

Consultation response

Consultation on the future definition of public service mutuals

September 2019

We very much welcome the change in direction government is proposing in this consultation. When we considered the questions we found we had a lot to contribute. Where possible we have sought to provide evidence, which can be found in the end notes.

We make suggestions throughout our response but would particularly like to draw government's attention to the following:

- The need to recognise and support the worker co-operative model, alongside employee trusts, as a proven vehicle for giving employees ownership; and to recognise it as the only model that provides significant employee control by default
- The need to promote more democratic uses of the employee trust model
- The need to recognise that mutuality, member benefit and social purpose often combine
- The need to recognise the provision of decent, empowering work and shared wealth as a clear social purpose

1 Origins

1a) Do you agree to removing the requirement for mutuals to have originated in the public sector?

- 1.1 Yes. If the policy objective is now to support more businesses with significant employee/worker* influence and control, and indeed ownership, to operate in public sector supply chains, then this is something co-operatives can fully support and participate in.
- 1.2 But we also ask that government uses this as an opportunity to bring forward policy to support mutuals generally.

1b) Please provide further information to support your response.

Rationale for our support

- 1.3 There are at least 650 employee/worker owned and controlled co-operatives in the UK, with worker-members who are employees, workers/dependant contractors, partners and self-employed in status.¹ They all exist to give their members agency and control over their livelihoods, to provide decent, empowering work, to equitably share the wealth they create, and to trade in an ethical, socially responsible fashion.^{2 3} They generate significant inclusive economic outcomes and would add significant social value in public sector supply chains. Since all but a handful originated outside the public sector, we agree with a change in policy that brings them into scope for further support. We provide more evidence of the benefits of worker co-operatives in **part 2**.

* We often use the term 'worker' instead of 'employee'. This is more than a stylistic choice, as 'worker ownership' better describes a set of relationships between partners in a venture, as well as the inclusion of non-employees (workers/dependant contractors; self-employed), that often work through a co-operative structure that they jointly own and control. Employee ownership is a subset of this wider worker ownership landscape.

- 1.4 We also support removing the requirement because we see that this could be a way for government policy to support a much broader range of co-operatives and mutuals, including those that benefit customers, service users, and communities through membership. This would include ‘multi-stakeholder’ co-operatives that have workers and service users as members, community businesses, and financial mutuals such as credit unions. All these already add significant social value in public sector supply chains where they are given the opportunity to do so.

Qualifications

- 1.5 This is a big shift away from the policy objectives that drove the public service mutuals agenda from 2011 onwards, which were to enable parts of the public sector to ‘spin out’ in a way that empowered staff and enhanced efficiency. From reading the consultation document, the policy objective now is “*creating a diverse marketplace for the provision of public services*”. Repurposing an existing programme to serve quite different policy objectives carries the risk of increased complexity and unintended consequences.
- 1.6 While the public service mutuals programme to date has diluted understanding of what mutuals are, mutuals have to an extent been insulated from unintended negative consequences by the fact that the programme only operated in the public sector and public service supply chains. Removing this requirement means that the programme has the potential to affect mutuals to a far greater degree than before.

Recommendation: bring forward policy to support mutuals generally

- 1.7 Our support for this transformation in the public service mutuals programme is conditional on government bringing forward policy to support mutuals generally. By mutuals, we mean what they were understood to be before government created the public service mutuals programme in 2011: mission-led businesses that are owned and controlled by key stakeholders in that mission, such as workers, consumers, service users and communities. This longstanding, and globally used, definition of mutuals includes, in the UK, co-operatives, building societies, credit unions, mutual insurers and employee trust-owned companies (hereafter referred to as ‘trusts’).
- 1.8 These mutuals are often poorly served by government policy. Policymakers’ understanding and appreciation of mutuals - what motivates them, how they operate, the value they add – is very low, especially outside of the specific teams in HM Treasury, the FCA and the PRA. Economic and business policy tends not to properly consider and respond to their needs and potential. This is perhaps understandable, given that they are niche in the context of the economy as a whole. But they do contribute at least £60 billion to the UK economy each year and employ 2 million people⁴, and their inclusive economic impacts are very significant, so there is a rationale for serving them better.
- 1.9 Specifically, we believe government should bring forward policy to support mutual formation and growth in the following areas:
- **information, advice and support** for business, which evidence tells us does not serve mutual formation and growth ⁵

