

Consultation response

Civil Society Strategy

May 2018

Key questions

How can government help to increase the impact of civil society?

What is civil society?

How have people successfully taken action to improve things for themselves and their communities?

How are new investment models unlocking new potential and partnerships?

Where is there the greatest potential for the future development of investment models for civil society?

How are businesses unlocking new partnerships and potential within civil society?

What factors could enable more businesses to have a social purpose in the future?

How have local people, businesses, voluntary and community organisations, and decision makers worked together successfully?

1 *What are the strengths of civil society today? You might consider its mission and motivation, services for the public, difference to quality of life or economic and/or social impact.*

- 1.1 The strength of our civil society is in its diversity, its depth, its reach, it's knowledge and its self-reliance. Civil society is constituted by the voluntary participation of people in shared endeavours for a common good. This is clearly one of the UK's strengths. The NVCO estimates that 15.2 million of us volunteer at least once a month. Meanwhile there are 13.6 million members of co-operatives in the UK. There is massive diversity not just in how people work together but also in the common goods they pursue. Civil society is conducted through informal networks, community groups, co-operatives, registered charities, social enterprises and a rich tapestry of hybrids of all these forms. Through these associations people create immense shared value in every aspect of human life. In the co-operative sector we see collective endeavour to improve our ecological sustainability, promote people's wellbeing and foster a more inclusive economy in every sector, from housing, to food, to energy, to finance. A key strength of civil society is the knowledge generated by people working together on issues they care about, whether that be something broad in the public interest or something specific to a particular community.
- 1.2 In many cases, civil society contains detailed knowledge about an issue that government agencies do not have the capacity to obtain and retain themselves. For example, when it comes to understanding the economic needs and aspirations of people in a particular

place, this knowledge is more likely to be found within local civil society than in public institutions.

- 1.3 Another key strength of civil society which derives from the participation, association and solidarity that constitutes it, is how it mobilizes people and engenders trust in ways the state and businesses often cannot.
- 1.4 A strong civil society is self-reliant and retains a high degree of independence from the state and the market, while having a complementary relationship with both. Again, the UK appears to perform well in this regard. It is estimated that 44 million people donate to charity on a regular basis, giving an average of £16 a month, while corporate giving amounts to more than £2 billion each year. When combined with strong volunteering numbers, this means that charities are able to do their work without relying too much on public money. This spirit of self-reliance is arguably at its strongest in co-operatives, where a high degree of autonomy and independence is a fundamental characteristic. In co-operatives, members come together to create their own mutual benefit without relying too much on the philanthropy of others or government to make it happen. The UK's co-operative sector adds mutuality and self-reliance to the character of our civil society as a whole.
- 1.5 Our co-operatives also demonstrate just how complementary civil society activity and business can be. This is most notable with consumer retail co-operatives. These are successful businesses that together generate £13 billion turnover each year. They are owned democratically by 8 million members, hundreds of thousands of whom participate regularly on a voluntary basis on the life of these businesses. These businesses trade in the market not for private profit but rather for mutual benefit. The profits they generate are shared in the communities they trade with and are reinvested in a quest for more ethical, sustainable business practices. Because of how they are owned and controlled and how they share the value they create, these co-operatives are vital anchor institutions in civil society.
- 1.6 Overall we see civil society at its strongest when it empowers people through collective participation to not only meet needs but to effect significant positive change.

2 *How can government help to increase the impact of civil society?*

- 2.1 We need a bold and ambitious Civil Society Strategy that encourages, enables and supports people to empower themselves through collective action. The Strategy must support the reinvigoration of a civil society full of individual and collective agency, participation, shared responsibility, solidarity and mutualism. We need a civil society that makes it possible for people be the agents of significant positive change in the world, outside of market relations and without the private profit motive. This vision for civil society must be placed in a wider context, in which it is absolutely essential that businesses and markets operate in ways that are better for people and planet. But crucially the distinctions between civil society and business in markets must be retained.

2.2 To expend scarce time and resource to maximum effect this Strategy should focus extensively on public policy that aims to redistribute power and opportunity for action. And crucially, the Strategy should also be full of public policy that aims to nurture the capacities of individual and communities to work together to share power and seize opportunities. Below we set out how government could do this with policy recommendations for:

- community development and localism with an economic emphasis
- digital
- community investment
- public-social partnerships
- mission-led businesses

Community economic development

- 2.3 The Strategy must include practical measures to broaden and deepen the scope and scale of community development and empowerment. Grassroots community development has been neglected for too long and without it too many communities lack the opportunities and capacities to participate in civil society. Furthermore, for civil society to really address some of the root causes of deprivation, disadvantage and social (im)mobility, it must include much more action on economic issues than is currently the case in the UK. Civil society should be a sphere of activity through which people can engage with and influence how aspects of the market economy function for them.
- 2.4 The body of opinion in favour of diversifying approaches to local economics, to include combinations of community development and grassroots economic empowerment, is growing. Such approaches are known internationally as ‘community economic development’. Without such a diversification on a national scale, public and non-governmental initiatives to support social action and local economic renewal will only go so far.
- 2.5 Community economic development is a process through which communities engage with and start to resolve their own economic issues, through strategic planning and action in the market and civil society. It involves nurturing a strong and mutually supportive ecosystem of private enterprise, community businesses, voluntary organisations and the commons. It often involves broadening ownership and control of assets and enterprise in a place, which is where co-ops have a particularly practical function.
- 2.6 Co-operatives UK is currently involved in developing the policy and practice for community economic development. We are the lead partner in a number of experimental programmes that are generating learning to inform public policy and grassroots practice.
- 2.7 Along with others, including the recently reported Localism Commission, we are calling on national government to help ensure there are properly resourced and supported community economic development programmes nationwide. We are particularly eager for government’s planned UK Shared Prosperity Fund to provide resource and support for

community economic development. Such measures should certainly be included in the Civil Society Strategy.

