plcs, given their lower risk profile and inherently lower profitability. We see this, for example, with regard to new capital requirements, concerns with access to external capital instruments, non-risk-based rules for funding the Financial Services Compensation Scheme and Bank Levy liabilities. The cumulative impact on our profitability is disproportionately larger than those for the banks, constraining our ability to grow and build our capital base.

For Nationwide, retaining scale and greater diversification of income, within a low-risk model, are critical to our future and influence in the market. Without a change in approach, there is a real risk of creating a banking sector in which only the plc model can thrive.

To address this concern, we believe that policy-makers and legislators should be guided by the following principles:

- *Adopt a risk-based approach to regulation* – do not discriminate against or disproportionately impact particular business models, such as low-risk, retail-focused mutuals, not least since these are precisely the types of institutions that the ICB ring-fence is designed to encourage. The impact on mutuals must be considered and addressed at the very start of any policy-making process.
- *Maintain the distinctiveness of building societies in legislation, but remove out-dated barriers to competition that stop building societies competing effectively with banks.* We are proud of the fact that differences are enshrined in law, but the legislation is over a quarter of a century old and must reflect the realities of the modern world. The changes required are minor and would not change the essence or purpose of building societies.

Building societies recognise and accept the role they need to play in the regulatory reform agenda, but delivering to these two principles will create an environment in which banks, building societies and other financial mutuals are able to compete on a fair basis.

Politicians, commentators and regulators are keen to encourage greater diversity in the provision of financial services. They all call for new challengers to the established big five banks and openly encourage entrants to the market, with a view to offering better service, more choice and a better deal for customers.

We unequivocally support these aims, although through the building societies sector, some of the best challengers to the banks exist already. They have business models that have stood the test of time. They make customers their main focus not because they are forced to do so, but because that is their core purpose. They bring a qualitatively different type of competition for consumers – Nationwide has shown that it can provide that compelling alternative on a national scale and there is potential for the wider mutual sector to do more.

For building societies to be able to rise to the challenge of remaining relevant to existing and future members, government and regulators must do more to create a more supportive environment to help a greater diversity of corporate form succeed in financial services.

This is not a call for special treatment. Rather, it is a need for recognition of the particular differences in business model and, importantly, the unintended consequences of applying rules designed primarily for large plcs to mutual organisations. This will allow them, led by Nationwide, to deliver more.

Alison Robb is the Group Director of Nationwide Building Society.

10. Establishing a Local Banking Sector

Guy Opperman MP

There is much to be said for local banking. Local banks are based in the community, lend to the community, and make all of their decisions in the community. Localised banks would not only provide a proper return to investors, but make sure that profits are ploughed back into the local area.

Last July I held a debate on the future of RBS and suggested that it could be broken up into a series of County Banks, with the shares of each one given away to all those of voting age in each community. They would be truly mutual and part of a revolution of banking reform that aims to introduce all different forms and sizes of banks into a diverse and open market.

The UK banking market is concentrated in six large banks that have over 75% of the UK's current account market. Look at Germany: their banking market is evenly spread across various sectors, none of which – whether they are savings banks, co-operatives, or commercial banks – have more than a 26.5% share of the market. But where we did once have an additional local tier of banks 70 years ago, we now have just one dominant with the number of bank branches on the high streets down by 43% in the last 20 years alone. Further, building societies and financial institutions that are in many cases based on local or regional customer bases have seen a marked decline over recent decades. In 1990 there were over 100 such institutions; now there is less than half that number – a serious blow to the local banking sector.

All of this is odd given that many other leading economies all have a much more localised banking sector. It is shocking when you consider that the stability of their local banking sectors helped offset the decline of their big banks during the recession. A recent report by Civitas found that German local banks have increased lending to local business in every year since the recession in 2008.[1] In the UK, there was no such off-set partly because there are no local banks.

Financial institutions on the continent didn't suffer nearly as much as those in the UK – much of this can be attributed to the existence of a thriving local banking sector. According to Oliver Wyman Consultants, in the Eurozone almost 1 in 5 banking customers is a member of a banking co-operative.[2] This brings with it the obvious benefits of competition and diversification, and makes for a more stable financial sector.

Establishing a network of smaller, local banks would create a more plural and competitive market. To do this the Financial Services Authority (FSA) is working to make it easier for new entrants to access the banking market, both from a regulatory, and a capital requirements standpoint.

The City of London has long been one of the UK's prized assets on the economic world stage. But whilst the importance of preserving the significance and clout of the City cannot be underestimated, the recent announcements on banking reform are a step in the right direction and will bring about a change in culture and attitudes.

But the main issue here is not banking culture, but a lack of banking competition. As mentioned previously, 75% of the industry is made up of a handful of banks, and most would say that there is not much discernible difference between them. Greater choice for customers would require more entrants into the market. Small and medium-sized businesses (SMEs) have struggled the most to acquire loans

1 Simpson, C.V.J. (2013) *The German Sparkassen* [Online]. Available at: http://www.civitas.org.uk/economy/SimpsonSparkassen.pdf [Accessed 28th February 2013].

2 HM Treasury (2012) *The Future of Building Societies* [Online]. Available at: http://www.hm-treasury.gov.uk/d/condoc_future_building_societies.pdf [Accessed 28th February 2013].

from the 'big banks' since the recession: only 7% of SMEs receive their money from outside the biggest of banks, showing starkly how over-reliant we have become on a small selection of providers.

The most striking aspect of this problem are the huge barriers to entry for new applicants to the banking market. Anthony Thompson, the co-founder of Metro Bank – the first new major entrant into the UK banking market for years – experienced the vast difficulties when putting together an application for the FSA, for example.

Putting up a huge amount of capital for an application, which is not even guaranteed to be successful, is the biggest barrier of all, as well as the biggest 'put off' to engaging in the process. The FSA themselves have freely admitted to me that they need to become more open and less negative.

There is a real desire to introduce more competition and consumer choice into the UK retail and commercial banking market. I have met with numerous individuals from the finance world who all agree that the barriers to entry need to be freed up. The desire is not only in the Government and across both Houses in Parliament, but from within the banking industry. All concerned agree that additional competition will introduce more commercial credit as well as reduce the cost of credit, which in turn will boost small business.

There are many groups wanting to create new banks: local communities, municipal authorities, regional businesses, individual businessmen (wanting to back local lending in their county), universities, and even pension funds. Local banking tailored to local need would be an effective means of tackling the on-going slump in business credit. Creating the right framework for prospective investors to finance local banking initiatives is crucial to achieving this.

Diversifying the banking sector: next steps

For diversification to happen, there are several steps that need to be taken. The first has already been addressed by the Government: passing the legislation, in the form of the Financial Services Act, to introduce the requirement for competition and innovation in banking.

The second is to relax the regulatory approach for smaller entrants. The FSA accept that they need to have an easier, cheaper and less onerous regulatory approach when smaller banks are being created. Hector Sants said in March 2012: "We are conscious of the balance to be struck between ensuring high standards at the gateway, and the importance of allowing innovation and appropriate levels of access for new firms…" – quite rightly there is a need to ensure entrants are bona fide – "...there has been public debate about the potential advantages of new entrants in the area of small, regional banks focused on servicing the SME sector. In such cases we will be proportionate in our approach and would invite all firms with a viable business model and appropriate levels of resources to a pre-application meeting to help guide them through the application process".

Since then, the process of authorisation has been reviewed by the FSA in consultation with the Treasury and will be simplified in spring 2013.

The third key need is to reduce the amount of capital required. It has been a critical barrier to many, but can be simply solved as the capital requirements for new banks have now been revised downward, subject to a few caveats which are being worked upon by the Treasury and the FSA.

Fourthly, the process of building a robust and compliant infrastructure is both lengthy and costly. This could be solved by an outline of a FSA agreed basic universal model, with the creation of a UK based 'common infrastructure platform' that would provide a simple, quick and low cost solution for new bank entrants – thus removing the final barrier to entry. This would provide a 'just add water' solution for new entrants; no capital cost (payment 'per customer per month' instead of major capex), reduced time to market (and therefore cost), reduced infrastructural cost to entrants and the creation of a FSA compliant infrastructure, which would offer a simplified process for resolution. They do it in the US, which has a more competitive banking market than the UK (over 7000 banks), and it works well.

In simple terms, this means faster market entry, lower costs, easier access to the infrastructure needed and a lower break-even point: this translates into a more viable business case. This would in turn lead to more competition and more consumer choice, creating more credit for SMEs, and a greater number of new and bona fide entrants.

The FSA suggest that it would welcome a move in that direction as it will provide a low cost, quick and scalable option for new entrants that could also assist in a more efficient resolution process should a new bank fail. Whether it is an agreed pathway, or a universal 'off the shelf' model, the Government and the FSA need to be committed to putting in place the new process and infrastructure for use by new entrants in 2013.

When local, and more co-operatively owned, banks are set up, it will be good for the economy, good for choice and very good for SME lending. It needs to be made clear to those considering such a step – local communities, municipal authorities, business groups, universities and pension funds – that going forward their applications will be welcomed by the FSA. Just look at the likes of Metro Bank and Handelsbanken: they are leading the charge for a better banking relationship for customers, and ideally on a local basis. A mutually owned Bank of Hexham, Bank of Newcastle or Bank of The North East are all possibilities. Larger banks may not like this, but the competition will make them up their game in areas that they have taken for granted: namely their customers.

Local banks, owned by individuals or wider community groups, will not only offer a wider choice of banking – key to maintaining and encouraging wide and open markets in one of Britain's most valuable industries – but they will also encourage a greater sense of responsibility to serving the local community and the local economy. A culture change will take time, but these are positive first steps which will send the good vibes to the banking sector, would be entrants, SMEs and the public as a whole. The strategy for banking reform is evolving and community-owned and mutually run local banks are a part of that evolution. Ensuring a local banking sector fit-for-purpose can help deliver the economic growth we dearly need.

Guy Opperman is the Member of Parliament for Hexham, and PPS to the Immigration Minister, Mark Harper.

Case study

11. Credit Unions: Scaling up the sector to empower communities

Mark Lyonette

It was racial discrimination in 1960s London which led to the setting up of the first credit union in Britain fifty years ago. Credit unions have existed in the Caribbean since the 1940s, and immigrants to Britain from Jamaica and Trinidad decided upon their arrival in the UK to set up a self-help organisation so they could get the financial services they needed.[1]

1 London Capital Credit Union (2012) [Online]. Available at: http://www.credit-union.coop/images/library/documents/18122012-113615.pdf [Accessed 22nd February 2013].

Credit unions vary widely both in size and in the services they provide. But they all have unique qualities which both set them apart from commercial providers and mean that they have great potential to play much more of a role in financial services in Britain. These qualities are rooted in credit unions' mutuality: their co-operative democratic ownership which gives each member-customer an equal say in their running and draws an unequivocal line of accountability directly back to the people that use the service, not remote shareholders seeking only maximum financial returns.

The co-operative credit union business model, which operates in over 100 countries around the world provides:

- Services which reflect the needs of their unique membership
- Local ownership, control and empowerment
- A cost effective business model that keeps money within communities
- An ethical alternative to commercial providers
- Advantages from being part of a wider national and international network

Formed and run by the people who use them, credit unions' products and services reflect the needs of those people. Nearly everyone in Britain can join a credit union because of where they live, but this is not the only way that people can access their services.

Many people belong to a credit union that is linked to their employer. And many of the large credit unions that operate in cities and counties around the country started life as credit unions for local authority employees.

Payroll deduction has been vital to the success of these credit unions. Convenient for employees who can save from their wages or salary before it hits their bank account, it also means employers can provide a valuable staff benefit at little or no cost. An affordable source of credit reduces the likelihood of financial stress and schemes have also been credited with reducing staff turnover.

Credit unions for employment groups such as the police force, public transport employees and postal workers are among the most successful in the country, offering great value financial products that can beat those found on the high street. A streamlined operation that shares its profits with members means that these credit unions offer highly competitive rates.

But credit unions are more often recognised for their work to tackle financial exclusion. Credit unions were the main drivers behind the Labour Government's expansion of affordable credit through the Growth Fund - £400 million of credit was made available in low income communities between 2006 and 2011. And before financial inclusion had been adopted as a term, credit unions played a significant role in local authorities' anti-poverty strategies.

But it is not just through providing access to financial services that credit unions can affect communities. They can change lives in different ways through the sense of empowerment that can come from gaining control over finances, or skills learnt through volunteering that have led many people onto paid employment. The 'one member, one vote' principle means that everyone has a say in the focus of the credit union, even if they aren't involved in its operations or governance directly.

Local control and ownership is just one of the 'softer' benefits perceived as important by many credit union members. The knowledge that money saved in a credit union is being invested in the local community, and profits are shared among members is also valued. This is especially so when the credit union will lend affordably to people who may otherwise only have the option of borrowing from doorstep lenders at 400% APR or payday lenders at 4000% APR.

But the warm feeling of knowing that your money is doing 'good' isn't enough to incentivise most people to move their money from a high-street bank to a credit union. If an organisation doesn't offer the products that people need and the level of service that people expect, then most consumers will stay away.

And although credit unions are often established with people on lower incomes in mind, if this is the only focus of a credit union it is likely to struggle to operate sustainably. Credit unions need to be able to attract people from a broader range of income groups.

As co-operatives without external 'shareholder value' to maximise, however, credit unions have been shown internationally to have an advantage over their commercial counterparts since their prices have one less expense to account for.[2]

Getting the products right

Limited product development has been cited by the World Council of Credit Unions as one of the seven deadly sins of credit union development.[3] We are living in an age where people can manage their finances online and get instant access to credit when they need it. So a credit union which requires its members to be in a certain place at a certain time to access their money, or has a 2 week wait for decisions on a loan, is going to be ruled out as an option by many potential members.

Without savings from people with spare income and a loan book that includes larger loans, credit unions will struggle to cover their costs. So it is vital that credit unions offer products that are attractive to as many people as possible in the communities they serve.

But the challenge for any small organisation is how to develop the products and service levels which will attract people to use them, when they have limited financial and human resources to do this. That is why credit unions around the world have embraced the sixth Co-operative Principle of co-operation

2 Research in the US has shown how credit union interest rates consistently beat those offered by the commercial bank: Jackson, W.E. (2006) *A Comparison of the Deposit and Loan Pricing Behaviour of Credit Unions and Commercial Banks* [Online]. Available at http://filene.org/assets/pdf-reports/1752-126_Comparison_of_Pricing_CUs_and_Banks.pdf [Accessed 22nd February 2013]. Also see: Swidler, S. (2009) *A Comparison of Bank and Credit Union Pricing* [Online]. Available at: http://filene.org/assets/pdf-reports/192_Swidler_Sub_S.pdf [Accessed 25th February 2013].

3 Richardson, D.C. (2007) *Vibrant Model Credit Unions: The Cornerstones of Success* [Online]. Available at: https://www.woccu.org/functions/view_document.php%3Fid%3D2007VibrantModelCUsDCR&sa=U&ei=dD4rUYyJFoOXhQf3-YDoCg&ved=0CAcQFjAA&client=internal-uds-cse&usg=AFQjCNGAeDewzXmw8cIl0py_spI2EQzPiA [Accessed 25th February 2013].

among co-operatives - a significant factor in credit unions in the US and Australia reaching over 30% of their populations.[4]

By coming together to work behind the scenes credit unions can:

- ensure their members benefit from a wider range of products;
- harness the advantages of economies of scale and the sharing of knowledge and resources;
- retain the unique, local features which set credit unions apart from other financial firms.

This, coupled with the opportunities that new legislation brought at the beginning of 2012, such as serving new groups and corporate bodies, and having the ability to pay interest on savings instead of a dividend, is how credit unions can face up to the challenges and opportunities arising from the current political and economic environment.

Scaling up the sector

At the peak, there were nearly 700 credit unions in Britain, but mergers have brought this figure down to below 400. Despite nearly everyone in Britain having access to a credit union, and the advantages of the credit union model, there are still only around 1 million people using their services. Further, millions of people are still using high cost doorstep lenders, rent-to-buy-shops and, increasingly, pay day lenders. The on-going economic malaise has also made market conditions difficult for credit unions.

In an era of austerity and with the advent of Universal Credit, organisations including social housing providers, local authorities and national Governments are asking more of credit unions. They are looking to credit unions to deliver affordable budgeting solutions and more affordable credit. Credit unions have also been cited as solutions to the lack of funding for small businesses and to problems in local economies. Added to this, many people are looking for a real alternative to the commercial banking sector.

To respond to these challenges, credit unions must look to develop answers beyond their current business model, and collaboration is the most important of these.

The Credit Union Current Account and the Credit Union Prepaid Card were developed by ABCUL and member credit unions to offer good value and appropriate ways to help people manage their money. Some credit unions have also expanded into offering Cash ISAs and even mortgages in recent years.

But in countries where this process is more developed, even the smallest credit unions can offer a wide range of services, including credit cards, mortgages and business loans. By sharing resources behind the scenes, credit unions can not only offer services to attract members, they can also increase access - through shared branching, mobile technology and call centres.

This need for collaboration was recognised by the Government in June when it adopted the recommendations from a feasibility study[5] commissioned by the Department for Work and Pensions. The Credit Union Expansion Project (CUEP) has invited consortia of credit unions to tender for up to £38 million with the aim of "supporting the sector to provide financial services for up to one million more

4 World Council of Credit Unions (2011) *Statistical Report* [Online]. Available at: http://www.woccu.org/functions/view_document.php?id=2011_Statistical_Report [Accessed 25th February 2013].

5 Department for Work and Pensions (2012) *DWP Credit Union Expansion Project: Project Steering Committee* [Online]. Available at: http://www.dwp.gov.uk/docs/credit-union-feasibility-study-report.pdf [Accessed 25th February 2013].

consumers on lower incomes, and do so in a way that enables credit unions to modernise, expand and become financially sustainable."[6]

This shared business model approach, which ABCUL has embraced in recent years, has already led to transactional banking services through credit unions. Through a new subsidiary, Cornerstone Mutual Services, the Association is also developing a range of other services including credit assessment tools and budgeting accounts. With a well-developed back office, we could eventually see a link up with the Post Office network.

A Consumer Focus report on the subject published in 2012 saw credit union services becoming available in post offices as something that would benefit credit unions, consumers and post offices themselves.[7]

Collaboration – co-operation between co-operatives – is one way in which credit unions in Britain are changing to help their communities access a sustainable and attractive alternative way of managing their money and face the challenges of a changing welfare state.

Diversifying the 'common bond' is another way in which more people can be encouraged into membership. This became much easier in 2012 when legislation was relaxed to allow credit unions to expand membership to new groups, as well as to corporate bodies.

Credit unions serving local communities can now extend membership rights to companies, housing providers or charities operating nationwide. A number of credit unions have already extended their reach to national employers - including many housing providers and their tenants. It is Bristol Credit Union's move to allow companies to become members that has allowed the Bristol Pound to get off the ground. The complementary local currency estimates that it will have achieved a £1million Bristol Pound turnover in its first year.[8] This will both encourage the use of local businesses and ensure local money circulates amongst them.

Just as credit unions can contribute to local economies, we can all contribute something to the development of credit unions. Individuals and local organisations can make a contribution by becoming members or contributing towards governance or operational tasks.

In these ways, the principles of co-operation and collaboration which are central to the credit union model can be drawn upon to achieve a range of goals and objectives where stakeholders work together towards common ends. The success of credit union development depends upon the efforts of individuals and organisations with a stake in seeing the sector thrive.

It is unrealistic though to expect everyone to choose a financial services provider because of altruism or moral duty; the mutual model also needs to deliver on service and value. Meeting the needs of members and offering a share in the profits is how credit unions can attract more people and ensure that everyone in the common bond benefits.

6 Department for Work and Pensions (2012) *Credit Union Expansion* [Online]. Available at: http://www.dwp.gov.uk/other-specialists/credit-union-expansion [Accessed 25th February 2013].

7 Burrows, A. (2012) *Credit where credit's due: The provision of credit union services through the post office* [Online]. Available at: http://www.consumerfocus.org.uk/files/2012/05/Credit-where-credits-due.pdf [Accessed 25th February 2013].

8 Bristol Pound (2012) *Bristol Pound 3 months in: Good Money for a Great City* [Online]. Available at: http://bristolpound.org/news?id=13 [Accessed 25th February 2013].

Glasgow Credit Union has recently paid out a 3% dividend to all its savers, a total of £2 million. If credit unions work together to build the service levels and products people expect and need, we can see that success replicated across the country.

Offering a wide range of services, while ensuring that 'cherry picking' doesn't leave the more vulnerable without access to services, is how credit unions can remain financially viable and socially effective. By working together as a sector we can achieve this.

Mark Lyonette is the Chief Executive of the Association of British Credit Unions Ltd (ABCUL).

12. Insurance and Mutuality

Martin Shaw

Insurance, at its heart, is a mutual concept: a group of people coming together to solve a shared problem – an uncertain risk of a large loss occurring in specified circumstances – which is solved by exchanging the potential of a large loss for a (comparatively) small premium.

Self-help mutual societies can be traced back to the craft guilds of the Middle Ages, and the oldest known society is the Incorporation of Carters in Leith that claimed to have been founded in 1555. The first Act of Parliament to define a friendly society was in 1793 *('A society of good fellowship for the purpose of raising from time to time, by voluntary contributions, a stock or fund for the mutual relief and maintenance of all and every member thereof, in old age, sickness, and infirmity, or for the relief of widows and orphans of deceased members')*. With the era of industrialisation, people became more aware of the need to secure their financial position – hence insurers were routinely established as self-help mutuals in the nineteenth century, and by 1910 there were 26,877 mutual societies in the UK.[1]

Before widespread demutualisation in the last twenty years, mutual insurers and friendly societies held over 50% of the UK insurance market. Today they account for less than £1 in every £12 paid in insurance premiums. This article explores the impact - on consumers and on markets - of an insurance industry dominated by plcs, and explores what difference a stronger mutual sector might make.

Responsible capitalism?

For the last 40 years, the received wisdom has been that the capitalist model is the right and proper method to run markets. There are lots of reasons why this dogma has limitations, particularly in financial services. Chief among these is the false notion that the free-flow of capital can ensure that supply and demand are optimised.

Capitalism in its current form demands that the interest of managers and those of their customers are different. Inevitably, therefore, a simple supply and demand curve cannot adequately predict the future behaviours of either buyers or sellers. For example, buyers suffer from very low purchasing power and incomplete information; sellers' efficiency is constrained by the need to pay shareholders.

Shareholder-owned organisations operate for the benefit of shareholders. Management is focused on maintaining the share price in the short term and on maximising the dividend. The quarterly reporting cycle and return on equity expectations become a ruthless benchmark of success.

Shareholders have the loosest of incentives to demand meaningful change, which partly explains why the shareholder spring came to nothing. According to McKinsey, the average equity holding in the US is now around seven months.[2] Indeed, high speed online trading, where the trader holds each equity for seconds at a time, today accounts for 70%of trading.[3]

So, if the average institutional shareholder shifts their investments every few months, what incentives do they have for seeking decision making for the long-term? Why would you challenge strategy, remuneration, or management performance if you knew your interest was purely transitory?

1 Morgan, E.V. (1986) *The friendly societies in the welfare state.*

2 Barton, D. (2011) "Capitalism for the long term", *Harvard Business Review* [Online]. Available at: http://hbr.org/2011/03/capitalism-for-the-long-term/ar/1 [Accessed 25th February 2013].

3 Farrow, P. (2012) "How long does the average share holding last? Just 22 seconds", *The Telegraph* [Online]. Available at: http://www.telegraph.co.uk/finance/personalfinance/investing/9021946/How-long-does-the-average-share-holding-last-Just-22-seconds.html [Accessed 25th February 2013].

The term 'responsible capitalism' is not a new one,[4] but has been recently adopted by many UK politicians as a reaction to the excesses of business and their contribution to the 2008 financial crisis and the recession. Responsible capitalism imagines a business model that recognises that. As well as financial success, businesses should strive to achieve social value too, or as Vince Cable recently put it, "careful husbandry over long timescales".[5]

Responsible capitalism is however only part of the solution to making markets work for society in general. Until you change the incentives and priorities, it is very difficult to expect big businesses to be more responsible, as the story of demutualisation in insurance demonstrates.

Demutualisation in insurance has made mutuals more compelling

Much has been written about the impact of demutualisation on the building society sector, and of the failure of those firms that converted to banks, such as Northern Rock, Bradford and Bingley and Halifax. Rather less has been written about the trend towards demutualisation in insurance, though the effects have been just as pronounced.

In 1997 over 50% of the UK insurance market was mutual. At its lowest point in 2007, this market had collapsed to under 5%, albeit with a recovery since to around 7.5%. This wholesale dismantling of the mutual insurance sector was facilitated by government and regulatory bias, whether intended or not, towards the plc business model, which forced many of the largest mutuals to convert in order to obtain the external capital needed to maintain growth.

However, in most cases this has produced anything but a stable basis for future growth. The majority of demutualised insurers either failed or merged with bigger organisations. Clerical Medical was absorbed into HBOS, following demutualisation in 1996 and Scottish Provident was closed and split up in 2000, to name just two examples. Norwich Union, which is perhaps the largest flotation, has found life as a FTSE 100 company tough, and its share price is now around half its float level.

So most shareholders of demutualised insurers have not benefitted from demutualisation in the way managers promised. But what about the policyholders? Customer research indicates that policyholders have generally seen falling standards of customer service, worse claims handling and higher complaints dissatisfaction. Consumer advocacy is also much lower than for mutuals.[6]

The largest windfall payment from a demutualised company was £6,000 from Scottish Widows in 2000. However, policyholders have been paying for it ever since. Before Scottish Widows demutualised, it was one of the insurance industry's leading performers, at its peak paying out £107,941 in 1998 for a 25 year with-profits policy, based on premiums of £50 a month. This was around 20% better than the average for mutual insurers. In 2012 their average payout had collapsed to £28,071, one of the worst performers in the Money Marketing tables, and 34% less than the average mutual. Had Scottish Widows remained a mutual, one of its policyholders with a policy maturing on 1 January 2012 would have received a payout of £14,228 more, assuming the company had performed at the mutual average level.[7]

4 First Magazine presented its first award for Responsible Capitalism to Lord Browne of BP in 2000.

5 Department for Business, Innovation and Skills (2012) *Oral Statement to Parliament – Responsible Capitalism* [Online]. Available at: https://www.gov.uk/government/speeches/responsible-capitalism [Accessed 25th February 25, 2013].

6 Based on AFM analysis of research conducted by the Association of British Insurers up to 2010 as part of its Customer Impact scheme; amongst the results this showed that 60% of customers of mutuals would recommend their insurer, compared to 53% for PLCs.

7 Black, H. (2012a) "With profits endowments: results", *Money Management Magazine* [Online]. Available at: http://www.ftadviser.com/2012/03/20/insurance/life-assurance/with-profits-endowments-results-ip8IIEuBwYVD5DtpYFUb0N/article.html [Accessed 1st March 2013].

Amongst society at large, research undertaken for Association of Financial Mutuals (AFM) in 2012 showed a significant disparity between the levels of trust people have for financial mutual organisations, compared to their mistrust of financial plcs.[8]

Across all members of the public, financial mutuals enjoyed a net trust score of +32, compared to -5 for plcs (net trust score is the difference between those that trust and those that do not trust a company-hence a net score of -5 means more people mistrust plcs). Those who are members of a mutual also clearly see that as reinforcing general perceptions, as the net trust score is then more than +60.

It doesn't need to be this way: other countries have had a more enlightened approach to encouraging a diversity of business models: mutual insurance market share across the EU stands currently at 26%,[9] and in that bastion of free markets, North America, mutuals hold 32% of the insurance market.[10] There is no reason to think that we can't replicate that balance and dynamism of mutual models in the UK.

The mutual advantage

Mutuality brings with it multiple advantages, including the ability to focus on the interests of customers without the distraction of meeting shareholders expectations. That is not just a philosophical difference: it also translates into a financial and operational advantage. AFM has researched the impact of the 'dividend drag' in shareholder owned insurers. This indicates that the equivalent of 3p in every £1 of premiums is extracted from the balance sheet to cover the costs of dividends. The extra 3% retained within the business gives a mutual an enormous amount of freedom to manage the business, to the advantage of its customers:

- Mutuals typically take a more cautious, long-term approach to business: they are content to place customer money into less risky investments, or are prepared to accept a more reasonable level of profit over a longer period. During the financial crisis of recent years, mutuals did not suffer from the same kind of overexposure to bad debts or failed investments as financial PLCs did. A recent report on financial strength in the UK insurance sector showed that eight of the ten insurers with the highest level of free asset ratios were mutual.[11]
- Mutuals live longer: the average mutual insurer has been in business 119 years. Research by Geus suggests that average longevity of multinational, Fortune 500/ FTSE 100 companies is 40 to 50 years.[12] But as people get older, what does that mean for pensions or insurances, which can run for significantly longer than the provider?

8 Research conducted by Opinium Research on 28/ 29 January, with a nationally representative sample of 2,010. Association of Financial Mutuals (2012) *Financial companies 'Owned by You' are trusted by you* [Online]. Available at: http://www.ownedbyyou.org/blog/more-news/financial-companies-owned-by-you-are-trusted-by-you [Accessed 25th February 2013].

9 Association of Mutual Insurers and Insurance Co-operatives in Europe (2012) *Facts and Figures – mutual and co-operative insurance in Europe (Summary)* [Online]. Available at: http://www.amice-eu.org/Download.ashx?ID=29541 [Accessed 25th February 2013].

10 International Co-operative and Mutual Insurance Federation (2012) *2010 Mutual Market Share Report* [Online]. Available at: http://www.icmif.org/wp-content/plugins/download-monitor/download.php?id=Mutal-market-Final-ENG.pdf [Accessed 25th February 2013].

11 The realistic free asset ratio measures total assets less total liabilities, divided by liabilities. Black, H. (2013b) "Life office financial strength: Still going strong", *Money Management Magazine* [Online]. Available at: http://www.ftadviser.com/2012/07/24/insurance/life-assurance/life-office-financial-strength-still-going-strong-8CW2GUMjD4oSjZYY4rlZ2J/article.html [Accessed 1st March 2013].

12 Geus, A.P.D. (2002) *The Living Company Habits for Survival in a Turbulent Environment*. Boston: Harvard Business School Publishing. Prologue Available at: http://www.businessweek.com/chapter/degeus.htm [Accessed 25th February 25 2013].

- Mutuals can translate lower charges into higher levels of performance and better standards of service. PLC insurers generally do not now offer long-term savings products with low monthly premiums. Those that do typically charge significantly more than mutuals. Our analysis of comparative tables published by the Money Advice Service showed that the average charge by a mutual was 11% less than a plc for a typical savings endowment.

These lower charges make a crucial difference to the long-term value of the product: over 25 years the average return from a mutual with-products product was 27.5% higher than for non-mutual insurers, and 18% more than the typical unit trust fund.[13]

Back to the future for mutuals

Friendly societies and mutuals were once a cornerstone of financial services in the UK, and were the only way ordinary working people were able to plan ahead and protect themselves from the workhouse if they were unable or too old to work.

When the government decided to introduce National Insurance, it recognised that it could not manage a complex scheme of this nature itself. Instead the National Insurance Act of 1911 determined that friendly societies should administer state benefits on behalf of the government. This meant that it became a legal requirement for all insured workers to join a recognised institution such as a friendly society, and this remained the case until the National Health Service Act of 1948.

Today, there are similar reasons for believing that the government and mutuals should work together to tackle some of the social challenges we face today, that the government alone cannot solve. Thus, the introduction of public service mutuals seeks to ensure the staff of government departments become empowered to improve performance through a 'John Lewis' style employee-ownership structure.

This should result in major gains in productivity and presenteeism: AFM-sponsored research by Oxford University into the view of employees in the mutual insurance sector reveals that 90% of employees believe that the organisation is run in the interests of its customers and members, and only 4% disagreed that they are 'proud of the ethical record and reputation of the business.'[14]

But there is more that can be done to extend the working relationship between the state and the financial mutual sector. Healthcare mutuals already serve millions of people, by providing services alongside the NHS;- for example, by offering private treatment when the NHS waiting list is too long. These services can work at a very low cost, and with the NHS likely to witness massive increases in demand over the next few years, mutuals may once again offer a lifeline to the state service.

13 Black, H. (2012a) "With profits endowments: results", *Money Management Magazine* [Online].

14 Almost 10% of employees of mutual insurers took part in August 2012. Davies, W. and Michie, J. (2012) *Measuring Mutuality: Indicators for Financial Mutuals* [Online]. Available at: http://www.financialmutuals.org/files/files/Measuring%20Mutuality%20exec%20summary.pdf [Accessed 25th February 2013].

Models of mutual insurance can offer a pioneering example as to what a 'responsible capitalism' might look like. An insurance industry that is more mutual would prove itself to be once again more dynamic and more responsive to the needs of its customers and the communities in which they live. It could also pave the way for other industries to follow suit and encourage a new national obsession with organisations that are more responsible and beneficial for society as a whole.

Martin Shaw is the Chief Executive of the Association of Financial Mutuals, which represents mutual insurers and friendly societies who provide a range of savings, pensions, and protection products to over 20 million policyholders, and hold assets of over £90 billion.

Case study

13. CCLA Investment Management: Good governance makes mutuality a gift

Michael Quicke

Mutuality can be powerful in all sectors of society, as the essays in this collection demonstrate. It can be a particularly valuable gift in the commercial world, most significantly because it can help us escape the short-termism that has crippled the British economy for decades. Mutuality is one way of overcoming this chronic disease, but only with the right approach to governance and management.

Having spent most of my career in public companies, I am well aware of the disadvantages of the shareholder model. The short time horizons make it impossible to justify some investments that would ultimately strengthen the company. Irrational pressure for sustained steady growth in what is inevitably a cyclical world leads to a kind of paranoia. What will the faceless shareholders want next and when will you wake up to find the company has been sold to the highest bidder? The overpowering culture of short-term shareholder value inevitably dilutes even the strongest commitment to integrity – it can be tough to distinguish between what is good for the client and what is good for the shareholders, especially when your own bonus and future employment are aligned with short-term shareholder returns.

It's not all bad, however. Shareholder value is a useful measure of organisational performance, even though its misuse has frequently distorted management decision-making in recent years. Responsible shareholders can have a positive influence. Without demanding shareholders, managers can become lazy, let things drift, or run the company in their own interests rather than the interests of the owners or customers. We have seen plenty of examples over the years, including the decline of grand old British names and others which ended up suffering fraud or in the bankruptcy courts. The corporate governance reforms that followed these failures have been beneficial, but they cannot overcome some of the fundamental weaknesses in the shareholder model. The mutual sector can learn from those reforms, to help avoid potential pitfalls and create the best of both worlds. That is what I believe we have done at CCLA.

A hybrid creature

CCLA is a commercial company which exists to manage funds for charity and not-for-profit clients. It has been doing this successfully since 1958. Our balanced investment fund with the longest history has achieved an average annualised return of 10.9% after expenses since its launch in 1958, approximately 5.3% more than inflation. CCLA has more than £4 billion under management, is winning a good flow of new clients, has a strong management team and is well capitalised.

Our ownership structure takes the form of a hybrid model, which is the product of our history. CCLA originated within the Church of England, managing Church investment funds. Local authority and charity funds were added subsequently and since 1987 it has been an independent company owned by the investment funds of these three client groups. One trustee from each of these fund groups is a CCLA non-executive director and we report on the company performance each quarter to all the trustees alongside our fund performance review. So CCLA is a customer-owned business, although our clients are owners indirectly through their investments in the pooled funds.