- **corporate frameworks** (registrars, regulation, HMRC, corporate law) which are not as ‘user-friendly’ as they should be, are in some cases are dysfunctional and lack features mutuals say they need,⁶ which are proven to add value in law codes elsewhere in the world⁷
- **enterprise finance programmes**, which by and large have not been designed to reflect the distinct challenges mutuals face in raising compatible finance in the required amounts

- 1.10 With the support of the Economic Secretary to the Treasury mutuals representatives participated in a workshop with officials from HM Treasury, BEIS and DCMS in July 2019. The outputs from this workshop include the identification of some practical non-legislative measures that could make it easier to incorporate and operate as a mutual society. Co-operatives UK, the Building Societies Association and others are now compiling evidence of the potential impact these measures could have. It would be fantastic if government could make stronger commitments to take forward these proposals, subject to impact assessment.
- 1.11 We note that the Financial Conduct Authority has just published a recommendation that “*HM Treasury should consider if there is value in a review of credit union and society legislation*”.⁸ We appreciate that time for legislation is at a premium, but do hope that HM Treasury, perhaps working with other departments with legislative slots, or supporting a Private Members Bill, can find a way to deliver for mutuals in this crucial area.

2 Employee influence

2a) Do you agree with tightening the requirements on employee influence in line with the above?

- 2.1 Yes, with important qualifications. We fully support the policy objective of supporting more businesses with significant employee/worker influence and control, and indeed ownership, to operate in public sector supply chains.
- 2.2 Our qualifications are:
- Recognise and support worker co-operatives and more democratic trust models
 - Stop using the ‘direct-indirect’ categorisations of employee ownership

2b) Please suggest any changes you’d make to the requirements above.

Recommendation: Recognise and support worker co-operatives

- 2.3 We fully support government’s emphasis on employee influence and control and its intentions to strengthen requirements in this regard. We can point to robust academic research that suggests a causal link between enhanced organisational performance and meaningful worker participation in decision-making and control^{9 10}, as well as the evidence presented in the 2012 Nuttall Review of Employee Ownership.¹¹ Academic research also suggests that the autonomy and control worker co-operatives give people in their livelihoods is likely to enhance their wellbeing.¹²

- 2.4 We would however warn government that significant employee influence and control is **not a default feature of either trusts or employee share ownership**, the two models for employee ownership cited in the consultation document. It is vital that when making policy in this area, government recognises and responds to the fact that **the worker co-operative model facilitates significant worker influence and control by default**, through a range of very simple, very flexible, low cost arrangements.
- 2.5 Whereas trusts require two or three corporate entities and layers of governance to be created, in a somewhat complex legal structure that is costly to set up and administer, the worker co-operative model establishes worker ownership, influence and control within a single corporate entity, through its rules or articles.¹³ A range of legal forms can be used, including a co-operative society, a company limited by shares or guarantee, a community interest company and a limited liability partnership. And contrary to the myth, the worker co-operative model does not necessarily include radically flat pay and non-hierarchical management structures. Though it is true that worker co-operatives are very much at the forefront of workplace innovation in these areas and are often very successful in significantly reducing the cost and increasing the efficiency of management functions. There is a lot of flexibility in terms of operational decision-making structures, governance, pay and reward, use of surplus, capital raising and corporate mission.
- 2.6 It is important to stress that the most robust evidence we have seen linking employee/worker influence and control to performance is drawn from analysis of worker co-operatives.^{14 15}
- 2.7 We urge policymakers to engage with us and the UK Worker Co-operative Council, which we convene, to learn about this model for worker ownership and control in more detail.
- Recommendation: Proactively support the use of more democratic trusts*
- 2.8 Trusts are used to convert an established business to employee ownership as part of planned succession. They are a great tool for giving employees a stake and a say in business. But significant employee influence and control is not the default in trusts. We are aware of many cases where employee influence is restricted to a consultative council. But there are other cases where employees have democratic representation on and/or the ability to appoint, one or more of the trustee board, which holds the company board to account. In some cases, employees exert significant influence over the trustee board. In some cases, employees have democratic representation on the company board as well.¹⁶
- 2.9 Co-operatives UK recognises as co-operatives those trusts that have significant, democratic, employee influence and control. We continually try to assess the degree of employee influence and control in newly created trusts to establish whether or not they can be considered co-operatives. We have found that on paper these arrangements can actually be a rather opaque and we have only been able to confirm significant employee influence and control in a minority of cases. We suggest that if government is to make evidence-based policy decisions in this area, some thorough research is required.
- 2.10 More positively, Co-operatives UK is currently working with business to create a version of the trust model that facilitates significant employee influence and control to a co-operative standard. We would be very happy to share the outputs of this work with government. We

suggest the outputs from this project will create a practical solution for enhancing employee influence and control in both new and existing trusts. We recommend that government supports the use of more democratic trusts as part of the public service mutuals programme.