Digital

- 2.8 Government should support the development of digital platforms for social action. The recent step change in the power of platforms to facilitate sometimes quite large and dispersed groups of people to collaborate and make decisions together presents new options for social action. The Strategy should support the development of some core 'API' for adaptation in civil society. We believe these initiatives would amount to investment in new digital infrastructure for the common good.
- 2.9 There are many co-ops in our membership who are already contributing to this area of endeavour. The Scottish Government's Expert Advisory Panel on the Collaborative Economy has recently recommended supporting platform co-ops, in part to facilitate innovative social action within communities.
- 2.10 We are running a platform co-op accelerator programme that DCMS can learn from.

Community investment

- 2.11 Government should increase its support for community investment and community shares in particular. The rise of community investment in ventures for community benefit has been one of civil society's biggest success stories in recent times and embodies the vision and theory of change we propose. Within this we include the work of community development finance initiatives and the community shares model.
- 2.12 Our recommendations are:
- renew central government support for the Community Shares Unit and its work on standards
 - use dormant assets to match-fund investments by communities
 - work with HM Treasury to modify Social Investment Tax Relief so that it can support more community investment in land and asset ownership and genuine community energy schemes
 - work with HM Treasury to modify Community Investment Tax Relief so it can support community share offers carried out by community investment intermediaries
 - work with HMRC to ensure its streamlining of the Advance Assurance service does not create significant barriers for communities seeking to raise money and benefit from tax reliefs
 - convene community businesses, crowdfunding websites and socially purposed financial institutions, to explore opportunities presented by co-operative and community benefit society bonds now being eligible for holding in the Innovative Finance ISA

- 2.13 These tax measures could be made through Finance Bills and other existing work streams and so do not place additional burdens on government time and resource.

Public-social partnerships

- 2.14 The Strategy should encourage and enable public institutions to enter into partnerships with civil society, to help in the delivery of key public goods such as wellbeing, ecological sustainability, social mobility and inclusive economic development. Brexit may create more freedom to form public-social partnerships.
- 2.15 But this must not be about civil society stepping in to carry out functions that are best done by a strong, properly-funded public sector. The NHS Five Year Forward View provides a good example of partnerships with clearly defined complementary roles for the state and civil society.
- 2.16 While retaining clear distinctions between civil society action and the conduct of business in the market, the Strategy should at the same time promote and support positive interactions between these spheres. DCMS should consider how ownership and control of businesses can influence their contributions to civil society. The Strategy should also build on Cabinet Office's Inclusive Economy Partnership.
- 2.17 The Strategy could also include measures to advance social value procurement. Government's ongoing work on social impact investing can also contribute here. Though we would like to emphasize that this must not become solely about businesses contributions to civil society and must still aim to drive more pro-social business conduct in general.

Corporate frameworks

- 2.18 Underpinning all this, the Strategy should ensure the corporate frameworks for social action are as user-friendly as possible. The most urgent need for action is in relation to co-operative and community benefit societies. Their legislation is clunky, in need of updates and in some places is outright dysfunctional, while their registry service is in need of significant investment, especially in digital. The departmental siting of the legislative and registry functions for co-operative and community benefit societies, in HM Treasury and the Financial Conduct Authority respectively, are suboptimal and should be reviewed.

3 *How can public trust in civil society be built and maintained?*

- 3.1 The Strategy should encourage innovations where beneficiaries gain agency and control in civil society organisations. We believe that corporately-organised civil society needs to become more participative, empowering, democratic and accountable. We are encouraged by the growing number of traditional charities that are experimenting with new and sometimes more co-operative approaches to operations and governance. For example, disability support charity Cartrefi Cymru has begun a transition from a traditional charity into a multi-stakeholder co-operative. Our advice team also reports a growing number of charitable companies converting into charitable community benefit

societies that are democratically owned and controlled by a membership along more co-operative lines.

- 3.2 Charities may need more help to explore and develop their options in this regard. And the administrative, legal and regulatory obstacles encouraged in these transitions could be lessened through central government action. For example, the law needs to be changed to allow a community interest company to convert into a community benefit society, and for a charitable incorporated organisation to convert into a charitable community benefit society. Meanwhile the current process to registering a charitable community benefit society suffers from a lack of clarity between the duties and roles of the FCA and HMRC.
- 3.3 Some civil society organisations could also benefit from being more decentralised and rooted in communities. Note this is not a call for fragmentation, but for the more federated approach often found in the co-operative sector. To retain their value and impact many civil society organisations have to remain rooted in particular places and keep a human scale. The Strategy could include a focus on strategic, financial and operational co-operation within networks and clusters of place-based, human scale organisations. There are transactional costs to such collaboration, including monetary, time and resource costs. The initial costs are especially a barrier for civil society organisation with tight budgets and limited resources. The Scottish Government's Social Enterprise Strategy already prioritizes co-operation between social enterprises. The Scottish Government now supports the development of social enterprise consortia and of the new technology that can lower the transactional costs of collaboration. The Strategy could include financial and non-financial assistance to help overcome the initial costs of financial and operational co-operation between civil society organisations.
- 3.4 The donation economy perhaps suffers from being too dominated by impersonal, disinterested giving via commercial intermediaries. The more charities can connect with empowered memberships of supporters, the less they will need to rely on these sometimes problematic and exploitative funding streams. Charities could perhaps be helped to work together to co-create and co-own an efficient donation-raising intermediary that has a clear public-interest mission and is more accountable.
- 3.5 We also take the view that the registration and regulation of social and mutual forms of incorporation could be strengthened and rationalised. We would like government to explore merging the CIC Regulator and the FCA Mutuals Team into a new, appropriately purposed and resourced Social Economy Commission. This could make it easier for people to use the corporate forms designed for social action while at the same time ensuring they are not misused. Public and policymaker confidence in these legal forms must be maintained.