As well as delivering strong investment returns and very attractive levels of service, we believe that our clients should be able to reflect their values in their investments and that social, environmental and governance factors can affect shareholder value, particularly in the longer-term. We work with clients to ensure that our engagement and voting programmes give them as much leverage as possible. Collaborative engagement with companies about the risks they are taking and the appropriateness of their strategy over the longer-term is an important counterweight to the shorter-term signals from the capital markets. We are strong supporters of the UK Stewardship Code and the UN-backed Principles of Responsible Investment.

Our version of mutuality brings many competitive advantages but mutuality is no guarantee of success in the highly competitive field of investment management. We do not succeed simply because we are different. Indeed, we have to demonstrate that the mutual difference is a gift, not a curse. We win and keep clients by demonstrating that CCLA serves clients better than our competitors, providing good long-term fund performance and great service at reasonable cost.

Benefits of mutuality

We pride ourselves on highly competitive fee levels, but that is because of the way we operate as well as the attitude of our shareholders. We believe that fees should be fair and transparent. CCLA takes no share of commission or income from turnover-related activity. We do not take payment from third party managers in whose funds we may choose to invest. We negotiate costs down and pass on the benefits to our clients.

It is true that our shareholders do not pressurise us for high short-term returns, but that alone does not guarantee a competitive cost structure, and our owners rightly expect us to be as efficient as any public company.

The real benefit of being owned by our clients is stability of ownership and purpose, which allows us to make investments that may be slow to pay off initially, but will reward us and our clients handsomely over the long term. Over the last five years, CCLA has invested heavily – in people, IT and marketing. In the short term this hit our profitability to an extent that would have been a hard swallow for conventional short-term shareholders to accept. Our owners supported this investment because they saw the need to look beyond the constraints of purely commercial investment criteria in the long-term interests of the company and the clients that we serve.

Being owned by our clients also means that we are not under pressure to favour shareholders at the expense of clients. This conflict is difficult to avoid in a public company, and has been especially prevalent in the financial sector, as the string of mis-selling cases testifies. Bank shareholders demanded ever increasing profitability and this pressure ultimately resulted in front-line staff pushing personal pensions, endowment mortgages and the rest on the wrong customers.

But let’s not pretend that mis-selling is solely a public company phenomenon. It is a risk in any sales activity, large or small, public, private or mutual. A used car salesman doesn’t have to work for a public company to sell you a dud.

This is about integrity, and the question is whether it is easier to maintain integrity under mutual ownership. I have no doubt that it is, but it does require the right culture. That has to begin at the top with the right relationship between top management and those who supervise them, continue with the right reward structures and be embedded in the behaviours of everyone from the chief executive down.

Effective governance and management

All the potential advantages of mutuality can be lost without effective governance and management. There are plenty of examples of mutuals drifting slowly towards oblivion because a culture of entitlement undermined performance and also, in some cases, lacked a clear vision and purpose. In many cases managers were not held to account, allowing the unacceptable drift to continue.

At CCLA the shareholders were awake to this danger and acted to ensure that we are successful. They accepted the need to have ambitious, entrepreneurial people and pay them competitively. They also emphasised the need to ensure that all staff bought into the long-term purpose of the company and needs of our clients.

We are clear about our vision, and it is not just about mutuality: we primarily exist to serve the needs of our clients. Our mission is to deliver excellence and act with integrity in everything we do. We aim to earn clients' trust by understanding their needs and acting as partners to help them achieve their own aims.

We also aim to maximise long-term sustainable shareholder value. This might seem strange for a mutual but it helps us maintain the sharp edge we need in order to remain competitive and efficient, and it encourages us to develop and innovate. There are many other important individual indicators of performance such as customer satisfaction, fund growth and cost ratios. While they are useful for individual elements of the business, I believe long-term sustainable shareholder value is an important component in the assessment of overall performance. Focusing on long term sustainable shareholder value helps us balance priorities and optimise long-term performance. We are aware of the risks of targeting shareholder value, but are confident that it will not distort decision-making to the disadvantage of clients for three reasons. First, this is a long-term target, and has to be sustainable. Second, our clients are our shareholders, and if we compromise one, we comprise the other. And finally, our shareholders encourage us to make long-term plans, and are not obsessed with short-term profitability.

Mutuality can be a gift, but it is no guarantee that an organisation will be well-run in the interests of its clients and stakeholders. The right governance, management and culture are required to make sure it is a gift, not a curse.

Michael Quicke is Chief Executive of CCLA, the leading investment manager of charity funds.

Case study

14. Black Country Re-investment Society: A Co-operative Approach to Small Business Lending

Paul Kalinauckas

When markets fail, as has happened so spectacularly in the banking system, co-operative models are often seen as alternative providers. Although not a magic solution, their values and focus on serving the customer can provide alternative models to meet market needs and serve as an exemplar for the wider financial services sector on ethical values of honesty, openness, social responsibility and caring for others A co-operative approach to small business lending sets out a flexible model of ten years standing, which could be scaled up to meet the demand for access to finance.

Lending to small businesses is seen as problematic, even though they make up over 99% of all businesses and by their very nature provide a key impetus for economic growth.[1] High transaction costs, the risk of failure and lack of tangible assets to secure loans are all part of the problem, but businesses need access to finance to grow and prosper. Lending to small businesses has fallen sharply since the credit crunch, and the difficulties faced by small businesses in accessing finance remains the same. The Macmillan Gap, the difference between provision and availability of finance for small businesses, was identified in 1931, and more recently, the Breedon Report in 2012 predicted a finance gap of between £26 billion and £59 billion for small businesses seeking funding over the next five years.[2]

Large corporates and medium-sized enterprises possess credit histories and company-related tangible assets, accumulated over the course of their commercial life, which enable them to raise finance. Smaller businesses tend to be without tangible assets or credit histories, yet this does not preclude the fact that they have the potential to achieve commercial sustainability.

Little account appears to have been made of how small business financing was undertaken prior to the credit crunch and the conditionality and customary tangible sureties that were required. In many, if not the majority of cases, pledged assets had little intrinsic relationship to the commercial viability of a specific business. As a result, ventures lacking access to such collateral, and that tend to receive support in other comparable economies, are regularly denied finance and working capital. In a period of accelerating property prices, non-related tangible assets to be secured against working capital were nevertheless relatively easy to obtain, and entrepreneurs in an expanding economy were relatively comfortable with such asset pledges. In a period of deflating or stagnating property prices, non-related tangible securities are themselves becoming increasingly scarce. Thus whilst a new business proposition in its own right may have robust prospects for achieving commercial viability and sustainability, the lack of start-up funding and access to medium-term working capital ensures that the proposition will be vetoed. Without formally pledged assets to be secured, banks are unlikely to provide funding, and indeed under current commercial bank criteria would be regarded as imprudent and improvident.

So is there an alternative, co-operative approach to small business lending that can serve this market and bridge the gap left by the commercial banking sector? Legally, co-operatives cannot be set up for the purposes of on-lending – this is prohibited by section 1(3) of IPSA (Industrial and Provident Society Act) 1965 – but a Community Development Finance Institution (CDFI) established as a community benefit society can issue withdrawable share capital and raise funds to lend. The recent government report, "Boosting Finance Options for Business", warns of the significant risks involved in relying on bank lending as the sole source of finance.[3] But you do not have to be a bank to lend money to small businesses.

1 Small being defined as operating with 0-49 employees (With no employees comprises sole proprietorships and partnerships comprising only the self-employed owner-managers(s), and companies comprising only an employee director). Department for Business, Innovation and Skills (2012) *Business Population Estimates for the UK and Regions 2012* [Online]. Available at http://www.bis.gov.uk/assets/biscore/statistics/docs/b/12-92-bpe-2012-stats-release.pdf [Accessed 18th February 2013].

2 Breedon, T. (2012) *Boosting Finance Options for Business* [Online]. Available at: http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/12-668-boosting-finance-options-for-business.pdf [Accessed 18th February 2013].

3 Breedon, T. (2012) *Boosting Finance Options for Business*

The Black Country Reinvestment Society (BCRS): Plugging the investment gap and maintaining mutual principles

Ten years ago the local Co-operative Development Agency set up the Black Country Reinvestment Society (BCRS), based in a sub region of the West Midlands, as a Society for the Benefit of the Community. Based on co-operative values and principles, BCRS grew into a local small business loan fund under the democratic control of its member investors, focussed on the economic and social impact of its lending. An asset lock was passed in 2008 to prevent 'carpet bagging' or de-mutualisation, as the founders were committed to maintaining a co-operative approach. Overseen by a Board of non-executive directors, the Society has grown with the founder Chief Executive to a staff team of ten. Whilst approval of strategy and policy rests with the Board, the operational management is delegated to the Chief Executive with clear corporate governance standards in place. These governance standards, which define the role of the democratically elected Board and the employed staff team, are critical to the successful operation of a Small Business Loan Fund based on co-operative principles.

Being a non-profit distributing body removes shareholder pressure for profit maximisation. The incentive to maximise loan distribution and collection is in place to ensure sustainability of the operating model. Since 2002, over £12 million of loans have been made to over 450 small businesses, with a significant increase since the credit crunch, and projected lending now at £12 million over the next three years.

So there is still some way to go in closing the finance gap, and there are no easy answers or quick fixes. Co-operatives tend to grow from the grass roots up, gradually developing scale and finding their market rather than being launched as the 'Big Solution' imposed from above, which rarely appears to work. The challenge for a co-operative approach to small business lending is to scale up the model as an essential provider in the growing non-bank lending arena. Raising capital and capital erosion through bad debt are the main challenges faced, but the first step of reaching operational sustainability, where interest rates and arrangement fees cover the costs of running the operation has been achieved.

Building a performing loan book of sufficient scale to fund the running costs takes time, but along with a prudent provisioning policy leads to a sustainable model. BCRS provisioning policy and financial projections allowing for predicted bad debt chimed nicely with recent Bank of England pronouncements on the need for banks to account fully for future bad debt, contrary to normal accounting principles. Capital for BCRS to on-lend has come from a number of sources, initially from member investors, but more so from ERDF (European Regional Development Fund) capital grants matched by commercial bank lending and Local Authority loans. More recently, the government has recognised the model by providing capital grants from the Regional Growth Fund.

The Macmillan Report led to the formulation of the Industrial and Commercial Finance Corporation (ICFC) in 1946, which started with £15 million of capital and later morphed into 3i: a venture capital company with over £11 billion of assets, no longer dealing in small business loans. The challenge for BCRS is to stay true to its mission whilst growing from a local to a national player and not adopting the characteristics of a commercial institution, which would quickly ditch small business lending in favour of more lucrative markets.

A key weakness in lending to small businesses is the high level of non-performing loans (NPLs), and while these seem high in comparison to the levels in other economies and therefore need to be reduced, it is unlikely that they will ever be anything but significant. The BCRS model has the capacity to absorb and manage such NPLs and develop a provisioning policy that ensures its commercial viability. As a mutual and as a financial co-operative, the reduction of NPLs is more likely to be the result of effective and focussed customer support relationships. BCRS adopts a pro-active strategy for tackling NPLs, both to limit their occurrence and effect flexibility in repayment pipelines to accommodate the often volatile or seasonality of client business cycles. The NPL recovery strategy, while based on a co-operative ethos, also has a commercial imperative to ensure the sustainability of BCRS institutionally.

Funding for a Small Business Loan Fund such as BCRS should come from a broad and diverse range of sources as practicable, and include the banks, large corporates and 'high net worth' individuals, incentivised by Community Investment Tax Relief (CITR). Concessional funding from public sector sources such as Local Authorities, National and European funds are essential to make the model work as revenue generation from lending activities alone cannot cover the level of bad debt that occurs in the small business lending sector. The benefit to the public sector, other than the prospect of increasing the viability of business taxpayers, is that instead of making grants to businesses, it can create loan funds that are sustainable over the medium to long term. This risk-reduced method also enables the banks to lend through BCRS to the small businesses that they would not normally lend to, and at subsidized interest rates using CITR. The banks also benefit by being able to offer new facilities to existing customers who do not have the credit rating necessary to access existing bank facilities. Working on this co-operative approach to small business lending allows funding resources to be multiplied and designed to meet specific geographical or sectoral policy objectives. Increasingly funders have become more and more interested in the impacts of lending such as job creation and preservation. This fits well with a co-operative approach to small business lending: not driven purely by a profit motive.

BCRS offers an alternative and wholly co-operative approach to small business lending based on mutual principles and demonstrates that there is another way to offer a financial model to small businesses where lending is adapted to meet their needs when they have scant opportunity to meet bank credit criteria. The demand for loan finance from small businesses exists but action needs to be taken to increase the supply side of capital for on-lending. If the banks have withdrawn from lending directly to small businesses, this co-operative model provides an ideal model for them to provide capital with the risks covered by public sector capital grants.

The challenge exists to significantly scale up the model to achieve national coverage so that all small businesses have the opportunity to access the finance they require to grow and prosper. The boost that this will give to the economy by encouraging and resourcing enterprise could be the answer to the Government's pursuit of an economic recovery.

Paul Kalinauckas is a founder member and Chief Executive of the Black Country Reinvestment Society, which he helped establish in 2002. Prior to this he was the Secretary General of the British Junior Chamber of Commerce.

Black Country Reinvestment Society is member of the Community Development Finance Association (CDFA). The CDFA is the trade body representing Community Development Finance Institutions (CDFIs) in the UK. CDFIs are independent, non-profit financial institutions that provide credit and financial services to underserved markets. For more details on the work of CDFA and its members please visit www.cdfa.org.uk

Energy

15. A Community Energy Revolution

Rebecca Willis

I'm standing on the beach at Hvide Sande, in the northern reaches of Denmark, on a cold October morning. Strong gusts of wind pick up sand and throw it straight at my face. It's not a good day for a picnic. But it's a great day for the three wind turbines on the edge of this fishing village. And for their owners, the local community, who are using the income to fund a new harbour for their fishing fleet. I ask the Chairman of the project whether they had had any opposition to the development. Yes, he says, one person complained. Just the one.

Escaping from the wind, we head to the warmth of the Combined Heat and Power Plant in the village. Like the wind turbines, it is owned by the community and provides heating, hot water and electricity for residents. As the customers own the plant, there's an obvious incentive to keep prices down. But they understand the need to invest, too. Recently, they installed an electric boiler, so that when the wind is blowing strongly, and electricity is cheap, they can switch off the gas boiler, saving money and carbon.

There are pipes and boilers and dials and switches everywhere, which solicit 'oohs' and 'aahs' and technical questions from my colleagues on the tour. But I'm not interested in the lumps of metal in front of me. I want to know about the invisible stuff. How residents of a small Danish town manage to own and operate two power stations. How they share a vision of their energy future. How they decide, collectively, to invest in new technology. How they have managed to avoid the messy energy politics that bedevil the UK scene. Where is the vociferous anti-wind campaign, the hostility towards the big energy companies, the chronic fuel poverty that afflicts many UK households?

The following day, I leave Denmark, taking with me the obligatory Viking souvenirs for my children, and a lasting insight about the fundamental difference between the Danish energy system and the UK one. It's this: Denmark sees energy as a public good, owned by people, for people. The UK sees energy as a commercial opportunity, in which big companies make money from passive consumers.

The UK has one of the most liberalised energy systems in Europe, something that has been a source of pride to successive UK governments. The privatisation of electricity and gas in the 1980s and 1990s was supposed to herald a new era, creating a lean, modern industry in which the consumer was king. But the reality has been somewhat different. Our liberalised system has failed in three crucial areas where the Danes and others have succeeded: innovation, diversity, and engaging individuals.

Since privatisation, there has been precious little investment or innovation in the energy system. Investment levels declined as the newly-privatised industry wringed more and more out of existing capital rather than investing in new. Ofgem estimates that £200 billion of energy investment will be required this decade, but less than half of that is forthcoming.

Nor have the supposedly liberalised markets encouraged greater diversity and pluralism. Quite the reverse. Ninety-nine percent of households get their energy from one of six energy companies, and the same companies dominate energy generation too, owning two-thirds of all generation assets.

One of the most critical failings of the privatised energy market is that people are thought of as consumers. That's what they do – they consume. In this worldview, the only control people have is over who will bill them for their power. They can switch from British Gas' offering to E.On's offering, but that's just about all they can do. Consumers are at the end of the chain that begins with production, then distribution, then consumption. It is a national, one-way flow of power from producer to consumer.

Put these three things together, and you get an energy system that's failing on its own terms. Privatisation of the energy market was originally conceived as democratisation – remember the 'Tell Sid' campaign and the rush to buy shares in British Gas? Yet attempts to liberalise and democratise have actually done the opposite. They have brought about a rigid system dominated by a few powerful players, which lacks the ability to respond to market needs and cannot invest in the long-term. A far cry indeed from most people's idea of a healthy market, in which well-informed customers can choose from a whole range of different products, and companies prosper by responding to demand.

Compare this with Denmark, where a complex ecosystem of private companies, local authorities, co-operatives and individuals work together; the boundaries between supply and demand are blurred; and investment comes from individuals as well as big companies.

That's not to say that there's no alternative in the UK. If you scratch below the surface, you can find a small, dedicated group of insurgents trying to construct a very different energy system, even though the system is stacked against them.

Some of these insurgents can be seen on the roof of Harvey's Brewery in Lewes. They'll be there admiring the solar panels that they own and operate. The panels are owned by Ovesco, a co-operative established by Lewes locals back in 2007. The group got together originally because of a shared concern about climate change, and the floods that had afflicted their town. They began working with the local council to provide energy advice to householders. Then, when the government announced that it would introduce Feed-in Tariffs, which guarantee a price for electricity generated by small installations, they spotted a potential business model. In less than a year, they negotiated with Harvey's to rent the warehouse roof, established a co-operative, raised £330,000 of investment capital from local people, and installed a 98kw solar array which started generating power in the summer of 2011.

Ovesco is just one of a growing number of energy co-operatives owned by local people, and generating renewable power. The first co-operatively owned wind turbines, Baywind, perched on a fell above the Lakeland town of Ulverston, started turning in 1997. Since then, over 7000 individual investors have ploughed £16 million into wind energy co-operatives. Since Feed-in Tariffs were introduced in 2010, smaller schemes have flourished too. The energy regulator Ofgem reports that over 400 community energy schemes are now generating power and receiving Feed-in Tariffs. But it's not just small-scale generation. Westmill Wind Farm in Oxfordshire, also included within this collection, cost £7 million to develop, and has a capacity of 6.5MW, producing enough electricity to power three thousand homes.

These new operators could make a significant contribution to the UK's energy economy. The sector could be worth around £6 billion, with installed capacity of 3.5GW, the equivalent of three or four conventional power stations – but only if the system of energy regulation allows.

Community projects also help to build awareness of climate change and carbon reduction. When Nayland Primary School installed solar panels on their roof, funded by a co-operative established by parents, pupils were fascinated by the panels. They started asking questions about where the energy comes from and what it gets used for, and developed an understanding of how valuable it is. As the headteacher explains, "the children are taking all their knowledge out of school, they're taking it home, they're talking to parents. That's when things grow". Research by the Sustainable Development Commission shows that people are more motivated to save energy if they can see where the heat and electricity comes from.

Politicians recognise the political and economic potential of co-operatively owned energy. The coalition agreement, hammered out between the conservatives and liberal democrats back in 2010, stated that "we will encourage community-owned renewable energy schemes where local people benefit from the power produced". Secretary of State Ed Davey recently called for 'nothing less than a community energy revolution'. And yet, whilst people, politicians and press rush to show their support small-scale energy, the system is still stacked the other way.

For every success, like Ovesco or Westmill, there are scores of projects that never see the light of day. It's very hard for smaller schemes to elbow their way in to a market that isn't designed for them. The introduction of Feed-in Tariffs in 2010 has created a niche that our intrepid radicals have leapt upon and made their own. But we're keeping them down. It's very hard for community and co-operative schemes to access the technical expertise they need, steer a project through the planning process and access finance. And the Energy Bill, currently being debated in Parliament, is actually likely to result in further concentration of power (pardon the pun) in the hands of the few big energy companies.

Community and co-operative schemes could become an important part of the UK's energy mix. But this will only happen if the regulatory structures work for them, not against them. Government must consider community-owned energy in the design of energy policy and markets, and make sure there is a clear route to market for schemes. It should bring together all those involved in planning, legislation and permitting, so that the process is as predictable as possible. It should ensure that there is a clear financial framework for community energy, through Feed-in Tariffs – and make these Tariffs available to larger community projects too.

Local authorities and large energy companies should be encouraged, or even required by law, to offer part-ownership to local communities. A new law in Denmark requires wind turbine developers to offer 20% of the project for sale to local people. This would kick-start a whole new sector of energy investment. And financial regulation should be reviewed, to look at ways in which more of people's savings and pension pots could be invested in mutuals. Over the past few years, energy co-operatives have outperformed most conventional personal pensions, so there would be benefits all round.

If politicians are serious about their support, they should back these measures and make sure that our energy system works for the benefit of all, not just the large, established players. If we get it right, there could be Ovescos and Westmills in every community. Our energy system, and our communities, would be stronger and more resilient as a result.

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16. From Patronage to Empowerment: Reforming the energy market

Alan Simpson

There has been much talk about the 'power' of consumers to collectively swap energy suppliers. Government has actively promoted 'collective switching', along with simplifying the tariffs that suppliers offer to their customers. Sadly, these are superficial measures that fall short of changing the ground rules of what has become a consolidated and anti-competitive energy market. It is a market, structured on the interests of the few, rather than the many. 'Ownership' is left entirely in the hands of today's energy cartel.

Even emerging community 'partnerships' with developers, which serve to promote renewable energy schemes, only tend to offer token community benefits. The Energy Bill, currently making its way through Parliament, is similarly geared toward larger providers and suppliers. And an energy system that leaves little room for innovation will leave even less space for distributed and community-driven ownership. The role of 'communities' in Britain's energy future, has to be defined more adventurously; and specifically, more in terms of ownership than patronage.

If Britain is to develop the energy systems of tomorrow, we need to look across the Channel to see where some of our European partners are already heading. The direction of travel is away from big power stations and toward a more decentralised, and renewable, energy. Balancing mechanisms are more likely to be found in interconnectors, storage and demand management measures.

Without doubt, tomorrow's energy systems will be lighter, smarter, quicker and more local than the ones we have today. Energy systems will become more integrated; selling demand reduction and energy saving as much as new generation and consumption. They will also become increasingly community owned.

This is the thinking that, in particular, underpins the German Energiewende (energy transformation) programme, and which is already changing the landscape of the European energy debate.

The core of the German transformations is not to be found in specific technologies, or in the smart IT systems that will link them. Its roots are in the empowerment of people. What we can learn most from the Germans is what happens when you turn communities from being hostages in an unequal and inflexible energy market, into the shapers of tomorrow's energy future.

German citizens now own over 50% of the 60GW of renewable energy that has been installed in the country in less than a decade.[1] Citizens and communities invest some €30 billion per year of their own money in the process. Seven years ago, Germany had an energy market dominated by their 'Big 4' energy companies. Today, there are almost 2 million new 'suppliers' of energy in the system. This is a market that operates without public subsidy, and in which the traditional big players - the energy companies – now own only a 13% stake.

Oligarchy or democracy?

The road from an energy oligarchy to an energy democracy is not a simple one, even for the Germans. Perhaps fittingly, their journey began at a community level, and was driven by the intractable vision of a local schoolteacher.

In 1986, in the aftermath of the Chernobyl disaster, Germany had faced widespread social opposition to nuclear power. In the small Black Forest town of Schoenau, a primary school teacher named Ursula Sladek, and her husband Michael, found themselves in the middle of a community

1 German Federal Environmental Agency (2013) *Index-E* [Online]. Available at: http://www.umweltbundesamt.de/index-e.htm [Accessed 4th March 2013]. All further data cited within this essay is drawn from this source.

approach to their local energy company. They wanted to buy non-nuclear rather than nuclear electricity, and they wanted to consume less rather than more.

The energy company was not interested, and the community ceremoniously dismissed. It was probably the worst judgment call the energy company had ever made. Instead of making a humiliating retreat, Ursula and her neighbours set up a campaign to take ownership of the local grid and supply the 'clean' energy themselves.

It took the community some five years to win this battle. Today, their community energy company supplies clean electricity to over 125,000 homes, schools and businesses across Germany. Schoenau (and Ursula Sladek) came to symbolise a movement that has grown into the 600 German community energy companies, now democratising Germany's energy market.

In 2011, Barak Obama presented Ursula with the Goldman award for environmental activism. She would probably have argued that it should have gone to an idea rather than an individual; for this is what transformed the landscape of German energy thinking.

Larger towns and cities are beginning to follow this approach to local generation and decentralised governance to drive the *Energiewende* programme. It goes well beyond the 'trivial pursuits' of urging customers to swap suppliers.

Communities (and even cities like Berlin) are beginning to socialise the ownership of the local grid – allowing communities to sell demand reduction and energy efficiency measures to themselves, rather than just more energy consumption. Munich, for example, plans to produce 125% of its own energy needs by 2020.

Some communities have already secured the right of first use (at wholesale electricity prices) of the energy they produce, cutting at least 30% off household electricity prices. Even the terms of the debate about the introduction of wind turbines to a local area transforms when communities are not only the owners of a turbine, but also the direct beneficiaries of the cut-price electricity.

In Feldheim, a small community outside Berlin, wind turbines at the edge of the village supply electricity at €0.13 cents/kWh. In Berlin, just 20km away, the household cost of electricity is €0.23 cents/kWh. This was what the community was keen to talk about.

Beyond the trivia

In the UK, Britain's big energy companies have created an unfathomable web of tariff rates that certainly need to be streamlined. But, as far as cutting people's energy bills, community buying schemes (as much as 'swapping' schemes) will be a huge disappointment. If swapping produced more winners than losers, energy companies would just push prices up. To change the game, we must isolate the opportunities to enable a more 'bottom-up' model to localise production and distribution and drive costs of consumption down.

Large energy companies warned the German government that their grid could not cope with more than 4% supplied from decentralised and renewable sources. Today, it is already delivering four times this amount, and rising.

In the wider economics of this process, Germany is riding high on other benefits connected to the changes:

- Over 400,000 jobs have been created in their renewable energy sector in the last 5 years;
- The German renewables market is expected to be worth €2,200 billion by 2020;
- German solar prices are already at 'retail grid parity';
- Annual avoided fossil energy imports will be worth €22 billion by 2020 (approx. €38 billion in 2030) to the German economy;
- Renewable energy investment increases German GDP by over €20 billion/ year;
- German national debt will be some €180 billion lower, in 2030, than it would be without their climate protection measures; and
- The German economy will create a surplus of €0.34 for every reduced tonne of CO2 it delivers.

Moreover, in both Germany and the USA, more localised grid contracts have started to sell 'non-consumption' of energy in preference to more consumption. Communities can sell to themselves, not only clean energy, but also a lower use of it. Even the Department for Energy and Climate Change now recognises that demand reduction is the Cinderella of energy solutions. It could turn the whole energy agenda upside down.

Energy efficiency measures, and local energy generation, can be supplied far more cheaply than electricity from a power station. They also happen to create a lot more jobs in the process.

Changing the energy game

Schoenau may be a shining example of what communities can bring to the energy debate, but we should not underestimate the struggles that they faced. Ursula and Michael Sladek and their neighbours had to battle for the right to even bid for the local grid contract. Liaisons with the energy company were also very difficult: the price for the franchise was set far too high. The courts eventually cut this dramatically, but the community had to raise the 'bid' money just to get into the game.

A successful national campaign, and community share issue, made this possible. Germany's 'feed-in-tariff' payments system made it viable. And, once the German government had placed a legal duty on the German grid, to take renewable energy before non-renewables, community energy generation could no longer be sidelined by existing energy interests. Together, these policies ensured that German citizens became key *players* in the new energy market, rather than passive consumers; the providers of solutions rather than just recipients of bills.

Either by amending the Energy Bill, or by extending the Localism Act, Britain could deliver the same empowerment of communities across the UK. Policy innovations could include:

- Having the right to own the local grid, which would give real meaning to notions of localism;
- Using the Green Investment Bank (as Germans have used their KfW Bank) to provide 'soft' finance (2% interest) - or buy half the insurance risk - for renewable energy projects, which would transform the role of citizens and communities across the UK;

- Establishing a legal right of 'first use' of the energy communities generate for themselves, which would put communities at the centre of the energy security debate; and
- Forming new partnerships with technology (rather than energy) companies, which would engage with an energy future that delivered more, but consumed less.

It is an exciting vision, but is this the energy democracy today's politicians are looking for?

Britain's energy debate remains locked into an expensive (and unsustainable) obsession with the past; still dominated by the interests of 'old energy'. Decentralised (community) generation not only breaks this mould, it changes the mindset; opening up the market, soon becomes a transformation of energy thinking.

Postscript or preamble?

Knowingly or not, the world is entering a third energy revolution. Britain, which led the way in the first two – from wood to coal and from coal to oil - seems completely adrift from this current revolution.

Tomorrow's energy systems will be lighter, brighter and faster and more open than the one we have today. Technology innovations are already supplying products with the ability to deliver more but consume less. The same technologies will soon coordinate energy consumption and energy production within the home. The next steps will seek to do so at a community level - be that the estate, the village, the town or the city.

Where this is already happening, the shared starting point is a sense of empowerment. Communities become part of the answer to today's energy problems, not just the victims of energy company price hikes. Breaking the assumption that 'keeping the lights on' means 'building more power stations' will change the way that communities think about their relationship to energy security.

It all begins from an understanding of the power of interdependency. Community 'owned' energy is at the centre of this, and so is the future. But to get there, we have to be willing to break outdated rules and abandon outdated thinking. If Ursula Sladek and her neighbours could do this in Schoneau over 25 years ago, we can surely do so in Britain today.

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Case study

17. Westmill Wind Farm and Solar: The opportunity for community energy

Mark Luntley

UK energy production and consumption is at a critical point. We will soon have to phase out older and polluting coal-fired power stations whilst also making a long-term decision about the future of nuclear power.

Different governments have struggled with these admittedly difficult choices: balancing cost, public acceptability and energy security.

In spite of a wider concern about climate change and energy independence, support for onshore wind farms has fallen. Yet onshore wind remains one of the cheapest ways of generating low carbon electricity.[1]

The costs of newer green generation technologies have also fallen sharply. For example, solar system prices have fallen by more than half since the Feed-in Tariffs were introduced just two and a half years ago.[2]

Whilst we should not under-estimate the difficulties of overdue replacement of an ageing energy infrastructure, we have to take it as an opportunity to move on from the polluting 1950s generation model that has dominated UK power generation. This is characterised by a relatively few large and expensive power stations, centrally managed and owned by just a handful of large generators.

The current model has encouraged a proliferation of confusing tariffs characterised by time-limited introductory discounts. The resulting confusion has both disempowered consumers whilst generating cynicism about the utility energy sector.

We need to establish a different paradigm.

We have the ability to move towards a new model where electricity is increasingly generated in different ways and in a variety of locations. From local micro-hydro schemes to small groups of wind turbines, it is feasible to generate energy close to where people live.

The challenge is to match these new technologies with updated ownership structures. The old centralised electricity production was predicated on electricity companies – mainly nationalised industries – funding a few projects which required hundreds of millions of up-front capital financing. This created high barriers to entry and discouraged new entrants.

The challenge is to secure new means of funding for electricity generation technologies. Such financial pathways should give individuals and communities an opportunity to:

- Have the same access to investments and secure the same returns as currently accessed by private equity investors.
- Develop a real understanding of how their electricity is generated - and through this the value of energy conservation.
- Have a genuine say about how local ethical businesses are managed - providing an alternative to the current consumerist model.

1 Department of Energy and Climate Change (2012) *Why Is Onshore Wind an Important Part of the UK Energy Mix?* [Online] Available at: http://www.decc.gov.uk/en/content/cms/meeting_energy/wind/onshore/delivering/why_onshore/why_onshore.aspx [Accessed 7th January 2013].

2 ClickGreen (2012) *Latest Feed-in Tariff Cuts Offset by Sky-High Energy Price Hikes* [Online] (Updated 1November 2012) Available at: http://www.clickgreen.org.uk/analysis/business-analysis/123681-latest-feed-in-tariff-cuts-offset-by-sky-high-energy-price-hikes.html [Accessed 7th January 2013].

In Oxfordshire, two pioneering projects have already started to do this. They bring together genuine community ownership, direct forms of democracy and ethical business practices. Together they make up the UK's largest community owned wind-farm and the world's largest community owned solar project.

Both projects are based at Westmill, which is an 85 hectare mixed organic farm on the outskirts of Swindon.

- **Westmill Wind Farm** was built in 2008 after a 15 year planning battle. The five 1.3MW turbines generate around 12,000,000 KWh a year and use 1% of the farm land. At the end of their 25 year life they can be taken down for scrap. As part of the planning agreement the co-operative deposited the £30,000 decommissioning cost with the council.
- **Westmill Solar** was built by a private developer in 2011. The 21,500 panels built over 12 hectares generate around 4,500,000 KWh a year (sheep graze and wildflowers grow in the spaces in between the rows of panels). The community secured the right to buy the project back within 15 months, and in October 2012 did this having raised the necessary £16m.

Together, the wind and solar projects generate electricity equivalent to the consumption of over 4,000 typical homes. Bringing the two forms together results in more even power generation, on sunny days the solar panels provide more electricity, whilst on dull windy days the wind-turbines take up the slack.

Both co-operatives share a community ownership model. The windfarm raised £4.6m from a share offer with the balance of funds coming from a 12-year loan from the Co-operative Bank. The solar co-op also raised nearly £6m in shares, prioritising applications from local people. The balance came from a 24 year bond provided by a pension fund.

Democracy achieved through ownership

The community model generates a real sense of collective ownership and enthusiasm for the projects. Over half of the wind farm's 2,500 investors were from within 50 miles, with many being very local. This powerfully illustrated that whilst the two-dozen objectors to the original scheme were passionate, they were not representative of the majority in the local community.

Westmill Wind Farm's annual general meetings buzz with a real sense of shareholder democracy that is often not seen at many other similar events. Prior to the 2011 AGM, some 350 Westmill Wind Farm members had submitted postal ballots and another 150 turned up to hear about the work of the wind farm over the last year and to elect the co-operative Directors. Each of the Directors must stand every three years and there is healthy competition for available spaces.

Management information, including daily production reports, traditionally regarded within the industry as confidential, are made publicly available on the Westmill wind website.

Raising investment, delivering returns

Both co-operatives are based on an 'Industrial and Provident Society' model, which stipulates that individuals can hold between £250 and £20,000 of shares.[3]

3 Other co-operatives can own more than £20,000 and early on Midcounties Co-operativeshowed its support for the wind project with a £100,000 investment. New legislation in 2012 now allows individuals to own over £20,000, too, and Westmill Solar used this different share type for part of its equity.

The wind farm and solar projects raised over £4m from IPS share offers; indeed, the recent Westmill Solar share promotion was 50% over-subscribed. Local people, living within seven kilometres, investing smaller amounts or members of other co-operatives were prioritised when the solar share applications were scaled back. Crucially whatever their share ownership, every member has an equal vote in decisions.