Recommendation: Stop using the ‘direct-indirect’ categorisations of employee ownership

- 2.11 We urge government to stop using and reproducing these conceptually flawed categories, which ignore the worker co-operative model, to the detriment of policy and programme design. There are currently 650 worker co-operatives in the UK and only 450 employee ownership trust-owned companies.¹⁷ Thus any system of categories that excludes worker co-operatives is clearly deficient.
- 2.12 It would be simpler and more complete to recognise and make policy for the main models for employee and worker ownership currently in operation in the UK, without adding the unnecessary and flawed ‘direct-indirect’ conceptual layer. These models are:
- worker co-operative
 - employee trust
 - employee share scheme
 - hybrids of these

2c) Please provide further information to support your response.

- 2.13 See endnotes.

3 Mission and Profit

3a) Do you agree to replace must ‘deliver public services’, with must have ‘a clear social mission outlined in their governing documents’?

- 3.1 Yes, with qualifications. Delivering public services is clearly not in itself something that marks out a business as socially beneficial. If the intention is to enhance the social value-added in public service supply chains then identifying businesses that are well-placed to do this is important.
- 3.2 Our qualifications are:
- recognise that mutuality, member benefit and social purpose often combine
 - recognise the provision of decent, empowering work and an equitable sharing of wealth created as clear social missions

3b) Please provide further information to support your response.

Recommendation: Recognise that mutuality, member benefit and social purpose often combine

- 3.3 Too often, when a requirement for a ‘social mission’ is applied in practice, mutuals are excluded, because their mission to create member value is wrongly considered as

incompatible with social purpose. We believe it would be essential to recognise that mutuality and social purpose are often combined to great effect.

- 3.4 For example, under the Credit Unions Act, credit unions can only provide financial services to their members. But the same Act also requires that they provide members with credit at a fair and reasonable rate of interest, use and control members' savings for their mutual benefit, encourage members to save and help them manage their financial affairs.¹⁸ While a credit union's mission is to benefit its members, in doing so it provides ethical, responsible lending, increases financial inclusion and contributes to inclusive, democratically controlled, community wealth. Thus credit unions deliver on a social purpose *through* mutuality and member benefit.

Recommendation: Recognise the provision of decent, empowering work and an equitable sharing of wealth as clear social missions

- 3.5 Another important example would be worker co-operatives, which primarily exist to provide decent, empowering work for their members and to facilitate their shared ownership and control of the wealth they create. By facilitating and propagating opportunities for decent work and shared power, wealth and wellbeing, worker co-operatives clearly deliver on a critical social mission that addresses some of the most pressing social and economic challenges of our time.
- 3.6 Furthermore, worker co-operative rules/articles overwhelmingly include a commitment to the principle of 'concern for community', which via the Worker Co-operative Code¹⁹, translates into a mission to:
- actively control environmental and social impacts
 - operate to high health and safety and worker welfare standards
 - participate in and support their wider communities
- 3.7 The social value-added by paying a decent wage, sharing profits and giving people more control in their working lives include:
- Lower income and wealth inequalities
 - Reduced inequalities in power
 - Enhanced worker wellbeing
 - Improved access to opportunities
 - Stronger communities
 - Enhanced local wealth building
- 3.8 This added social value can be especially powerful for individuals and communities struggling with disadvantage and deprivation.
- 3.9 Thus worker co-operatives deliver on a social mission *through* meeting the needs and aspirations of their members.

3c) Do you agree that government should make it a requirement that mutuals are social enterprises, and therefore reinvest the majority (51%+) of their profit into their mission?

3.10 Yes, with the following qualifications:

- Ensure this does not exclude co-operatives out of hand
- Ensure that, where appropriate, distribution of surplus among members is considered as contributing to 'social mission'

3d) Please provide further information to support your response.

Recommendation: Ensure this does not exclude co-operatives out of hand

3.11 It will be essential that this does not exclude out of hand co-operative societies, credit unions and co-operatives incorporated as companies and limited liability partnerships, which reinvest some, and arguably all, their surpluses in their mission, without this being a feature of their legal form.