4 *How can civil society be supported to have a stronger role in shaping government policy now and/or in the future?*

- 4.1 The Strategy should renew the Localism agenda. Continued devolution, and specifically more Localism and more meaningful community empowerment, will give people

participating in civil society a greater role in the governance of our country. As the Localism Commission's final report says:

“National government must set the conditions for localism to flourish, devolve power and resources to local areas and strengthen the capacity of our community institutions. But we must also change practices, culture and behaviour within local government. It is crucial that we focus on building strong relationships between local government, civil society, local businesses and people around a shared interest in place. Only then will we create the environment for local initiatives to thrive and unlock the power of community.”

- 4.2 The Localism Commission makes numerous practical recommendations for transferring power to communities that we endorse, particularly in relation to the redistribution of power in local political economies and nurturing people's capabilities to take action.
- 4.3 There are examples of useful arrangements used by Whitehall departments to engage with, consult or otherwise involve their civil society stakeholders in policy development and implementation. For example: DHSC's VCSE Health and Wellbeing Alliance and the now defunct Defra Civil Society Partnership Network. Often, government has little recourse but to involve civil society in policy development because of the specialist knowledge and expertise contained there. It would be good if the Strategy included plans for all Whitehall departments to establish effective arrangements to build and maintain meaningful relationships with their civil society stakeholders. Within this, government should be mindful not to formalise existing relationships that overly privilege influential 'insiders'. Such arrangements need to help government hear from a diverse variety of organisations and individuals, interests, traditions and backgrounds. Consideration should also be given to how open, accountable and democratic these organisations are themselves.
- 4.4 From our own particular perspective, we think a big improvement would be for responsibility for co-operative policy, including co-operative and community benefit society legislation, to be moved from HM Treasury to BEIS. At the same time we believe there could be significant benefits in the creation of an appropriately purposed and resourced Social Economy Commission.
- 5 *We interpret civil society as inclusive of all those outside of the public sector, who share the mission of building a stronger society and improving lives, regardless of traditional sector boundaries such as charity or private and for profit or not. What are the advantages of using this interpretation in developing this Strategy?***
- 5.1 We understand and applaud the attempt to think outside the silos of models and sectors, but great care must be taken not to make concepts as important as civil society meaningless. Since at least the Enlightenment, and in practice for millennia before, the existence of a healthy civil society has been an essential underpinning of a functional, sustainable and just society. In the Western political tradition it is considered especially critical in the functioning of the social contract and of democracy. It is therefore essential that the Civil Society Strategy does not distort, dilute or devalue established conceptions of civil society.

5.2 Civil society is not charities, the social economy or the third sector. Neither is it business done in a responsible or socially beneficial way. Rather than focusing on models and institutions, we believe the Civil Society Strategy must focus on the activities and behaviours of people that constitute civil society. But these must be clearly defined. Thus we propose this definition of civil society:

Civil society is constituted by people's voluntary participation in associational and communal endeavours for a common good, where their motivations are not private gain and their association with one another is not primarily that of agents in a market.

5.3 This interpretation is much closer to those used by both the NCVO and the United Nations.

5.4 The requirement that participation be motivated by the pursuit of a common good rather than private gain does not necessarily mean that participants cannot stand to share in the benefits they create, rather that such benefits have to be mutual. For example, a community might work together to enhance its local economic prospects, which may well create opportunities for individuals involved.

5.5 While civil society is constituted outside of markets, its objectives can be a response to the outcomes of market conditions and can sometimes be directed towards effecting market change. Civil society endeavours can also sometimes be pursued through market transactions and market signals will often be a consideration for participants. This is how first modern consumer co-operative was formed in Rochdale in 1844. Current examples include a community setting up a social enterprise or a charity operating retail outlets to raise money.

5.6 Examples of activities that we think could constitute civil society include:

- Voluntary participation, by individuals and corporate entities, in the work of community groups, charities, co-operatives and social enterprise
- People pooling their capital to pursue mutual objectives
- Donations and grants made by individuals and corporate entities, including corporate philanthropy
- People pursuing a common good by trading for a social purpose, including providing mutual benefits where this generates wider a wider social benefit
- Individuals, groups and businesses participating in community economic development

5.7 Examples of activities we do not consider to constitute civil society include:

- Buying from a charity, co-operative or social enterprise – while responsible, pro-social consumption is an essential component of a better economy, the actions of consumers in a market do not constitute civil society, though action to promote and encourage pro-social consumption may well constitute civil society

- The activities of for-profit businesses that deliver on a social purpose as well as profit generation – while it is essential that we find ways of earning a living and trading in markets that are good for people and planet, these constitute good business rather than civil society
- Social investment where the only relationship the provider of capital has with the receiving organisation that of an investor