Both share offers were independently reviewed to ensure that they met FSA requirements and so that potential investors could be sure the statements being made were truthful.

Renewable energy programmes in their wider variety all present high initial costs associated with longer-term rates of return on investment. Consequently, co-operation and co-operatives represent a viable solution for securing this capital from different partners and members who are also consumers.

The wind farm has now been operating for five years. Member returns have been affected by three very cold and comparably still winters but have been around 3% each year. The returns should rise over the coming years, particularly after the bank loan is repaid.

Furthermore, supporters of co-operative energy schemes suggest that even though 3% interests may not be particularly appealing from a strictly financial perspective, these projects are "about much more than the financial return".[4]

The wind and solar co-operatives sell their electricity to ethical electricity suppliers (currently "Good Energy" and "Co-operative Energy") and many co-operative members in turn buy electricity from these suppliers. Both electricity suppliers are headquartered within 40 miles of Westmill, so the funds are recycled within the same area, boosting the local economy.

Both Good Energy and Co-operative Energy offer customers the opportunity to buy a share of their businesses, further encouraging a sense of ownership and a connection between consumers and their energy supply. Co-operative Energy offers customers the opportunity to become Co-operative members, whilst Good Energy has listed on the AIM stock exchange and is due to list on the Ethical "Ethex" exchange.

Wider impact and engagement

In too many projects, the community involvement is limited to the statutory payments to the council under the planning system. These "Section 106" payments might provide some funds but they are no substitute for genuine community involvement. After the first Westmill AGM, many members stayed behind to agree how the project should work within their own community. Three community streams were developed - arts, education and low carbon investments – and a sustainable energy charity formed.

A team of volunteers were trained and have shown over 5,000 visitors around the site. Additionally, an educational outreach programme has been developed with local schools and visitor numbers have steadily increased as word of the project has spread. The wind co-operative also remits a share of its profits to the charity, and an increasing number of co-op members also donate their share dividends in the same way.

4 Birch, S. (2012) "Is co-operative energy the solution to climate change?", *The Guardian* [Online] Available at: http://socialenterprise.guardian.co.uk/social-enterprise-network/2012/oct/30/co-operative-energy-solution-climate-change [Accessed 7th January 2013].

Every other summer there is a major fair, where over a fortnight local businesses and community groups take over the site to offer services and sell their wares. This approach of balancing business, educational and fun activities (including a World Record competition for the longest turbine hug) served to show visitors what community ownership can mean in practice.

Looking ahead

Both Westmill wind and solar members show what a future UK energy model might look like. It is one where communities take more responsibility and interest in the power they generate and use. Many local communities have visited Westmill and some have taken ideas and are currently developing their own projects. Locally, two community micro-hydro schemes are under development.

Fundamentally, it's a model where people:

- Understand how the electricity they use is produced and value the energy they use as a result.
- Invest directly in projects and collect the returns - rather than see their savings disappear in complex and confusing investments.
- Are enthused and motivated to replicate the approach elsewhere.

Several mutual organisations are working to make this a reality. For the last 15 years Energy 4All has been working to create energy co-operatives in different parts of the UK, and more recently Ethex have started to develop an ethical share platform, to kick start a market in ethical shares that are often not listed at present.

But so far there are relatively few energy mutuals in the UK. Several changes might help encourage more local community energy projects:

- Until a project successfully passes the planning system it can't easily attract finance. This isn't a problem for a major energy company, for which the hundreds of thousands of pounds needed to finance local planning enquiries is just a cost of doing business, and the cost of rejected schemes is simply built into the overheads of the business. But finding this "at risk" capital represents an almost insurmountable hurdle for groups of volunteers. Reducing the cost of planning generally, and specific recognition in planning system for community-based projects could help unlock more of such schemes.
- Most community projects need a balance of share capital and loan finance. But long-term loan finance is very hard to find, whilst the amounts needed are typically too small to be attractive to bond providers. However, there is a growing market for retail bonds through the stock exchange. Over £1bn has been raised in this market in the last year, often from individuals who buy and hold bonds in personal pension wrappers.[5] Developing a 'mutual bond' to finance several community schemes would ensure those schemes have access to funding.
- Section 106 planning payments do not facilitate community ownership. In Scotland, Falk Renewables and Energy4All created local co-operatives to purchase stakes in their projects. Planning authorities should require all larger developers to offer similar schemes to other communities.

5 Retail Bond Expert (2012) *Retail Bond Market Tops £1bn in 2012* [Online] (Updated 1November 2012) Available at: http://www.retailbondexpert.com/Blog/Latest-News/2012/11/Retail-Bond-Market-Tops-1bn-in-2012/ [Accessed 7th January 2013]

- Public agencies are increasingly looking at using their own borrowing powers to energy projects on their own buildings. But this misses a real opportunity. Those agencies should take the extra time to sponsor local community energy co-operatives. Helping those communities to raise funds to manage the local energy projects would create a much closer link between energy investment and local communities, if the resulting co-operatives are genuinely independent. The borrowing would also not appear on the public balance sheet.

There is a real opportunity to create new models of energy production. It need not even take large amounts of public money, but a new way of thinking amongst public bodies.

It means recognising that, whilst they might take a little longer to be established, helping communities to create local energy co-operatives is the surest way of creating genuine support for a low-carbon future.

Mark Luntley is the Chair of Westmill Wind Farm Co-operative, Board member of Westmill Solar Co-operative and Project Director at Local Partnerships, leading the work to establish the case for local authority collective bond agency.

Infrastructure

18. Mutual Rail Companies: A key to unlocking a rebalanced economy

George Freeman MP

History shows that leaders often turn to infrastructure projects at times of historic economic crisis. It normally pays off. Roosevelt's dams, Churchill's radar and Kennedy's space programme all laid the foundations for long term economic advantage. (Kennedy's space program is still paying dividends as the platform for the US's global leadership in IT.)

We need to get the real economy moving again. The collapse of the New Labour credit boom has made it all too obvious that we need a new model of growth. The crash has called time on New Labour's economic model of relying on debt-fuelled booms in the City, housing market and the public sector. The Government is right to insist on a more sustainable model of long term recovery through a 'rebalanced economy'. We need a more regionally balanced, sustainable and globally competitive enterprise economy to generate long term savings and investment. New investment in infrastructure is a key part of turning these ideas into reality. So let's be bold and think of new models – new ways to create the debt-free, asset-backed, real economic engines of growth that we can invest in, to invest in our infrastructure.

I believe mutual rail companies are one such model. There is potential for 'new Victorian' mutual rail companies with the power to issue an 'Infrastructure Investment Bond' to raise and invest the private capital needed for new high quality housing surrounding a network of fast rail, road and broadband links. Let's apply the lesson of the Victorians and use the development gains unlocked by road and rail investment to finance it.

Some commentators talk of 'shovel ready' Rooseveltian infrastructure 'schemes' as if this is about buying growth by putting the unemployed to work in donkey jackets on road building. They completely miss the point. The significance of this investment is not in the speed of the payback –in fact modern road, rail, air, even broadband, infrastructure has quite long lead in times – but in the significance of poor infrastructure in holding back our real economy, the potential of new models of infrastructure funding to unlock new sources of finance and new engines of growth, and the opportunity to ignite a renaissance of localist civic leadership.

Long term infrastructure investment has been one of the great failures of the post war years. For too long, major infrastructure funding in the UK has been the preserve of Government. The privatisations of the 1980s did much to open up the monopolies and unlocked massive investment in some areas, but road, rail and energy infrastructure has severely lacked such investment. But this should come as no surprise: that is what happens to nationalised industries. For too long, large parts of the country have relied on central Government to fund their infrastructure, encouraging a form of 'infrastructure dependency' which is every bit as corrosive as our dependency on welfare.

We should be inspired by our Victorian forebears. They blazed a trail in the second half of the nineteenth and early twentieth century with a massive wave of infrastructure investment which still shapes much of our modern landscape - the towns and cities, roads and railways, utilities, and Universities. We need to unleash a revolution in the way we finance infrastructure, applying some of the core principles of the Victorian builders, and look at how we might unlock a wave of modern infrastructure investment based on the enlightened self-interest of local business and communities.

Nowhere is the potential of this more obvious than in my own region of East Anglia.

With Cambridge's 'innovation economy' at its heart, East Anglia is increasingly recognised as perhaps the best exemplar of a region with the potential to drive the Government's vision of a rebalanced economy. Treated by successive Governments as something of a sleepy rural backwater for farmers, commuters and retirees, policymakers are beginning to see that its strengths in science and innovation, information technology, renewable energy, venture finance, and its large rural area with desirable market towns make it a perfect candidate for the new models of localist regional growth we all want to see.

Underinvestment in infrastructure is holding us back. We will never unlock the potential of our region unless we invest in the necessary rail, road, broadband and sustainable housing development to get our region moving and show how 'sustainable growth' can work. How do we achieve the necessary investment and leadership to unlock this model of sustainable growth? What's the core problem?

It's not lack of money. There is over £700bn on the balance sheets of UK plc waiting to be invested, and huge reserves of private wealth accumulated during the boom. The FTSE is languishing at the level it was at pre-crisis 5 years ago. Confidence in a consumer-led recovery is weak. The banks are not functioning properly as investment intermediaries. More realistic investment attitudes are replacing the quick-buck mentality of the boom.

As Lord Heseltine has set out so clearly in his report, *No Stone Unturned,* the UK's uniquely centralised and top-down political structure based on the functionalism of Whitehall departments of state continues to hold us back. Across the board, the Whitehall model of place-specific interventions through a series of parallel announcements and initiatives all targeted at the place in question does not harness, and very often destroys, the 'dynamism of place' – the commitment of people to the places in which they live and are responsible for.

He argues very persuasively that the Whitehall model of splitting up what is actually a vast amount of government money currently being spent on different departments within localities, and allocating by 'need', builds a dependency culture, rewards failure, undermines local leadership, militates against joined-up thinking, and actually holds back the 'dynamism of place' required for a really sustainable endeavour.

This is why mutual rail companies could be the key to unlocking a rebalanced economy. Mutual rail companies with long-term franchises, ownership of the land corridors and the duty and powers to develop them, could become real engines of growth. We need truly radical ideas to get us out of our funding rut. We need to free the public sector and local government and allow them, through frameworks such as rail bonds, to create major sustainable businesses of FTSE 100 standing that are capable of raising finance in the capital markets to invest in UK infrastructure and growth.

How might it work?

An East Anglian mutual rail company

If we're serious about generating economic growth and a rebalanced economy, areas like East Anglia are vital in driving forward innovation and entrepreneurship. For too long, the eastern region rail network has endured under-investment despite a growing demand for more capacity. As has been demonstrated in the East Anglian Rail Prospectus, woeful rail infrastructure is holding the region – and the UK – back. Fast rail links between the three key cities of Cambridge, Norwich and Ipswich and the regional airports (Stansted and Norwich), and the redevelopment of hundreds of redundant stations neglected by Network Rail, have the potential to unlock a major wave of regional growth, and a new Innovation Economy based on a wave of Cambridge-style start-ups and spin-outs across the region.

We will never build a 21st century economy on 19th century infrastructure.

Here's how it could work:

- Reintegrate the Network Rail and train operating companies, granting the mutual rail company a twenty year franchise to run an integrated Anglian rail network, conditional upon commitment to a long-term housing and infrastructure investment programme along the rail network;
- Grant the new company special development rights along the rail corridor, with generous compulsory purchase and compensation (as they have in France);
- Empower the company to issue a (perhaps government backed) 5% coupon to investors;
- Encourage a wide range of individual, corporate and pension fund investors;
- Allow local authorities in the region to be shareholders with a stake in the wider regional infrastructure vision.
- Structure the company so that it is led by a regional figurehead, and is accountable to its regional shareholders and local councils.

At a stroke we could create a major sustainable business of FTSE 100 standing, with major property and train operating assets, capable of raising finance in the capital markets to invest in UK infrastructure and growth.

It's bold. Some would say radical. We have no reason to be timid. Our country is being held back by stale top-heavy structures – big government, big banks, big utilities - which are preventing the entrepreneurial and innovative recovery we desperately need.

A mutual model of rail?

Some will ask: is there really the appetite and ability for the necessary local leadership? I would argue that the post-war years have built a deep dependency culture in both our regions, and our attitude to rail. We have lost the capacity to imagine a different model based on rail as the expression of a region's aspirations for itself.

The banking and government debt crisis is the perfect opportunity to explore the possibilities of a more sustainable model of financing.

All the evidence suggests that co-operatives and social enterprises have been out-performing mainstream businesses. In the UK, the co-operative sector grew by more than 25% between 2008 and 2011.[1] RBS report that social enterprises are "flouting the fiscal gloom to grow faster than the rest of the UK economy", and are outstripping SMEs for growth, business confidence and innovation.[2] Spanish co-operatives have seen an increase in employment by an average of 7.2% in the last quarter of 2011, despite wider unemployment at record levels. Research suggests that co-operatives have higher resilience in economic crises.[3]

1 Gregory, D. (2012) "Is there a co-operative alternative to capitalism?", *Ethical Consumer* [Online]. Available at: http://www.ethicalconsumer.org/linkclick.aspx?fileticket=YxO832SLVbc%3d&tabid=1928 [Accessed 25th February 2013].

2 Gregory, D. (2012) "Is there a co-operative alternative to capitalism?", *Ethical Consumer*.

3 Gregory, D. (2012) "Is there a co-operative alternative to capitalism?", *Ethical Consumer*.

Evidence also indicates that the public are ready. Recent polling highlighted by Christian Wolmar shows that:[4]

- Almost 75% of regular rail users in the UK would like to have a greater say in the rail company they use most frequently, rising to 79% for those who use trains at least once a week;
- Almost two thirds of UK adults (63%) believe passengers should have a greater ownership stake in train companies;
- On average, regular commuters would be willing to invest over £840 personally in a co-operatively owned TOC. Even people who are travelling once a week are still willing to invest over £500 per head.

The Government has rightly identified rail infrastructure as a key priority and is thinking radically about how to tackle the challenge. But what is the right model for the railways of tomorrow? We need coherent track and train management, the ability to plan long-term investment, the integration of development planning with transport, and a commercial vehicle capable of generating a return. And above all, we need bold leadership and joined-up thinking.

Imagine an East Anglian Rail Company which controlled the track and trains and stations, enjoyed a long term franchise and ability to attract the very best management, secured the billions of new finance needed to fund new rail, train and station infrastructure, and had the necessary planning powers to develop a coherent model of sustainable development along our rail corridors. Imagine if we, the rail users and taxpayers of East Anglia, had a stake in it.

The Treasury will probably say that they do not have the freedom to raise finance using government guarantees because it adds liabilities to the public balance sheet. The Department for Transport will probably say it is impossible. The rail industry may prefer the comfort of a system they know, rather than a system that they don't. Local councils may worry about how planning powers could be exercised by a different vehicle.

But if we are serious about unlocking a new model of sustainable, resilient, localist growth, and the billions of pounds of private investment we need to upgrade our ailing infrastructure, we need to be prepared to be bold.

Above all, we need to unleash the local leadership and 'dynamism of place' destroyed by the dependency on Whitehall. It's time to give mutual rail companies a serious look.

George Freeman is the Member of Parliament for Mid Norfolk, and is Government Adviser on Life Sciences and Chairman of the All Party Group on Science and Technology in Agriculture.

4 Wolmar, C. (2011) "Co-operative rail: A radical solution", *Co-operatives UK* [Online]. Available at: http://www.uk.coop/sites/storage/public/downloads/co-operative_rail.pdf [Accessed 25th February 2013].

19. Common Ownership of Land, Infrastructure and Natural Assets

Dan Gregory and Kate Swade

Land is the ultimate non-renewable resource: they really aren't making it any more. So does it matter who owns it?

Owners of land come in many guises: private companies or individuals pursuing purely private ends, government in the interests of citizens, or not-for-profit organisations with a social or community-driven purpose. These owners can operate at an international, national, regional or local scale.

The UK's pattern of land and infrastructure ownership is complex and is rooted in its history. Scotland has undergone substantial land reform in recent years, notably opening up the potential for community buy-outs of some privately owned land,[64] but in England and Wales ownership is still mostly polarised: owned privately or by the state. The 20th Century saw some substantial changes in land ownership, notably an increase in state-owned land, peaking in the 1940s. The 1980s saw increasing amounts of state land transferred to the private sector, whilst the 2000s have seen an increase in community-owned land in Scotland.

These changes are not neutral processes. In many cases they are driven by a combination of economic pressures and ideology. Is state ownership of land inefficient and monopolistic or a democratic route to a more equal distribution of wealth? Is private ownership a rigorous and efficient way of delivering value or an opportunity for individuals to profit at society's expense? Is community or mutual ownership a damaging reduction of private property rights or the foundation for a more sustainable economy?

We believe that the issue of ownership has been ignored for too long and want to make the case for ownership to be more central to the political debate in England and Wales.

Who owns Britain?

What do we really know about ownership, how it is changing and what is driving the changes?

Robert Home's 2009 report, *Land Ownership in the United Kingdom: Trends, preferences and future challenges,* distinguishes between private ownership, state ownership and land owned by the third sector.[1] Even with Scottish land reform, UK land ownership is concentrated in the hands of private individuals and the state. Home identifies a number of changes over the past century: "the growth of home ownership, the survival (mainly in the countryside) of concentrated hereditary land ownership, the decline of leasehold tenure, the expansion (and then contraction) of state land ownership, and the growth of legal forms of communal ownership."

He includes common land in his discussion of 'communal' ownership. There are almost 1.4 million acres of common land in England and Wales alone: owned privately or by local authorities, but with long established and protected rights for 'commoners', mostly specific rights to graze the land or collect firewood.[2] The freedom to access public space – space that we see as 'common', even if it is not common land – is also changing: increasing private corporate ownership of large parts of our cities, such as the centre of Liverpool and Canary Wharf in London, can limit public rights of way and rights of access.[3]

1 Home, R. (2009) *Land ownership in the United Kingdom: Trends, Preferences and Future Challenges* [Online]. Available at: http://www.bis.gov.uk/assets/foresight/docs/land-use/jlup/12_land_ownership_in_the_united_kingdom_-_trends_preferences_and_future.pdf [Accessed 19th February 2013].

2 Department for Environment, Food and Rural Affairs (2012) *Common Land and the Commons Act 2006* [Online]. Available at: http://www.defra.gov.uk/rural/protected/commons/ [Accessed 19th February 2013].

3 Vasagar, J. (2012) "Public spaces in Britain's cities fall into private hands", *Guardian* [Online]. Available at: http://www.guardian.co.uk/uk/2012/jun/11/granary-square-privately-owned-public-space [Accessed March 6th 2013]

In 2012, Country Life and Kevin Cahill, author of Who Owns Britain, reviewed the biggest UK landowners.[4] The largest by far is the Forestry Commission, but even its 2.6 million acres only account for 4.3% of UK land, with others, such as The National Trust and Ministry of Defence, pension funds and the Crown following behind.

Smaller landowners own the vast majority of land. Country Life estimates that the 36,000 members of the Countryside Land and Business Association (CLA) own 50% of rural UK land.[5] Cahill concludes that 'just 0.3% of the population – 160,000 families – own two thirds of the country and less than 1% of the population owns 70% of the land.'[6]

When it comes to forests, the forest certification organisation, PEFC, outlines how of the 3.9 billion worldwide hectares of forest, 86% are publicly owned.[7] Yet England, in comparison to the rest of Europe and elsewhere, has a very low proportion of publicly owned forests at only 18%.[8] There is little data on community ownership of woodland in the UK as a whole, but the Woodland Trust indicates that it is as little as 0.2%.[9]

What about physical infrastructure? Who owns our energy, water, waste, communications and transport infrastructure, including roads and railways?

Again, the market and the state are the dominant players. In 2010, the Office of Fair Trading (OFT) undertook a 'stock-check' of our national infrastructure, exploring models, patterns and trends of ownership.[10] Understandably, given the OFT's remit, it was only concerned with market distortion and "how ownership might affect outcomes for consumers". It is disappointing, however, that the only occasion in recent history when ownership of our country's real, tangible infrastructure base has been seriously investigated was with a view to how it is consumed. The OFT suggests that models of infrastructure ownership "have changed markedly in recent years" and that private ownership "now accounts for around one third of assets that we mapped", with most of that third being public listed companies.

The report concludes that "the data illustrates a trend towards greater use of private unlisted ownership", and ownership through funds and consortia. Given the importance of infrastructure to almost every aspect of modern British life (and recent concerns about the risks of the relentless pursuit of private profit in other contexts, such as care homes, banks and utility companies), should we be asking questions about the potential risks of such a shift?

4 Cahill, K. (2010) "Who Really Owns Britian?", *Country Life* [Online]. Available at: http://www.countrylife.co.uk/article/506200/Who-really-owns-Britain-.html [Accessed February 19th 2013].

5 Cahill, K. (2010) "Who Really Owns Britian?"

6 Kingsnorth, P. (2012) "High house prices? Inequality? I blame the Normans", *Guardian* [Online]. Available at: http://www.guardian.co.uk/commentisfree/2012/dec/17/high-house-prices-inequality-normans [Accessed February 19th 2013].

7 This includes 200m ha of community and tribal managed forests. Programme for the Endorsement of Forest Certification (2013) *Who Owns the Forest?* [Online]. Available at: http://www.pefc.org/forest-issues/who-owns-the-forest [Accessed February 19th 2013].

8 United Nations Economic Commission for Europe – Forestry Department (2007) *Private Forest Ownership* [Online]. Available at: http://www.unece.org/forests/fr/outputs/privateforest.html [Accessed February 19th 2013].

9 4711 hectares. Woodland Trust (2011) *Research Report* [Online]. Available at: http://www.woodlandtrust.org.uk/en/campaigning/our-views-and-policy/woods-for-people/Documents/CommunityOwnershipModels_WT_submission_June2011.pdf [Accessed 19th February 2013].

10 Office of Fair Trading (2010) *Infrastructure ownership and control stock-take* [Online]. Available at: http://www.oft.gov.uk/OFTwork/markets-work/othermarketswork/infrastructure-ownership/#.USNyYKXIaad [Accessed 19th February 2013].

Diversifying ownership

It seems that many are quietly concerned about the growing concentration of ownership of land and infrastructure. While not yet a national debate, the argument for co-operative and social ownership has been gaining traction in recent years, whether in Government, in opposition, within civil society or across our cities, towns and villages. Unconstrained by public sector limitations or beholden to single-minded shareholders, mutual and social enterprises can offer the promise of both commercial nous and community interest when it comes to the ownership and management of our national assets.

In practice, emerging successful examples of social and co-operative ownership of land and infrastructure at scale are rare, but they do exist. The OFT points to significant not-for-private-profit models of ownership, for example Trust Ports[11] (run by independent boards and serving regional and local interests), local authority investment in airports (through an arms-length public enterprise), Network Rail (a 'not for shareholder dividend' company with profits reinvested in the railways) and Welsh Water (now a not-for-private-profit company after a handful of entrepreneurs led a takeover).

Other examples include Hill Holt Wood (a charity proving that ancient woodland can turn a social and environmental profit); Coin Street Community Builders (, a social enterprise and development trust pursuing people-driven regeneration of London's South Bank); and the community takeovers of Scottish Islands such as Gigha (held in trust). A community approach can blend entrepreneurial flair and social responsibility, enhancing a local area's economy, environment and community. The focus of such models is directed to what is best for the asset and the community that surrounds it. However, when regulatory regimes, policy, politics, competition and EU law are all ownership blind, any shift towards social or co-operative ownership often depends on determined action by a handful of commercially-savvy, socially motivated entrepreneurs.

So there are alternatives to the distinction between public and private ownership of land and assets. DCLG's work towards a comprehensive public sector assets map for England will give a better indication of the extent of state owned land and assets.[12] Its aim is to encourage efficiency savings, but it also offers communities a way to find out exactly what the public sector owns. It is a welcome development in a field where information is currently neither clear nor comprehensive.

The future of land and infrastructure ownership

We believe that our investigation into the nature of ownership across the UK suggests a need for a better-informed national debate on land ownership. The unfortunately ignored Ownership Commission report on business ownership pointedly concluded that "Britain does not take ownership sufficiently seriously".[13] We would suggest that this must apply to land and other infrastructure as well.

Yet there is no lack of interest in ownership when it hits the headlines – see the outcry on the Conservative-led Government's attempt to put tracts of public forest land up for sale. The public has an instinctive sense of the importance of land ownership. When change is more gradual and piecemeal, however, changes in ownership attract much less attention, but may have just as permanent results.

Recognising this, then, should issues of ownership be a greater part of the narrative at the next election?

11 Trust ports are independent statutory bodies, governed by their own local legislation and run by independent boards, for the benefit of stakeholders. They have no shareholders so all the surpluses from port operations are put back into the port.

12 Department for Communities and Local Government (2011) *First public property map – councils could save billions* [Online]. Available at: https://www.gov.uk/government/news/first-public-property-map-councils-could-save-billions [Accessed 19th February 2013].

13 The Ownership Commission (2012) *Plurality, Stewardship and Engagement* [Online]. Available at: http://ownershipcomm.org [Accessed 19th February 2013].

Devolution prompted Scotland's debate, leading to the Land Reform Act, enabling an opening up of some opportunities for community ownership and management of land: is it too much to think that England and Wales could have a similar debate? The Localism Act offers communities some limited tools for increasing control of land, which were opposed by many private landowners. It may be fascinating to see how effective these tools are.

It is perhaps naïve to think that a reasonable and informed debate might crystallise some agreed general principles around ownership. These would perhaps be informed by the Ownership Commission's assertion that good ownership involves three dimensions: plurality, stewardship and engagement. The need for transparency and to strike a balance between social, commercial and environmental interests could also be taken into account.

Social approaches are not a panacea – they need support and nurturing and are often initiated by one or two visionary and entrepreneurial people. But there is increasing hope, belief and some evidence, if not yet consensus, that social approaches can contribute to more sustainable economic development. If the debate around ownership matures, we might even find that people across the political spectrum increasingly support an approach that focuses on the asset and its impact and use, not only on private profit or public control.

Even if we begin to move out of the financial crisis, the threat of a resource crisis will remain; with the management of land and infrastructure at its heart. The traditional dichotomy of land being owned by either the state or private interests is flawed, and can preclude the more creative and sustainable outcomes that a social approach can bring. Elinor Ostrom's Nobel Prize winning work has shown that taking a local approach to management of important 'common pool resources' can be an effective way of ensuring their sustainability.

Land and infrastructure ownership have for too long been ignored in political discourse in England and Wales. We believe we need a more explicit and grown-up debate about who owns what, who is selling what and why, in order to consciously make better use of our assets in our enlightened self-interest and with due and balanced regard to commercial, environmental and community interests.

Let's not sleepwalk into a society where control of the land and infrastructure we need to thrive has slipped through our fingers.

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Kate Swade is a Clore Social Fellow and development manager at Shared Assets, working towards the creation of a 21st century commons by supporting increased community use and management of the natural environment.

Case study

20. The Dover People's Port Trust: Community ownership of a valued British asset

Neil Wiggins

Three years ago Dover stood on the brink. The port was on the verge of breaking forever its historic links with the town and surrounding communities and passing into the hands of unknown private owners. Its focus on serving the best interests of all of its stakeholders, including central, local, district and regional government, the local community, customers and workforce, was at risk of switching to delivering shareholder profits, and being subsumed to the interests of remote private equity shareholders or sovereign wealth funds. Incredibly, this change was proposed by the very people at Dover Harbour Board charged with handing the port to the next generation in the same or better condition than when they began their stewardship, after being invited by the then Government to re-examine their ownership and governance structure.[1]

1 Department for Transport (2009) *Modernising Trust Ports* [Online]. Available at: https://www.gov.uk/government/publications/modernising-trust-ports [Accessed 15th February 2013].

The Port of Dover has been a port and one of the UK's major trade and travel facilitation nodes for at least 2000 years. Its existing ownership was established by Royal Charter in 1606, when the Dover Harbour Board was created, and its current Governance structure has come about through various Acts of Parliament.

Today, following a major local, regional and national campaign focussed on delivering ownership of the port in perpetuity to the communities of Dover and the surrounding area, the immediate threat of a private sale has been averted and the port's status in the public sector as a Trust Port remains unchanged. However, the status quo has been shown not to offer protection from private sale, or necessarily the optimum form of corporate governance. The port will remain vulnerable to sale for as long as the current Trust Port status is maintained. Additionally, the significant and enduring benefit to, and influence for, the community = over the future of the port, which the Secretary of State so clearly indicated as a key aim of the current government, remains apparently out of reach for as long as Trust Port status continues.[2] So, the campaign to deliver on the aspirations so emphatically expressed by the port's stakeholders and local community continues.[3]

With half the job done, there can be no let up in the work that needs to be completed in order to ensure that the port is owned in perpetuity for the nation by the communities of Dover District and that the benefits of ownership pass to the communities most affected by the operation of a growing and successful port business. The port should and can be the engine of growth and regeneration in its locality. With the right ownership and governance structures and long-term financing arrangements, the Dover People's Port Trust (DPPT) can forge a new co-operative relationship between the port's users, management, workforce and local communities; one with the vision to be an economic strategist and the security of tenure to develop and deliver an holistic approach to operations and business development in full partnership with highways, rail, national and local government.

The 'communitisation' of the port

The ideas and concepts that led to the formation and incorporation of the Dover People's Port Trust were born out of the first period of consultation that took place over the Dover Harbour Board's privatisation plans in February and March 2010. It was clear at this time that the port, sooner or later, would require access to the private capital markets in order to raise the funds required to invest in the development that growing and changing cargo and passenger demands will eventually necessitate. It was equally apparent that the Dover Harbour Board's answer to this conundrum was, at best, unsatisfactory to the port's stakeholders. The thinking that went into answering the question of access to capital markets whilst satisfying the concerns expressed by the port's stakeholders led to the birth of the Dover People's Port Trust Ltd. as an Industrial Provident Society and Charity registered with HMRC.

2 Department for Transport (2011) *Secretary of State's guidance note concerning procedure for sale of trust ports* [Online]. Available at: https://www.gov.uk/government/publications/secretary-of-state-s-guidance-note-concerning-procedure-for-sale-of-trust-ports [Accessed 15th February 2013].

3 Dover Town Parish Poll (Local Referendum) result 23 March 2011 to the question "Do you oppose the private sale of the Port of Dover as proposed by the Dover Harbour Board and support its transfer to the community of Dover instead?" returned a 97.8% "Yes" vote on a turnout of 25% of the electorate (20,900 approx. eligible to vote).

The DPPT views its proposals for the future ownership and governance of the Port of Dover as a 'communitisation' of the port. Membership is open to everyone who lives or works in the Dover District or businesses that have registered offices in the District. Eligible persons can become members of the DPPT by purchasing a share for £10. This brings membership and an equal stake in the port within the reach of most local people.[4] The organisation maintains equality of membership and protects each member's interests, preventing hijack by a wealthy special interest group by restricting the number of shares that each member can hold to one each. The long-term ownership of the port is guaranteed by ensuring that the bar to changing the ownership of or dissolving the DPPT is set extremely high. Members of the DPPT will be able to nominate and elect, from amongst their own number, four community directors who will sit on the board of the Trust and represent their interests. Other seats of the board of the Trust will be filled by ex officio nominees from the Dover Town Council, Dover District Council, Kent County Council, the sitting Member of Parliament and the Dover District Chamber of Commerce. There is also provision to allow for up to four additional co-opted directors should additional talent, knowledge and experience be deemed necessary for the effective governance of the DPPT.

Communitisation, as proposed by DPPT, empowers the port's stakeholders in decisions to ensure that it is run in a sensitive and fully accountable, but commercial, manner. It embeds global best practice for port governance and ownership in its constitution and promises an end to the 'silo' thinking that has plagued the town of Dover with decline and increased deprivation, whilst freeing the port from the restrictions of public ownership.

Of course, £10 per person or corporate body will not raise sufficient funds to purchase the port at fair value (even if every single person and company in the Dover District bought a share, it would only raise a little over £1.4m). The money raised from membership shares has never been designed to fund the purchase of the port. In 2010, Rothschilds, the bank advising the Department for Transport and Dover Harbour Board on the then proposed privatisation, valued the port at between £230m and £280m in the prevailing market conditions. Those conditions are little changed today. DPPT has had talks with major banking institutions and the bond markets and, subject to due diligence, has put together an offer to purchase the port for £250m (including £50m to be used as seed funding for a regeneration vehicle). The funding package is based on raising an initial syndicated loan, to complete the purchase, as a bridge to bond with the long-term finance generated from the sale of infrastructure-type bonds in several tranches at low ticket rates. This will be underwritten by the port's strong cash flow position and its natural geographical location as the closest point in the UK to mainland Europe, and thus its pre-eminence as a transport node for goods and people going to or coming from near continental Europe. By issuing bonds in tranches with different maturity dates, the DPPT thus ensures its ability to pre-finance major new developments at the port by 're-selling' an early maturing tranche to the market on maturity.

4 The Dover District is defined by the boundaries of the area of Kent which comes under the jurisdiction of the Dover District Council.

Looking ahead: securing perpetual community ownership and revenue streams

Looking further ahead, DPPT has developed a regeneration strategy for Dover which begins at the waterfront and works its way back through into the town. The strategy is funded by the initial seed funding of £50m raised as part of our offer for the port and an ongoing revenue stream from delivered projects and a share in the profits from future port operations, as well as other sources of finance such as:

- The European Regional Development Fund (ERDF)
- Joint European Resources for Micro to Medium Enterprises (JEREMIE)
- Tax Incremental Financing (TIF)
- The Regional Growth Fund

The DPPT has been successful in gaining the backing and support of the local community, the port's main users (the ferry companies), the port's workers (through support from UNITE the union) and the Dover Town Council as well as a number of District and County Councillors and the MP for Dover and Deal, Charlie Elphicke. Our campaign has seen a change in Government policy and the rejection of the Dover Harbour Board privatisation plan. Of course, there is much work now to be done if DPPT are to achieve our objectives and the DPPT Board continue to make every effort to deliver on the aspirations so clearly expressed by its membership and the port's stakeholders over the course of the last few years.

The next few months will see several changes at Board level for the Dover Harbour Board, as all bar one of the non-executive directors of that organisation see their terms of office coming to an end between now and May. This could possibly clear the way for a new atmosphere of co-operation in delivering the new model of ownership and governance that the port requires, but the community cannot bank on that being the case. They are therefore updating the offer that was made to Government in November 2010 so that it contains the latest traffic and revenue figures and forecasts for the port, as well as continuing evidence of the active support of the port's other stakeholders and the financial sector. The renewed offer will demonstrate that the communities of Dover District are deadly serious in their desire to ensure that the port is owned in perpetuity on behalf of the nation by its community. The future of Dover with a mutual/ co-operative ownership and governance structure for the port could look so different and very much more positive than it does today, and DPPT is committed to delivering this unprecedented change in port's sector ownership and governance in the UK.

Neil Wiggins is the Chairman of the Dover People's Port Trust, and a maritime professional with 30 years' experience at all levels within the sector.

Culture

21. Mutualising the BBC

The Rt Hon Dame Tessa Jowell

The last four years have been a period of profound change for our economy and our wider society. In the wake of the credit crunch and the near meltdown in the banking sector, public opinion has made it clear that economic recovery should bring with it different and stronger relationships between the public and organisations that influence their lives. For example, following the LIBOR scandal last year, 60% of those polled said they did not trust their banks to look after their money,[1] while 63% of people said they didn't trust government at all or just a little.[2]

1 YouGov/Sunday Times (2012) *Survey Results* [Online]. Available at: http://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/mm7m2q2wwy/SundayTimes-07-090712.pdf [Accessed 6th March 2013].