3.12 Crucially, the International Co-operative Alliance Principles, which are used by the FCA Mutuals Team to regulate co-operative societies²⁰ and by Co-operatives UK to identify co-operatives using other legal forms, prevents co-operatives from the distributing surpluses as a return to shareholders. And co-operative societies are legally prohibited under Section 2.3 the Co-operative and Community Benefit Societies Act from existing to make profits mainly for the payment of interest, dividends or bonuses on money invested.²¹

3.13 The vast majority of co-operatives, whatever their legal form, state in their rules and articles that surpluses will be applied in the following ways (again, in accordance with International Co-operative Alliance Principles):

- reinvested to develop the co-operative
- paid into reserves, which when combined with 'common capital' rules, are non-distributable
- supporting other activities approved by the membership
- and, if allowed by the rules at all, shared among members in proportion to their transactions with, or contribution to, the co-operative

Recommendation: Ensure that where appropriate, distribution of surplus among members is considered as contributing to a 'social mission'

3.14 In our view, sharing a fraction of surpluses among members in proportion to their transactions with, or contribution to, the co-operative, should often be considered as contributing to the 'social mission'.

3.15 In particular we believe that when worker co-operatives share a proportion of their surpluses among their workers, this should be considered as helping to fulfil their mission of providing decent, empowering work and an equitable share in the wealth created.

3.16 We also believe that the use of surpluses by credit unions to reward members who have saved with them should be considered as contributing to their social mission.

- 3.17 And we believe the use of surpluses by consumer co-operatives to reward members who have transacted with them should be considered as contributing to their social mission, particularly as this distributes profits back into communities and is often used to incentivise ethical, pro-social consumer choices.

3e) Do the proposals outlined in section 3 limit the potential for investment in the mutuals sector?

- 3.18 Not to an overly problematic degree, because it is entirely possible to attract mission-aligned investment without having to offer investors the biggest share of any profits generated. Indeed mutuals are increasingly proving that, with the right tools and knowhow, it is possible to raise equity investment while only offering a steady long term return on investment, and without having to give away control or a share in their underlying assets.
- 3.19 That said, in many contexts smaller mutuals can find it more difficult to raise investment. And all mutuals face some distinct challenges in raising investment that non-mutuals, socially purposed or otherwise, do not.

3f) Please provide further information to support your response

Demonstrating what's possible

- 3.20 There are a number of current examples that demonstrate that it is possible for mutuals to attract patient, mission-aligned investment.
- 3.21 Community benefit societies (a type of mutual society focused on community benefit) raise millions each year through 'Community Shares'. Through Community Share offers, these mutuals sought £23.2m in 2016, £13.8m in 2017 and £15.5m in 2018.²² Community Shares account for **all** of the equity raised using Social Investment Tax Relief since its inception in 2014²³ and government made new commitments to support the use of Community Shares in its Civil Society Strategy.²⁴ Community Shares works because it focuses on raising capital from people with a close stake in the community benefit the enterprise seeks to generate. The model also gives these communities democratic ownership and control of the enterprise, which is a strong motivating factor for investors.
- 3.22 Some more innovative co-operative societies are increasingly interested in using 'investor-members' to raise external equity from mission-aligned investors. For example, new social care platform co-operative Equal Care has successfully raised more than £300k in new venture equity via this route.²⁵ Meanwhile a number of larger and established co-operative societies are raising equity investment from both their members and 'investor-members', including Midcounties Co-operative, East of England Co-op and Chelmsford Star Co-op. Following the successful conclusion of Co-operatives UK's 'Members' Money' project, a new equity model specifically designed to meet the needs of large co-operative societies has been created, which is expected to enable more of them to raise equity from their members.
- 3.23 Since a law change in 2011 credit unions have been able to issue a deferred shares equity instrument, which allows them to raise Common Equity Tier 1 (CET1) capital. This is especially relevant for larger credit unions²⁶ but it has also been successfully used by a newly formed credit union. In both cases, the credit unions mobilised communities of place

and interest to raise the investment, helped by similar motivating factors to those that encourage participation in Community Shares.

- 3.24 Nationwide Building Society raised over £500 million of CET1 through core capital deferred shares (CCDS) in 2013 and Cambridge Building Society has successfully used CCDS as well. In both cases this money came from the institutional market, while preserving mutuality.