6 What are the disadvantages of using this interpretation in developing this Strategy?

- 6.1 We are concerned that the proposed interpretation lacks the theoretical, historical, and contemporary foundations that all conceptions of social behaviour rely on to have any meaning. There are two main departures from established conceptions that we believe could be especially disadvantageous: the lack of an emphasis on people's individual and collective agency, and connectedly, an erosion of the distinction between civil society action and market-located, for-profit business.
- 6.2 A big disadvantage in the proposed interpretation is that it deemphasises people's individual and collective agency. Without these characteristics of voluntary association, solidarity and empowerment, civil society will not be strong, independent or impactful. Thus we believe the emphases we place on these features in our proposed interpretation (see above) are essential.
- 6.3 Another significant disadvantage in using the proposed interpretation is that it blurs the important distinction, created by established conceptions of civil society, between people's associative activities in pursuit of shared common goods on the one hand and their profit motivated activities through market relations on the other. If given weight and then acted upon through a government strategy, such a distorted interpretation could devalue and erode the societal space within which people can associate outside of market relations and take action for reasons other than private profit. This will ultimately reduce the scope of people's social action outside and inside markets. A well-functioning market democracy requires civil society, the state and markets to be very complementary, highly interactive but also distinct spheres. Modern history contains numerous demonstrations of the dangers and difficulties that result from civil society becoming subsumed by both states and markets.
- 6.4 It would also be most disadvantageous for the UK government's very welcome focus on encouraging more responsible, accountable and socially beneficial business practices to be reduced to a consideration of businesses' engagement with civil society. A strong inclusive economy agenda requires a focus on how all businesses can go about making profits in markets in ways that distribute opportunity, wealth and wellbeing more broadly. We need business to be done in socially beneficial ways not just as a contribution to civil society but as a matter of course at the very core its conduct.

7 *Reflecting on your own experience or examples you are aware of in the UK or abroad, how have people successfully taken action to improve things for themselves and their communities? Please tell us why it has worked well.*

- 7.1 This is exactly what more than a billion people world-wide have done through the global co-operative movement. All co-operatives are fundamentally a vehicle for people to work together to achieve shared aspirations through and combination of solidarity and self-help. In the UK there are 6,815 co-operatives owned by 13.6 million members. Globally more than 1.2 billion people are members of any of the 3 million co-operatives known to exist in the world.
- 7.2 Today's movement can trace its roots back to the creation of the first recognisable consumer co-operative, founded by working class people in Rochdale in 1844 to meet their basic material needs. This is an excellent example to people coming together in civil society, in response to economic and social conditions, to take a combination of commercial and non-commercial action inside and outside of markets. Other similar historical examples where people came together in civil society and used co-operative principles can be found in the establishment of credit unions, co-operative banks and rural service co-operatives in nineteenth century Europe.
- 7.3 The UK has a particularly strong tradition of co-operative action in sports and leisure clubs. Since their development in the late nineteenth century, these associations have operated with members on a participative or democratic basis that reinforces the value of co-operative approaches within civil society.
- 7.4 Contemporary examples include the growing use of co-operatives in developed countries to facilitate community action in areas such as ecology, post-industrial economic renewal and persistent social deprivation. Meanwhile co-operatives provide a powerful tool for people in the developing world to address the challenges they face and improve their lives. In many countries around the world co-operatives help to provide access to basic goods and services, education, healthcare, micro-finance and better economic opportunities. Global mechanisms for reducing poverty through fairer trade, including FairTrade, utilise co-operatives to help producers gain more power and capture more value in supply chains. The International Co-operative Alliance is currently working with the European Union to investigate and measure the contribution of co-operatives towards progress in relation to the Sustainable Development Goals.
- 7.5 What makes the co-operative model such a useful tool in all these endeavours is how it empowers people: by proving a framework for them to pool energies and resources and share ownership and control of the things to really make a difference, including capital, knowledge, organisation, scale and legal personhood. This reduces people's reliance on the philanthropy of others, governments, or on the vagaries of market conditions. Through ownership and control of the things that matter, people make markets work for them and even in some cases create spaces to generate and share value outside of markets altogether. Co-operatives are thus a tool for people to not just cope with

challenges but to change the conditions that give rise to these challenges. This must be central to the vision for civil society set out in the Strategy.

8 *Are there any additional changes that would enable more people to take action on issues that matter to them?*

- 8.1 Knowledge and know-how co-operative options for social action and business are far too limited. We can address this through community economic development.
- 8.2 The recent step change in the power of digital tools to facilitate and record diverse and novel transactions and to allow sometimes quite large and dispersed groups of people to collaborate and make decisions together presents new options for co-operative social action. There are already some great examples of this in the UK and elsewhere in the world. For example, socially owned and purposed 'sharing economy' platforms are flourishing in the Netherlands. In the UK, we are supporting a number of new social action platform co-operatives through an accelerator programme, called Unfound. The Scottish Government's Expert Advisory Panel on the Collaborative Economy has recently recommended support for the development of platform co-operatives. We believe the Strategy should include government support for the development of some core co-operative API that could be adapted to facilitate a wide range of social actions.
- 8.3 Meanwhile, those who do choose a co-operative option are provided with sub-optimal legal frameworks, additional regulatory burdens and a lack of tailored tax support. Central government has the powers to take action on all these fronts, though a big issue at the moment is how policy making for co-operatives is inappropriately sited in Whitehall, in HM Treasury Banking and Credit rather than Business Frameworks in BEIS.