2 ICM/Guardian (2012) *ICM Poll for the Guardian* [Online]. Available at: http://www.icmresearch.com/wp-content/blogs.dir/1/files/2012/09/2012_guardian_sept_poll.pdf [Accessed 6th March 2013].

Part of the problem with the big institutions is their lack of connectedness with us as individuals. People cry that banks, energy companies, transport operators, politics, and one of our most cherished institutions, the BBC, are out of touch and unresponsive. That is one of the reasons why I have suggested the BBC be turned into the country's biggest mutual with 26.8 million licence fee payers as its shareholders in the £3,161.8 million that it spends. As one of our most treasured public institutions, the principles of mutualism – democratic ownership, solidarity and equity – would fit perfectly with the BBC's editorial remit of impartiality, transparency and accountability.

During the last Charter Review in 2006, while I was Secretary of State at the DCMS, the BBC Trust was created as part of a new form of governance in response to the largest ever deliberative consultation with the public. The new arrangements were designed to ensure that there was oversight of how the BBC is run, to represent the views of the public and to ensure that the public interest is met. Evaluation of the consultation suggested a majority of people were in favour of the Trust model, but there was scepticism about how easy it would be to maintain a level of independence from the Government, as well as whether the Trust would continue the innovation of the process and ensure the public had a truly engaged voice in the organisation that they fund.

To date it is axiomatic that the Trust has not yet been sufficiently assertive voice on behalf of the licence fee payer. In the lead up to the next Charter Review, widely expected by 2013, I believe it is important that we instigate a wide debate about the successes and limitations of the current Trust model and consider the possibilities that mutualisation could bring.

Accountability in public services through the use of mutual models has been a steady trend in the last decade – showing that public enthusiasm for public services which are more accountable and more open is growing. NHS Foundation trusts are one of the best examples in the public sector – first established in 2003, there are now 144 foundation trusts with nearly two million members and more than 4,000 governors across the country. A majority of the board of governors are elected by members, with the rest made up of appointed governors. The size of the membership puts paid to the idea that people would not be willing to join in.

Co-operative schools have also burgeoned in recent years rising from 159 in 2001 to 338 in 2012, while many local authorities are opting to transfer council housing to co-operatives. Rochdale Boroughwide Housing, for example, also included within this collection, took over the ownership of homes formerly owned by Rochdale Council and now manages around 13,750 properties in the Borough. This represents a broader shift towards this form of public service ownership where management builds a grown up relationship with their customers and staff making it easier to deal with conflicting interests. A mutualised BBC is the logical extension of much of the trend towards greater public involvement in public services.

Giving licence fee payers membership of the BBC could move the Trust's model forward in a number of ways. The first reason for mutualising the BBC, would be to strengthen the Trusts hand in relation to the Executive.

Questions about governance have plagued the BBC since the Trust was established – who would trust the Trust? During the Charter Review consultation in 2005 respondents were concerned about who appointed the members of the Trust, with some people expressing concerns that government involvement would compromise the independence of the BBC. In general it was felt that the appointment system of the Trust would simply continue the perception of the BBC as made up of 'fat cats' and 'jobs for the boys.' When asked who should form the members of the Trust, respondents were split between wanting experts and lay people. What they did agree upon was that the Trustees should represent people from all ages and walks of life, but particularly the regions.

By co-opting the public's voice through a co-operative model, Trustees would have more power to challenge the BBC's Executive. The 12 Trustees of the BBC are appointed by the Queen on advice from the Department for Culture, Media and Sport. Apart from Lord Patten, very few of the Trustees are known by the public and what they do on the public's behalf is little known. While Audience Councils are widely seen to be successful, their impact on the direction of the BBC Executive is at best minimal. For example, the Audience Council for England's Report for 2011/2012 showed widespread opposition from attendees at public engagement meetings to the cuts in local radio. The report itself expressed disappointment that in the majority of cases BBC Management did not take these concerns seriously.

The second argument for mutualising is that while the members of the Trust continue to be appointed via the DCMS, the question of independence from Government will remain. By electing all or a majority of the Trustees by the members, or perhaps through elected Audience Councils, the autonomy of the BBC would be better safeguarded than the current arrangements. So too would this arrangement protect the BBC from yielding to the very real commercial pressures exerted by the 24 hour news and production cycle. The public greatly value the BBC's reputation for accuracy and impartiality. In the 2005 pre Charter consultation, respondents welcomed the lack of advertising in BBC sport and drama and the fact that the BBC set the standard for other news programmes. A stronger Trust, backed by licence payers' support, could provide a greater bulwark against those who seek to put undue political influence on the BBC or cut corners under pressure from the rest of the market.

The third reason for introducing a mutual BBC is that it would give the public more of a say over programmes and direction. It is a simple principle that if we pay for the BBC, the institution should be more accountable to us. A corollary effect would be to undercut the oft-held discussion between Radio 4 commentators about what content the BBC provides, typically divided into whether it should be airing reality TV versus period dramas. If the BBC was mutualised, this rarefied debate would be located instead with the public. Tricky debates such as regional programming or sports rights would be given wider public airing rather than via the Audience Councils as they are at present. Such public discussions might help to underline the challenges in generating good quality output in an age where so much content can now be produced for free and in an era of reductions in production teams.

Following the Jimmy Savile scandal, public trust in the BBC has dropped from 62% in 2009 to 45% in October last year according to a poll by ComRes.[3] 62% of those interviewed believed that the damage would be long-lasting. Clearly Dame Janet Smith's review of the culture and the practices at the BBC during the Savile years may go some way to restoring public trust. I believe though that only a more fundamental shift in the public's relationship with the BBC will help to move the organisation forward. As Onora O'Neill remarked in her BBC Reith lecture in 2002 on trust; "Reasonably placed trust requires not only information

3 ComRes/BBC 5 Live (2012) *Trust in the BBC* [Online]. Available at: http://www.comres.co.uk/polls/BBC_Radio_5_Live_Trust_in_the_BBC_October2012.pdf [Accessed 6th March 2013].

about the proposals or undertaking that others put forward, but also information about those who put them forward." For all the enquiries, the public are likely to be none the wiser about who runs the BBC or how they make their decisions.

How would the process of mutualising the BBC work? The process of transferring licence fee payers into shareholding voters should be relatively easy. A majority or totality of Trustees could be elected on a regional basis through paper ballots sent with their annual shareholder's certificate to replace their licence certificate. Or the same process could be used to elect members of the regional Audience Councils who are in turn given the authority to elect Trustees. By making the Television Licence document look more like a share certificate, the sense that fee payers 'owned' the BBC would be increased.

An AGM could be held once a year, both physically and perhaps through the BBC's red button service. It is predicted that, by the end of 2016, there will be almost 22 million internet-connected TVs installed in the UK, with over half of households having a connectable TV set either directly or via set-top box. A 20% turnout is seen as a general rule of thumb in mutualised organisations, but the BBC would be in a unique position to incentivise voting, for example with advertisements after the 6 O'clock News, or interviews with people standing for election. One of the weaknesses of mutuals is the awareness of elections – the BBC could be the long term cure. Whatever the incentives, a turnout of five million 'shareholders' would represent an incredible public voice. As Dave Boyle points out in his discussion of a British Broadcasting Co-operative,[4] this would be a solid step towards fulfilling one of the BBC's 6 statutory principles – that of 'sustaining citizenship through the enrichment of the public realm'.

What the AGM would vote on can be debated. Certainly one would expect the annual report and accounts, and within that remuneration policy and potentially licence fee decisions. While there is an expectation that people will always vote to decrease the licence fee, the Charter Review consultation showed that when people are asked to make hard choices, common sense prevails. As shareholders of our national broadcaster, the collaboration with the public would make for a much more serious debate.

The BBC, along with most of our national institutions, is under scrutiny at the moment. What a better opportunity to think innovatively about how it can change, not just to crises such as that of Savile, but to reflect the shifting relationship between citizen and public service. A co-operative model for the BBC could strengthen challenge of the Executive, provide a greater independence from both government and other external pressures, and provide a stronger voice for those who pay for their public broadcaster. Reith said the role of the BBC was to 'inform, educate and entertain'. Only radical public ownership – by people themselves – will continue to ensure these values are firmly embedded at the heart of the BBC and safeguard the BBC as a truly public institution for years to come.

Rt Hon Dame Tessa Jowell MP is the Member of Parliament for Dulwich and West Norwood and a former Secretary of State for the Department of Culture, Media and Sport.

4 Boyle, D. (2012) *Good News: A co-operative solution to the media crisis,* London: Co-operatives UK.

22. Club Ownership: A paradigm shift

Tom Hall and Ben Shave

When the first paragraph of an article entitled "Using Data Analysis to Improve Supporter Engagement" states "so that fans… spend more money while they are there", it highlights an industry-wide approach to supporters. Club rhetoric about supporters being their first priority is revealed as simply that – empty rhetoric.

It is the proliferation of this thinking in an industry that has grown exponentially in England over the last 20 years (without necessary changes to the regulatory framework) that has allowed club owners, formerly custodians, to utilise market analysis and shareholder value to drive decision making; that is perhaps at the core of why so many clubs have failed off the pitch during this period. It is also why supporters are now increasingly seeing themselves as the solution to football's problems.

Since 1992, there have been an estimated 92 insolvency incidents in the top five divisions of English football. Perhaps as a direct result, circa 300,000 supporters are now signed up to the supporters' trust movement, seeking a greater role for representative groups in the lives of their clubs.

Shifts in the perception of supporter groups are now visible. The unproven cliché that "supporters can't run clubs, they will overspend" is being discredited by recognised evidence. In their recent Football Governance follow up report, the Culture, Media and Sports Select Committee stated that "supporters' trusts have become an increasingly significant and successful model for club ownership and can have a beneficial influence on, in particular, financial governance".[1]

In addition to strong governance, supporter involvement and ownership generates significant social value and delivers lasting community benefit. In 2008, Supporters Direct commissioned Substance, a social research co-operative, to conduct research examining football's social and community value. One key conclusion of their study revealed that:

"Single, remote and private ownership prevents a more holistic integration of community needs…that Supporters' Trust models can provide."[2]

It could be posited that supporters have always had the moral case for ownership, but now both the social and business cases are being demonstrated.

Some sectors are suited to the shareholder model of governance, some the stakeholder model. It appears football (and probably most other spectator sport) clubs are more suited to the latter.

We outline two case studies below – Wrexham FC and Portsmouth FC – to demonstrate the potential of this ownership model.

Wrexham FC

In 2010, the Wrexham Supporters' Trust (WST) became aware of their club's financial difficulties. "The then-owners bought the franchise for Crusaders (Rugby League team), but were not aware of standing debts. They used the Racecourse Ground as security", says Terry Heath, a founder member of WST.

"At this point we started doing some intensive fundraising, as well as research into what was going on. We found out that the owners intended to sell the club, so we started once more to look at how we could buy the club."

1 House of Commons – Culture, Media and Sports Committee (2013) *Football Governance follow-up* [Online]. Available at: http://www.publications.parliament.uk/pa/cm201213/cmselect/cmcumeds/509/509.pdf [Accessed 4th March 2013].

2 Supporters Direct and Substance (2010) *The Social and Community Value of Football* [Online]. Available at: http://www.supporters-direct.org/wp-content/uploads/2012/08/The-Social-Value-of-Football-2010.pdf [Accessed 4th March 2013].

After a period of capacity building and business planning, WST eventually took 100% control of their football club in late 2011. In total they secured over £600,000 for the takeover with no single contribution of over £20,000. Subsequently a further £125,000 has been raised by means of a Community Share Offer to improve facilities and WFC's business and supporter engagement. SD played a major role in co-ordinating the scheme, which has had over 300 contributors, and qualified investors for 30% tax relief.

The takeover means more than ownership. It also means control: the WST board have the majority of positions on the club board, with co-options used to source other required skill sets. WFC provides extensive financial disclosure to its 3,000 plus members, enabling accountability and vigilance.

WFC was the first supporter takeover for several years when the club was not in administration or liquidation. The club is becoming a key community actor, partnering with Wrexham Credit Union to offer supporters an affordable way to take advantage of season ticket deals.

There is a growing consensus that supporters' trusts require additional support to help with takeover bids during insolvency episodes. There is also a need to consider all barriers to greater collective supporter share ownership, including majority control. To identify solutions the call for a Government Expert Group has been made and now establishment is required.

Portsmouth FC

Recent years have produced no clearer illustration of football's shortcomings than the events at Portsmouth FC, termed "one of the most unhappy sagas in English football's history of club ownership" by David Conn. It has now experienced two insolvencies, originally with debts of over £128 million, followed by the second episode with debts of about £60 million.

Along with supporters, the main losers were local business and charities, such as St John's Ambulance. Both episodes damaged both the social and economic value of the club to its communities.

But now, Pompey Supporters' Trust (PST) has a chance to make Portsmouth the country's largest community club, aided by local and national stakeholders. Supporters have been asked to convert £100 pledges into £1,000 Community Shares, thus providing the target of £1.8 million in capital required for PST to become majority owners, and for Pompey to become a sustainable, transparent entity.

The share issue is backed by a tested, sustainable business plan, and the takeover financing includes a seven figure loan from Portsmouth City Council; demonstrating the stakeholder-led approach taken by PST. To date, PST holds £2 million in payments and pledges from over 2000 individuals.

Implementing a successful business model

How can clubs therefore be encouraged to adopt a more appropriate governance model, and how could Government facilitate? Four options are outlined below.

Extending the Localism Act

The Localism Act (2011) offers protection for sports stadia via designation as Assets of Community Value (ACV), which can trigger a right for Community Interest Groups (i.e. Supporters' Trusts) to make a bid for the ACV if it is put up for sale – but not the right to buy, as was hoped.

The act does not allow for clubs themselves to be part of the listing. We would recommend the Act is re-visited to ensure it offers the required protection of this key asset via a Right to Bid.

Another method would involve extending the Localism Act, to bring it in line with Scotland's Land Reform Act. Supporters Direct has outlined how this could be achieved in a Briefing Paper "Developing Public Policy to Encourage Supporter Community Ownership".[3]

Introducing a new legal form

Another possible radical method of achieving this objective at football clubs via increased collective supporter share ownership and sustainability would be to create a new legal form, including an agreed minimum level of supporter involvement. The entity would increase asset protection, stated community-related objects and financial transparency enabling greater stakeholder vigilance, embedded rights and/or vetoes for the Trust; and pre-emption rights when shares become available.

On the announcement of shares being made available a mechanism similar to the Localism Act (2011)'s Community Right to Bid could be implemented. It would trigger a short moratorium period for a supporter community group to register an interest. This would activate a further period of perhaps six months to raise the necessary capital.

The issue of converting clubs into this form requires further consideration but it could form part of a more comprehensive Sports Law, similar in scope and purpose to the French 'Loi du Sport'.

There are now an increasing number of good examples of supporter ownership to help justify the case.

Exemptions for supporter-led share schemes

Supporter-led share schemes (for example, Arsenal Fanshare) are regulated as if they were 'normal' commercial vehicles, when in fact such investments by supporters are made not to receive a return, but for other, mostly moral or social reasons.

As such there is a case to be considered for providing exemptions in the Financial Services and Markets Act (2000) for share offers in companies that will be controlled by a supporters' trust, which would make schemes more practicable by lightening regulatory risks and reducing costs.

We would recommend this is considered by the proposed Government Expert Group as a method to address any barriers to greater collective supporter share ownership. Tax relief as described below should also be considered.

Tax relief for supporter-led share schemes

Money raised to fund supporter takeovers does not readily fit into either Gift Aid or the Enterprise Investment Scheme; therefore a new specific form of relief would need to be created. A supporters' trust share offer would be a proper vehicle through which tax relief might be given because:

- It is a registered Community Benefit Society;
- It has objects focused on using a club as a means of delivering community benefit;
- By launching a scheme aimed at supporter ownership, it would be raising money for a purpose directly related to its objects;

3 Supporters Direct (2012) *Developing Public Policy to Encourage Supporter Community Ownership* in Football [Online]. Available at: http://www.supporters-direct.org/wp-content/uploads/2012/07/Developing-Public-Policy-to-Encourage-Supporter-Community-Ownership-in-Football-Briefing-1.pdf [Accessed 4th March 2013].

- There is potential for a statutory asset lock, which helps to ensure the preservation of community facilities for future generations.

A live example of both the failure of the market driven approach, and the rise of the supporter led solutions, can be found at Portsmouth FC.

The record of supporter owned clubs in the UK illustrates that quite apart from being custodians of club identities, supporters and communities possess the expertise to make sports clubs sustainable, transparent, and capable of generating significant social value – unlike many private ownership models.

All three major political parties referred to supporter ownership in their 2010 manifestos, and the Coalition's Programme for Government stated their intention "…to encourage the reform of football governance rules to support the co-operative ownership of football clubs by supporters." The supporters' trust movement must remain committed to ensuring that this is upheld.

Tom Hall is Head of Policy & Development and Ben Shave is Development Manager at Supporters Direct.

Case study

23. The London Symphony Orchestra: Britain's first self-governing orchestra

Kathryn McDowell

The United Kingdom is known and respected internationally for both the quality and breadth of its artistic and cultural endeavours. This is a field in which the UK has always been, and remains, a world leader. Art and cultural experiences make people's lives richer, strengthen communities and contribute to the development and well-being of young people. In addition, artistic and cultural industries contribute to economic growth both directly and indirectly, for example by making the UK more attractive as a tourist destination.

The financing of arts and cultural organisations in the UK has always relied upon a mix of public subsidy, private philanthropy and 'earned' income from ticket sales, commercial activities, and so forth. Despite the pressures of the challenging economic environment, this model, based on a range of sources of income, is arguably more resilient than one which relies too heavily on any single income stream.

The benefits of ownership and self-governance

The London Symphony Orchestra (LSO) is one of four self-governing orchestras in London in which the musicians are shareholders in the company running the Orchestra. Most orchestras have a management body which engages the musicians either as employees or on a freelance basis, so the self-governing model is unusual both amongst orchestras and arts organisations more generally.

Despite the LSO having an uncommon ownership structure, it is one that has underpinned the LSO's long-term success and remains valid today. In particular, this structure has allowed the LSO to survive and thrive despite the financial challenges which have inevitably arisen from time to time.

The origins of this independent model data back to the turn of the twentieth century when in 1904, some fifty members of the Queen's Hall Orchestra rebelled against the edict of their conductor, Sir Henry Wood, that no 'deputies' should be sent to rehearsals and concerts. These musicians were unhappy at being denied the opportunity to appoint substitutes in order that they themselves might accept more lucrative engagements, and in response they took the brave decision to set up their own orchestra which they would run according to their own rules.

That initial desire by the musicians to determine their own destiny quickly became a distinguishing feature of the new ensemble, which the players named the London Symphony Orchestra. Whilst initially driven by self-interest, the musicians' rebellion eventually led them to focus on promoting the best interests of the Orchestra as a whole above that of its individual members. This sense of ownership in turn has provided the impetus for the highest standards of artistic excellence to be attained.

The model of self-governance has served the LSO well and it is widely regarded as one of the world's leading orchestras with a thriving concert schedule in London and overseas, an energetic and ground-breaking education and community programme, a music education centre and its own record label. The LSO's success across all these activities is due in no small part to its ownership and governance structure. Central to this is the strict requirement that each playing member of the Orchestra must also be a shareholder of the company and this in turn gives the members collectively the right to determine key matters affecting the company.

Whilst the members may have an input on any aspect of the Orchestra's work, the scale of the LSO's activities requires that day-to-day operation is undertaken by a Managing Director and professional staff team and overseen by a Board of Directors. The members appoint every member of the Board which comprises a number of players from the Orchestra together with a number of external Directors who contribute financial and commercial expertise as well as an independent viewpoint. The playing Directors must always hold a majority on the Board and the Chairman and Vice-Chairmen must also be players.

This structure means that the LSO is genuinely owned and governed by its members both constitutionally and in practice and that the members ultimately have the final say. The Orchestra has thrived exactly because of that active self-determination by the people at the heart of the company: the musicians.

Although the members of the Orchestra are shareholders in the company, they receive no financial rights or benefits as shareholders. This is because the LSO is a charity, run on a 'not-for-profit' basis, which prevents distribution of funds to the shareholders. In any case, financial performance is not the key measure of success for any artistic organisation; clearly the organisation must be financially stable, but achieving artistic excellence and reaching the widest possible audience are both far more critical in judging the LSO's success. In addition, a 'for-profit' structure would limit severely the ability to raise much-needed funds from the public sector, charitable trusts and individual donors.

Those players who are attracted to the LSO, and indeed those that have chosen to spend much of their careers as members of the Orchestra, invariably feel a connection and commitment to the company which is far greater than their counterparts in so-called 'contract' orchestras in which the musicians are employed by the orchestra's management. The environment created fosters a long-term perspective where the musicians consider the wider implications of decisions on the company's well-being. This is surely one of the reasons behind the LSO's continued success over such a long period of time, and has allowed the Orchestra to weather the inevitable challenges faced by all artistic organisations during times of economic difficulty.

Another positive outcome of the collective approach is that it encourages a deeper buy-in to decisions which the members have contributed whether directly or indirectly through their elected representatives on the Board. Decision-making is therefore more democratic and inclusive than in most organisations, and whilst this might not always be the fastest way for decisions to be made, the end-result is usually better because of the consultation that takes place.

Inclusivity and outreach

In addition to all of the organisational benefits of the self-governing model, there is a further compelling reason why this structure succeeds. In any field – be it business, law, science, politics, sport or the arts – the act of bringing together a large group of exceptionally talented individuals and organising them in a way such that the whole is substantially more than the sum of the parts is never straightforward. It can be done, but as a general rule the approach of top-down management of such individuals can create tensions which may easily reach breaking point. A more inclusive approach, which is embedded in the organisation's culture rather than being created just for appearance's sake, can bring out the very best in those who are central to the organisation's success.

One clear example of how the LSO's structure has driven its success, particularly in recent years is through the LSO's community and education programme, LSO Discovery, which began to evolve in 1991 and now reaches over 60,000 people of all ages each year. Every member of the LSO participates in one or more of LSO Discovery's projects and these are seen by the musicians as complementary to their role with the LSO as their concert performances.

It is unlikely that LSO Discovery would have grown to its current scale without this depth of commitment by the members of the Orchestra and it could easily have been no more than a minor ancillary activity rather than a core part of the LSO's work. The success of LSO Discovery has in turn strengthened the Orchestra by attracting players who wish to work for an organisation which values such outreach work. Furthermore, many of LSO Discovery's programmes have helped to train promising young musicians who have subsequently been appointed as members of the Orchestra themselves. This is a truly virtuous circle which is led by the LSO's musicians and thrives on the energy that they contribute to LSO Discovery.

Risks and opportunities

The long-term perspective that can be taken by the LSO's members is similar to that enjoyed by family-owned businesses which avoid the need to hit short-term financial targets simply to keep investors happy. For the LSO this translates into the ability of the members to recognise and accept the need to do what is in the company's best interests even if that means financial restraint, such as in times of economic uncertainty.

This long-term view also allows for greater risk-taking and wider ambitions than organisations that might feel the need to 'play safe'. For example, the LSO's decision in the late 1990s to acquire and convert the derelict church of St Luke's on Old Street in Islington and to convert it into a new music education centre showed ambition but was not without its risks. Raising the funds to redevelop the building was an immense task and there was no guarantee that the business plan for LSO St Luke's, as it is now known, would succeed. There was much debate about whether the Orchestra should embark on such a project but ultimately the LSO's vision and the confidence of its members to press ahead with the project despite many uncertainties, has been proven to be inspired. LSO St Luke's celebrates its 10th anniversary since opening in 2013 and is a thriving part of the local community, provides much needed rehearsal and music education facilities for the Orchestra all within a viable business model.

Inevitably a democratic structure does create some challenges, but the LSO has found ways to manage these. The risk of decisions being slowed down excessively, for example if all members were to seek a role in detailed decision-making, is avoided through a clear Committee structure. In particular, the LSO's Orchestra Committee, comprising nine elected players (including the player Board members) has responsibility for all artistic and operational issues relating to the Orchestra and its players. Similarly, a Finance Committee has delegated authority to oversee financial and commercial matters. Both of these Committees report to the full Board which ultimately ratifies their approach.

Another risk is that the player-led approach limits the range of skills and experience available to guide the company's plans and operations. However, the external Board directors provide valuable advice as do members of the LSO's Advisory Council, by bringing knowledge, skills and experience from many different fields. In addition, the staff team comprises individuals who are expert in their specific areas with the same high standards and professionalism expected of them as of the musicians in the Orchestra. This approach allows the players to maintain control of the Orchestra's strategy and activities but equally allows them to focus most of their energies on their musical endeavours.

The LSO's self-governing model is not unique and it is clearly not the only way that an orchestra can be run successfully. What cannot be disputed, however, is that the LSO has throughout its history benefitted immensely from the central role held by its members in its governance and ownership structure and will continue to do so in the years ahead.

Kathryn McDowell is the Managing Director of London Symphony Orchestra.

Part Two:
Public Services

24. The Public Service Mutual: A revolution in the making?

Professor Julian Le Grand

In the 1990s, state-funded public services in Britain underwent a revolution. The state continued to finance those services but pulled back from providing the services themselves. From prisons to refuse collection, from leisure centres to hospitals and schools, private firms, charities, trusts and other independent organisations increasingly replaced state monopoly providers, each competing for contracts from state commissioners to provide the service concerned.

In recent years another new kind of provider has emerged: the public service mutual. In many areas public sector employees have taken the initiative to 'spin out' from the sector and to form their own organisations to provide the service concerned. These new organisations are mutuals, using various mechanisms for employee engagement to embed staff voice at the heart of the organisation. Sometimes they are fully owned by their staff; sometimes they take the form of a joint venture with an equity or community stake alongside the employees' stakes; but, one way or another, all have a substantial degree of employee engagement and control over the management of the enterprise.

The development of these mutuals has had strong support from all parts of the political spectrum. Under the previous Government, the Department of Health encouraged the setting up of mutuals in community health, while the Department for Education piloted social work 'practices', small professional partnerships of social workers modelled on GP practices. Within the current Coalition Government, ministers from both parties have expressed strong support for the principle of employee engagement across both private and public sectors. In particular, Cabinet Office Minister Francis Maude MP set up the Mutuals Task Force, an independent body that I chair, to help drive the idea forward, and developed the Cabinet Office's £10 million Mutuals Support Programme (MSP), which provides projects with access to professional advice, from business planning to legal and marketing support. In late January, for example, Francis Maude announced up to £100,000 of MSP support for library staff in York looking to become the country's first mutual library and archive service.

And fledgling mutuals are taking flight. Since 2010, the number of public service mutuals in England has increased from 9 to at least 66, together delivering around £1 billion worth of public services. These organisations form part of a pipeline of over 100 established and developing public service mutuals projects that the Cabinet Office is currently tracking across the country. The range of services for which a mutual delivery model is being considered is also diversifying quickly, with the idea now being explored in thirteen different sectors ranging from further education to fire and rescue services.

The drive behind public service mutuals comes from the increasing body of evidence and experience that they can be transformative. The release of the energy and the enthusiasm of staff can increase the services' value for money, the satisfaction they give to users and their overall effectiveness; while mutualisation can also improve the staff's sense of well-being and conditions of service.

The evidence that mutuals can indeed achieve all this has been demonstrated in two reports produced by the Mutuals Taskforce.[1] The studies reviewed showed that mutuals had lower production costs and (generally) higher productivity than non-mutuals. Moreover, productivity was likely to be higher, the greater the extent of employee-ownership and the smaller the company. Mutuals were also demonstrated to be innovative, profitable and more resilient to changes in the economic climate. They showed higher consumer satisfaction, lower absenteeism and sickness rates, less staff turnover, and increased levels of staff commitment to, and enthusiasm for, their work. And employees tended to be better off from being an owner, both in terms of financial income and other benefits such as increased job satisfaction.

1 The Cabinet Office (2011) *Our Mutual Friends: Making the Case for Public Sector Mutuals* [Online]. Available at: http://www.cabinetoffice.gov.uk/sites/default/files/resources/Public-Service-Mutuals-next-steps.pdf [Accessed 18th February 2013].

It is worth noting that the results reviewed were not specific to a particular service, technology of production or market structure. On the contrary, they seemed to apply whatever good or service was being provided, whatever production system or technology is used, and in whatever market the organisations concerned are operating. Nor were they specific to any country or culture. Instead, whatever other factors were controlled for, the degree of workers' participation always emerged as an important driver of performance.

Similar evidence and experiences are beginning to emerge from the recently established mutuals being set up in England. In community health, service provider NAViGO's 2011 staff survey, 79% of staff believed that care of patients/service users was their Trust's top priority, compared to a national average of 66%.[2] City Health Care Partnership CIC in Hull, also featured within this collection, has delivered an increase in patient satisfaction, a reduction in staff sickness and £600,000 a year of efficiency savings since spinning out. Public service mutuals have also won new contracts and are providing new services: healthy living centre Social adVentures, for instance, won the RBS SE100 Index Growth Champion award, as its annual turnover increased 262%.[3]

But public service mutuals may be attractive for a number of reasons other than simply their proven effectiveness. First, there is the question of trust. In some public services, it can be difficult for either service users or service commissioners properly to monitor the quality of the service provided. In such cases, there is a risk that unmonitored providers can reduce their costs by lowering quality in a fashion that is unnoticed and thereby increase their profits or surpluses. Hence it is necessary for both commissioners and users to have some degree of trust in providers: trust that they will not act as 'knaves', exploiting their information advantage to their own benefit and to the detriment of users.[4]

Reassuringly, the English experience indicates that public service mutuals are generally staffed by knights rather than knaves. Many are trained professionals with a professional, public service ethos: doctors, nurses, teachers, social workers, probation officers. In fact, generally the staff are dedicated public servants. That is, they are committed to helping the people who need the services they provide and to meeting the needs of their communities. Indeed, that is why they have gone into the public service in the first place – and the reason why they want to spin out from a public sector bureaucracy and form a mutual is because they feel that they can serve the public better by so doing.

In many instances, this means not just delivering their core services, but actively engaging with other organisations and projects in their locality. Anglian Community Enterprise, a healthcare service provider in north Essex, operates a Social Impact Fund which contributed over £40,000 to fourteen local initiatives in 2012, including a project delivering a series of cycle rides to improve health and wellbeing and providing a table-tennis table to a group for those with learning disabilities. Swindon-based SEQOL, a health and social care provider, is building relationships with the local VCSE sector, holding working meetings to share experiences and best practice. Students from Blackpool College have been volunteering at Spiral Health, after staff from the mutual went to speak at the College about their work.

That is not to imply that knightly motivations always provide sufficient incentives in all circumstances to provide a good service, especially in times of social and technological change. Knights can be as conservative as anyone else in the workplace, and reluctant to embrace innovation. Here competition can help: competitive markets are good at generating innovation, whether it is competition within the market,

2 NAViGO (2012) *Quality Account 2011-12* [Online]. Available at: http://www.nhs.uk/aboutNHSChoices/professionals/healthandcareprofessionals/quality-accounts/Documents/2012/navigo-quality-account.pdf, p.26 [Accessed 18th February 2013].

3 Royal Bank of Scotland (2012) *Growth Champion 2012 - Winner: Social adVentures* [Online]. Available at: http://se100.net/growth-champion-2012/ [Accessed 8th March 2013].

4 Le Grand, J. (2006) *Motivation, Agency and Public Policy; of Knights and Knaves, Pawns and Queens,* Oxford: Oxford University Press.

or competition for the market with a licence granted that is periodically open to competitive tendering. Alternatively, if competition is impossible and a degree of monopoly is inevitable, then more broadly based mutuals could be developed, with community and user interests also represented in management as well as employees.

A second reason for the attractiveness of mutuals as public service providers concerns the staff's freedoms. Experts and professionals work best when they have a broad freedom of action; when they can make judgements as to how to provide a good service; when they can exercise their discretion in making decisions; when they can act entrepreneurially, and innovate independently. In contrast, they tend to respond badly to pressures that might compromise their independence: to outside direction, to strict oversight and to heavy monitoring. In circumstances where they are subject to such direction - as, for instance, if they are lower rank employees of a local authority, a health trust or a central government department - they can feel put-upon, resentful, and demoralised. This damages their personal sense of self and of well-being; and, even more importantly, it damages both their motivation and their ability to provide a good service.

Contrast this with a situation where public servants have their own organisation – one which they own and control. There they are better placed to take charge of their own work and work-lives. They can use their knowledge and expertise to better effect. They are not constrained by orders and directives from others more distant and less knowledgeable than themselves. They can take decisions – and take responsibility for those decisions. They can innovate: they can try new ways of doing things without endlessly waiting for approval from a distant, conservative hierarchy. And, as we have seen from the evidence above, they can provide a better service with less resources: one that is more productive, better value-for-money - and with more satisfied users.

So in many ways the case for public service mutuals is in part a question of motivation and in part one of freedom. Mutuals can be trusted to perform well in the delivery of public services, both because of their staff motivation, and because of the freedoms they give to staff to exercise that motivation. This case has not been fully accepted throughout the public sector, so a complete mutuals revolution is not yet upon us; but, as the virtues of public service mutualisation become increasingly apparent, it may not be far away.

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25. The Potential for Greater Social Value: Mutuals and social enterprises in public service markets

Jonathan Bland

Mutuals, social enterprises and co-operatives[1] have all gained recognition over the last 20 years for the high quality, cost-effective, creative role they can play in running public services. Some of today's most successful social businesses were created as innovative responses to the financial challenges of the 1990s. Now more than ever, social purpose driven solutions are needed to provide services for public benefit and to meet the personalised needs of users.

1 'Social enterprises" being defined as organisations that trade primarily for social purposes and invest the majority of their profits into their social mission. I include mutuals and co-operatives within this definition as they are socially owned and benefit members rather than shareholders. I use the term 'social business' to describe all of these models.

The future of public services is at a crucial moment. We can embrace the solutions offered by such social businesses, or watch while outsourcing to the usual suspects occurs on an unprecedented scale. This engenders an unmitigated, complacent and passive acceptance of public services run for the benefit of private shareholder interests, far away from the local communities that the services are commissioned to target, and increasingly to benefit interests outside the UK.

With a commitment to social value, rather than shareholder value, mutuals and co-operatives offer a clear alternative to standard business ownership models.

Business models that deliver innovation, transformation and social value

Using a variety of different legal and organisational forms, social businesses can innovate in service delivery and deliver social value in ways that are quite distinct from in-house provision or private business. They do this because their models have a primary social purpose (as opposed to maximising private profit), and offer staff and users the chance to participate in the ownership and control of a social business rather than to work in a public body.[2]

The different organisational cultures, increased levels of staff commitment and involvement of users in service delivery can result in improved services, productivity gains and savings that are reinvested in creating social value. For example, some of the best of the health service mutuals have achieved substantial productivity improvements through reducing levels of staff sickness and turnover, lowering management and administration costs. By empowering staff and users, they harness people's commitment to work in different ways. This may be through more flexible working practices or by radically transforming the way services are delivered.[3] These models offer a radically different way of doing things.[4]

Freed from bureaucratic central control and motivated by social purpose, these businesses seek new solutions to complex problems. They judge and take sensible risks. They can look at a public service issue and determine that it should and could be delivered differently. They have strong connections to local communities and the solutions they create deliver enhanced social value in the performance of the service. In many cases, mutuals and local co-operatives are significant economic players in their locality. They also use employment policies that explicitly recruit and develop local people, very often from some of the most disadvantaged sections of society. For example, NAViGO (a mutual spin-out in Grimsby) employs users of its mental health services in the production of all its catering, cleaning and other ancillary services and has established Tukes, a subsidiary company that provides volunteering, training and employment opportunities.