Challenges to be overcome

- 3.25 As stated, mutuals face some distinct challenges in the raising of start-up and development/growth capital, beyond those experienced by non-mutual businesses. There are limited sources of compatible start-up and growth capital for mutuals, especially in contexts of deprivation, for mutuals that don't meet narrow social/community business criteria, and for financial mutuals raising regulatory capital.
- 3.26 Mutuals sometimes need to raise equity capital from patient, mission-aligned investors who can accept:
- Comparatively low returns on investment
 - Limited/no potential for capital gain
 - Little/no claim on assets beyond their initial investment
 - Significantly curtailed voting and board representation rights
 - Restricted exit options, usually over medium-long term horizons
- 3.27 For these reasons, newly forming and early stage mutuals with high capital requirements cannot utilize venture capital. Neither the demands of venture capitalists nor the operation of the different venture capital rounds, with frequent transfers of ownership and control, are compatible.
- 3.28 Furthermore, mutuals are niche, little-understood, often trading in the context of some social or market failure, and increasingly innovating in disrupted markets. All this can increase the perception of risk, further compounding the challenges in raising capital on the required terms.
- 3.29 It should also be noted that smaller mutuals can often be prevented from raising external investment by the high, fixed, up-front cost involved, as well as by the complexity involved.
- 3.30 Over time these capital raising challenges can impede the ability of mutuals to enhance their productivity, eco-efficiency and efficacy, as well as their capacity for growth.

Solutions

- 3.31 We believe at least some of the risk perception factors highlighted above can diminish over time, if mutuals become more numerous, visible, proven and widely understood, and if investors gain more experience of them.
- 3.32 Co-operatives UK is currently working with other mutuals representatives, including the Building Societies Association, the Employee Ownership Association and Nationwide Building Society, to develop the policy case for the British Business Bank to provide funds

tailored to mutuals, to augment their own capacity to raise equity. The long term objective would be for this intervention to help establish an impact investor market that responded to the distinct needs and characteristics of mutuals.

4 Independence & Ownership

4a) Do you agree that at least 51% of a public service mutual must be employee, community or user-owned. This 51% could not be owned by either a public sector organisation, or a private sector organisation that is not an employee, community or user owned entity. Such an entity could be an employee ownership trust, co-operative, social enterprise or charity.

- 4.1 We fully support a requirement for majority ownership to be in the hands of stakeholders such as employees, service users or beneficiary communities, though we would also urge government to include non-employee workers as well (see 4.4 and 4.5 below). When these stakeholder groups exercise significant and ultimate control via ownership, the social mission of an organisation can be protected and enhanced, as can the effectiveness of the organisation in delivering on that mission.
- 4.2 However, we ask government to consider the risks present in having large minority shareholdings that are 'external' to the mutual stakeholders. We recommend that while 49 per cent 'external shareholding' should be permitted, businesses are encouraged and supported to adopt tools and approaches developed by the co-operative sector over decades to manage these risks (see paragraphs 4.12 to 4.15 below).
- 4.3 To reiterate what we have already discussed in detail in previous answers, there is a broad body of evidence that links strong performance worker ownership *and control*, explained by increased discretionary effort on the part of worker-owners, stronger teams, a unifying culture, greater degrees of trust, more efficient management and easier implementation of decisions.^{27 28 29} We must emphasise again that the evidence here suggests a link between worker control and performance/benefits. Based on the evidence we have, legal ownership without significant influence and control should be considered very much suboptimal. Co-operatives will always include democratic member control by default. It is straightforward for trusts to operate with more democratic governance, though this is not the default; and it appears that this often does not happen in practice.
- 4.4 At the same time, extending mutual ownership and control to users and communities has a lot to offer as well, including in multi-stakeholder formations (see paragraphs 4.6 to 4.9 below).

Recommendation: include non-employee workers as well

- 4.5 We urge government to widen its focus to include non-employee workers such as workers/dependant contractors and the self-employed. Empowering these categories of workers through co-operatives is increasingly important and generates significant positive impacts where it occurs. According to our data are at least 24,000 self-employed workers who are members of 160 co-operatives.³⁰ These co-operatives provide better access to

work opportunities, facilitate value-adding collaboration, provide some ‘back office’ support and are a source of solidarity and connectivity.³¹

- 4.6 Sometimes workers in a co-operative will transition between employment statuses, depending on the work they’re contributing to and what best suits their relationship with the co-operative at any given time.³²