9 *Considering all the changes you discussed in this section, how could these be implemented now and/or in the future? You may want to think about the role of different parties, for example central and local government, charities, businesses, yourself / your organisation and others.*

- 9.1 The UK government lacks any clear and cohesive policy to promote and support co-operatives. The Strategy is an excellent opportunity to put that right by prioritizing collective agency, solidarity, mutuality and self-help in social action.
- 9.2 In practical terms this could include:
- significant resource to support participation in community economic development, everywhere, with participants supported to explore and develop co-operative options for social action and enterprise
 - support for the development of some core co-operative API that could be adapted to facilitate a wide range of social actions
 - action to provide a more user-friendly corporate framework for co-operative and community benefit societies, including through an overhaul of the legislative and regulatory functions for societies

- government's impact assessment framework could be reformed to prompt policymakers to consider the impact on co-operative models as a matter of course

10 *Reflecting on your own experience, or examples you are aware of in the UK or abroad, what does an effective pool of funding and financing as well as income opportunities for the voluntary and community sector look like?*

- 10.1 Others will have better-informed ideas about how to address dysfunctions in the commercially-intermediated donation economy. We will focus here on ways of contributing that most align with co-operative values of solidarity, self-help, democracy and social responsibility. This includes crowdfunding donations from people who support the social action being undertaken. Digital platforms can be a great way of building networks of engaged donors.
- 10.2 The experience of co-operatives is that this engagement works all the better when donors are stakeholders rather than just philanthropic supporters of social action. Thus we emphasise the value in participatory charitable models that nurture and mobilise members who support and share a stake the benefits pursued. The charitable community benefit society model can be especially useful here, as it combines participatory membership with a distinct capital model that can blend traditional donation and periodic membership dues with co-operative capital raising, including small capital contributions as a condition of membership and community shares offering appropriately low rates of return on patient equity.
- 10.3 The co-operative model emphasizes groups of people pooling energies and resource to meet their own needs and aspirations. In the context of social action, community shares is the best contemporary example of this.

11 *Reflecting on your own experience or examples you are aware of in the UK or abroad, how are new investment models unlocking new potential and partnerships?*

- 11.1 Investment that draws from and helps to build associations of people working together in pursuit of a shared common good, such as when members pool capital in a co-operative, should certainly be recognised and supported in the Strategy.
- 11.2 The UK's biggest recent success story where civil society and investment has combined is undoubtedly community shares. Community shares uses co-operative values and principles and the community benefit society legal form. The model is a means for communities to pool equity capital in enterprises that they democratically own and control to deliver shared communal benefits.
- 11.3 The crucial feature of community shares is that it uses a form of equity unique to co-operative and community benefit societies, called withdrawable share capital, which has features particularly suited to patient mission-aligned investment in community business. Withdrawable share capital provides a form of equity for the business under FRS102 accounting standards, yet unlike company equity it can be withdrawn by the shareholder at par value, under conditions controlled by the society, providing a simple non-market

exit. These shares also do not carry a right to a profit dividend, but instead shareholders can receive a steady (though not guaranteed or fixed) rate of interest to provide a steady long-term return on investment. Withdrawable shares in the community shares model also do not give shareholders a right to the underlying assets of the society, or to the proceeds of the disposal of those assets. Thus community shares, unlike company shares, do not include any possibility for investors to make capital gains from sale of their shares or sale of the business assets as a whole. And, all shareholders have one vote in the society, no matter how many shares they have. All this makes community shares perfectly suited to community investment in the context of social action.

- 11.4 From 2011 until 2016 our Community Shares Unit worked with the FCA, the Charity Commission, HMRC and HM Treasury to establish voluntary standards and guidance for community share offers, expressed in the Community Shares Handbook. The Unit also established the Community Shares Standard Mark, which is awarded to share offers that meet the criteria by a national network of licensed practitioners. This work has been vital in establishing confidence in community shares and thus in supporting significant investment in co-operatives. Unfortunately the UK government withdrew support for this work before it could become established on a self-sustaining footing. Since then the Community Shares Unit has been working to obtain ISO product certification for the Community Shares Standard Mark.
- 11.5 The Strategy should recognise the success and ongoing importance of community shares and the vital, ongoing work on self-sustaining standards. DCMS should consider that Community Shares Scotland continues to receive support from the Scottish Government, which as a very strong community empowerment agenda of its own.
- 11.6 Our analysis of the makeup of community shareholders shows that is a very democratic form of social investment. Within each community business using the model, there is a combination of members who have been fortunate enough to have thousands of pounds in investable cash, sharing agency, ownership and control with those who have invested perhaps £50. The analysis shows that community shares has mobilised significant previously untapped solidarity within communities, while providing an opportunity for people to participate as owners of enterprise who would otherwise never have done anything of the sort.
- 11.7 Of course, the community shares model requires that the enterprise has revenue generating potential in some form. Thus, it is not a model for every type of social action. But we believe the co-operative model demonstrates that social action pursued at least in part through enterprise can be particularly effective, especially because it involves the beneficiaries taking collective entrepreneurial action for themselves.
- 11.8 We believe the Strategy should particularly support civil society action that utilizes economic assets such as land, buildings and enterprise, and thus unlocks economic value to generate and distribute social value. The more economic assets in a community are owned and controlled by that community, the stronger the foundations for a wide a

range of social actions, including of course action to reshape local economies to generate greater wellbeing for local people.