2 As yet there is little detailed research in this field. The arguments made here are based on the experiences of social enterprise members of E3M, drawn from visits, interviews and discussions with their leaders and staff. Currently, the E3M members include 23 social enterprises with a collective turnover of £0.5Billion and employ 15000 staff in a range of services including health, care, children and young people, transport and leisure and cultural services.

3 In interviews with the author SSCT, Care Plus, NAViGO, and CHCP all reported reductions in sickness, staff turnover and administration costs.

4 For example, NAViGO in Grimsby is the only mental health service in the UK to give users a voting rights. There are four users on the board and along with the staff representatives have the power to remove the CEO.

These enterprises use 'public benefit' criteria to make decisions and operate in ways that distinguish them from both public and private entities. It is very telling, for example, that City Health Care Partnership (CHCP), NAViGO and Care Plus have all made year on year efficiency savings of 4% since the introduction of deficit reduction targets, without making a single person redundant. This was accomplished by re-skilling employees, re-deploying staff and restructuring services to work more efficiently. In the highly deprived areas where they operate, this not only has an economic benefit, but a social and a health one to the local community. In the words of Andrew Burnell CEO of CHCP: "Why would you want to take the profits out of the city? The social value is that the benefit stays in Hull".

Another example of social value is the flexibility these businesses deploy in providing key services when they are needed. Most private businesses, motivated by shareholder value, will not go outside their contact terms without charging extra fees. These social businesses use their profits to deliver enhanced services that users want but commissioners can't always afford, because the social provider interest is to optimise delivery to the user and the public service commission is a means of doing so. They will also respond differently in times of crisis. For example, in Grimsby during Christmas 2012, an outbreak of the Nova virus resulted in most care services (acute hospitals, GPs and care homes) declaring that they were fully subscribed and could take no further patients. Grimsby's two mutuals (NAViGO and Care Plus) were the only services to continue to admit people for care during that crisis period.

In most markets, mutuals are still relatively marginal. For them to operate successfully and grow in public service markets, a number of things need to happen. The most important of these are:

- Active public service market development and regulation based on ensuring public benefit rather than simply maximising shareholder value
- Better ways of evidencing, articulating and measuring social value
- A better understanding of mutual and co-operative business models
- Access to finance on terms that work for social businesses
- Social businesses working together to increase their impact

A vision for public service markets that serve people's needs

Without a revolutionary shift in our attitudes to public services, all the work of co-operatives, mutuals and social enterprises will remain of marginal concern.

It has been mostly large private sector businesses that have benefited from the opening up of public services to new opportunities.[5] The default position for any alternative to in-house public sector delivery is still private business. The trend has been to create markets that favour businesses seeking to maximise private profit, rather than operating to maximise pubic benefit. Real change in public service delivery would require long-lasting cultural change.

Public service markets should have a clear focus on serving the needs of people and communities. They should operate to maximise pubic benefit rather than shareholder value. Increasingly, the role of conventional profit and competition-driven free markets and in particular the kinds of businesses that operate within them are being questioned as the basis for the delivery of public services.

5 Williams, Z. (2012) "The Shadow State", *Social Enterprise UK* [Online]. Available at: http://www.socialenterprise.org.uk/uploads/files/2012/12/the_shadow_state_3_dec1.pdf [Accessed 1st March 2013].

At the European level, after twenty years of the Single Market, the European Commission has acknowledged the need for the single market to have a social dimension. To support this, there is acknowledgment at this level that there should be greater diversity amongst the types of businesses operating in the market and in particular more social businesses.[6]

In October 2011, the Commission published a Communication on the Social Business Initiative, which set out a series of policy objectives and actions to boost social entrepreneurship. These included measures to increase the visibility of social enterprise, as well as boost social investment and links to wider reforms for EU polices on public procurement and State Aid.[7]

The Localism Act has given local communities the right to 'challenge', i.e. the right to formally propose an alternative to the ways services are delivered by triggering a procurement exercise where they such alternatives have viability. The implementation of the Public Services (Social Value) Act from 31st of January 2013 requires public bodies to consider social value in the pre-procurement stage of commissioning of services. These provisions offer major opportunities to develop diversity and plurality in our public service markets. They offer a real prospect for mutuals and co-operatives – social businesses that can deliver real social value – to win public sector contracts.

Creating and maintaining diverse public service markets requires a clear vision of purpose over procedure, as well as active market development and management by public authorities. The Public Service (Social Value) Act may be a forceful prompt towards market diversity, but it won't be effective without radical changes to procurement frameworks. In particular, there need to be active market policies that facilitate the entrance and growth of social businesses. There are a number of current practices that make this much harder to achieve. These include: the scaling of contracts to allow just a few prime contractors to compete, prioritising balance sheet size over knowledge and experience in the assessment of tenders and requirements for performance guarantee bonds and pension bonds, the latter representing a symptom of misguided risk aversion when the real risk is a service delivered without care. Unless addressed, these practices will all lead to markets dominated by oligopolies of a few large private providers, acting in the corporate interest, rather than a diverse range of smaller innovative market actors creating social value for users and the community. In particular, we are in need of policies that can more effectively encourage the 'spinning-out' of public sector mutuals.

Boosting the role of social business in public service markets

How can we encourage mutuals and other social businesses that deliver great value to take on more public services? I suggest that as reforms to public services unfold, the following must be taken into account:

6 Following the report by Mario Monti on the Single Market in May 2010, the European Commission published the Single Market Act in 2011, laying out future policy for the European Single Market. Monti's report had revealed a lack of faith by many European citizens in a Single Market based purely on economic goals and stressed the need to address social issues within the operation of the Market. See: Monti, M. (2010) *A New Strategy for the Single Market: At the Service of Europe's Economy and Society* [Online]. Available at: http://ec.europa.eu/internal_market/strategy/docs/monti_report_final_10_05_2010_en.pdf [Accessed 1st March 2013].

7 European Commission (2011) *Social Business Initiative* [Online]. Available at: http://ec.europa.eu/internal_market/social_business/docs/COM2011_682_en.pdf [Accessed 1st March 2013].

Markets

The Government and public bodies should encourage active market development and guiding regulation by commissioners to achieve public benefit not to simply build shareholder value. This should:

- Focus on purpose not process
- Encourage and stimulate market diversity, correcting the tendency towards oligopoly and large scale contracts
- Change commissioning practices through better skills and knowledge, and offer training in how to commission for social value
- Encourage practices such as open-book accounting that promote transparency and partnership working
- Focus selection criteria on skills, experience and capacity to deliver and not on balance sheet size
- Devolve more power to the end user over the choice of provider

Models

Social businesses need to develop and enhance their own competence to trade in markets. This includes:

- Developing critical mass bidding teams, horizon scanning and access to market intelligence
- Deepening of knowledge about the models for social enterprise growth including the use of group structures, joint ventures and consortia
- Learning from experience of others in the UK and abroad[8]

Money

Mutuals need to access capital on terms that fit their models, rather than ones that meet the interests of venture capitalists and foreign investors. Financial regulation must also adapt to accommodate the particular nature and requirements of social finance. In the finance world, there is still limited understanding of social enterprise and co-operative models. Public support for growing social investment should:

- Back the creation of funds that do not simply work to a 'finance first' rational – those that use financial instruments compatible with social enterprises, co-operative and mutual models. Forcing social businesses to abandon their social focus in order to provide a traditional 'exit model' for venture capital misses the point of social business.
- Build a pipeline for scale and opportunities for investment on the right terms: all of the funds created so far, whether from government or other sources, are small compared to the resources of private business.

Measurement of social value

Commissioners and investors need to be able to capture and evidence social value in order to demonstrate social impact. Further efforts are required to develop practical approaches to doing so. This includes:

- Establishing common frameworks that can define, articulate and measure social value
- Ensuring that what is measured is actually useful in shaping what social enterprises do to improve services

8 Bland, J. (2011) "Time to get serious: International lessons for developing public service mutuals", *Co-operatives UK* [Online]. Available at: http://www.uk.coop/sites/storage/public/downloads/international_public_service_mutuals.pdf [Accessed 1st March 2013].

- Recognising that the essential purposes of public sector services and social enterprises are closely aligned

Harnessing the innovation of social business models, including co-operatives and mutuals, requires creative commissioning and bold reform policies. Steps now need to be taken to widen access to public service delivery, with much clearer guidance from Government as to how public sector organisations can incorporate mutuals and co-operatives into their service networks. Creating a public sector mutual sector worthy of the name will require firm and meaningful action if it is to reach its full potential.

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26. Re-Grounding Public Service: An ethic of mutual aid?

Francis Davis

Nowhere are the competing metaphors for 'mutuality' and innovation more contested than in the Coalition's reach for 'mutuals'.[1] In this short contribution, I tease out some of the fault lines of debate so as to place present activism in context. In the hope of unlocking new resources for social inclusion, I suggest in turn a fresh search for new pools of social capital to develop 'mutual' ventures to address pressing social needs. Here I describe three particular initiatives which I judge to symbolise new potentialities. In conclusion, I suggest that the coming decade of scarcity demands not a theological argument between competing institutional forms of co-operation but the renewal of an ethic of mutuality in every social institution in order that we might re-found public service for new times.

1 'Mutuality', 'employee–ownership' and 'social enterprise' are, for all their virtues, highly contested terms and diverse institutional forms. See, for example: Kropotkin, P. (1902) *Mutual Aid: A Factor of Evolution*, London: Heinemann. And also: Kasmir, S. (1996) *The Myth of Mondragon: Co-operatives, Politics, and Working Class Life in A Basque Tow*, New York: State University of New York; and Elkington, J. and Hartigan, P. (2008) *The Power of Unreasonable People: How Entrepreneurs Create Markets to Change the World*, Boston: Harvard Business School Press.

Participatory governance meets de-monopolisation

When the Coalition acceded to power, their language perplexed many activists, civil servants and public figures on the centre-left. In his famous New Statesman editorial, the former Archbishop, Rowan Williams expressed reservations that a Conservative-led government could claim any authentic commitment to mutuals which were, of their nature, an invention of the 'associational left.'[2] Meanwhile, the leadership of the network of community organisations that comprise London Citizens found themselves increasingly frustrated as Ministers listened uncomprehendingly to their arguments that volunteers in Horsham were not true apostles of the Chicago radical Saul Alinsky, and so could not be described as genuine 'community organisers.'[3]

Aside from the reality that Christian Democratic parties have long been surrounded by cross-class co-operatives and trade unions, to an extent that makes Archbishop Williams' comments seem excessively Anglo-centric,[4] UK Conservative ministers had not, as some of their language had left the centre left to momentarily believe, committed to a deliberative democracy or to anarcho-radicalism, social democracy or Marxism in championing a bigger or more mutual society. Thus while some of their advisors had read Peter Kropotkin, Jonathan Michie, Julian Le Grand, Saul Alinsky and Paulo Freire in their originals, others had only encountered them as models for motivation in works of business strategy.[5]

The key inspiration for the Conservatives was rather the possibility of de-monopolisation and a driven demand to open up public sector services by reaching for as many institutional forms as could be mustered beyond the bureaucracy to create more conditions of competition. Why pursue the costly politics and theorising of co-determination and participation when there were concrete ventures to spin-out, launch and run?

This de-monopolising imperative had the effect of linking mutuals significantly to public service reform in general, and the Cabinet Office in particular, rather than driving their insights deep into the culture of every department of state. Despite the best efforts of a talented 'mutuals team', the then most significant strategic opportunities could not be landed. There was, for example, no persuading the Treasury that a re-mutualised Northern Rock would not be under-capitalised.[6] When the Association of Greater Manchester Authorities acquired Stansted airport for £1.5 billion, no Coalition Minister had advocated a co-operative alternative. No university has been persuaded to mutualise. And as Post Office privatisation draws nearer, the mutual moment for its future has not yet emerged. The Coalition has accelerated the breeding of small scale mutual and employee-owned enterprises while letting bigger fish swim away. Of course, nothing in the Coalition's approach would have prevented this but the urge to de-monpolise market institutions seems not to have been strong as the urge to de-monopolise public sector ones.

2 Williams, R. (2010) "The government needs to know how afraid people are", *New Statesman* [Online]. Available at: http://www.newstatesman.com/uk-politics/2011/06/long-term-government-democracy [Accessed 26th February 2013].

3 Shortly after the 2010 election, the Cabinet Office hosted a seminar specifically to seek to clarify some of these competing claims. They were also the subject of meetings between Ministers from the Cabinet Office and DCLG at this time.

4 See, for example: Fogarty, M. (1957) *Christian Democracy in Western Europe,* 1820-1953, London: Routledge.

5 See, for example, Hamel, G. (2000) *Leading the Revolution.* Boston: Harvard Business Press.

6 HM Treasury (2011) *Statement by the Financial Secretary to the Treasury, Mark Hoban MP, on Northern Rock* [Online]. Available at: http://www.hm-treasury.gov.uk/statement_fst_211111.htm [Accessed 26th February 2013].

Labour's subsequent response has been fascinating. On the one hand, Shadow Secretary of State for Local Government Hilary Benn has lamented the '2000 central targets' that the previous government dropped off on potential local innovators so as to stifle their initiative. On the other, the Labour led Co-operative Councils Network has sought to build its own narrative of 'mutuality' with an eclectic mix of models ranging from relatively traditional consultation, to citizen engagement through to fully co-operative stock transfers of housing.[7] Labour's rejection of the Coalition in this realm is consequently only to be found in practice in some places some of the time. Meanwhile, in others it has developed the logic of mutuality and a bigger society on a scale often larger in scope than Ministers may have pursued. For example the Rochdale Housing Mutual, included elsewhere in this collection, and the advocacy for the re-mutualisation of former building societies.

Re-founding public service

While the present moment then presents an atmosphere of intense theoretical confusion and contestation, there are some reasons to hope that in the sheer variety of Labour's response, and the notable openness of the Coalition to 'barrier busting', is the kernel of the conclusion of a bi-partisan realisation that the mass produced hierarchical welfare state has had its day; and also that public service in the coming decade of ongoing austerity will need fresh approaches, decentralised governance, localised budgets and enhanced capability.

In each locality, a re-founded ethic of mutuality would focus on turning every social institution towards an operationalisation of social inclusion, responsibility and justice.

Some of this future will need new financing strategies, such as the revolving funds announced by Cities Minister Greg Clark MP as part of Bristol's role in the much lauded City Deals process. Some will need new technology: for example, the striking innovations developed by the Mayor of Boston's 'Urban Mechanics' institute using small scale apps to provoke citizen contributions to cost saving, participation and safety.[8] It could also embrace 'living wage' zones[9] or – better still – private philanthropy backed 'children's zones'.[10] But we will also have to search for new hybrid models ripe for replication and which can unlock under-sweated assets and cash-flows in fresh ways.

As exemplars of such an approach, albeit one that will have to go much further and on a much greater scale, I now turn to a bank, a council and a Cathedral.

In search of under sweated assets and new 'mutual' ventures: a bank, a council and a cathedral

Zweite Sparkasse [11]

The 'Rest' – or 'First' – bank in Vienna is owned by a foundation which itself has become a pioneer of new approaches to social integration, innovation and enterprise. One of Europe's successful retail banks, Erste, deliberately avoided exposure to speculation before 2008 and so emerged from the banking crisis in good condition with a large branch structure stretching from Vienna across central and South East Europe.

7 See Co-operative Councils Network (2013) *About* [Online]. Available at: http://www.councils.coop/about/ [Accessed 26th February 2013]. And also Co-operative Councils (2013) *Co-operative councils set out policy agenda* [Online]. Available at: http://www.councils.coop/2013/01/16/co-operative-councils-set-out-policy-agenda [Accessed 26th February 2013].

8 City of Boston (2013) *Mayor's Office of New Urban Mechanics* [Online]. Available at: http://www.cityofboston.gov/newurbanmechanics/ [Accessed 26th February 2013].

9 Institute for Public Policy Research (2013) *Beyond the Bottom Line: The challenges and opportunities of a living wage* [Online]. Available at: http://www.ippr.org/publication/55/10162/beyond-the-bottom-line-the-challenges-and-opportunities-of-a-living-wage [Accessed 26th February 2013].

10 Tough, P. (2009) *Whatever it Takes: Geoffrey Canada's Quest to Change Harlem and America,* Boston: Mariner Books.

11 See also: Davis, F. (2009) "Banking on the church", *Guardian* [Online]. Available at: http://www.guardian.co.uk/commentisfree/belief/2009/feb/02/religion-catholicism [Accessed 26th February 2013].

Prompted by its owning foundation, Die Zweite Sparkasse (the second savings bank) was launched in 2006 in a partnership between the bank and the voluntary sector federation Caritas Austria. It represents a replicable response at scale to financial exclusion where a patchwork quilt of credit unions cannot compete with high interest, high penalty private sector lenders.

Zweite Sparkasse is a 'bank for the unbankable', which in addition to its own branches uses branches of Erste Bank as its own outside of normal opening hours. It spread quickly to Austria's regions. It is staffed by volunteers from the banking sector.

Services offered by this new social bank include a basic account, a bank card, an investment account with interest and an optional building loan contract. In co-operation with a local insurance provider, cover is also available at a discounted cost. New customers are automatically able to access free legal advice on a quarterly basis. Crucially, the credit account is not a stand-alone product aimed at people in personal distress, but forms part of a multi-faceted package of counseling and support services provided by welfare organisations. When combined, these services and support facilities cut individual outgoings on electricity, food and other services while providing a secure base for some saving when possible. Clients are already moving into mainstream banking.

The model is now being extended to Romania where pyramid selling scandals had damaged the banks even before the current crisis. Here, in rural areas, the Erste Foundation is testing the use of mobile phone technology as a replacement for a traditional branch structure.

Cheshire West and Chester Council: Regulatory services

Cheshire West and Chester Council (CWAC) is among the most innovative in the country. A unitary authority, it comprises neighbourhoods of significant wealth, rural districts and areas challenged by intense poverty and low aspiration. Even before Labour's invention of 'Total Place', CWAC was trialing shared budgets. Under the Coalition it has been one of small number of designated 'community budgets' vanguards where spending across all local state bodies is undertaken on a collaborative basis. It is now advocating a full pooling of budgets so that local agencies who invest to save may share the upsides of such investment across Whitehall silos, as well as pooling any potential risks.

As a development of this organisational re-invention, a group of senior managers are currently championing a move to a 'mutual' spin out of regulatory services. From car parking to marriages, environmental health to licensing, these are services that touch on a community's every day activities and interests and have never before been the focus of 'mutualising' attention.

Thus, while the CWAC regulatory services mutual intends to become a full co-operative, its most differentiating feature is that it is exploring mutualisation in an area of service provision that until now has not been considered 'ripe' for such an innovation. In turn, this will require national shifts in policy and local habits so that red tape does not restrict the size of such a market as a new mutual in this area grows. There is a role here not only for central government to help but also the LGA and SOLACE to crack open conversations about how far service mutualisation can be pushed.

Cathedral Innovation Centre

Founded in Portsmouth in 2012, the Cathedral Innovation Centre (CIC) was significantly inspired by the Jewish Innovation Hub established by the Pears Foundation in North London.

Portsmouth Anglican Cathedral made available some under-used office space at a pepper corn rent. A new co-operative legal entity was registered with the Financial Services Authority. The CIC was then awarded 'catalyst' status by the Royal Society of Arts. Those seeking to launch a new firm, social venture or entrepreneurial response to pressing need are able to become members of the CIC where they receive a developing package of finance, cheap to discounted office space, a mentor recruited to give their time from the RSA and religious congregations across the central South, and pooled marketing support.

During 2013, a community share flotation will be launched seeking £150,000 of funding under the Government's SEED scheme which attracts 50% income tax relief for those who pay it. With this flotation in mind, offers of spare religious properties to be made available as additional innovation centres have been received in the same LEP area but also in the East and North West of the country. The CIC aims to replicate its model in every region by 2016.

Before being launched, the CIC is full and has a waiting list. For a total cost of £9000, it has opened 14 start-up desks (while a government-backed equivalent in the same region is still working its way through a £2 million grant from BIS). This year, it is expected that in kind pledges will reach a value in excess of a million pounds.

Key questions and conclusions

Die Zweite Sparkasse poses a challenge to the mutual sector and the state. When some UK credit unions take three days to respond to phone calls, and Wonga.com takes ten minutes to make a loan, how might current Treasury ownership of large banks be used to unlock the unsweated capacity of their branches and associated infrastructure after hours? The Cheshire West and Chester example raises a further question namely which other council services once considered sacrosanct could become more responsive, innovative and entrepreneurial in mutual hands?: The policy functions? Economic development? The council owned airport or more? And the Cathedral Innovation Centre, although small, provides not only an alternative model for the Church's sense of social responsibility after the 'occupy' demonstrations at St Paul's, but also harnesses new investors, mentoring networks and off – civic balance sheet property to unlock economic inclusion. None of these claim to be the perfect response in their area of specialism but each point to the ethic of collaboration we now need.

There is now a unique opportunity to re-found public service by teasing out such models, institutions and assets whose potential has fallen under the radar of Whitehall targets or seen by prisms dominated by traditional shareholder, bureaucratic or small business lenses. I outlined three particular initiatives which reflect that new attitude of mind.

A new consensus should be within our grasp, so long as we embrace mutuality as an ethic for public service rather than a blueprint for our times.

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27. Mutual Prisons?

Dave Nicholson, Cliff Mills and Gareth Nash

In public sector reform, we are used to hearing about co-operative and mutual initiatives in areas such as health, local government and education. But mutual prisons?

It may not be quite as novel as it sounds, but before getting into that, how does the idea of co-operation fit into the context of criminal justice? Those convicted of criminal acts are liable to face penalties ranging from a fine to community service to imprisonment. Behind the idea of a penalty lie a number of theories which include punishment and deterrence on the one hand, and correction, reform and rehabilitation on the other. If society is to be protected and law and order maintained, criminals need to pay for and be seen to pay for their crimes; and they need to learn to desist from crime in the future.

However, the current high levels of re-offending suggest that under existing arrangements offenders are not desisting from crime. Some would argue for longer sentences, but aside from the question of whether harsher punishment would make any difference, our prisons are full. In a time of austerity, government is looking to reduce the number of offenders in prison, rather than increase them.

We face the challenge of how to improve the current system to make it more effective and, if possible, cheaper. A key priority is therefore to promote desistance. This is the context in which we consider whether a co-operative or mutual approach may have something to offer. Can it help?

Some of the latest research into what works in promoting desistance emphasises the relational context within which desistance is co-produced, suggesting change management processes should progress beyond their current focus on the individual. Interventions based solely on the skills, knowledge and personal resources of the individual are not enough.[1] While developing human capital (offenders' skills and capacities) is important, enhancing social capital (relationships and networks) is also considered to be vital. The centrality of active and participative experiences of supervision – co-ownership of the rehabilitation process– is felt to be important.[2] Ideally this should "involve current and former service users in co-designing, co-developing, co-implementing and co-evaluating a desistance-supporting intervention process".[3] Desistance, then, is built on reciprocal pro-social relationships; mutual organisations are, by definition, similarly based on reciprocal relationships.

This is by no means new. The 1791 Penitentiary Act "expressly provided that both officers and convicts should be stimulated by sharing in the profits" of prison labour.[4] As well as this proposed co-production of prison labour, there are also historical precedents for prisoner co-management of the prison itself as part of their rehabilitation and re-education: prisoners learning to act responsibly by being given responsibility. There are also administrative reasons for prisoner democracy-providing a mechanism for resolving conflict among contending prisoner groups as well as between the prison administration and the prisoners. Democratic prison management has thus been promoted to help normalise prison life, as well as to provide a desistance-supporting intervention process of re-socialisation through prisoners taking responsibility for managing their own prison and prison services.

Thus Thomas Mott Osborne set up 'The Mutual Welfare League' in Sing Sing Prison, New York State in 1914. This was a prisoner membership organisation which managed prison services and provided a 'through the prison gate' resettlement support and job brokerage service to its members.[5] Similarly, in 1928, Alderson Women's Prison in West Virginia set up 'Co-operative Clubs' in each of the prison's 14 cottages to achieve the same ends,[6] while more recently in 1973 'the prisoners ran Walpole' and participated fully in their own 'corrections'.[7]

1 McNeill, F. and Weaver, B. (2010) *Changing Lives? Desistance Research and Offender Management,* Glasgow: Scottish Centre for Crime and Justice Research.

2 Weaver, B. (2011) "Co-Producing Community Justice: The Transformative Potential of Personalisation for Penal Sanctions", *British Journal of Social Work,*41(6). pp.1-20.

3 McNeill, F. and Weaver, B. (2010) *Changing Lives? Desistance Research and Offender Management,* Glasgow: Scottish Centre for Crime and Justice Research.

4 Webb, S. and Webb, B.P. (1922) *English Prisons Under Local Government,* London: Longmans.

5 Hickey, J.E. and Scharf, P.L. (1980) *Toward a Just Correctional System,* San Francisco: Jossey-Bass Publishers.

6 Toch, H. (1994) "Democratising Prisons", *The Prison Journal,* 74(1).pp. 62-72.

7 Bissonette, J. (2008) *When The Prisoners Ran Walpole,* Cambridge: South End Press.

Where many of these and other similar initiatives fell down was in the perhaps predictable eventual abuse of their new-found power by the prisoners themselves. In a criminal justice context there was no appropriate structural governance mechanism to hold in balance the competing interests of the different relevant groups of people who all have a legitimate interest in the outcomes. It is precisely this problem that a modern mutual model seeks to address in other sectors, by involving a range of different interest groups in ownership and governance. In a number of public services, a range of different voices need to be heard in order to work out what is best for everyone, and this 'multi-stakeholder' approach can fundamentally change the way a service operates.

In prisons and prison services, there is a wide range of different and competing staff and service user stakeholder 'constituencies'– prison staff, prisoners, courts, local communities, victims and health professionals. Consideration of the multi-stakeholder approach to service delivery would seem to be as appropriate in this public service as in other public services. But it becomes even more important in the particular case of rehabilitation services for prisoners because of the ways in which mutuals can generate the social capital that research suggests supports desistance.[8]

Informal multi-stakeholder management arrangements have in fact long been a feature of some UK prisons. Prison Councils are currently being promoted by the National Offender Management Service, and Democratic Therapeutic Communities in prisons have successfully converted the prison into a place of therapy and education, made possible by the co-management and co-responsibility of the two constituencies that shape the prison setting: prison staff and inmates.[9] Without such therapy and education, it is hardly reasonable to expect to reduce re-offending rates and reinforce desistance. But it is in the contemporary Italian Social Co-operative model that formal multi-stakeholder mutual management arrangements of prison employment and rehabilitation services are most clearly seen. Thus a prison mutual runs a micro-brewery in Saluzzo Prison in Italy, producing high quality craft beers which are exported across Europe and the United States. The same mutual also operates in Turin Prison: processing, roasting and packaging coffee and cocoa for the Pausa Café ('Coffee Break') chain of co-operative Café Bars. Prisoners join the mutual by paying a small fee. Membership then guarantees them paid employment during their time in prison as well as after their release, together with resettlement support and, as members of the mutual, they also share in the profits and decision making of the business as a whole.

Social Co-operatives – or multi-stakeholder mutuals – like Pausa are a fast developing feature of the Italian Criminal Justice System and are increasingly found throughout the EU and elsewhere. Some are entirely prisoner and ex-prisoner owned and managed, but most includes Criminal Justice and Social Work staff in their membership to provide additional rehabilitation and resettlement support services. Some work particularly with prisoners with drug and alcohol problems, while others work with all categories of offender. Some operate both in prisons and in the community offering 'through the prison gate' employment and mutual support, while others provide day release employment and a guarantee of continued employment on release.

In a similar way, the Exodus Social Co-operative in Caprianodel Colle in Italy manufactures semi-finished window and door frames. It has serving prisoners on day release as members, together with ex-prisoners, skilled tradespeople from the local community and a social worker, psychologist, psychiatrist and criminologist who provide additional resettlement and rehabilitation services in the context of membership and employment in the co-operative. It also offers legal services to its members (pays 50% of

8 Weaver, B. and Nicholson, D. (2012) "Co-producing Change: Resettlement as a Mutual Enterprise", *The Prison Service Journal,* 204. pp. 9-17.

9 Parker, M. (2007) *Dynamic Security: The Democratic Therapeutic Community in Prison,* London: Jessica Kingsley Publishers.

any legal costs incurred by them), and offers a job brokerage service to help members move on into the mainstream labour market. This helps maintain a regular throughput of new members and provides an ongoing employment, resettlement and rehabilitation service for local offenders.

Multi-stakeholder mutuals based on this Social Co-operative model share some features with what in the UK are called Social Firms or Work Integration Social Enterprises (WISE). But what they've all got that most Social Firms or WISEs don't have is democratic member control. Social Co-operatives are democratic organisations controlled by their members with equal voting rights. Prisoners co-own and co-control the co-operative together with the other stakeholder members: ex-prisoners, community members, prison staff and other criminal justice and social work professionals. It is this democratic multi-stakeholder member control that distinguishes this model from the experiments referred to above and which accounts for its success in delivering mutual prison employment and rehabilitation and resettlement services. But could this multi-stakeholder mutual model actually run a prison in its entirety?

Such an opportunity to go beyond current Italian practice is presented by the Royal Society of Arts proposals contained in 'RSA Transitions: A Social Enterprise Approach to Prison and Rehabilitation'. This essentially proposes that prisons should themselves be run as mutuals with prisons and prison services '... co-designed and delivered by service users, local employers, local people and civic institutions; all would have a voice in how it is designed and run'. Professor Alison Liebling has described this as 'wholly consistent with existing practice, but [which] attempts to offer a co-productive form of public service management that is explicitly and uncompromisingly rehabilitationist'.[10]

This idea of involving offenders in their own rehabilitation is consistent with public service reform elsewhere. In a number of areas, such as housing, health and social care, there is a strong current desire to move on from a traditional and paternalistic model where the service-user is the passive recipient of services from the provider. The service is more likely to be effective if the user and provider work together to achieve the desired objective. A binary or even an adversarial user-provider relationship tends not to be the best use of public funds. Whilst the criminal justice context involves a necessary deprivation of freedom (part of the punishment element) in other respects (correction/reform, rehabilitation), there are some strong parallels with the care system where a successful collaboration between user and provider is much more likely to reduce long-term costs and increase long-term benefits.

To be sustainable and to achieve the optimum results, the ownership and governance arrangements for public services need to be right. Where a particular public service involves a range of different interest groups, the appropriate involvement of those different groups in designing and delivering those services can have a positive impact on their ultimate success. Services involving those with learning difficulties, mental health needs, or criminal tendencies clearly need to involve service-users in ways which are appropriate to their situation. But where the very act of their involvement can contribute positively to the outcome – as in offender rehabilitation and desistance - it then becomes a question of developing an appropriate design for the governance and ownership arrangements. This involves enabling an appropriate level of influence, not handing over control.

It has to be recognised that the introduction of comparatively radical ideas into the mainstream will require the overcoming of prejudice and dealing carefully with public opinion. However, in a time of austerity, "what works" can be a powerful mechanism for changing entrenched positions if it results in significant savings. We now need to prove the case, and demonstrate the results.

10 O'Brien, R. (2011) *RSA Transitions: A Social Enterprise Approach to Prisons and Rehabilitation*, London: RSA.

In conclusion then, far from being an outlandish and untested idea, research shows that co-operation can deliver powerful results in the context of prisons and prison services, and it is being developed elsewhere to improve desistance. Previous ambitious schemes have suffered from a lack of a robust ownership and governance model to underpin the incorporation of co-operative ideas in prisons and related services. The new co-production models emerging elsewhere in the new mutual agenda may provide an indication of the type of approach that would succeed. The UK needs to catch up with other jurisdictions in making the most of cost-effective ways of reducing offending, which can also contribute to a reduction in the overall prison population. Where leading practitioners are calling for this type of approach, we should be prepared to back their judgement and help them to develop what they envisage. And finally, if this approach is appropriate for Prison reform, is it not also appropriate for Probation and Youth Justice?

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Health and Social Care

28. Mutuality: Toward a truly 'social' social care

Alex Fox

On the surface, it is strange that the co-operative movement is not already a more central part of social care, a sector in which service provision has for decades been steadily outsourced, often to the voluntary rather than the private sector. It is also a sector with a particularly well-developed vision for empowerment of people who use social care services. Commissioners, providers and many disability organisations are signed up to 'personalisation': the idea that anyone using social care should have a choice of services and control over them and that interventions should support people to be active citizens. There are many organisations in the sector led or governed by people who use services and family carers. Self-directed support, in which people are supported to make their own choices about their lives and services, is well-established and more recently there has been much talk of 'co-production': the idea that professionals, including strategic planners and commissioners, should work alongside people who use services and their communities, rather than making decisions, then 'consulting' those affected.

All of these ideas have mutuality and reciprocity running through them, so why have they not translated into a thriving co-operative movement?

A look across to social care's richer, more popular neighbour – healthcare – offers one explanation. Whilst there appear to be a greater number of healthcare co-operatives and mutuals, they are usually co-owned by qualified professionals and not patients or citizens. For instance, GP practices are typically partnerships of GPs and NHS Foundation Trusts are technically co-operatives, their staff being their main membership. Some governors must be 'the public', but patient membership is discretionary. In reality, few Trusts feel obviously 'co-operative' and it is independent providers such as Circle which have made more of their employee-owned status. Nurse-owned NHS providers are scarce, let alone organisations co-owned by unqualified workers or patients.

So perhaps the lower status of social care's largely unqualified workforce explains the dearth of co-operatives. The most high profile attempt to create social care co-operatives has been the independent Social Work Practice model, aimed at the sector's most highly qualified workers.

Following this train of thought further, the weakness of the co-operative presence in social care reflects, or even partially explains, some of the limitations of the impact of personalisation, which has been transformative for a sizeable minority, but much less radical for some large groups of service users (for instance, people with dementia living in care homes) and some key areas of practice, such as supporting people with learning disabilities to achieve paid employment.

The government described and signed up to personalisation in Putting People First (2007). Direct Payments – the right to take the cash equivalent of a social care service offered to you – were introduced in 1996,[1] but take-up remained very low, for reasons including local authorities' reluctance to cede control to individuals, the risks to individuals of becoming employers and the lack of genuinely new service choices to purchase. Personal budgets enabled people to leave legal control of their resource allocation with their council, but to exercise, in theory, the same level of choice in how the money is spent. Personal budgets were seen as a key route to individual choice and control, but that aim was just one of four equal parts of personalisation, the other three being: prevention, information and advice for everyone (not just those in crisis), and social capital (building inclusive and supportive communities).