Recommendation: Support user, community and multi-stakeholder mutuality

- 4.7 We are delighted to see recognition here that user and community ownership is an important part of the mutuals landscape. The social value-added in empowering users in the delivery of public services should not be underestimated. The same applies to creating conditions within organisations where users and workers can co-produce, share power and align their interests, as happens in multi-stakeholder co-operatives.
- 4.8 A number of experts in areas such as social care are supportive of models that empower user and communities and stress the need for innovation and action-learning here. This includes, notably, the Social Care Institute of Excellence.^{33 34} Primary research conducted for the Co-operative Care Forum also identified strengths in user-led and multi-stakeholder delivery, particularly in combining ‘personalisation’ on the one hand (where users commission and procure their own support), with group delivery, social connectivity and community empowerment on the other.³⁵
- 4.9 There are some very promising examples of multi-stakeholder models developing in the wellbeing economy, such as Cartrefi Cymru, a provider of services and support to disabled people in Wales, which has converted from a traditional charity into a multi-stakeholder co-operative, in an effort to empower both staff and beneficiaries. In Calderdale, Equal Care Co-op is a new start provider that is attempting to do the same thing, while also utilising platform technology. Other examples of mutuals that have developed memberships that include users and communities are: public health provider Unlimited Potential in Greater Manchester and multi-stakeholder housing mutuals like Merthyr Valleys Homes and Rochdale Boroughwide Housing.
- 4.10 We also think there is significant potential for community businesses to adopt multi-stakeholder models, so that they can exist to empower and benefit their workers alongside their community. Power to Change has recently begun supporting a number of such co-operatives, including Equal Care Co-op and Kitty’s Laundrette in Liverpool. This flexibility in Power to Change’s approach to what community business could be - recognising that a binary choice between worker benefit and community benefit is too limiting – should be adopted by government here.

Recommendation: Consider curtailments on minority shareholders’ influence/control

- 4.11 Co-operatives have learned from hard experience that, while it can be very beneficial to have ‘external’ investors as minority shareholders, this can create risks that their purpose and impact will be undermined, diluted or redirected. This risk stems mainly from the members of the co-operative (the workers and service users for example), ceding too much autonomy and control to actors who are interested in return on investment rather than mutual/social value. In more extreme circumstances, external investors have used their

position to acquire the underlying assets of co-operatives, demutualising and liquidating them in the process.

- 4.12 Over time, the co-operative sector, often working with government, has developed a set of tools and approaches that reduce the risk in having 'external' equity investors. This include:
- Articles/rules extending the principle of 'one member one vote' to external shareholders, so that even a 49 per cent share in the business only carries 1 vote
 - Articles/rules restricting the voting rights of external investors, so that, for example, they are not able to vote on matters sensitive to the purpose and governance of the business
 - Articles/rules restricting their representation on the Board
 - Articles/rules restricting their claim on the residual assets of the business to the value of their initial investment
- 4.13 Where co-operative societies are concerned, the FCA has set clear guidance for how these approaches should be adopted.³⁶
- 4.14 We recommend that government considers whether approaches such as the above should be applied to the minority shareholding in all public service mutuals.

Recommendation: encourage mission-aligned minority shareholding

- 4.15 Co-operatives have also found that they can significantly reduce the risks involved in having external investors as minority shareholders, by seeking mission-aligned, patient investors. Examples include:
- Community share issues to a public with a stake in, or at least a strong motivation to support, the business and its mission³⁷
 - Investment from appropriately-purposed intermediaries and institutions, such as community development finance institutions (CDFIs) and impact investor funds

4b) Do you think there any other mechanisms should be implemented to future-proof the character of a public service mutual?

Recommendation: Promote conversion to worker/community ownership

- 4.16 Conversion to worker or 'worker and community' ownership and control as part of ownership/leadership succession is a proven means of protecting and enhancing mission in a business.^{38 39} The point at which social entrepreneurs exit would be an ideal time to shift to worker/community ownership and control.
- 4.17 In partnership with the Employee Ownership Association (EOA), we have submitted a proposal to BEIS, in the context of a Spending Review, for local awareness raising and advice pilots to enable greater adoption of employee/worker ownership through start-up, as businesses evolve and via a conversion as part of planned succession. This proposal forms the basis of a fast-growing campaign #1MillionOwners, which has the backing of leading worker owned businesses such as John Lewis, Aardman Animations and Suma.⁴⁰

- 4.18 We also firmly believe that supporting multi-stakeholder mutuality, which empowers service users and communities with membership, could enhance performance and protect the mission of mutuals over time.
- 4.19 We have straightforward off-the-shelf model rules for a worker co-operative community interested company, which would be an ideal solution for social enterprises looking to convert to worker, and indeed ‘worker and community’, ownership and control.