11.9 Key to the success of community shares has been:

- the mobilising power found in sharing ownership and control of community business along co-operative lines
- the distinct form and function of the co-operative and community benefit society legal forms, which exist specifically to facilitate this kind of social action
- excellent cross-Whitehall support for the work of the Community Shares Unit between 2010 and 2016, with policy alignment between HM Treasury, HMRC, the FCA, DCLG and Cabinet Office
- a regulatory approach that has combined very robust policing of the use of the society legal forms with support for sector-led development of standards around financial promotions
- the rise of crowdfunding platforms, and socially purposed platforms in particular
- the growing understanding of how to blend community shares equity with other finance sources such as grants and loans
- match-funding schemes such as the Community Shares Booster programme, wherein the Co-operatives UK co-invests equity provided by Power to Change in community businesses alongside local community investors

11.10 DCMS should recognize the strategic importance of community shares for the future of place-based social action. The Strategy should renew central government support for the development of this model, particularly to put the Standards Mark scheme on a self-sustaining footing.

11.11 The role of community shares as a means for of increasing community ownership of assets, to power social action and reshape local economies, should also feature prominently in the Strategy. DCMS should draw on the example of the Community Shares Booster Programme and consider how some of the next tranche of dormant assets could be co-invested with local people in assets and enterprise they own and control.

11.12 The Strategy should also recognise and aim to address changes in Social Investment Tax Relief that have significantly reduced its utility as a measure that supports community investment. Specifically DCMS should commit to working with HM Treasury to revisit changes to Social Investment Tax Relief that have withdrawn support for a very common form of community ownership of land and assets and genuine community energy schemes.

11.13 Separately, DCMS should work with HM Treasury to explore whether Community Investment Tax Relief could be reformed so that it provides a tax break for community share issues made by community investment intermediaries.

11.14 Community shares practitioners are also concerned about HMRC's direction of travel on its 'Advanced Assurance' service, which creates additional burdens and complexities that could, if left unmodified, create significant barriers for communities attempting to raise money in this way.

12 *Where is there the greatest potential for the future development of investment models for civil society?*

12.1 The community shares model has already demonstrated the potential for people to invest directly in ventures that serve their communities. We think the next step is to encourage and support more people to invest in place-based community investment intermediaries. A key benefit of this approach is that it can facilitate community investment from wealthier people in the wider locale to support economic development in disadvantaged communities. It will be important for these intermediaries to be accountable to and ultimately controlled by the local community and the people who invest. Modifying Community Investment Tax Relief is just one practical policy that could support this (see above).

12.2 We also see significant new opportunities for people to opt for some of their savings to be invested in community businesses with tax benefits. This follows very welcome action in 2016 to make bonds issued by co-operative and community benefit societies eligible for the Innovative Finance ISA. The Strategy could include an undertaking to convene community businesses, crowdfunding websites and socially-purposed financial institutions such as credit unions, to explore the potential of developing 'Community Investment ISAs'.

13 *Are there any additional factors that could enable new investment models to grow in the future?*

13.1 The most important factor in enabling the growth of new investment models is the breadth and depth of community development and empowerment. UK government's very worthy project to create a thriving social investment market has been somewhat underwhelming because it has put the cart before the horse. It began with an assumption that there was a population of social entrepreneurs out there that with the right investment deals would explode into action and do lots of under-defined 'good'. Instead, it is grassroots community economic development, not financial wizardry, that creates great social entrepreneurs. And these social entrepreneurs are sometimes groups and communities that need support to mobilise their own resources, as well as well-meaning business people looking for the right investment deal. This is why community shares has been the biggest new social investment model to emerge; because community shares is part of a process in which people in a community come together, engage with an issue together, pool resources and be entrepreneurial together.

13.2 It would be too crude to contextualize community economic development only as a pump-priming, demand side measure to complement recent effort expended on creating social investment streams, but such a reorientation in the thinking about social investment is needed to make it work for communities.

14 *Considering all the factors you discussed in this section, how could these factors be addressed now and in the future? You may want to think about the role of different parties, for example central and local government, charities, businesses, yourself / your organisation and others.*

14.1 To recap the Strategy should include:

- significant resource for community economic development, as part of the UK Shared Prosperity Fund
- renewed support for the Community Shares Unit's work on promoting the model and self-regulatory standards
- support for community investment in, and ownership, of assets and enterprise, perhaps through a co-investment scheme using the next tranche of dormant assets
- changes to SITR so that it is once again useful for community investment in assets and enterprise
- changes to CITR to support community share offers made by community investment intermediaries
- convene community businesses, crowdfunding websites and socially-purposed financial institutions such as credit unions, to explore the potential of developing 'Community Investment ISAs'

15 *Reflecting on your own experience or examples you are aware of in the UK or abroad, how are businesses unlocking new partnerships and potential within civil society? Please tell us how this is different to other types of organisations.*

15.1 Most co-operatives form in civil society and many that go on to have significant commercial operations continue to participate significantly in civil society as well.

15.2 In the UK our consumer retail co-operatives provide a great example of how commercial businesses can interact positively with civil society. Below we provide some instructive examples of the scope and diversity of these interactions:

- Southern Co-op distributed 14 percent of its profits in 2016 to civil society organisations in the communities it traded in
- The Co-op Member Pioneer programme – members of The Co-op are supported to be a proactive link between the business, its local members and their wider community
- Scotmid Co-operative's Community Connect scheme – members of Scotmid are given a degree of control over local community funds in proportion to how often they shop with their co-operative
- East of England Co-op's Community Account – local civil society organisations are able to become members of the co-operative and then individual members of the

co-operative are able to donate some or all of their dividend points to whichever of these organisations they choose

- The Co-op's Local Community Fund – 1 percent of members' spend on Co-op products is placed in a fund under member control to support the local community