Whilst progress on choice and control has been incomplete, it is far easier to evidence than progress on the other three areas. Indeed, most in the sector are aware of personal budgets, but many would struggle to describe personalisation's other parts and some see the initiative as simply a cover for privatisation or cuts to expensive, traditional services. For instance, many day centres have been closed down and replaced with personal budgets for their former users.

Without the context of personalisation's intended wider culture change, the limited introduction of Direct Payments and personal budgets offers another explanation for the lack of genuine reciprocity and mutuality in the sector. When Direct Payments work well, they work very well indeed. Thousands of

1 The Community Care (Direct Payments) Act 1996 came into force in 1997.

disabled people who previously had to arrange their lives around the workings of unreliable services are now the employers of the Personal Assistants (PAs) of their choice. But whilst becoming an employer is empowering, many who need to buy their support from larger providers remain merely customers of well-established organisations. Neither relationship (employer/employee; service/customer) is one founded on mutuality. The Welsh Government has specifically rejected using the personalisation 'brand' on the basis that it is "too closely associated with a market-led model of consumer choice"[2]. Seeking to respect people's individual rights and entitlements is a huge step forward from failing to do that, but it is in having both rights and responsibilities that genuine citizenship lies.

The version of personalisation set out in 2012's Care and Support White Paper reaffirms and develops the policy as a whole-system reform, with as much focus on responsibilities as upon rights and entitlements. This is not just a reflection of reduced resources: it is in many ways also an attempt to recognise that social care is not a system of services, but mainly a process of supporting people to support themselves and those around them. It is called 'social' care, because it is so often about supporting people with and in their relationships with others. In other words, a system with mutuality as its main marker of success.

There are exceptions to this – the independent living movement has fought hard to establish the right of an individual who needs no social support to choose and control a package of largely physical support, such as the PA which someone with a physical impairment may need to access the same employment, leisure, family and social opportunities that anyone else may wish for.

Others have needs with a significant social element. Older people face an epidemic of isolation. People with learning disabilities and mental health problems, who may express a desire to live with others, are too frequently being pushed into living alone, in the name of 'independence'. A million of the UK's six million unpaid family carers care for more hours than a full time job, but often do so in isolation and with no sense of partnership or equality between them and the paid professionals who move in and out of their lives. Isolation is not citizenship, which comes when we experience inter-dependence as well as independence.

In a period in which cuts are sometimes clumsily removing services which have been relied upon for decades, many families are wary of talk of responsibilities. But people who are 'protected' from having any form of responsibility may thus be as excluded from full citizenship as those who are under-supported. Whilst many people with learning disabilities may never achieve an income which outweighs the cost of the social care and welfare benefits they require, there is more to being a full citizen than a personal balance of payments over one's lifespan. Social care practitioners and family carers are now starting to find ways for people with learning disabilities to contribute as active citizens.

For instance, Jess has a learning disability. She wanted to work in a restaurant but couldn't find a way into the food industry until she and her mum Jill saw a 'smoothie bike' (a fixed pedal bike which powers a food blender) at a local fete. With help from a micro-enterprise support agency, Community Catalysts, their company Pulp Friction now owns six smoothie bikes and employs Jess and three other people with learning disabilities. Becky Daykin, who is Deaf, and her business partner run Notts Independent Living Consultancy, which combines their thirteen years of experience to assist people in setting up and managing Direct Payments as well as training professionals and local businesses. All of their staff are disabled. Whatever the sector, micro-scale enterprises tend to have some level of mutuality built into them: if the business is not built upon close relationships with local people, it will fail. Some social care micro-

2 Welsh Assembly Government (2011) *Sustainable Social Services for Wales: A Framework for Action* [Online]. Available at: http://www.wales.nhs.uk/sitesplus/documents/829/WAG%20-%20Sustainable%20Social%20Services%20for%20Wales%202011.pdf [Accessed 1st March 2013].

enterprises have formalised their mutuality, such as the user-led micro-enterprise which has five directors: two people with learning disabilities, two family carers and one worker.

So if mutuality is crucial to good social care, should many more social care providers be co-operatives?

Experience suggests that the legal form of an organisation is not the only marker of its degree of mutuality and this is particularly obvious in social care. Micro-enterprises are usually too small to form Industrial Provident Societies and other forms of co-operative, and many are effectively private sector, but nevertheless can have much more of a mutual 'feel' to them than a large Foundation Trust.

The principles of mutuality and reciprocity also run through Shared Lives, which is most commonly delivered by councils and charities, with no co-operative providers to date. In Shared Lives, an adult (16+) who needs support and/or accommodation becomes a regular visitor to, or moves in with, a registered Shared Lives carer. Together, they share family and community life. Uniquely, Shared Lives carers and those they care for are matched for compatibility and then develop real relationships which can be lifelong and include new links between each participant's extended family.

Paul moved in with registered Shared Lives carer Sheila and her family just before he turned 50. He bought his first bicycle and enjoys long bike rides with Sheila and her husband, who have helped Paul become a visible and popular member of the community. He knows local shopkeepers, library staff and even bus-drivers by name. Sheila encourages everyone to 'look out for Paul' and it is his new status as a member of a community, as much as his first bus pass and road safety lessons, which have allowed Paul to make independent use of the community for the first time in his life. Paul doesn't have a lot of speech, but when asked if he understands what 'independent' means, he smiles and says 'walk'.

Shared Lives illustrates some of the remaining challenges in embedding a real ethos of mutuality in the sector. Despite sometimes achieving outcomes which have eluded £3,000 per week 'specialist' facilities, Shared Lives carers in some areas remain invisible and under-valued. Most are unqualified and payments are modest. The majority are supported well by their local Shared Lives scheme, but some who are not are taking the first steps towards exploring what a worker-owned, and perhaps service user and family-owned, scheme might look like.

Social care may have more user-led organisations (ULOs) than any other sector. But most have been largely confined to the realm of voice and consultation, which can be important work, but is not the same as user-led care provision. An unpublished survey by ULO, CHANGE of organisations whose role is to help people with learning disabilities to achieve employment, found that a tiny percentage actually employed people with learning disabilities themselves (in contrast to CHANGE which uses a job-share model for its substantive posts).

So it is possible that mutuality is a missing rung in the personalisation ladder. The radicalism in some of the examples of social innovation from the sector also suggests that if social care does put the principles of mutuality into practice, it may not limit itself to employee-ownership, but instead create co-operatives and mutuals in which everyone, including service users and family carers, can share responsibility and ownership. This model may not only unlock some of the elusive cultural changes envisaged by personalisation's pioneers, but could also show other sectors a route towards more inclusive and radical models of mutuality.

Alex Fox is the CEO of Shared Lives Plus, and Chair of the Care Provider Alliance.

Case study

29. City Health Care Partnership CIC: Health Care Mutuals – a view from the frontline

Andrew Burnell

It is not usual to begin with the negatives about a place which holds much potential. However, here in Hull, like many other northern cities, we still have a few persistent differences in factors that affect peoples' wider well being when compared to national indicators which are hard to ignore.

A recent local authority publication highlights these factors:[1]

- With regards to health inequalities, we have some of the poorest levels of health in the UK. If Hull reflected the national average in terms of smoking, 14,000 fewer people would smoke. People would live an average of three years longer, and up to 13 years longer in some wards.
- Up until March 2012, the number of Job Seekers Allowance (JSA) claimants was approximately 3% higher than the UK national average. This gap is expected to increase to 7% by March 2015.
- Hull is approximately 19,800 jobs short – if the city reflected the average level of employment, an additional 7,800 people would be in work.
- The current total welfare bill for Hull is over £800m. The imminent impacts of the welfare reforms will not only have a marked bearing on the income generating capacity of the city, but will also have a wider impact on wellbeing.
- A compounding factor with regards to the above is the downward pressure applied to public sector budgets through austerity measures. Local health organisations in Hull are facing additional expenditure of approximately £200 million from increased demand over the next few years. As an independent provider, we are experiencing a third year of serious budget constraints.

This provides an important context for the delivery of health services. Unlike caring for a person in a hospital, you cannot divorce the person from their living and home environment in a community-based service. Understanding and alleviating the impacts such factors have on health is fundamental to the care that we provide.

Such a philosophy is one of the numerous principles and drivers that led to the formation of City Health Care Partnership Community Interest Company (CHCP CIC) in early 2006. Our values and principles are different from more orthodox healthcare providers, where the drivers and incentives work against the need for safer and a higher quality of care within the community. We did not believe that integration with organisations that did not properly understand our services would help with the pressing needs in our corner of care. However, there was a firm commitment from the outset that integration of delivery was needed in certain areas to improve service users' outcomes.

Our journey from a Department of Health Pathfinder to an NHS spin-out was a four-and-a-half year experience: a roller coaster ride of excitement and frustration. But in all, it was an invaluable platform for our organisational culture, business philosophy and consequent successes.

City Health Care Partnership is now in its fourth year of trading as an independent for-profit company. The use of such a term is deliberate: we are a business, and we need to make a profit to survive and grow. It is what we do with that profit that is key to our objectives as a Community Interest Company - investing in staff, services and the community, and not in external shareholders. It is important that we keep the rewards of our trading and growth within the areas where we provide care and services - adding value beyond mere contractual agreements.

1 Hull City Council (2012) *Ten Year Plan – Hull: an Energy Driven Port City* [Online]. Available at: http://www.hull.co.uk/meetingfiles/City_plan_-_Bondholders_Meeting.pdf [Accessed 6th March 2013].

Our company is also a co-owned business – a 'mutual' – in which each member of staff has the opportunity to purchase a £1 partnership share on a 'one share, one vote' basis. This adds a further positive layer to the richness of the business, as while it conveys no monetary rewards for those who pay the £1, it gives a sense of accountability and responsibility beyond what we all had as staff members within the NHS. It's about being equal – a partner rather than just a member of staff – helping to deliver success, excellent quality and safe services.

The partnership share is only one part of a wider staff engagement process and ongoing organisational development method that is a collective (co-operative or co-production) approach led by our colleagues and supported by our internal systems.

Through shareholding, the 640 partners who own a share are able to directly influence the business decisions. All my colleagues are key to the planning of our development, and over the coming twelve months, will take a more proactive role in the corporate governance arrangements. This has been a proactive development process over the last three years, and has led to a relationship with a maturity which continues to grow and develop. Remember, however, that co-ownership is not co-management; a business needs to be run effectively and efficiently with a defined management structure.

Positive growth and impact

When we first took on the services, our annual turnover was circa £46m. This has now risen to over £51m.

City Health Care Partnerships has also grown from being a single CIC to a 'group', which now owns a number of other companies in the local area. This expansion has had positive outcomes on employment. When we left the NHS, we had approximately 1200 employees. We now employ some 1400 members of staff. We now have apprentices and work placements for graduates, and are active in helping NEET's (Not in Education Employment or Training) into meaningful employment.

The business model, and its successes, has also positively impacted on our employees' attitude to the organisation and its services. Some key headlines from our latest staff survey:

- 87% of respondents would be happy for a friend or relative to receive the care provided by CHCP CIC
- 83% of respondents were aware of the organisation's missions, visions and values
- 93% of respondents understood the importance of patient satisfaction, delivering efficiencies and improving productivity to the continued success of CHCP CIC
- 79% of respondents expressed high satisfaction with their roles and responsibilities
- 92% of respondents felt trusted to do their job

What has been most interesting is the change in peoples' perceptions of their personal role and responsibilities in making the business a success. One employee stated that:

"We now need to be more business-like and money focused, reduce waste and provide a good quality of service to communities

"We need to work smarter because competition is coming, people are not pessimistic but they could easily be so if it had been handled differently by the senior team and managers."

The impact of streamlining, increasing productivity, understanding the business and our key success targets, both internally and externally, are filtering through services. The simple fact is that every £1 we receive needs to be spent in a way that is in the interest of keeping the value within the business and the staff. Our continued success will be changing the 'what' and the 'how' of delivery, whilst also trying our level best to keep staff numbers at safe levels in order to continue to provide good quality and safe patient care.

In maintaining the above staff satisfaction, we have also reduced staff sickness from 4.84% to 4.07% last year, and staff turnover has reduced from an average 1.2% to an average of 0.75% month on month, all whilst delivering our efficiency target of 4% year on year. It is a great start, but with greater efficiency targets to come over the next decade,[2] the challenge facing us will be to keep up this momentum whilst managing increased demand and expectations.

We have also impacted positively on our patients. During April 2011 and March 2012, we received over 1,300 responses of positive feedback from our patients and only 24 complaints:

- 95% of respondents described their overall experience as excellent, very good or good
- 60% of patients described their overall care and support as excellent - 9% higher than last year
- 88% of all respondents said that based on their overall experience they would definitely recommend the service - again a 9% increase from 2011
- 96% of respondents said the service had either matched or exceeded their expectations

Our wider social value

We have had our 'social value' as a social enterprise externally measured, validated and published. Our current Social Return on Investment (SROI) figures show that for every £1 invested through our investments into nearby communities, we are receiving a £28 return.

A recent beneficiary of one of our small grants, who has channelled the money into setting up a local choir, said:

> "We have a wonderful group of people taking part and I think taking part helps all of them in different ways. We have a lady who suffers with dementia who comes with her husband. Another lady who has suffered very badly with clinical depression in the past who says the chorus has been her saviour.
>
> Another lady, a top soprano who used to suffer terribly with agoraphobia, now sits in the front row on stage at concerts! Everyone is made to feel welcome, everyone is treated the same with respect and we are sharing something we all have a passion for. We forget our troubles and sing our hearts out! I certainly believe it keeps us all away from the GP's door."

Further, whilst public services push for larger procurements to save monies, CHCP has bucked this trend to instead channel approximately 80% of purchases, £3m in total, into the locality.

This 'value beyond contract' is now even more relevant given the recent passing of the Public Services (Social Value) Act (in force as of January 2013). For the first time, it is now a requirement that "public bodies need to consider how the services they commission and procure might improve the economic, social and environmental well-being of the area".[3]

2 Roberts, A. et al (2012) *A Decade of Austerity?* [Online]. Available at: http://www.nuffieldtrust.org.uk/sites/files/nuffield/121203_a_decade_of_austerity_full_report_1.pdf [Accessed 6th March 2013].

3 Social Enterprise UK (2012) *The Social Value Guide: Implementing the Public Service* [Social Value] Act [Online]. Available at: http://www.socialenterprise.org.uk/uploads/files/2012/12/social_value_guide.pdf [Accessed 6th March 2013].

In a city like Hull, like many up and down the country, every penny spent on public services must work for communities and produce a social, as well as an economic, return. Whilst developing the notion of 'mutual effort', cities can deliver community and wider social benefits through alternative, but more effective channels. The evidence from our work at CHCP and other NHS spin-outs suggests that healthcare social enterprises can deliver a real transformation to services and outcomes for community health.

Andrew Burnell is the Chief Executive of City Health Care Partnership CIC.

Case study

30. Sunderland Home Care Association: The case for expanding mutuality in social care

Margaret Elliot

Sunderland Home Care Associates (SHCA) began life as Little Women Limited during 1976 in a general dealers shop in Sunderland. The seven women running the shop all had bairns, no qualifications and no money. The bairns were looked after in a nursery above the shop. All tasks were rotated – from doing the accounts to washing the floor, from stocktaking to ordering stock. This way of working proved to be a very powerful tool in giving the women the ability to take action in their lives, an extremely liberating experience. The confidence, skills and knowledge that all of the women acquired are still with them today. Due to a severe economic climate, the shop was sold in 1980.

Its successor, Little Women Household Services, was established in 1983. This was a workers' co-operative that used social security benefits to cover the cost of the services provided. A combination of the government changing the benefits system and the founder of the co-operative moving jobs meant that Little Women Household Services became moribund. There was no one with the time to investigate other markets so the co-operative petered out.

However, experience of running services was gained, which proved to be invaluable in the years to come. Sunderland Home Care Associates was officially born on 4th July 1994. The germ of the idea of setting up the company came in 1989 – the year of the Griffiths Report on care in the community. Councils were being forced by central government to outsource at least some of their services. With the help and support of Robert Oakeshott, a champion of co-operative working, I went to visit the American home care co-operatives and also received support in putting together a business plan. Those who founded SHCA used these experiences to shape the development of the organisation over the following decades and to implement employee ownership principles into the care sector.

The path to employee ownership

SHCA was originally a workers' co-operative: one person one vote, one share. But the decision was eventually made to turn SHCA from a workers' co-operative into a fully employee-owned organisation. The reason for the change in structure from co-operative to employee ownership was two-fold. Firstly, there is a more tax efficient system. Any funds channelled into an employee benefit trust do not attract corporation tax and when 'distributed shares' mature, they do not attract tax and national insurance. Secondly, it offers a good way to reward employees and members: each own a piece of their company through shares. This brings the 'nest egg' benefits to them, including the commitment and loyalty to the company of a quality workforce. Very low staff turnover results in continuity of care and a truly consistent, high quality service.

The Board of Directors is elected by the workforce, with elections taking place at each Annual General Meeting. The Board has been pretty consistent over the almost nineteen years of its existence. It's all about participation, responsibility and ownership.

Our lads and lasses provide a personal care service to older, vulnerable people in our city. The service can be a half hour bath once a week to four visits a day. Depending on the care plan, they may go back at lunch time, for toilet visits and to leave a flask and sandwich. The evening reverses the process with carers providing support to undress, wash and go to bed. That is a typical case, but every person is different and the work can be complex. Training is high on our agenda. Not only does it prove that the worker is capable, but we have seen dozens and dozens of people blossom and personally grow when they have several training certificates under their belt.

Our current activities

Even though SHCA is primarily a care provider, it also has a broad portfolio of services. The reason we initially diversified our product offer was because standard contracts for care services do not provide us or our members much by way of security.

In the pursuit of long-term success and stability, the Board of Directors at SHCA had two key aims. The first is to make SHCA a large, employee-owned social enterprise to showcase the benefits of this model to employees and communities. Secondly, to secure jobs for our members by diversifying into other services so that we were not wholly dependent on local government contracts. As part of this, we established a working relationship with the Disability Support Team at Sunderland University in order to provide Academic Support workers to disabled students at the university. These workers are normally scribing, accompanying their students around campus or performing a host of other tasks.

We also provide Mentors to Sunderland Colleges and give support to students with learning or physical disabilities. In partnership with the local authority and local health trusts, we launched a project called Independent Futures. This brings people from institutionalised settings with complex needs back in to Sunderland's community. Many of those we have helped now have their own homes and have an on-call care team to provide regular support. We use micro-enterprise as a tool in giving them a fulfilling life. There is a 'dry' car wash, organic dog biscuit production, dog walking, gardening, craft group and some of our service user's work in our Cafe on the Park.

Cafe on the Park is a co-production project run in partnership with the Local Authority. People with learning disabilities come and work in the cafe alongside our dedicated staff team. We decided that, although they can only earn £20 a week without benefits being affected, we would still employ them. This means that several people with complex needs are employed by SHCA and receive shares in their own company. We don't know of any other company that gives shares to people with a learning disability. This and a small salary may not sound like much, but to them it is a huge change in their lives, which are proud of.

Apart from our work in Sunderland, SHCA also tendered with South Tyneside Council four years ago. Our operation there employs around 80 people, all of whom are worker-owners. With this project, as with all of SHCA projects, all employees have a share in the business – with one of the key aims of the business directed to securing the best terms and conditions for our members.

This commitment to securing the best outcomes for our members means that we are not 'not for profit'. We believe that the most important thing is not whether an organisation makes money, but whether it uses these profits in effective ways.

Care is by nature a low paid occupation. But because of our business structure, our workers get the most favourable wages that it is possible to give in the care sector. This is done by re-circulating any profits within the organisation itself. As a by-product of this, other local care providers have had to increase their wages to be able to keep up with ours. The result is a better quality service for all.

There are no external shareholders in SHCA. Everything that our workers earn, including shares, is earned and spent in Sunderland. They help to regenerate the local economy, which in turn benefits the local community.

We at SHCA know that our model worked well. The combination of employee ownership and greater involvement from service users has proven a winning mixture for us. It was with these successes in mind that we created Care and Share Associates (CASA). CASA is our vehicle to replicate the success of SHCA across the region. Its overarching vision is to democratise home care services across the North.

North Tyneside Home Care Associates was the first of the replication companies, followed by Newcastle, Manchester, Calderdale, Knowsley and Leeds. All based on the SHCA model, all employee-owned and all helping to drive up the quality of home care services in the localities that they serve.

Our values and purposes are about advancing social good. We provide opportunities for people, often from poor economic and socially deprived backgrounds, to thrive and develop. Our people genuinely feel involved; they participate and know that their views matter.

Future Opportunities

The Social Value Act went live on 31st January 2013. Public authorities are now required to consider how the services they commission might improve the economic, social and environmental wellbeing in their area. Given that a diversified and balanced economy is essential for future prosperity, this new requirement is vital for community success.

The Nuttall Review of Employee Ownership could help the social sector grow, and the Government has already committed to the expansion of its employee ownership pilots scheme. It is a fact that most companies in the UK are based on one type of business model. We need to encourage more responsible and diverse ways of managing businesses. The employee ownership model delivers various business performance and employee wellbeing benefits – mostly because employees with a financial stake in their company are more likely to be concerned with its long-term success.

The Nuttall Review in particular listed the benefits of employee ownership as improved business performance, increased economic resilience, greater employee engagement, driving innovation, enhanced employee wellbeing and reduced absenteeism. SHCA has seen and experienced all of these benefits, and we know with almost complete certainty that employee ownership represents the future for both high quality social care and enduring community prosperity.

Margaret Elliott is the Director of Care Services at Sunderland Home Care Services Ltd.

Education

31. To Whom Should Our Schools Belong? Towards a new model of ownership

Professor Ron Glatter

The issue of ownership of publicly-funded schools is hardly ever debated. To whom do – and should – schools funded by the public purse belong? In past periods this may not have been a major concern. For example, politicians in the post-war period attempted to develop education policy largely by consensus, as illustrated by the three great reports from the Central Advisory Council (England) between 1959 (Crowther) and 1967 (Plowden). 2013 marks the 50th anniversary of the second of these – the Newsom report on the education of 13 to 16 year olds of average and below average ability[1] – and like the others it provided a model of how to achieve widespread understanding of a set of educational challenges and substantial agreement on ways forward. Actual policy tended to be negotiated between the central education department, the associations representing the local education authorities and the teachers' unions, a corporatist approach which is out of fashion today but at least had the merit of taking into account some key stakeholder interests and experience outside central government.

1 Ministry of Education (1963) *Half Our Future: a report of the Central Advisory Council for Education (England).* London: Her Majesty's Stationery Office.

Autonomy – over what and for whom?

The current scene is very different. Since the Education Reform Act of 1988 schools have become ever more closely monitored from Whitehall on the core aspects of education while they have been granted increasing autonomy over operational matters such as premises, staffing and admissions. The rhetoric of autonomy has been a strong and consistent feature, expressed in terminology such as that of the 'independent state school'. This draws on the symbolic power of the fee-charging independent school sector which is a highly distinctive and influential feature of English education. Although educating only about 7% of the pupil population it is resourced lavishly by any international standards, whether of state or private schools. Its class sizes are half those of our state-funded schools, it has about twice the number of teachers for its pupil population and it charges fees up to three times the per-pupil spend in state schools. Yet OECD research shows that, once the differences in socio-economic intake are taken into account, state-funded schools perform much better than independent schools.[2] Nevertheless independent school alumni are heavily and quite disproportionately represented in the top professions.[3]

The status and image of independent schooling exert a powerful influence on the public imagination and this has encouraged politicians to seek to mimic the governance structure of the English private school in state-funded schooling, most notably in relation to academies which now make up more than half the secondary schools in England. Yet the international evidence on increasing autonomy is mixed. Autonomy over the curriculum is positively related to a system's performance but there is no clear relationship in regard to autonomy over staffing and budgetary decisions, which is where the emphasis has been placed in England.[4] It seems too that institutional leaders are the big gainers rather than teaching and support staff.[5] Whether putting so much power – and responsibility – in the hands of headteachers is a wise strategy will become evident in due course. Autonomy is not as simple a concept as is often implied and key questions about it are: autonomy over what and for whom?

Moreover the private schools arguably provide an entirely inappropriate governance model, since they are primarily responsible to their owners or trustees whereas publicly provided schools have a much wider set of responsibilities including to taxpayers and indeed the whole citizenry, as well as to their local community in the broadest sense. A pluralist governance model is surely needed that reflects these multiple obligations.

The democratic deficit

Yet the system as a whole has been moving sharply away from such a pluralist perspective. The powers of local government in education have been greatly reduced in spite of evidence that a strong mediating

2 OECD (2010) *Viewing the United Kingdom School System Through the Prism of PISA*.: http://www.pisa.oecd.org/dataoecd/33/8/46624007.pdf, paragraph 53.

3 The Sutton Trust (2012) *The Educational Backgrounds of the Nation's Leading People*. Available at: http://www.suttontrust.com/research/the-educational-backgrounds-of-the-nations-leading-people/

4 OECD (2010b) PISA 2009 *Results: What Makes a School Successful? Resources, policies and practices*. Volume IV. Available at: http://browse.oecdbookshop.org/oecd/pdfs/free/9810101e.pdf Accessed 28 September 2011.

5 Bullock, A. and Thomas, H. (1997) *Schools at the Centre? A study of decentralization*. London: Routledge.

layer is vital for successful performance.[6] This has given the centre ever greater control to impose its often controversial and sometimes idiosyncratic preferences about school structure, curriculum and assessment, generally with minimal trialling, on our large and complex system under the cloak of 'reform'. There are distinctive national constitutional issues involved, such as the weak separation of the executive from the legislature, the absence of proportional voting and the lack of constitutional protection for local government, so that the checks and balances generally found in other comparable jurisdictions are absent. For example the Academies Act passed through Parliament at high speed in 2010 with very limited debate using special powers intended for emergency situations such as those related to terrorism. Also academies and other new types of school such as 'free' and studio schools operate on the basis of funding agreements, in effect contracts, made directly with the Secretary of State rather than any local arrangements under public law, a mechanism originally introduced by the previous Labour government and extensively used by the present administration. There is a significant and growing democratic deficit indicating a crisis of legitimacy.

None of this is to suggest that central government should have no role in shaping and monitoring the system. At present however ownership is determined too heavily by its control over resources and as a consequence the distribution of power has become seriously unbalanced. More than a decade ago the distinguished philosopher Onora O'Neill argued in her acclaimed BBC Reith Lectures that professionals and public servants should be given more scope "to serve the public rather than their paymasters".[7] In education there is just as much need today to achieve a better balance between upward, lateral and downward accountability.

The issue becomes even more acute in relation to the academy chains which are currently proliferating. Although they vary in style and organisation, their head offices and centres of power are generally distant from the social, economic and geographical communities in which the schools are located, so that substantial control is exercised remotely. This model is very different from that of the 'independent state school' and it offers little scope for local democratic or strategic co-ordination or community governance. It can fairly be said that schools in chains are not independent, they just have different masters.

Policy has also since the late 1980s strongly reflected a belief in the power of competition to improve schooling. However a major OECD review in 2010 of more than 250 studies found very little evidence to support this view.[8] According to this wide-ranging study introducing market mechanisms in education does not tend to generate innovation, it could increase social segregation and the evidence showed no link to improved teaching and learning. There was no indication that private providers did better than traditional ones. Of particular significance, given our focus here, research from different contexts showed that co-operation between schools is a highly fragile and vulnerable process in a competitive, market-driven climate.

6 Mourshed, M., Chijioke, C. and Barber, M. (2010) *How the World's Most Improved School Systems Keep Getting Better* [Online]. Available at: http://mckinseyonsociety.com/downloads/reports/Education/How-the-Worlds-Most-Improved-School-Systems-Keep-Getting-Better_Download-version_Final.pdf [Accessed 6th March 2013].

Smith, R. (2012) *Enabling school-driven system leadership* [Online]. Available at: http://www.nfer.ac.uk/nfer/publications/MTSL01/MTSL01_home.cfm?publicationID=848&title=Enabling%20school-driven%20system%20leadership:%20Rapid%20review [Accessed 6th March 2013].

7 O'Niell, O. (2002) *A Question of Trust: the BBC Reith Lectures 2002*. Cambridge: Cambridge University Press, page 59.

8 Waslander, S., Pater, C. and v.der Weide (2010) *Markets in Education: an analytical review of empirical research on market mechanisms in education*. Available at: http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=EDU/WKP%282010%2915&docLanguage=En [Accessed 6th March 2013].

Putting ownership in the frame

Does ownership matter? Contrary to much rhetoric, there is no convincing evidence that any particular type of school in terms of governance structure produces superior performance, against the narrow criteria determined by policy-makers, when all relevant factors are taken into account and like is rigorously compared with like. Beyond this, the governance of publicly-funded schooling should be far more than a technical matter of which provider can get the best test and exam results: moral, social and cultural issues lie at the heart of schooling. If, for example, the academy chain model became more widespread and some chains achieved control of large numbers of schools, the issue of who exercises legitimate power in the system would become prominent.

In this general context there are at least two pressing requirements.

One is to develop models of schooling that are potentially disruptive of the current hierarchical and technicist orthodoxies, models in which, for example:

- power and control are dispersed rather than concentrated
- co-operation is placed above competition
- there is a strong focus on the community and
- local stakeholders can have a sense of belonging – if not of ownership, then at least of membership.

In this regard the co-operative schools movement is by far the most hopeful development of recent years given its rapid expansion and the clear indication that it meets the preferences of many professionals and local communities. Certainly, as Tom Woodin has pointed out in reviewing the background to the development, the challenges ahead are considerable. As he says, no guarantees come with the adoption of labels such as 'co-operative' and 'democratic' and if growth continues strong opposition can be expected from existing interests. "It has been revealing to watch increasing numbers of people being won over to the radical potential inherent in co-operative approaches. But it remains to be seen whether democratic futures can be constructed within existing restraints".[9] The current significance of this movement lies in its originators having perceived the opportunity for offering an alternative model, pursuing it with vigour and imagination and achieving a resounding response.

A second requirement is for an open debate about ownership in publicly-funded schooling. The Co-operative schools development will be one trigger for this. Another will be a conference to be held in June 2013 by the British Educational Management and Administration Society (BELMAS) on the question "Who should own our schools?" This will wrestle with daunting challenges within the question, such as the meanings of 'own' and 'our'. Such a debate will hopefully generate a wider recognition that the current arrangements are dysfunctional and urgently need to be reformed. It should aim to define models and approaches that can deliver an alternative to the current polarisation: an excessive focus on autonomy and competition on the one hand and alienating and unsustainable centralisation on the other. A new paradigm is required which emphasises trust and collaboration, in which co-operative and mutual structures can thrive and which spreads ownership to local communities and stakeholders within a pluralist multi-level system.

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9 Woodin, T. (2010) "Co-operative schools: building communities in the 21st century", *Forum,* 54(2), 327-339, page 337.

32. Co-operation Is What Teaching Is All About: The teacher union perspective

Dr Patrick Roach

"Teaching…today requires teachers to be high-level knowledge workers who constantly advance their own professional knowledge as well as that of their profession. But people who see themselves as knowledge workers are not attracted by schools organised like an assembly line, with teachers working as interchangeable widgets in a bureaucratic command-and-control environment."[1]

1 OECD (2012) *Preparing Teachers and Developing School Leaders for the 21st Century: Lessons from around the World* [Online]. Available at: http://www.oecd.org/site/eduistp2012/49850576.pdf [Accessed 4th March 2013].

Research shows that it is the teacher's contribution that matters most to pupils' learning. By putting teachers[2] first, the NASUWT – the UK's largest union representing teachers and headteachers – recognises fully that the effective engagement of teachers and school leaders is critical to securing the highest standards of educational provision which meets the needs of all children and young people. Schools co-operatives aim to provide teachers with the scope to work together as leaders of educational practice and with the capacity and professional authority to serve the best interests of children and young people. That is why the NASUWT is pleased to be working in partnership with the Schools Co-operative Society.

Those countries around the world with the most effective systems of education understand the importance of engaging with and agreeing reforms to education with teachers and their representatives. Indeed, the annual OECD and Education International Summit on Teaching to which only the twenty leading and fastest improving education nations on the planet are invited, is a global forum in which education ministers and trade union leaders are asked to work together to assure their continued educational excellence. The UK is one of the Summit's country participants.

We should acknowledge that the UK has a world class, world leading school system, as confirmed by numerous commentators including the OECD, Pearson and Education International amongst others. Of course, there should be no room for complacency, and in our experience, teachers are certainly not complacent. Indeed, teachers are clear in their commitment to teaching and to children's learning. They are leaders of learning and their work as teachers is underpinned by a strong and deeply-held professional ethos.

The wealth of available international evidence reminds us that the best way to deliver high standards for all young people is through dialogue and consensus not imposition. Listening to what teachers say is important; but equally important is the need to create conditions in which teachers are empowered to act: to lead practice, to drive change and to make professional decisions about what is best for children's education. Giving teachers a voice is an important first step to securing high quality educational practice; empowering teachers to take ownership and responsibility is also critical and should be at the heart of a co-operative vision for schools and education.

It is vital, too, that the perspectives of children and young people, parents and careers, employers, universities and other stakeholders are also given due weight. However, we must also recognise that the single most important contribution to children's learning is the contribution of teachers. Today, perhaps more than ever, given the challenges of globalisation, technological advances and increased social diversity, teachers need to be driving as well as being accountable for delivering education policy and practice.

As education has risen up the political agenda, we should not be surprised that there are those who wish not only to challenge what schools do, to criticise the work of teachers and, in recent times, to claim that our education system is in crisis. Negative and critical claims about our schools and our teachers are central

2 Reference to 'teachers' includes headteachers as lead professionals in pedagogy.

to the reformers' effort, and teachers know it. But, without the support of teachers, as all the evidence from here and abroad tells us, education reforms simply won't work. We need teachers who are trusted not merely to deliver the further improvements we need in our schools, but who are also entrusted to identify, define and develop the solutions needed.

> "In many high-performing education systems teachers do not only have a central role to play in improving educational outcomes, they are also at the centre of the improvement efforts themselves. In these systems it is not that top-down reforms are ordering teachers to change, but that teachers embrace and lead reform, taking responsibility as professionals." [3]

The coalition government's mantra of localism is interesting, particularly in the context of the drive for more schools to become academies, often with remote forms of governance arrangements. However, whatever the feelings about the merits or flaws of the academies programme, it is right to be clear that structural change of this sort is not a panacea for educational improvement.[4] We have to recognise that improving outcomes for children means putting local communities centre stage and entrusting teachers to be the architects of educational practice and the driving force in educational reform by their leadership and practice, their participation in educational research and development, and by their active engagement in continuing professional development. This requires teachers to become co-producers – co-owners and co-operators – in public education.

The NASUWT is proud to be a trade union that is led by teachers for teachers. We recognise that our mission is to put teachers first, by ensuring that teachers have the conditions of service, resources, training, advice and support to do their jobs effectively is all about empowering teachers in ways that enable them to ensure that pupils are able to progress and achieve their full potential. Fundamental to our mission as a trade union is trust in the professionalism of teachers.

If we are seriously concerned about raising educational standards further, then we must also take seriously the current situation in which the majority of teachers report that they do not feel respected or valued as professionals and where half of all teachers want to quit teaching for good.[5] Why this is the case and what solutions might be considered to the problem of low teacher morale are key challenges for our schools and how we can ensure their continued improvement over time.