4c) Could you provide further information to support your response.

- 4.20 See endnotes.

5 Formal recognition and naming convention

5a) Do you think that the proposals outlined in this consultation could alleviate the confusion currently experienced by commissioners around public service mutuals?

- 5.1 No. The use of the word ‘mutual’ by government to refer to organisations that may not be mutuals continues to be a source of confusion. This is clear in the consultation document’s discussion of ‘public service mutual’ and ‘Mutuals’. A strapline is unlikely to provide a useful degree of clarification.
- 5.2 The term public service mutual has only been useful in so far as it is understood, within certain circles, to refer to entities that have ‘spun out’ of the public sector. Once this meaning is removed, we do not see there is any utility in retaining the term ‘public service mutual’ at all.
- 5.3 Given that the policy objective here is to promote and support businesses with significant employee/worker influence and control, **we suggest the term ‘democratic businesses’** could be more meaningful. The term ‘democratic businesses’ would also have the added benefit of being applicable to organisations in which users and communities have significant influence and control as well. This would eliminate the need for a strapline.

5b) Do you think the government should consider adding a strapline of “staff-led social enterprises”?

- 5.4 No. Government should adopt a clearer name for the programme as a whole – ‘democratic businesses’ - rather than seeking to add clarity through a strapline.

5c) Please provide further information to support your responses.

- 5.5 When government says it wants to support businesses in which staff have significant influence and control, we assume the focus is on arrangements that allow staff to influence and participate in decision-making, as individuals, in groups and collectively. We suggest that what is being sought is a greater degree of collective control, or in other words a degree of democracy, in businesses in public sector supply chains.
- 5.6 In business ‘control’ refers not only to day-to-day management but also to ultimate authority in corporate governance to decide the mission, strategy and direction of an organisation, appoint and hold to account senior managers and directors, and to determine the allocation of profits. The control exercised by members of a company (or mutual

society) at a general meeting provides a useful, though by no means complete, example of this. In a mutual, the exercise of such control needs to be democratic (in some form) if it is to add value and to be sustainable long term.⁴¹

5d) Do you think that a formal accreditation for public service mutuals is necessary to uphold the newly created definition?

- 5.7 It is hard to answer this question without knowing more about what benefits would bring to a business. The greater the commercial advantages in public sector supply chains enjoyed by public service mutuals, or the more value-adding the support government offered them, the greater the need for a robust accreditation system to ensure the programme delivers public value.
- 5.8 Co-operatives UK has a formal policy and process for assessing the degree of democratic worker/employee control in a worker/employee owned business. Significant influence and control is a criterion for being recognised as a co-operative. Wherever there is enough information available to make a determination we do so. But as we've said in 2.8 to 2.10 above, the actual degree of employee control in trusts is far from uniform and is often unclear from publically available records. So a system for discerning the actual degree of worker/employee/staff control, by requesting details from those businesses that come forward, could be useful.

5e) Please provide further information to support your response, particularly in terms of how an industry-led accreditation could function.

- 5.9 Through the Community Shares Unit we operate an industry-led accreditation scheme that promotes and assures good standards in the use of community shares – the Community Shares Standards Mark. Our approach has been to identify key outcomes, such as enhanced consumer protection and trust in community shares, and to ensure the requirements of the scheme increase the likelihood that these outcomes are delivered. The Community Shares Unit trains and licenses Community Shares Practitioners to award the Community Shares Standard Mark on our behalf. The Standard Mark is awarded to community share offers that meet the Community Shares Unit standards of good practice as set out in the Community Shares Handbook.
- 5.10 The scheme is an inexpensive way of encouraging and assuring standards. It benefits from being shaped by clear objectives, with input from industry leaders, policy makers and regulators. It is also at the same time informed and shaped by the practical experiences of community benefit societies and their advisors.
- 5.11 We are not aware of any accreditation schemes in the UK that focus on the degree of employee/worker influence and control. We would be very pleased to tell government about our own activities to identify co-operatives, which include a significant emphasis on democratic governance, if this would be helpful.