15.3 Other examples of co-operatives contributing to and participating in civil society are:

- Outlandish - a worker-owned digital development agency that uses its profits to work on projects for social change
- Unicorn – a worker-owned supermarket that sets aside 5 percent of its annual wage bill to support local and international projects for the common good
- Leading Lives – a worker-owned social care provider that upon 'spinning out' through the
- Public Service Mutuels programme, established a 'community benefit fund' to support civil society activity that supports vulnerable people to live the life they choose

16 *Are there any additional factors that could enable more businesses to have a social purpose in the future?*

16.1 The biggest omission is the lack of recognition of the relationship between ownership and social mission. The likelihood of a business having or developing a social purpose can depend on the relationships between the business and its stakeholders, including employees, consumers and communities. The more a business recognizes and sets priorities for the interests of these stakeholders alongside shareholders and investors, the more likely it is to have a well-rounded corporate mission beyond the single bottom line. If the organisation, governance and ownership of the business empowers these stakeholders, then having a social purpose is more likely still. This is what co-operatives do and it would be useful for the Strategy to recognise this.

16.2 Conversely, the retention or development of social purpose becomes less likely when founders begin raising capital from external sources without choosing these carefully. This is especially the case when they begin ceding control of their business to outside shareholders. Over time the power and influence of investors motivated by return on investment alone can lead to the imposition of a particular micro-economic discipline at the expense of social purpose. Thus business ownership succession can be a significant factor in the degree to which businesses have a social purpose.

16.3 The Strategy should recognise that carefully planned succession, on the part of owners, directors and employees, can empower those stakeholders most likely to retain, renew and enhance a social purpose, such as employees, consumers and communities. DCMS should consider that the Scottish Government provides professional advice and support for employee buyouts as part of a planned business succession, though Scottish Enterprise. Employee buyouts are now a mainstream business succession option in

Scotland and as a result the country now leads the UK in such buyouts, averaging one a month and with reportedly more than 100 in the pipeline.

- 16.4 Connectedly, the Strategy should encourage businesses to seek investors who are likely to have more than a financial stake in the business. Raising capital from generalist social investors and from those with a more direct 'social stake' in a particular social purpose could finance growth and facilitate succession in a way that protects and enhances the mission. Within its work on social impact investment, DCMS should consider the value in encouraging investment and ownership models centred on communities of interest with a more direct stake in social purpose. New multi-stakeholder models, accommodating ownership and investment from employees, customers and external investors could be developed as an innovative succession strategy.
- 16.5 The difficulty here is that this question relates less to civil society and more to business. It does not appear to be within DCMS's brief to develop policy for business succession. This is something that needs to be developed by BEIS, which has direct responsibility for key levers such as industrial strategy, business support schemes, employment rights, corporate governance and company takeover rules.
- 17 *Considering all the factors you have discussed in this section, how could these factors be addressed now and/or in the future? You may want to think about the role of different parties, for example central and local government, charities, businesses, yourself / your organisation and others.***
- 17.1 BEIS should develop a strategy for diversifying business ownership in the UK, with a particular emphasis on expanding worker and community ownership over the life-cycle of businesses.
- 18 *Reflecting on your own experience or examples in the UK or abroad, how have local people, businesses, voluntary and community organisations, and decision makers worked together successfully to break down barriers in our communities and build a common sense of shared identity, belonging and purpose?***
- 18.1 Co-operatives UK is currently involved in developing the policy and practice for community economic development. Community economic development starts with the assets and aspirations of local people. It is a process through which communities engage with and start to resolve their own economic issues, through strategic planning and action in the market and civil society. It involves nurturing a strong and mutually supportive ecosystem of private enterprise, community businesses, voluntary organisations and the commons. Community economic development all about re-shaping the underlying economic system in a place, rather than just improving people's capacity to live within the existing circumstances.
- 18.2 Some practical examples of initiatives to come out of community economic development include:

- hundreds of successful community share offers, in which people have come together to raise millions of pounds in patient mission-aligned equity finance for community businesses
- Eastbourne Fisherman's CIC is a co-operative venture established by people working in the local fishing industry to develop new infrastructure and put itself on a more sustainable footing
- Regather Co-operative in Sheffield is formed of many local food businesses and community organisations, as a way to co-develop their nascent local food economy and maximize economic and social value
- Collyhurst Big Local's participation in community economic development has helped the existing network of residents and voluntary organisations to develop its own regeneration plans for their ward that focuses on local entrepreneurship and enterprise, in response to deep-seated and persistent social deprivation and some unpopular and alienating 'top-down' regeneration initiatives driven by / imposed by the local authority
- Heart of Hastings Community Land Trust is used to increase community ownership of commercial property in the town centre, so that through a democratic community benefit society local people can influence the evolution of their town centre economy

18.3 In 2017 we published the findings of two years' action research funded by the then DCLG. We are currently the lead partner in a five year Power to Change-funded programme that provides intensive support for community economic development in seven places. Furthermore, we are a delivery partner in the DCMS-funded Place Based Social Action programme which has a similar focus. These small and experimental programmes are generating learning to inform public policy and grassroots practice all the time.

19 *Are there any additional changes that would enable more people working together to break down barriers in our communities and build a common sense of shared identity, belonging and purpose?*

19.1 There needs to be a cultural shift in relation to local political economies, particularly in the thinking and tendencies of local authorities, who too often act as a blocker on the agency and aspirations of communities. We need a culture that is less risk-adverse and more willing to trust in community power.

19.2 There also need to be far more opportunities for deprived communities that are otherwise marginalized by local and regional wealth creation to participate fully in high-impact community economic development. The Strategy should include an ambition for community economic development to be possible everywhere. Resources such as the UK Shared Prosperity Fund and the next tranche of dormant assets should be targeted so that deprived communities have the opportunities and capabilities to participate in community economic development. For example, dormant assets could help to capitalize

locally-controlled community reinvestment funds where locally controlled financial resources would otherwise not exist.