As the largest union representing teachers and headteachers, the NASUWT knows from its work in schools that much of the source of the problem of low teacher morale relates to poor employment practice, the denial of teachers' contractual rights, threats to teachers' conditions of service, and attempts to impose working practices on teachers which are not only burdensome and unworkable but also unproductive in terms of their contribution to improving the quality of education. There can be little doubt that morale has plummeted considerably since 2010 following the irrational decision of Ministers to abolish the social partnership between the government, employers and teacher unions which had been the bedrock for good industrial relations, the ending of the crisis in teacher recruitment and retention, and which helped to make teaching the profession of first choice for new graduates. All of this resulted in record improvements in educational standards in schools. Teachers were at the heart of education reform.

3 OECD (2011) *Building a High-Quality Teaching Profession: Lessons from around the world. Background Report for the International Summit on the Teaching Profession,* Paris: OECD Publishing.

4 Academies Commission (2013) *Unleashing Greatness: Getting the Best from an Academised System* [Online]. Available at: http://www.thersa.org/__data/assets/pdf_file/0020/1008038/Unleashing-greatness.pdf [Accessed 4th March 2013].

5 NASUWT (2012) *Big Question 2012 Report – England* [Online]. Available at: http://www.nasuwt.org.uk/consum/idcplg?IdcService=GET_FILE&dDocName=NASUWT_010163&RevisionSelectionMethod=latest&allowInterrupt=1 [Accessed 4th March 2013].

Our view is that rebuilding trust and confidence within the teaching profession has to start with respecting teachers as professionals and also by creating the space for teachers to develop and apply their professional knowledge, skills and expertise as leaders of teaching and learning. We know that this is what teachers want, but this can only happen if government and employers resist the temptation to dictate teachers' professional practice. This means democratising schools, creating a climate for school improvement wherein teachers and their representatives are seen as part of the solution and not part of the problem.

Supporting co-operative schools

Co-operative schools are run by their members for the benefit of their members and the wider community. Co-operative schools have a commitment to meeting the needs of their members and are accountable to them. These operating principles also apply to the NASUWT.

The NASUWT and the Schools Co-operative Society entered a landmark agreement on 18 July 2012[6], and it has been well received by teachers. The NASUWT's partnership with the Schools Co-operative Society is based upon our shared aim to secure great educational provision for all children, without profiteering from children's education and by respecting fully teachers' rights at work. It is an agreement that provides a commitment to entitlements for pupils and the workforce in schools, equality of opportunity, inclusion, genuine workforce engagement and trade union recognition, guaranteed parental and public engagement in the governance of schools, and high educational standards. Furthermore, co-operative solutions are about protecting public assets for future generations.

The Schools Co-operative Society and the NASUWT share a fundamental commitment to quality public education that is democratically accountable and which operates in the public interest. As member-driven organisations, we recognise the critical importance of ensuring that our members are the drivers of education reform, not mere delivery agents. Our member focus means that it is in our collective interest, and in the interests of individual schools and their pupils, to promote the widest possible engagement of teachers in schools – giving teachers a stake in the schools where they work and, in so doing, recognising that effective teachers are and have always been co-operators. Collaboration and co-operation is what teaching is all about.

As committed and active members of a school co-operative, members of the NASUWT are once again acting as powerful advocates for schools, their pupils, and for the ethos and values of public education.

Ask any teacher their motivation: invariably, they will say that that they most enjoy teaching and learning, seeing young people progress and achieve, and making a positive difference to the lives of pupils and the community[7] – in other words, improving the lives and life chances of pupils and securing a better society for all. Teachers and school leaders don't need daily threats and warnings and certainly are not motivated by the acts of denigration often seen played out in the media. Neither does teaching improve through central prescription and control. Teachers need to be respected for their professionalism and commitment as leaders of teaching and learning.

Co-operative schools are supported by the wider family of co-operative schools in the UK and worldwide. They are democratic and inclusive schools. Co-operative schools put teaching and learning – teachers and learners – at the heart of everything they do. Co-operative schools are schools where teachers are respected as professionals, not least because these schools are accountable to the teachers who lead

6 NASUWT (2012) *NASUWT and Schools Co-operative Society agreement* [Online]. Available at: http://www.nasuwt.org.uk/Whatsnew/NASUWTNews/Nationalnewsitems/NASUWT_009742 [Accessed 4th March 2013].

7 NASUWT (2012) *The Big Question 2012 Report* – England [Online].

them. The NASUWT's support for co-operative solutions for schools is all about putting teachers first, working in the interests of our members together with parents and the wider community. Through their commitment to collaboration and co-operation, teachers in co-operative schools are being empowered to lead teaching and learning for the benefit of all children and young people.

Dr Patrick Roach is the Deputy General Secretary of the NASUWT – the teachers' union.

33. Co-operative Schools: Back to a Democratic Future?

Mervyn Wilson

In a major speech in Manchester in 2008 David Cameron, then Leader of the Opposition said: "I want to explore how we can create a new generation of co-operative schools in Britain, funded by the tax payer, but owned by parents and the local community. What better way than to give parents direct involvement in their school than to give them ownership of it? To make them not just stakeholders, but shareholders, not of a profit making company, but of a co-operative built around the needs of local children".[1]

1 The Conservative Party (2007) *David Cameron: Launch of Breakthrough Manchester Report* [Online]. Available at: http://www.conservatives.com/News/Speeches/2007/11/David_Cameron_Launch_of_Breakthrough_Manchester_Report.aspx [Accessed 22nd February 2013].

In the years that followed, Government policy has encouraged the rapid growth of academy chains, together with free schools, studio schools and University Technology Colleges. A common characteristic of these is the minimal engagement of key stakeholders and a growing concern of the democratic deficit. At the same time, centre right think tanks increasingly advocate the for profit delivery of education, with the danger of further displacing key stakeholder engagement and replacing them by representatives of shareholders.[2]

Despite that contradictory environment, or perhaps because of it, co-operative schools have developed rapidly, adapting to meet new political priorities.

Co-operative schools are far from being the new kid on the block. The first were established long before the emergence of the state education system, with evidence that some of the Rochdale Pioneers attended classes at the Salford Co-operative School established by Owenites in the 1830s.

As the co-operative movement in the UK developed in the mid nineteenth century, the provision of education became an increasingly important principle, which led to co-operatives establishing libraries and meeting rooms and pioneering distance learning alongside classes and publications.

Today's generation of co-operative schools follow a series of policy reforms over the last two decades that provide opportunities for new models of ownership involvement and community engagement, and an alternative to the rapid development of the top-down command and control chains.

Co-operative schools have been adapted to meet different legislative requirements, but they share key characteristics:

- An ethos based on the globally shared co-operative values. These values – self-help, self-responsibility, democracy, equality, equity and solidarity – together with the ethical values of honesty, openness, social responsibility and caring for others resonate with the underpinning values of many schools. The inclusiveness of the faith neutral co-operative values has proved a major attraction to many schools.
- The provision of governance mechanisms to provide key stakeholder groups – parents and carers, staff, the learners and the local community a voice in the governance of the school through membership. Member group select representatives to a members' forum which appoints some of the Trustees.
- They reflect the co-operative ethos and values in the curriculum and pedagogy of the schools.

A recent Ofsted case study on Lipson Community College emphasises the impact of the values:

> "Decision making is underpinned by the values and principles of democracy and co-operation. All stakeholders – students, staff, parents and carers and the community – have a voice and can vote on key decisions, such as changes to the curriculum or uniform. Students and staff feel they are valued as individuals and their opinions are listed to and concerns acted on because the values include creating and facilitating openness."[3]

2 Laird, A. and Wilson, J. (2012) *Social Enterprise Schools: A potential profit-sharing model for the state-funded school system* [Online]. Available at: http://www.policyexchange.org.uk/images/publications/social%20enterprise%20schools%20-%20feb%2012.pdf [Accessed 22nd February 2013].

3 OFSTED (2012) *Raising achievement by promoting outstanding spiritual, moral social and cultural development: Lipson Community College* [Online]. Available at: http://www.co-op.ac.uk/wp-content/uploads/2012/10/Lipson-Community-College-Good-practice-example.pdf [Accessed 22nd February 2013].

The report details the application of co-operative learning across the curriculum, including the activities of 'Young Co-operatives' groups delivering services from catering to drama productions. Significantly, it reports on the "positive impact on attainment", stating that "there has been a rapid improvement from a very low base over the last 5 years".

Head Teacher, Steve Baker, is clear on the impact that becoming a co-operative school has brought:

> "The values and principles of the International Co-operative Alliance give us the drive and moral imperative to create highly effective social interaction."

The first major wave of co-operative schools followed the 2006 Education and Inspections Act. The trust pathfinder programme enabled the co-operative model to be developed. A trust school becomes a foundation school with a charitable trust. Schools remain maintained schools and part of the local authority family of schools, and in many cases, local authorities become partners in the trust to cement such local ties.

The first co-operative trust schools were established in 2008, and others quickly followed. A number of these expanded to become shared trusts, generally involving a cluster of schools in a given geographic locality. This model has proved increasingly popular with many passionately believing that sustainable performance and meeting the needs of their communities is best achieved by co-operation and collaboration rather than competition. By January 2013, there were over 400 co-operative schools in England, the majority trusts, but with a growing number of co-operative academies.

Many shared trusts build on existing collaborative partnerships, providing a formal legal framework through which deeper collaboration can emerge. This aspect is exemplified by the rapid growth of co-operative schools in the South West, where there are now 11 shared trusts in Cornwall alone involving a total of 86 schools, with many more preparing to start the formal consultation processes. Some of the larger trusts now provide a range of services to support schools, and are in a position to tender for services previously provided by the local authority as its role in the delivery of education steadily erodes.

Pat McGovern, Head Teacher at Helston Community College and one of the key drivers of the Helston and Lizard Peninsula Education Partnership Trust, said:

> "There is a strong sense of community in Cornwall, and it is natural for us to think of how we do things ourselves through shared action. The last thing the people of Cornwall want to see is a big education chain coming in to run school services and take money out of the area. That money is best kept serving the local economy and local community. Our Co-operative is about a mutual solution to local needs."

South and West Yorkshire is another area where co-operative trusts have developed rapidly. The Brigshaw Co-operative Trust in Leeds developed from an established partnership, with the schools keen to maintain and extend collaboration.

Peter Laurence, Development Director of the Brigshaw Co-operative Trust in Leeds, has added:

> "We could all see the direction of travel of Government policy and the rapidly changing roles of the Local Authority, and to us self-help was a natural solution. We had already developed good practice in working together to support vulnerable children and families, and we are now working as a co-operative to support school improvement and a wider range of opportunities across our partnership for the benefit of all the young people in the communities we serve. A significant number of other

> co-operative schools and academies in Leeds are now working to develop similar approaches in local communities and at a city-wide level."

Following the election of the Coalition Government in May 2010 and the adoption of the Academies Bill, the Co-operative College worked with the Department for Education to develop a co-operative model for converter academies. By the end of 2012, over 30 schools had converted to academies using the co-operative model, and the first co-operative multi-academy trusts were in place. In Barnsley, the Pioneer Academies Co-operative Trust became the sponsor of a neighbouring school in danger of being handed over to one of the academy chains.

Margaret Fretwell, Principal at Summerfields Primary Academy reflected on the importance of maintaining a local and embedded connection:

> "We felt it important for the local community that we could provide a local solution. We knew that the three existing schools in the trust had the strength to bring about the changes needed, and through the establishment of the Pioneer Academies Co-operative Trust we have ensured that the community are at the heart of each of our schools."

Back in his 2008 speech, David Cameron stated that "[a] co-op has a flexibility and dynamism that a central state agency lacks. Like the Rochdale Pioneers, the co-op is part of the community it serves. Its interests are their interests, and it is able to respond to the needs of the community immediately and directly".

This is exactly the case with co-operative trusts. As Colin Wilkes, Lead on Academies for the Co-operative College, has commented recently, "[t]he way they have responded to local needs has been outstanding, and whilst each co-operative is autonomous and independent, they are based on shared values and a shared commitment to co-operation. That means that they are ready to provide mutual support when needed".

The stakeholder engagement in co-operative schools is starting to build social capital. A previous student, Ashley Simpson, now studying politics at the University of Leeds, is clear on the impact it made on him:

> "The Reddish Vale Co-operative Trust has inspired me through its vision and optimism. Through Co-operation, I am a Board Member of Stockport County Supporters Co-operative and we are looking to enact radical social change through football. It has enabled me to communicate with a greater audience to tell my vision: internships with my MP, working six weeks with the Co-operative Group, community work, speeches at conferences… I could go on, but the key message here is co-operation provides opportunities for all. An opportunity for you to step out of the status quo, to change your life and to change your society."

As the number of co-operative schools increases, new partnerships are being forged with universities to tailor continuous professional development programmes towards the specific characteristics of co-operative schools. PhD research studentships are looking at the impact of co-operative schools, building an evidence base, and a partnership with ASDAN, a national awarding body, has helped develop accredited programmes in Co-operative Studies. Co-operative models of enterprise such as 'Young Co-operatives' introduce young people to an ethical approach to enterprise. Elsewhere, schools are building international linkages with co-operative schools in Europe and beyond, or enriching their curriculum by drawing on the movement's vast co-operative heritage, with activities including Meet the Pioneers Day for primary school children in Rochdale, and Robert Owen Day held as part of Enterprise Week.

Education has been one of the guiding principles of the co-operative movement throughout its history. The Rochdale Pioneers quickly established a reading room and library with education facilities expanded at Toad Lane. It was fitting that in 2012 the Rochdale Pioneers Museum reopened with educational facilities in its Learning Loft.

The Pioneers would surely look today with enormous pride at seeing hundreds of schools based on their values and principles and democratic structures providing young people an opportunity not only to learn about co-operation, but to practice it through active engagement in the life of their co-operative school.

Mervyn Wilson is the Chief Executive and Principal of the Co-operative College.

Case study

34. The Schools Co-operative Society: A co-operative of co-operatives

Dave Boston

The need for a good education system is vital for most parts of society within the country. Whether we are parents, employers or simply citizens, the desire to have a good school locally with young people that are well educated is essential. How we achieve this and ensure that all within the system have equal access to education, has been at the centre of educational debates for many years.

Although many other countries have well established co-operative schools, it is only in recent years that such alternatives have become possible in the UK. Co-incidentally, it has appeared at an economic time when the co-operative and mutual alternative in other sectors, such as finance, have been perceived as having particular relevance and enjoying a considerable renaissance.

Since 2005, a large number of schools have taken the step to use a co-operative model for their school organisation and governance. This article explores the structures that these schools will need and are developing to enable them to become the highly effective organisations needed in an increasingly diverse education sector in England.

The Schools Co-operative Society model

A few years ago, the number of co-operative schools had grown to sufficient numbers for them to consider how they could use their common identity, core values and ethos to stimulate further developments across the network. They researched the very successful educational co-operatives in other countries and, based on that experience, they created the Schools Co-operative Society, often known as SCS, for co-operative schools in the UK.

This organisation has a structure that for schools, if not unique, is a dramatic departure to the more traditional model that many schools seek.

Firstly, SCS is a co-operative in its own right. This means that it is based on the international standards and values for co-operatives that include democracy, equality, equity, social responsibility, openness and honesty. These and other co-operative values, such as self responsibility, have resonated well with parents, teachers and employers across the world. If we are to have an education system that is recognised as a 'world standard', such values must become a central feature.

SCS is what is known as a 'Secondary Co-operative': a co-operative whose members are themselves a co-operative. Although a number of organisations have been established to support schools over the years, this ownership model carries its particular advantages. As SCS is owned by the schools in the network, it must listen to the needs and concerns of its members – the co-operative schools – and hence must continue to develop as an organisation that is responsive to the pressing needs of the group, rather than taking up the minority concerns of a certain individual. Similarly, as each school has an ownership stake in SCS, they have a vested interest in supporting its development – working in collaboration with the Society and other schools to make it as effective as possible.

Sadly, schools have often complained about organisations that are intended to be there to support and represent them. They find that they lack the influence to make them more effective or the interest in keeping them accountable to their true purpose. In such cases, the schools can often ignore the organisation or avoid it. None of this leads to providing the support a school needs. The co-operative ownership model has built in advantages to help minimise these problems.

Our ownership model and our co-operative ethos also offers a number of advantages that others lack:

- There is considerable evidence in the UK that where schools have used Co-operative Values and Principles a significant number have experienced good and sustainable school improvement.[1]
- Our network comprises a wide range of schools both in type and location. This has the advantage of being able to connect schools with others far removed from their local area to provide support.[2]
- As our schools are mainly effectively local co-operatives in their own rights with parents, members of the community and staff as members we have to potential of being able to harness the whole community to the school. The advantages of a co-ordinated network such as ours are that these communities can learn effective techniques from others who have tried and tested approaches.
- Many national providers are now working with us as they not only like our ownership model but feel they are in line with our central values and principles as educational co-operators.
- Finally, and vitally, teachers have got to be our biggest resource in effective school improvement. It is rare however that one teacher or group has all the answers. The potential of networking teachers regionally and nationally is one of our greatest assets.

Developments across the country to support the above are not and should not be 'top down'. SCS is aiming to develop the support and structures, 'bottom up'. This is not just about doing it another way; it is about giving the voice and encouragement to local teachers and communities to enable their school become as effective as possible.

Co-operation and collaboration

Since the creation of SCS, we have worked with schools across the network to identify areas of support and collaboration.

The first area is in service provision. Here, the advantages of size and scale can be important in creating the ability to negotiate on a large scale across the network. But there are other advantages. Schools have been able to 'buy in' to large networks for many years, either through a local authority contract service or through a large provider from the private sector.

Although many of these are effective, we are again faced with the problem of responsiveness: large networks and partners tend to demand that a given school fit into their standard package, rather than allowing them to respond and cohere to their community's genuine needs. Further, the very large mutual and co-operative sector of commerce and business is largely unavailable to schools under the current system. Many of these providers are potentially very attractive to parents and schools, as the co-operative model is generally ethical and trusted. SCS is working with a wide range of providers to develop service provision that will match the real needs of the parents, students, teachers and wider community, and to establish partners that will enable such responsiveness to take place.

Developing services nationally is only part of the solution. All schools within the network are autonomous and independent co-operatives, and are therefore very anxious to support their local community. The concepts of 'localism' and 'community' are central to the co-operative model, and we are working with co-operative clusters of schools at a local and regional level to explore how greater collaboration can enable them to be more efficient and effective. An example of this can be found in commissioning. A number of

1 See for example: Ofsted (2010) *Epinay Business and Enterprise School* [Online]. Available at: http://www.ofsted.gov.uk/provider/files/951713/urn/108741.pdf [Accessed 5th March 2013]. Also: Ofsted (2013) Forest Gate Community School – Ofsted's Interim Assessment [Online]. Available at: http://www.ofsted.gov.uk/provider/files/2165703/urn/102775.pdf [Accessed 5th March 2013].

2 Co-op B & E Network from 2005 was geographically spread but experienced very good school improvements

the larger co-operative clusters are now investigating how they can commission service provision with their local authority. This has significant advantages for all concerned, including potential cost savings due to the devolved nature of the co-operative model.

Although service provision is important for any school, the real centre of attention must focus on the standards of education within the organisation and the types of citizens it creates for society. School improvement is therefore an important area of the work of SCS. Creating a system for school improvement that is both based on autonomy and the possibility for supporting a range of independent co-operative schools on a significant scale would be challenge to many organisations, and yet is seen as one of SCS greatest strengths.

The progress since our establishment is rapid. Already SCS is developing a regional structure, based upon six 'sectors' of the country. Within each these there are strong local collaborative structures developing. In the South West, a number of large and strong Co-operative Trust Clusters of schools, which offer strong support at a local level, are now mutually reinforcing such support with other schools within their cluster. At an area level, for example, they are collaborating across Cornwall in an alliance of co-operative schools, and contribute to the regional structure for the SCS South West Region. This mechanism has considerable advantages over other organisational structures in that it encourages schools to work locally to support school improvement, but gives them access to a wide of schools regionally and nationally.

Centrally at SCS, we are able to review areas of development or weakness and assess how we can direct resources appropriately. Hence what could be a challenge for most organisations – how to create an autonomous network and yet have the potential of significant school improvement – becomes our strength.

Educational co-operatives across the world have shown that a co-operative approach within schools provides a good alternative in the provision for schools. We have the starting to show that amongst the range of possible pathways for state education a co-operative approach is vital and essential.

Dave Boston is the Chief Executive of the Schools Co-operative Society.

Local Councils

35. Radicalising Localism: Toward a co-operative council

Clive Betts MP

A key plank of the Government's approach to the reform of public services involves the increased use of co-operative and mutual models. With this in mind, the Communities and Local Government Committee, which I chair, recently conducted an inquiry into the use of co-operatives and mutuals in the delivery of local authority services. During this inquiry, we heard that the number of public service mutuals had risen from eight at the formation of the Coalition Government to about fifty in September 2012.[1]

1 House of Commons (2012) *Uncorrected Oral Evidence taken before the Communities and Local Government Committee – The Co-operative Council* [Online]. Available at: http://www.publications.parliament.uk/pa/cm201213/cmselect/cmcomloc/uc112-v/uc11201.htm [Accessed 1st March 2013].

The Government is keen to provide support to those looking to set up a mutual: it has created a Mutuals Information Service and a Mutuals Support Programme to provide advice and assistance, along with a Mutuals Task Force "to engage with, challenge and promote the work of Government to support the creation and development of public service mutuals".[2] At the same time, the economic downturn and reductions in funding for local authorities are driving them to look for new approaches for service delivery. My Committee was keen to test the evidence about the benefits of delivery through co-operatives and mutuals, consider how effectively mutuals would operate in a local government context, and examine whether there were any particular risks involved. We also wanted to consider how useful the support provided by the Government was to those planning to set up a mutual.

Given the extent to which the prevailing winds favour mutual and co-operative approaches, we were somewhat surprised to find less change than might be expected in local government. For councils, it still seems to be early days, and while we heard of some positive and innovative examples, overall, there seems to be limited evidence of co-operatives and mutuals operating within a local government environment. This creates a 'chicken and egg' situation: councils hold back from establishing mutuals until the evidence is stronger, but stronger evidence cannot be produced until more authorities move to a mutual or co-operative approach.

In the absence of clear evidence about the operation of mutuals in a local government environment, the Committee examined the extent of mutuals' success in other contexts. Mutuals are commonplace in the private sector, and, from a public sector perspective, a number are now operating within the health arena. Evidence we received from the Mutuals Task Force and other organisations suggested that mutuals brought a number of benefits: their organisational structures offered employees, and in many cases service users too, a say in how the organisation was run and how services were provided and adapted to changing local needs; they had the potential to provide greater customer satisfaction, an improved ability to innovate, and a more motivated and productive workforce. This led us to conclude that there would be merit in councils considering the possibility of spinning out their services and establishing mutuals. Some authorities have been prepared to take a 'leap of faith', but in these times of austerity it is understandable that councils may be reluctant to put resources into as yet unproven methods of service delivery. That makes it all the more important that sufficient support is in place.

Through the Information Service and Support Programme, the Government has taken a proactive approach to encouraging the formation of mutuals, not only in local government but across the public sector. Nevertheless, the Committee found that there were further steps it needed to take.

First, it has a responsibility to inform and educate financial institutions about lending to mutuals. Finance for starting up mutuals and co-operatives is currently in short supply: without start-up capital, it is difficult to see mutuals getting off the ground. As in any mature market, the existing players (in this case, private companies and in-house suppliers) have access to capital and could easily squeeze out new entrants such as mutuals. Linked to this, there is a case for giving tax incentives to fledgling mutuals: the Treasury should bring forward proposals for how tax relief can support the establishment of co-operatives and mutuals.

2 Cabinet Office (2013) *Mutuals Taskforce* [Online]. Available at: http://mutuals.cabinetoffice.gov.uk/about [Accessed 1st March 2013].

In addition, the Government should clarify how EU procurement rules apply to mutuals and co-operatives to ensure that they have the maximum flexibility: it is important that mutuals and co-operatives can compete fairly with large companies and in-house providers. In this country, there is a tendency to 'gold plate' EU regulations and, because of this, some new entrants, such as mutuals, may struggle. Other EU countries have found ways to ensure that EU regulation takes account of the special needs and circumstances of emerging mutuals and co-operatives. Finally, while no one approach will fit the diversity of local circumstances, there is scope for the provision of some 'off the shelf' models that local authorities can adapt to their own needs. These would provide an easy route to understanding the burdens that starting up a business might present, and avoid the need to 'reinvent the wheel'.

Beyond finance, we heard about cultural barriers preventing the establishment of co-operatives and mutuals. Some suggested that local authority staff might not have the entrepreneurial spirit needed to set up a business. We disputed this, and saw the issue as one relating more to the need for appropriate skills and understanding: setting up a new organisation is a daunting task for anyone. Staff will need training in procurement, financial and commercial skills. While local authorities can assist and support the establishment of a mutual, there will come a point when it needs to stand on its own two feet, and its staff will need to be ready for this. The Government has established a 'Commissioning Academy' to train public sector staff in procurement skills: through the Mutuals Support Programme, the Government should target the broader development of commercial skills to allow public sector employees to establish co-operatives and mutuals.

The Government's support has thus far been focused primarily upon employee-owned mutuals, and this model has been the focus of the Mutuals Task Force's work. We heard from a number of witnesses – including ResPublica – who suggested the introduction of co-operatives that were 'co-governed' jointly by their employees and the users of the service, or open to a number of stakeholders within the locality who would have a real 'ownership' stake. Such a model would help to bring staff and citizens together to design and develop services that meet the needs of the community.

Others went further and suggested a variation of this model, with the local authority a significant stakeholder, alongside employees and users. We had some concerns regarding the involvement of multiple groups in the governance of a mutual could lead to paralysis in decision-making. Nevertheless, we saw that in some cases, there might be benefits in giving users a stake in the structure. Ultimately, we have to avoid being overly prescriptive: different models might lend themselves better to different services. The Government should therefore take steps to promote other models besides employee-owned mutuals.

Having proposed that, with support from the Government, councils should consider the use of co-operatives and mutuals to deliver services, we were also mindful that there were some risks involved. Of particular concern to us was the importance of maintaining democratic accountability and transparency. Where co-operatives and mutuals are used to deliver a council service, it is the councillors who will remain accountable for the provision. Services therefore have to be delivered to contract, as they would be if run by any external contractor, and councillors should have a role in monitoring that contract. Councillors' oversight role will also require them to guard against the risks of service fragmentation. Part of the ethos of co-operatives and mutuals must be that they are open and transparent, so that they publish details of their governance structures and the salaries of senior managers.

Co-operative and mutual models also have to include some protection for employees. The trade unions were concerned about the impact on staff pay and conditions when mutuals were established. While these concerns are legitimate, there is also evidence that mutuals can bring benefits to those who work for them and lead to a more empowered workforce. To achieve these benefits, staff have to be engaged in the process from the start. Imposing models from the top down will not work. It is also vital that provisions are in place to ensure that staff receive secure and fair employment following a move to a mutual.

We also heard that risks would arise if public assets were transferred to new co-operatives or mutuals. On the one hand, assets could provide a useful mechanism for securing finance for new start-ups. On the other hand, there was the risk that assets could be poorly managed and stripped or lost entirely if an organisation was bought out. On balance, we concluded that there should not be a general block on asset transfers; however, there was a need for clarity about the circumstances and conditions under which assets could be transferred, and for provision for the transfer of the asset back to the local authority in the event the mutual should fail.

In conclusion, there are a number of drivers towards the use of co-operatives and mutuals to provide local authority services, from both government policies such as the Big Society, Open Public Services and localism, and from the economic downturn and budgetary constraints, which are forcing local authorities to find new ways to deliver services. It would be a lost opportunity if councils did not set up or encourage the setting up of more mutuals and co-operatives to deliver their services. Because of the lack of evidence of the success of these models, the critical mass will be slow to build without more and better support. If the Government wants more mutuals and co-operatives to develop, it has to ramp up the assistance and guidance it provides. Such guidance would need to help them overcome the barriers to setting up co-operatives and mutuals, and also provide advice on mitigating the risks.

Clive Betts MP is a Member of Parliament for Sheffield South East, and Chair of the Communities and Local Government Select Committee.

36. People Power is the Key to Better Public Services

Steve Reed MP

Parliament recently voted to impose a real-terms cut in benefits. The Chancellor, George Osborne, framed the debate as encouraging 'skivers' (his term) to get off benefits and get into work. But it is in fact the case that the majority of people in receipt of benefits are already in work.[1] However, most of these are low paid and need financial help with housing and other necessities.

1 Resolution Foundation (2012) *Autumn Statement Hits "Strivers" as Wage Squeeze is Prolonged* [Online]. Available at: http://www.resolutionfoundation.org/media/media/downloads/AUTUMN_STATEMENT_HITS_STRIVERS_AS_WAGE_SQUEEZE_IS_PROLONGED.pdf [Accessed 5th March 2013].

Framing the debate in this way misses the chance for a better informed debate about dependency: why are some families so dependent on the state that they seem unable to break free and aspire to a better life? It's a question that should concern anyone who cares about social justice. Poverty of aspiration, as well as financial poverty, constrains lives and can be transmitted from parents to children, creating generations of misery. Welfare benefits, far from being generous, leave most recipients stuck on life below the poverty line. Not a situation most people would choose to be in if they had better options.

The problem is the way the state treats people with relatively high levels of need. It has a tendency to take over whole areas of such people's lives and make decisions for them. Social workers decide what happens to your children if they get into trouble because there's a lack of opportunities or activities in the relatively poor community they live in. Social housing officers tell you where you will live and what level of repairs, decorating and public environment you have to put up with. If you're disabled or frail, care service providers may decide what you eat, when you will bathe, who comes into your home to help you, and even when you can go to the toilet.

On top of that, crime and anti-social behaviour in needy neighbourhoods tends to be much higher. People in these circumstances feel trapped with no way out. In many cases the state makes them dependent and takes away their self-reliance. There has to be a better way.

We need to give people power over their own lives. Only then can they can regain self-reliance and use it to define and achieve more for themselves and their families. Instead of services that do things to citizens whether they like it or not, we need services that do things with them by working more co-operatively.

Many Labour councils in the Co-operative Councils Network are piloting approaches like this. Rochdale have mutualised their council housing stock so the tenants who live there own it. Oldham are trialling personalisation of support for unemployed people. Lambeth are making their youth services directly accountable to communities experiencing high levels of youth crime. People-powered approaches like these can be used to transform what government is, making it more open, accountable and responsive than before, but also delivering better value for money by focusing on outcomes instead of on processes. This means it does more of what works, rather than just doing things because that's how they've always been done whether it works or not. It effectively switches control from the provider of public services to the users, turning them from passive recipients to active shapers of the decisions that affect their lives. In this way, it transforms their experience of public services by putting them back in control of their lives.

This approach is called co-operative not because it necessarily involves setting up co-operatives or trusts (although it may), but because it forces closer co-operation between the provider and the user of public services by equalising the power relationship between them. It's an approach that can be used right across public services, but doing that will require something close to a revolution because it means turning public services upside-down and tackling vested interests that will oppose it.

Oldham was an early pioneer of personalised care budgets, an approach that helps an older or disabled person choose the services they want within the total funding allocated to them. Now, they are adapting the approach to help unemployed people get back to work. They believe – and with good reason – that traditional methods of support for unemployed people are not effective enough. So, instead of paying for people to go on training courses chosen by Job Centre staff and considered pointless by many of their participants, they talk to unemployed people about what they really need to get into work. If an unemployed person needs tools and a van to set up a decorating or plumbing business, that's what they get as long as it costs no more than the support they would have been given under the traditional system.

In Lambeth, some estates in and around Brixton experience very high levels of gang-related crime. Up to 7 out of every 10 adults on these estates are workless, the majority of young people are born into lone-parent households living in poverty on benefits, and the majority of young people end up in gangs for a variety of reasons including the need for protection, the desire for social bonds, and a lack of positive alternative options. These gangs are often highly criminal in nature, with new recruits forced into escalating levels of offending including selling drugs, street robbery, burglary, and carrying and using dangerous weapons. This experience not only destroys young people's futures, but also destroys the communities they are born into. Council youth services, intended to identify young people at risk and divert them away from danger, are simply not effective enough.

Now, the council is changing. Lambeth's new youth services trust, the Young Lambeth Co-operative, will put people living in these communities in control. They will elect a representative assembly that will appoint a board to oversee a different set of youth services. People living on each estate will be supported to choose the activities, services and interventions they want to give their young people positive alternatives to joining violent youth gangs. Early pilots, like the community-led projects on the Myatts Field Estate, show dramatically improved success rates. The new trust launches on 1st April this year.

Empowerment can be used to improve many, if not all, public services that operate at the local level. Turning Point, a major third-sector provider of mental health services, has developed an approach called Connected Care. It involves training a representative group of their own service users to engage with other service users and use the information and views they gather to help shape services. It means services remain responsive as needs change.

Personalised care budgets are now common. Some councils want to allow groups of service users to pool their budgets. By operating co-operatively, rather than in isolation, frail older and disabled people and their carers have more purchasing power to influence the services they use. This can lead to needs being identified for which there are currently no providers. What's to stop councils helping new social enterprises to start up to provide such services? Councils have many of the resources that can help start-up enterprises, including desk space; back-office systems like IT, finance and HR; and networks that can provide business-to-business mentoring to help new enterprises establish themselves and grow. And if you can use council resources to help new social enterprises provide tailored social care, why not offer the same support as the basis for a local business growth model, harnessing local enterprise to provide more local jobs?

Lambeth has been explicitly pursuing a co-operative approach longer than other local authorities. They have recently started to reshape the council to remove some of the internal barriers to change. The council found that existing service directorates found it hard to let go in ways that allow service users to take more control. Many managers measure their relative importance by the size of the budget and the number of staff they control. Many professionals find it hard to accept that the insights of their service users are of equal value to theirs.

Lambeth is addressing this in two ways. First, they have published proposals to remove directorates in order to create a flat organisational structure with fewer tiers of management. This makes it easier for citizens to hold services to account and to join services up in ways that make sense to them rather than to the people who provide their services. Second, they are switching responsibility for commissioning from council officers to elected councillors with the proviso that councillors can only commission if they can demonstrate strong citizen engagement in the decision-making process. This approach, which Lambeth call co-operative commissioning, makes councillors central to empowering citizens and maintains democratic accountability for what happens. It also understands that the model works best if leadership is encouraged and developed at all levels, helping communities become more resilient in the face of the challenges that confront them.

As citizens are able to influence more and more council services, they start to question why other parts of the public sector can't be influenced in the same way. Instead of looking at problems through the organisational silos we've created (housing services; health services; community policing) people will join up services in ways that deliver the outcomes they want to see. We'll start to see a citizen-led model of community budgeting.

What these examples show is that putting people back in charge of their lives allows their own insights to reshape services and make them more effective. It also changes relationships between people living in communities as they start to realise that they can work together to tackle the problems they face rather than raging or acquiescing in frustration at services they feel are inadequate. We start to see what a reshaped relationship between the citizen and the state might look like.

As with council-led services, there remains a need to ensure services remain open to everyone with a right to use them, and that there are measures in place to guarantee appropriate levels of safeguarding and financial probity. In case of service failure or any sudden collapse in performance, the council may need reserve powers to intervene. But these new approaches create services that are more innovative, directly accountable to the people who use them, more responsive to people's real needs, and more effective at delivering the outcomes people want.