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About Co-operatives UK

Co-operatives UK is the network for Britain's thousands of co-ops. We work to promote, develop and unite member owned businesses across the economy. From high street retailers to community owned pubs, fan owned football clubs to farmer controlled businesses, co-ops are everywhere and together they are worth £36.1 billion to the British economy.

References

¹ <https://www.uk.coop/open-data>

² The [Worker Co-operative Code](#) provides a good introduction to the mission and approach of worker co-operatives

³ Model rules and articles for worker co-operatives contain clear provisions concerning mission, democratic governance, surplus distribution, non-distributable capital and commitments to principles such as concern for community, [see here](#)

⁴ <https://www.socialenterprise.org.uk/the-hidden-revolution>

⁵ Alliance Manchester Business School (2018) 'The Co-operative Business Model: promoting awareness amongst business advisers'

⁶ <https://www.uk.coop/consultation-outcome-getting-better-deal-societies>

⁷ For example, [analysis](#) of co-operative systems around Europe suggesting that statutory common capital would be value-adding for co-operative societies

⁸ <https://www.fca.org.uk/publications/research/alternatives-high-cost-credit>

⁹ Fathi Fakhfakh, Virginie Pérotin, Monica Gago (2011) '[Productivity, Capital and Labor in Labor-Managed and Conventional Firms](#)'

¹⁰ Virginie Pérotin (2012) '[The performance of worker co-operatives](#)'

¹¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31706/12-933-sharing-success-nuttall-review-employee-ownership.pdf

¹² Coad & Binder (2014) '[Causal linkages between work and life satisfaction and their determinants in a structural VAR approach](#)'

¹³ See model rules for worker co-operatives

¹⁴ Fathi Fakhfakh, Virginie Pérotin, Monica Gago (2011) '[Productivity, Capital and Labor in Labor-Managed and Conventional Firms](#)'

¹⁵ Virginie Pérotin (2012) '[The performance of worker co-operatives](#)'

¹⁶ Government's own model documentation and guidance provides a useful overview of the options for employee influence and control in trusts, [see here](#)

¹⁷ Employee Ownership Association and Co-operatives UK (2019) '[One Million Owners](#)'

¹⁸ <https://www.legislation.gov.uk/ukpga/1979/34/2018-04-06>

¹⁹ [Worker Co-operative Code](#)

²⁰ <https://www.fca.org.uk/publication/finalised-guidance/fg15-12.pdf>

²¹ <https://www.legislation.gov.uk/ukpga/2014/14/section/2>

²² <http://communityshares.org.uk/open-data-dashboard>

²³ <https://www.bigsocietycapital.com/get-sitr/social-investment-tax-relief-deals-database>

²⁴ <https://www.gov.uk/government/publications/civil-society-strategy-building-a-future-that-works-for-everyone>

²⁵ <https://www.ethex.org.uk/equalcare>

²⁶ See Bristol Credit Union's share offer: <https://www.bristolcreditunion.org/deferred-shares-offer>

²⁷ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31706/12-933-sharing-success-nuttall-review-employee-ownership.pdf

²⁸ Fathi Fakhfakh, Virginie Pérotin, Monica Gago (2011) '[Productivity, Capital and Labor in Labor-Managed and Conventional Firms](#)'

²⁹ Virginie Pérotin (2012) '[The performance of worker co-operatives](#)'

³⁰ Co-operatives UK co-operative economy data

³¹ https://www.uk.coop/sites/default/files/uploads/attachments/not_alone_-_trade_union_and_co-operative_solutions_for_self-employed_workers_2.pdf

³² <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/self-organising-self-employed---final.pdf?sfvrsn=0>

³³ <https://www.scie.org.uk/publications/guides/guide36/why/value.asp>

³⁴ <https://www.scie.org.uk/future-of-care/adults/recommendations>

³⁵ https://www.uk.coop/sites/default/files/uploads/attachments/care_report.pdf

³⁶ For example, see FCA guidance on how co-operative societies should approach this, in 6.29 to 6.32 [here](#)

³⁷ For example, as Equal Care has done: <https://www.ethex.org.uk/equalcare>

³⁸ <https://www.cecop.coop/uploads/file/YN3shQWKSG3KdBRNZVp0HkpOsYAndze9cPve9SXz.pdf>

³⁹ <http://cdsblog.co.uk/employee-ownership>

⁴⁰ <https://www.uk.coop/1millionowners/campaign-asks>

⁴¹ Professor Birchall has published a very useful study of the varied approaches to governance in large co-operatives, [here](#)