19.3 Communities also need access to powerful new digital platforms to facilitate social action. While there are some such platforms in development, a lot more could be done to create this new digital infrastructure for the common good and to ensure all communities can access the opportunities this technology creates. For example, with government help some powerful core 'API' could be created that can then be adapted for use by communities.

20 *Considering all the changes you discussed in this section, how could these changes be addressed now and/or in the future? You may want to think about the role of different parties, for example central and local government, charities, businesses, yourself / your organisation and others.*

20.1 The UK government needs an ambitious and fully resourced Communities Policy that makes a significant contribution to the Inclusive Economy agenda. This should include significant measures to enable every community participate in community economic development.

20.2 The key resource opportunities in this regard are the UK Shared Prosperity Fund and the next tranche of dormant assets.

20.3 A community economic development programme must be inter-departmental, with significant joint policy and implementation between MHCLG and BEIS and, for rural communities, Defra. DWP involvement would also be required to align New Enterprise Allowance policy. Perhaps the role of DCMS would be in knitting it all together. This new Communities Policy must create an enabling and supportive national policy framework for local authorities to diversify approaches to local political economy.

20.4 Key areas where local authorities could require support are:

- becoming facilitators of community-led economic strategy
- coordinating local public sector anchor institutions (the council, NHS, universities) to shift more of their spend to local suppliers
- supporting greater community ownership of assets and enterprise

20.5 DCMS could also support the development of new digital infrastructure for the common good. Specifically it could support the development of powerful core API that communities could adapt to create their own social purpose platform co-operatives.

21 *Are there any additional changes that would enable local public services to respond further to the needs of communities?*

21.1 The Strategy should include policy that encourages and enables public institutions to enter into partnerships with civil society, to help in the delivery of key public goods such as wellbeing, ecological sustainability, social mobility and inclusive economic development. Where it is appropriate, the public sector can play a smart enabling role for

civil society action through a mixture of education, information and advice, grants and contractual public-social partnerships.

- 21.2 This must not be about civil society stepping in to carry out functions that are best done by a strong, properly-funded public sector. And government should not come to rely on civil society as a cheaper, non-statutory social safety net.
- 21.3 Where services are outsourced, authorities should use their commissioning and procurement powers to foster the development of public service contractors that not only respond to the needs of communities but also empower those communities through agency, ownership and control. Services should be delivered in ways that nurture, mobilise and utilise social action and the public sector should only work with providers that can do this. The Strategy should include help for public authorities to design, commission and procure services like this. We also ask DCMS to consider which recommendations in Social Enterprise UK's recent review of the Social Value Act ('Our money, our future') it can take forward.
- 21.4 Finally, we believe the Strategy should recognise that in-house delivery of public services can still be reformed in ways that adopt these more co-operative approaches. Models can certainly be developed, perhaps using mutual versions of local authority companies, that empower communities with agency and control, without the service having to 'spin out' at all.

22 *Reflecting on your own experience or examples you are aware of in the UK or abroad, do you know of any public service mutuals that are unlocking new partnerships and potential? If yes, please tell us how this is different to other types of organisations.*

- 22.1 We see great potential in what we refer to as co-operative approaches to public service delivery. In social enterprises these approaches combine:
- the active co-creation of social value among workers, service users and the community
 - workers, service users and the community gaining genuine agency and control through membership and ownership of the enterprise
 - the corporate purpose of the enterprise being oriented towards facilitating members' co-creation of social value
- 22.2 In many advanced economies this takes the form of multi-stakeholder social co-operatives; a form of social enterprise democratically owned and controlled by workers, service users and members of communities. This model of public service mutual is particularly well established in Northern Italy, Spain, France, Japan and Canada. Evidence suggests that multi-stakeholder mutuality is especially effective in contexts where the generation of social value benefits from the alignment of the interests of different stakeholders, such as care workers and service users in social care and other public services where the purpose is social value not private profit.

22.3 The Strategy should also recognise that at present Public Service Mutuals can only spin out as employee-owned organisations. If these organisations then want to involve beneficiaries or the community formally, they need to undertake a transition to a multi-stakeholder model. There are a handful of inspirational examples of spin-outs that have done this, such as Social asVentrues in Salford. The Strategy could include help for Public Service Mutuals to explore and undertake transitions like these. If beneficiary and community ownership cannot become part of the spin out process from the outset, then DCMS should try to ensure the routes of transition are well-understood and as smooth as possible.

23 *Are there any additional factors that could enable more mutuals to deliver public services?*

23.1 The missing piece of the puzzle is investment in community development and empowerment. For example, we know from organisations like the World Health Organisation and Public Health England that strong communities play a vital role in preventative health and wellbeing strategies. Research suggests that if we want citizens to have more agency and ownership in relation to their public services, we need to devote more resources to grassroots community development, so that people have the capabilities and tools to do this. Nurturing this social capital is a very sensible investment.

24 *Considering all the factors you discussed in this section, how could these factors be addressed now and/or in the future? You may want to think about the role of different parties, for example central and local government, charities, businesses, yourself / your organisation and others.*

24.1 The Strategy should include measures to enable multi-stakeholder public service mutuals. This would include reforms to the 'spin out' process and/or a programme of support to help employee-owned public service mutuals to transition to multi-stakeholder mutuality.

24.2 Multi-stakeholder mutuality would also benefit from government supporting community economic development.

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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 £35.7 billion to the British economy.