Elements of this sound like the Big Society. Certainly much of the language is the same, and there are overlaps with that agenda. But the Big Society misses a central point that co-operative councils have understood: it is the relative disempowerment of the user of public services compared to the provider that is the problem. The Government's Mutuals Task Force is seeking to establish employee-led mutuals – in effect, switching from one provider-led model to another, without empowering users. This misses the point.

Once people get back power and control, they use it to overcome the barriers that hold their lives back. Empowerment is the way to tackle dependency and unlock aspiration. By working together to share learning and experiences, co-operative councils are creating a new model of public services that puts people back in control of their lives and allows them to pursue a better future.

Steve Reed MP is the Member of Parliament for Croydon North and former Leader of Lambeth Council.

Case study

37. Creating a Co-operative Council for Oldham

Cllr Barbara Brownridge

Oldham, like most local authorities, is facing prolonged reduction in revenue, which seriously affect its ability to continue to provide the full range of services that are currently provided at a time when the demand for those services is rising. The ever widening gap between supply and demand had, therefore, to be urgently addressed.

At the same time, Oldham had other significant problems. There was a severe disconnect between residents and the Council as the residents did not trust the Council although they valued the services it provided. There was a significant problem of unemployment with the Oldham rate being the highest in Greater Manchester and also with those in work being primarily paid very low wages. Although educational attainment had been improved most of those achieving the highest level of qualifications did not stay in the borough leaving a workforce that was largely unskilled. Many of those who left cited the long period of non investment in the infrastructure of the town as a reason for leaving.

The incoming administration had, therefore, to address the issue of how to improve the town, to secure additional inward investment particularly in jobs to allow residents more opportunities to improve their quality of life and to protect the services needed by the most vulnerable despite the reduction in resources.

The administration realised that the fundamental issue that had to be addressed was an overdependence on the council which for many had become the first port of call for any problems – an example of this is a request for the council to pick up a wheelie bin that had blown over in the wind – which meant that there had to be a major culture change with residents recognising that there were things they could do for themselves thereby freeing up resources. The council was, however, also of the view that they wanted those services they did supply to remain in the public sector as a first choice in order to capitalise on the experience and expertise that existed in the sector.

The first step, therefore, was to examine all of the services that the council provided and how they were delivered and to question what value they actually added. This involved talking to all participants – residents, staff, and other service providers such as the NHS and the voluntary sector – with a view to managing and reducing service demand, with residents and council working together to make the town a more productive place: 'Everybody does their bit and everybody benefits'. This was our definition of a co-operative council and the ambition was subsequently extended to include not just the council but the borough as a whole.

Creating a co-operative council

To operate as a co-operative council required an ambitious change strategy for the organisation alongside radical plans to transform how decisions are made, services are delivered and most importantly the town as a place. It was vital, moreover, that the co-operative agenda was not a rebranding exercise but a driver of change for all aspects of the council's business and planning.

The first step was to hold a Borough-wide 'co-operative conversation' to engage as many voices as possible in shaping the approach, the opportunities and most importantly the values which would be the foundation for the whole agenda. Through a partnership Co-operative Commission this was put into a Co-operative Charter. Leading from the front, the Council developed and adopted an ethical framework which clearly sets out how the Council will use its resources to support and deliver a Co-operative Oldham:

it is the public sector equivalent of a Corporate Social Responsibility statement. For example, the council itself pledged to adopt the Oldham living wage, currently £7.11 per hour, and had set out to encourage all businesses and services with which it deals to do the same.

It is also committed to incorporating social value into its commissioning so that account can be give where there are specific community benefits, in addition to the delivery of the basic service. There is recognition, for example, that keeping elderly people in their own homes can reduce the need for, and cost of, residential care but that this is only the case if they receive the proper support which may well be more expensive than basic domiciliary care.

The council is also working to open up its public services to new models, such as co-operatives and mutuals, to ensure that local communities have greater opportunities to have a real ownership stake in the services that they use, and to catalyse new markets that can better respond to communities' needs. Given that this is a major change, it will be important for the council to work with partners, employees and communities to provide the necessary support for such transitions to take place.

Devolving power to local areas

The other step taken in the early stages of development was the decision to devolve power to local areas. The administrative area of Oldham was created out of a number of smaller district councils and as a result consists of six distinct neighbourhoods, each consisting of three or four wards. Each is covered by a District Partnership, which are formal committees of the council with decision making powers and involve other partners such as the police and the NHS. Each one has its own town hall often in the same building as other local services such as the leisure centre or library and has a core team of officers including a district manager, a community development worker, a case worker and the street scene section. Each partnership currently has a small devolved budget but work is underway to see how these budgets can be increased with a possibility that local commissioning could take place in the future.

In order to reinforce the importance of local neighbourhoods and engage as many people as possible in the Co-operative Council a 'Love where you Live' campaign was launched on 14th February 2012, which encouraged individuals to make a pledge to make a difference and also publicising community activities and activists.

Since it is the intention that more decisions will be made at a local level, the old 'council knows best' model is no longer appropriate. Under the co-operative approach, local communities will have to be engaged and led, and this places new requirements on councillors. As elected Members, they have indisputably been chosen by their communities as leaders and they are now going to be required to fulfill that role in a proactive rather than a merely reactive manner. They will be expected to lead district partnerships and feed this experience into the strategic direction of the council. A Local Leadership development programme has been established, and penalties imposed if Members do not attend (i.e. becoming ineligible to vote on their District Partnership Sub-Committee) at least half the sessions, and Members are also expected to publish an annual report of their activities.

A further aspect of community leadership is the council's decision to become a focus for campaigning to show that it can make a real difference to the lives of residents. Consultation with those residents had shown that they were paying a disproportionate amount of their incomes on bus fares, which were higher in Oldham than in the more prosperous southern parts of the Manchester conurbation, and also paying too much for heating. The Council consequently fronted two campaigns and succeeded in having bus fares reduced for a trial period with further reductions granted to those passengers who were members of the Credit Union and signing up almost 9000 households to an energy switching campaign which resulted in average savings of £170 per annum (and one individual saving of over £700). These campaigns, therefore, offer a genuine benefit which to some extent will help offset loss of income resulting from changes to Council Tax payment and other benefit changes.

The council will continue to identify issues where the council can use its position to be the focus of campaigns, such as the need to create real employment opportunities though the development of genuine apprenticeships and training, the need to address loan sharks and pay day loan companies by developing alternative means of credit such as the Credit Union, and opportunities for the council to use its purchasing power to reduce the cost of goods for residents.

The philosophy is in place and it is now necessary to convert that into actions on the ground which is, of course, more complicated. We are currently working on developing a common standard of service provision for all neighbourhoods with District Partnerships then free to add to that standard or indeed to do other things as their devolved budget allows. Discussions are still continuing with other service providers to see if service provision can be made by different groupings to maximise outcome by minimising duplication.

A Co-operative Oldham Fund is being developed which residents can bid into to fund schemes or enterprises of value to the town and we are also seeking to develop a 'divvy' – a reward scheme for contributions to the community, which hopefully can be used to secure reductions in the costs of goods and services.

It must be recognised that the changes currently being developed are not a panacea and will not negate the serious decisions that will have to be made about the future delivery and provision of services. It is now undoubtedly the case that services will have to be significantly reduced but the intention is that residents will at least have a genuine opportunity to influence what those reductions will be and will have a better understanding of the challenges currently facing local government. Through this approach, there is the potential to fundamentally change the relationship between citizens and the Council; encouraging and enabling individuals and communities to take more responsibility for themselves and where they live. The proposed changes require significant change for everyone concerned: public staff and possibly most of all Members which cannot be achieved overnight. It is our firm view, however, that there is no alternative, and if we do not attempt to make these changes the most we can do is manage the continuing decline of what was historically a great town and which still has a wealth of untapped potential.

Cllr Barbara Brownridge is the Councillor for Chadderton North in Oldham and the Cabinet Member for the Co-operative Council.

Housing

38. Making Homes Mutual: The potential for scale

Nic Bliss

In today's difficult housing market, one would have thought that mutuality in housing would be tailor made to provide an option for people and communities. The mutual housing sector has set a modest target of 4,000 new mutual homes by 2017, but perhaps with various factors coming together, the sector could snowball and provide many more. This essay sets out what needs to happen to make this possible.

I live in a housing co-operative. 20/20 Housing Co-operative houses fifty-five members in forty-nine family and single homes in the Moseley and Balsall Heath areas of Birmingham. We are a 'Registered Provider' co-operative, registered with the Government's social housing regulator because most of the funding to build our homes came from the Government in the 1980s. There are some similarities between us and housing associations: the types of people we house are in the same need of housing. We also provide similar housing services – usually pretty well. Levels of satisfaction expressed by our members normally remains in the high 90% range. And we operate as an effective community business, stewarding our resources carefully. We are now starting to look at how we can use the community assets that we have built up over the years to build new co-operative homes.

But this is a fraction of the 20/20 story – a story replicated in many other housing co-operatives. There is something about co-operatives that means that once people move into them, it's rare they want to move out.

This may be because of the many people who come to co-operatives from difficult circumstances, and who go on to rebuild their lives because of the stability, identity and confidence they have found in their co-operative. Although most co-operative members start out on benefits, many use their co-operative tenancies as platforms to move on into work. There's something about taking voluntary responsibility that inevitably encourages people into the world of work.

It may be because co-operatives usually go way beyond the minimum regulatory standards set by Government that are designed to improve service quality for housing association and local authority tenants. Complaints that could be defined as 'anti-social behaviour' are rare – and generally nipped in the bud through the community setting standards it thinks are appropriate, and having sensible dialogue to resolve problems when they arise. And as for the Government's Decent Homes Standard: what business or community sense would it make for co-operatives not to have kept all the parts of their homes up to a standard that their members would want?

Or it may be because co-operatives are communities, and it is this that probably most makes us different. In 20/20, some of that which defines us comes from the community events we put on, like holding our AGM in a local balti house or our 'fundays'. However, most of our community's character has developed organically because our members interact – sometimes over the garden fence, sometimes through running the co-op, sometimes through having meals together, sometimes through other things (for example the co-op Ann Summers party – sadly that one was women only!) We all know that there are 20/20 members who will look out for us – help us out when we're ill, look after the kids, do shopping – and just generally be there for each other.

All of this is so normal to us and most other housing co-operatives and such obvious common sense that it's strange that it's not like this for everyone. This central community principle lies at the heart of all forms of mutual housing: local communities working together to meet their own housing and other needs. We have been doing this since the 1970s.

History and variety

Different mutual housing approaches have sprung up over the years to fit in with local circumstances. Several hundred rental housing co-operatives developed from the 1970s to the 1990s – some supported by Government funding and some not. From the 1990s onwards, a similar number of Tenant Management Co-operatives developed to improve the homes and housing services of council housing tenants. Then in 2000, the co-operative sector developed the Community Gateway model – referred to elsewhere in this series of essays – so that council tenants considering transfer to a housing association to bring in investment had an option where they could transfer the homes to themselves through a mutual housing organisation. Preston Community Gateway proved to be an excellent first example in 2004. And Rochdale Boroughwide Homes – again referred to elsewhere – have developed this model further into a model jointly owned by tenants and staff.

Recent years have seen the emergence of a variety of potentially multi-tenure mutual housing models. Community Land Trusts (CLTs), where local communities develop homes or other assets that meet local housing and other needs, are owned and controlled by the community and are available at permanently affordable levels (importantly shifting decision-making about what gets built in local areas to local people). Examples of such schemes include Lyvennet Community Trust in Cumbria, High Bickington Community Property Trust in North Devon, and East London CLT in London, to name a few of the 130 CLTs across the country. Other approaches to mutual housing include co-housing schemes, where intentional communities come together around communal facilities, such as at Threshold in Dorset and Lilac in Leeds; self-build schemes, where local communities use various methods to build their own homes, such as the Ashley Vale estate in Bristol; and fledgling mutual home ownership schemes, where members buy shares in their co-operatives dependent on their income levels.

The particular legal frameworks that these mutual housing organisations use are not as important as the central principles that lie behind them all: some form of democratic and legal community membership that exercises control over decision-making about the homes in their communities. In the Confederation of Co-operative Housing – the national representative body for co-operative and mutual housing – we took it as read that these democratic membership principles had enabled us to produce long-term community benefits, but our repeated assertions of this had until recently resulted in people saying: "well you would say that, wouldn't you?"

Benefits, challenges and opportunities for scale

So in 2008, working with colleagues in the housing association sector and others, we established the Commission for Co-operative and Mutual Housing – an independent Commission that brought together senior representatives from the 'mainstream' and co-operative housing sectors – to assess if what we had been saying would be supported by research; to consider what role co-operative and mutual housing should play in our national housing strategy; and to identify what needed to happen to make this role possible. With all-party political support, the Commission published its report, Bringing Democracy Home, at the end of 2009.[1]

The Commission concluded that mutual housing offered the potential to respond to the needs and aspirations of ordinary people in an uncertain housing environment. Based on research carried out by Birmingham University's Centre for Urban and Regional Studies, the Commission also referred to the

1 Commission on Co-operative and Mutual Housing (2009) *Bringing Democracy Home* [Online]. Available at: http://www.cch.coop/docs/commission/bdh-commission-report.pdf [Accessed 1st March 2013].

above average levels of satisfaction; as good as, if not better, performance on housing services; and the wider individual and community benefits that we knew existed in our sector. The Commission's overall conclusion was that "the UK needs to bring co-operative and mutual housing options into our national housing policies".

But the Commission also pointed out that only 0.6% of the UK's housing supply is currently mutual, compared to well-developed sectors in other parts of the world (18% of housing in Sweden is co-operative; 15% in Norway; 8% in Austria; 6% in Germany) and co-operative housing sectors are now being developed in many countries. The Commission suggested that developing co-operative and mutual housing sectors are dependent on three necessary components: (a) grass roots community development; (b) appropriate support and infrastructure; and (c) sympathetic national and local Government. This combination of factors only briefly came together in the UK in the 1970s.

Seeking to assemble this combination is the major challenge that faces the small representative bodies in the mutual housing sector – the CCH, the National Community Land Trust Network, the Cohousing Network, the National Self-Build Association, Locality and others (collectively known as the Mutual Housing Group). We know that there is huge interest out there in different forms of mutual housing – from local communities, local authorities, housing associations and elsewhere – and barely a week currently goes by without someone contacting us to ask us how they can set up a mutual housing organisation.

Sadly, it's not easy. Developing a viable mutual housing scheme requires a sustainable community group that is capable of effective governance; an available site and a realistic scheme proposal; active support from the local authority; and some sort of effective development partnership. It's hard to make all those things happen at the same time and this means that there is a limited current success rate for developing schemes.

And of course, the biggest challenge of all is access to development finance at rates that make housing schemes viable. There is very limited finance available for small ethical banks to lend to mutual housing schemes, and the clear message potential housing investors have given us is that they are not geared up to lend to small scale community schemes who require comparatively small investment – particularly where the risk factors are not what investors are used to.

Our approach to tackling this challenge has been to batch together the investment needs of a number of mutual housing schemes into a single 'warehouse' scheme where a single organisation with financial credibility leads a programme to develop mutual housing schemes to ensure due diligence and satisfy investor needs. Pension funds, the Government's Homes & Communities Agency and the Big Society Capital fund – recycling dormant bank accounts for community initiatives – have all expressed an interest in this warehousing approach.

But the challenge for this approach is ensuring that sufficient viable mutual housing schemes are seeking finance all within the same time period to justify the work to establish this single organisation. This challenge has seen a small team of people from our sector – most of it voluntary – criss-crossing the country promoting the principles of co-operative and mutual housing; helping communities work with their local authorities and others to assemble viable schemes; and working with various organisations to establish viable approaches. Not an easy task but one that is gradually building pace.

So of the components identified by the Commission to make a co-operative and mutual housing sector flourish, we consider we are partially there. Certainly grass roots communities are potentially there (factor (a) identified above). We come across them all the time, although in most cases they need organisational and technical development, and other support. That support and infrastructure (factor (b)) is currently patchy, but it may not take that much to get what is necessary in place.

With regards local Government (half of factor (c)), our experience is that some local authorities are chomping at the bit to support mutual housing schemes, seeing them as a means of providing much needed homes through community activity and with minimal public investment. The one missing part of the jigsaw puzzle is sympathetic support from national Government (the other half of factor (c)): the will in Government to facilitate local people to develop mutual housing. We aren't seeking Government money to build homes, but the lack of a national Government strategy for mutual housing means that it's down to a handful of frazzled volunteers to make a national programme happen.

We know our sector is not going to solve the housing crisis alone, but we think that the conditions are right for us to produce several thousand homes over the next five years. The Commission called on Government to adopt an ambitious aim that "by 2030, each town, village and community should be able to offer co-operative and mutual housing options to potential residents". We call on Government to work with us to make this ambition a reality.

Nic Bliss is the Chair of the Confederation of Co-operative Housing.

Case study

39. A Marriage of Pragmatism and Idealism: Developing mutual housing in Rochdale

Professor Ian Cole and Professor Paul Hickman

It all began in Rochdale. In 1844, disgruntled cotton workers in the town established the first ever formally constituted mutual organisation, the Rochdale Equitable Pioneers Society (REPS). The Rochdale pioneers established the organisation to increase their purchasing power to buy local produce at a more affordable price. Within a few years, the co-operative movement spread rapidly and REPS was the progenitor of the modern Co-operative Group in Britain today, with six million consumers, 4,800 retail outlets, 106,000 employees and an annual turnover of more than £13 billion. But this remarkable growth has not, of course, spawned the parallel development of other mutual and co-operative organisations in Britain. By international comparisons, the sector remains under-developed, in housing as much as in other policy areas.[1]

1 Handy, C. and Gulliver, K. (2010) "Mutualism Rising? Housing's Vital Role in the 'Big Society'", *Compass Think Pieces* [Online]. Available at: http://clients.squareeye.net/uploads/compass/documents/CTP66HandyMutualism.pdf [Accessed 27th February 2013]

Now, 169 years on, Rochdale is at the forefront of mutualism again. Rochdale Boroughwide Housing (RBH) is the largest formally constituted mutual housing organisation in Britain. In this paper we outline how the mutual idea took hold in RBH, some of the problems that it has faced, , and whether this will constitute another pioneering step, as a blueprint for other agencies, in social housing and beyond.

Mutuo has classified mutual organisations into three groups: co-operative businesses; financial services mutuals (such as friendly societies, credit unions and building societies); and public services mutuals, which may operate in fields such as health, education and housing, often as 'spin off' companies that continue to offer public services and where employee control plays a 'significant role'.[2] Rochdale Boroughwide Housing is an example of a large public service mutual. In September 2009, Rochdale MBC set up an Investment and Involvement commission with representatives from councillors, residents and Board members of Rochdale Boroughwide Housing, an Arms Length Management Organisation (ALMO). It was chaired by an independent housing policy expert, one of the authors of this chapter, Professor Ian Cole. The purpose of the Commission was to examine future housing revenue options for the local authority housing service in the face of a looming deficit about five years hence.[3]

The first ALMOs were launched in 2002 and there are now 51 organisations in 66 local authorities managing 700,000 council homes. From 2002 to 20118, over £6bn was spent by ALMOs under the Decent Homes programme to improve social housing in England.[4] ALMOs have been characterised by a strong commitment to tenant involvement and empowerment, strong links with their local area, a fixed geographical focus and an emphasis on close partnership working with local authorities and other stakeholders.[5] Initially, ALMOs were devised (or, perhaps more accurately, improvised) to provide an alternative option for those local authorities that had decided not to transfer stock to a housing association , in order to free up opportunities for additional borrowing and investment.

The policy options for housing in Rochdale

The need for local authorities to take decisions about the future of ALMOs was given added impetus by the reform of the Housing Revenue Account (HRA) system for council housing, first announced by the Government in 2009. This process of reform involved the redistribution of housing debt across all those local authorities in England which have retained, rather than transferred, their housing stock (whether managed directly by the council or through an ALMO). Councils were obliged to set business plans for a thirty year period, so that the revenue stream from rents would be able to service ongoing debt, cover any additional borrowing for future investment, and meet ongoing management and maintenance costs.[6]

These potential reforms offered both an opportunity and a threat to ALMOs. On the one hand, a self-financing future would enable ALMOs to take fuller control over decisions at a local level, without being dependent on

2 Mutuo (2012) *Mutuals Year Book 2012: The Definitive Guide to the Mutual Sector* [Online]. Available at: http://www.mutuo.co.uk/wp-content/uploads/2012/11/Mutuo-Yearbook-2012.pdf [Accessed 27th February 2013].

3 It is not legally possible for a local authority housing revenue budget to incur a deficit.

4 NFA (2012) *Annual Report 2011/2012* [Online]. Available at: http://www.almos.org.uk/news_docs.php?subtypeid=22 [Accessed 27th February 2013].

5 Cole, I and Powell, R (2010) "The Future of Arms' Length Management Organisations: the Uncertain Fate of a Social Housing Hybrid", *People, Place and Policy Online,* 4 (2). pp. 50-61 [Online]. Available at: http://extra.shu.ac.uk/ppp-online/issue_2_290710/documents/arms_length_orgs_housing_hybrid.pdf [Accessed 27th February 2013].

6 Department for Communities and Local Government (2010) *Council Housing: a Real Future - Summary of the Responses to the Consultation* [Online]. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/8554/1782625.pdf [Accessed 27th February 2013].

annual subsidy determinations handed down to them by central government. It would also enable them to plan for the long-term, making apparent any necessary assumptions about future rent levels, ongoing costs and investment priorities. On the other hand, self-financing would place the viability of ALMOs centre stage and much would depend on the terms of the local financial settlement once HRA reform was implemented.

The need to develop an effective organisational model to run the local authority housing service in the future, that would also command the support of tenants, was the unenviable challenge facing the Rochdale Investment and Involvement Commission. This was made more acute by the fact that Rochdale has a high level of social and economic deprivation. Rochdale is the ranked as the 23rd most deprived out of all 326 local authorities in England LAs on the overall Index of Multiple Deprivation. Four LSOAs in Rochdale are amongst the 100 most deprived LSOAs in the country (out of 32,482 LSOAs in total). Any option that automatically imposed much higher rents on the 14,000 tenants in Rochdale in order to secure the future of the service was hardly likely to win widespread support, especially given the pressures on Housing Benefit as part of the welfare reform programme.

One option for the Rochdale Commission was to revert to local authority management and ownership (conventional council housing). But the members had little appetite for the service going back to the council. Tenant representatives in particular confessed that, although they had not been originally in favour of the creation of the ALMO, the improved level of service and opportunities for tenant involvement subsequently had won them over. The second option was to ballot tenants on the transfer of the stock to a housing association. This option was not favoured either, especially by the tenant representatives, not least because of concerns expressed by tenants in nearby districts that the promises made by housing associations prior to stock transfer about management standards and modes of participation had not subsequently materialised. Furthermore, the transfer of Rochdale's housing stock was unlikely to be seen as an attractive business proposition by other lenders or housing associations, in the cold climate of the post-2008 recession. It was looking like the Commission was entering a troublesome cul-de-sac.

The Rochdale Commission paused before coming to a recommendation, in order to await the outcome of the 2010 general election, in case an incoming government were to abandon the housing revenue reforms. In fact the Coalition government continued with the measures (and indeed the remainder of the Decent Homes programme), and ministers also expressed their enthusiasm for developing the mutual model of service delivery. A representative from Mutuo gave a presentation to a meeting of the Commission, and this option was then considered in more depth by fleshing out the financial consequences and the prospects for devising a 30 year business plan, which would be sustainable if (and only if) some of the housing debt being carried by the local authority could be written off.

Members of the Commission were especially attracted by the prospects the mutual model gave for ongoing tenant (member) involvement in the development of the service, and the opportunities for employees of RBH to have a direct say in the future of their organisation. At the end of 2010, the Commission duly recommended that Rochdale MBC should ballot tenants on the transfer of the housing stock to a mutual housing organisation, developed out of the ALMO.

The council agreed to the Commission's recommendation and the outcome of the ballot held in December 2011 was that 76% of tenants (on a 56% turnout) supported the stock transfer to a mutual housing organisation. The business plan was premised on £169 million of investment from public and commercial sources over the thirty year period, an agreement from government to write off £91.5 million of the debt and a cost to Rochdale Boroughwide Housing for purchase of the stock of £25.5 million. After prolonged negotiation, securing commercial loan investment from banks was a critical breakthrough in ensuring the financial viability of the mutual's business plan. The vision for the mutual was described by the Director of Finance as a 'unique ground breaking model for the social housing sector, enabling us to reshape what we do, how we do it and to generate additional investment in our homes and our communities'.[7] RBH will be formally constituted as a mutual in June 2013.

Developing the mutual model

At the heart of the Rochdale mutual model is co-ownership of the organisation by tenants and employees. There is a three-tier governance structure: members, who elect tenant and employee representatives on to a Representative Body (RB) of 31 members (member representatives, councillors, and representatives of RBH and partner organisations). The majority of RB members will be comprised of tenants when the organisation is formally constituted. There will also be four informal representative bodies of tenants and employees, designated as Continuous Improvement Groups.

The RB members then work with the Board, comprising eight non-executive Directors appointed by the RB and two Executive Directors. The Board is the legal body for RBH and is constituted as an Industrial and Provident Society. Of course it is still too early to tell how this governance structure will work in practice, although shadow arrangements have been running effectively so far. It also remains to be seen how far the division of responsibilities will ensure clarity of accountability, or whether it will risk creating duplication of effort and a long chain of communication between the three levels of governance.

There are several key challenges facing RBH as it moves to formal mutual status. Interviews with some of the key actors involved in the formation of the mutual revealed concerns about how tenants and employees would actually work together, but the level of apprehension was, it was claimed, now starting to ease. Nevertheless there is clearly a numerical imbalance between 600 staff members and potentially 16,000 tenant members. The need to discuss issues such as staff performance, recruitment and redundancy can obviously touch sensitive nerves here.

Keeping the broad membership informed of developments without being swamped with complex and technical information was another source of concern. Both the recommendation to form the mutual and the development of the thirty year business plan (which had to be agreed in a very short timescale) had involved a relatively small group of experienced tenant representatives, and some of the other tenants felt marginalised or excluded from the process. They felt they were only being invited into the wider discussion when the overall strategic and financial direction of the organisation had been set. However, more recently the shadow RB has prepared a new Corporate Strategy for RBH and this has been a more inclusive process.

A model for the future?

So, will these latter day Rochdale pioneers now blaze a trail for other social housing organisations, whether ALMOs, housing associations or local authority landlords? Some caution is in order about how replicable the Rochdale model might be. The debt write-off of £91.5 million by government, for example, was crucial to making the sums stack up for the business plan and this is unlikely to be repeated for the foreseeable future. And other policies, such as welfare reform, will be especially challenging in Rochdale, given the social and economic profile of its tenants, and no amount of mutuality will blunt the material impact of these measures for many households. But there is a degree of optimism about the future of social housing in the borough that was not present three or four years ago - and if mutual housing can be pioneered successfully in Rochdale, it might carry a strong message about what progress can be achieved by other social housing agencies operating in less deprived contexts and, perhaps, in less austere times ahead.

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7 Hallard, N. (2011) *Diversification of the ALMO Sector: New Mutuals and Housing: the Rochdale Story* [Online]. Available at: http://www.rbh.org.uk/pdf/Diversification%20of%20the%20ALMO%20Sector%20-%20New%20Mutuals%20in%20Housing.pdf [Accessed 27th February 2013].

Case study

40. Phoenix Community Housing: Social housing and the community gateway model

Jim Ripley

The true issues about housing are not about bricks and mortar but about people. We must consider the impact of housing on people's lives and how this provides an insight to all of us who see affordable housing as more than just the housing of last resort.

As the government pursues an increasingly ambitious vision for housing, it is important that we place social housing in context. Social housing needs to be a force for social justice and provide a platform for better life chances. Going forward, it is essential that we truly realise the benefits of providing good-quality, affordable homes in mixed communities, which support both the needs and aspirations of our growing and diverse population.

In many sectors today, including the housing sector, there is a growing trend towards localism and a general consensus that this is a good move. The idea of taking decision-making to a more granular level is intended to increase community engagement and highlight the importance of ownership. This is the definition of a community gateway association and the model on which Phoenix Community Housing was created.

Being a community gateway means going beyond participation. We own our own assets collectively which means we control our destiny and shape our future.

Phoenix Community Housing and the community gateway model

Phoenix was established in 2007 after 68% voted in favour of 6,800 homes transferring from Lewisham Council. Residents chose this option because it would deliver independence, extra investment and a promise to improve homes.

The community gateway model is a relatively new model of mutual housing. We are London's first community gateway and one of only four in England. What differentiates us is that we are membership-based. It is this democratic tool that enables us to deliver authentic 'ownership' for our residents. As an industrial and provident society, ownership is achieved by becoming a shareholder and, as members are our shareholders, members are also our greatest assets.

Our membership is a fundamental 'check and balance' system for localism in practice and ensures that our rules for working can only be changed if members vote for change. Every year, our members exercise this right by voting for representatives on our management board. Last year we had an unprecedented nine candidates standing for election for three resident positions.

We have worked hard to make sure that our members are more than just voting shareholders. In 2011, Phoenix became the only housing association in the UK to have an affinity relationship with the Co-operative Group. Our 'Phoenix Gold Club Membership' scheme, which emerged from this relationship, pays a dividend each year through Phoenix reward points in the form of vouchers. This is self-sustainable, which means that the money we save because residents keep agreements with Phoenix is used to pay for Gold Rewards that can be exchanged for goods where the Co-operative membership sticker is displayed, or for cash at any Co-operative Food Store. Agreements include allowing us in first time to do a gas safety check, keeping rent or service charges payments up to date, keeping to an agreement to pay off arrears and paying charges by Direct Debit.

Unusually for a housing association, it is written into our company rules that tenants make up the majority of our management board. In a typical London housing association there may be seven board members made up of staff as well as residents and independents. The Phoenix Board has 15 members (7 tenants; 3 councillors; 5 independents). No staff members are allowed on the Board to ensure that there is evident transparency and accountability. Our rules state that both the Chair and Vice Chair must be Phoenix tenants. Our democratic ethos is illustrated by our current election, where tenants are being balloted over changes to our existing consultation structures. We expect the turnout to be over 25%.

The Phoenix Residents' Group, a scrutiny panel, monitors the work of the organisation and reviews policies, and residents are voting shareholders of the association. This means that residents are always placed at the heart of decision-making process.

This is localism in its purest form, and it is inextricably linked to all aspects of our organisation. The community gateway concept has greatly benefited us by shifting the emphasis from a housing association controlling its community to one that facilitates and empowers its community.

Social and economic recovery driven by tenants

One of Phoenix's greatest strengths for harnessing this new form of ownership is our geography and locality. We manage over 6,500 homes within an area that is approximately 5 square miles in one London Borough. Many London housing associations manage homes in several boroughs. In addition, many of our stakeholders, such as councillors and staff, live within or close by the Phoenix area. This means that our vision is aligned with that of residents. Our stakeholders literally have a 'stake' in the long-term regeneration and 'place-shaping' of the area. The Green Man project is a current example of this place-shaping.

At the time of stock transfer from Lewisham Council in 2007, we made 152 promises to residents. One of these was to build a headquarters at the centre of our community. Today, we are progressing with plans to develop the former Green Man pub in Catford (south London) into our new corporate headquarters and community facilities.

A barter deal with housing association, L&Q, which originally owned the Green Man site, saw the pub transfer to Phoenix. This was a challenging process and one that Phoenix proactively identified and pursued with L&Q. At the time, we were not in a position to re-develop the site, but the main advantage of the swap was L&Q's creation of 44 new homes, making it a 'win win' situation for both sides.

An initial consultation with residents delivered feedback that has formed the basis of plans for the new site. These include a new headquarters for Lewisham Plus Credit Union and Lewisham Council will set up a training kitchen which builds on the former pub's social legacy and brings opportunities not only for sharing training, employment and good food in a community setting but also for enterprise. Tenants have the opportunity to rent market stalls and business units, as well as space in the public square, all of which will create dynamic community activity. The Green Man will open in June 2013.

In creating the new building, we have turned the design process on its head and started by considering our users and placing them and social considerations at the heart of our planning. The new development will engage people on the most practical level, offering our residents and other local people genuine economic and social benefits. A new public square and Barn will offer a focus for social and community activities and create a new 'place'.

What makes this project so special is the effect that placing social sustainability at the heart of the design process has had. It has delivered a new a type tenant engagement which may act as a powerful precedent for future development. Tenants asked us to demonstrate a social benefit to the community in which it is to be built so that social, economic and environmental drivers are properly considered and reconciled. A good barometer for success is simple but revealing – footfall. We aim for the Green Man to become a destination in itself, a place that is well used by all the community not just our tenants and is attractive to new businesses.

In addition, residents wanted to have a symbiotic relationship between new businesses run by local people on the ground floor and the office community above which introduces a new take on how mixed-use developments can be arranged.

It is a credit to the foresight of our residents at consultation that 24Housing, the magazine for housing professionals, described Phoenix as one of five 'forward-thinking organisations' in the UK with a new vision of social housing (September 2010). This third party endorsement is a direct result of the ownership/mutual model.

Challenges and opportunities

True community empowerment and engagement is not an easy goal as it requires genuine social change. This is where ownership can make a real difference because if we own our assets, we are in a better position to use them to their best advantage and influence our future. Multiple ownership can cause problems, but complete control means that genuine community empowerment is realistic.

This not only takes time but also a much more holistic commitment as we confront the challenges of education, crime reduction, health and employment. These are the cornerstones on which we improve people's lives rather than by simply solving housing issues.

This is why, as a community gateway association, we go to great lengths to fund and facilitate projects of all kinds. We are introducing new strategies, such as our Community Empowerment Strategy, which looks at how resident empowerment and scrutiny should be structured and supported going forward.

'Engagement' and 'empowerment' are words that can sometimes be overused to the point of insignificance. They are broad, abstract terms which can result in apathy if they are not backed up by tangible actions or services. Our residents have opportunities to become involved through nine strategic forums (read letters/surveys; focus groups; membership; attend Local Area Panels; Phoenix working parties; Residents' Champions; communications and web groups; Phoenix Residents' Group; Board) and to whatever degree they feel suits them.

True localism happens when organisations are truly accountable. Phoenix is owned by its residents, led by its residents, for its residents. The community gateway model provides a sound basis for this ideal and we hope more housing associations follow suit.

Jim Ripley is the Chief Executive of Phoenix Community Housing.

Models and Partnership for Social Prosperity

To radically change social and economic outcomes, we need to establish hybrid partnerships between communities, businesses and the public sector, which move beyond the state vs. private sector debate and harness the advantages of both. From creative solutions for localised social care and education delivery to the benefits of community-owned energy and community-run housing associations, this workstream looks at innovative models for public service delivery and private enterprise.

Current and forthcoming work will build upon the ideas outlined in our past output which have had a continuing impact on the British policy landscape. Examples of our successes in 2012 include ResPublica's publication on Military Academies, which outlines a new approach to tackling intergenerational disadvantage and ethos in schools, and was endorsed by Labour Party policy, and a paper on how the neighbourhood planning process can engender stronger and more cohesive communities, launched by the then Minister for Decentralisation, Greg Clark MP. In 2013 this workstream will encompass our research on housing, community energy provision, health and social care, welfare, education, employment and skills.

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