The Co-operative Advantage

Innovation, co-operation and why sharing business ownership is good for Britain

Edited by Ed Mayo

CO-OPERATIVES UK

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Five provocations on social innovation

1. In the wake of the traditional economy, new forms of production are emerging that are characterised by permanent innovation.
2. A multitude of small-scale innovations are down payments on larger transformative possibilities.
3. We can now develop systems of co-operative advantage with small and medium-sized firms to spread innovation.
4. In doing so, we can radically transform the character of education, to be analytical, not informative and to embrace co-operation.
5. We aim not for a marginal increase of equality, but the achievement of a larger life by and for ordinary men and women.

Roberto Unger

Acknowledgements

A book about co-operative innovation is not one to emerge, pristine, from a laptop and a study. It has evolved in an open way, with many points of input and expertise along the way. The co-operative and wider social-economy sector has an extraordinary mix of cunning and vision and it is the input of the sector, along with those many friends open to its work and ideas, that has informed and shaped the ideas set out in this publication.

The drafts for each sector chapter were shared with practitioners and commentators at an early stage and we held a Pop-Up Think-tank in London at the Royal Society of Arts, the venue of the very first Co-operative Congress in the 19th century. This was chaired by Professor Michael Best of the University of Massachusetts Lowell, who has been a world leader in the development of sector industrial strategies.

The chapters for this book draw on original text that was prepared by one or more authors, but have been developed to include additional material, such as case studies on co-operative innovation overseas. I want to thank those involved and acknowledge their patience and their co-operation as these chapters took shape.

My thanks to my colleagues in Co-operatives UK for their input and support. My thanks too both to the distinguished authors of the chapters that follow and to the experts that contributed to their work – see page 288 for biographical details about the authors and a list of contributing experts.

If there are errors which emerge from any lack of expertise, then of course the responsibility lies solely with me as an overall editor. There is plenty to agree on or disagree with in the book, but these should not typically be disputes over matters of fact. That is the usual bargain, but thanks to all those involved for helping me to ensure that in terms of errors, in an open process of writing and development, there were not more.

Ed Mayo
Editor

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1
Introduction

"There is good evidence to suggest that providing consumers and workers with a voice inside organisations produces better, more intelligent and responsive forms of business. Consumer and credit co-operatives reduce poverty and make a positive contribution in skill development, education and gender equality. Participatory governance structures should therefore be viewed as an economic good, as well as a social good."

Blueprint for a Co-operative Decade*, International Co-operative Alliance*

To be ambitious for Britain, we need a new model of wealth creation.

We are in an open and competitive global market, in which the most immediate economic challenges facing us, agreed by most commentators, are to raise levels of innovation, productivity and entrepreneurship. To add to the sense of urgency on the scale of economic change that is required, this in turn needs to be achieved in ways that are more inclusive in terms of society, and sustainable and resilient in terms of the natural environment.

Britain, in short, needs to nurture a new approach for economic success. One ingredient for this will be to harness innovation trends that are encouraging a far stronger dose of economic collaboration.

We call this the co-operative advantage.

Innovation is where to start

There is no shortage of analysis in terms of our contemporary approach in the UK to business and economic life and no shortage of prescriptions and proposals for action and improvement. This is not the focus of this book. Instead, we start with an attempt to understand innovation trends in key sectors of the economy. Just as the 'future' is already here, but unevenly spread, so too, often, are innovations that over time will drive fundamental changes in economic opportunity. Innovation is a driver for dramatic coming social and economic change – it may feel as if few can shape it, but certainly, few can escape it.

The field of innovation studies is not a world of prediction, but of possibility. What we explore in this book is the relevance and potential in co-operative and allied models of enterprise – ie sharing ownership with those most closely involved in the business – to those innovation trends. Rather than take one set, narrow observation point, for example by picking technology winners (robotics, 3D printing, advanced materials or synthetic biology) or likely themes (big data, ubiquitous computing, smart healthcare, mobile robotics or automation), we work from the ground up of specific sectors.

What emerges is a grounded series of over 50 potential co-operative innovations that dovetail with innovation trends more widely and offer a competitive advantage in line with these through their model of business ownership. It is not our claim that these are the only innovations that will be relevant in their field; far from it. Nor do we suggest that every innovation will work out in quite the way we suggest; quite the opposite. What we are able to say is that, when it comes to new business opportunities, the model of business itself can be a source of commercial gain.

The co-operative model, with its focus on partnership, trust and relationships, won't be right for every commercial context – such as capital-intensive operations, say. With its focus on partnership, it tends to operate with a more distributed pattern of ownership, which requires a focus on effective governance – again that won't be right for some commercial contexts – such as, of course, sole traders or the lone entrepreneurs, or the social entrepreneurs that want to hold ownership. The participative model is not for everyone. But in today's emerging economy, the beauty of co-operative and mutual enterprise, where ownership is open to those who are most closely involved in the business itself, can itself add value. That doesn't take away, for a moment, the wider fundamentals of business success, including leadership, brand and culture. But it can add to it. The essence of the co-operative advantage is that the model of business ownership can in the right context be an enduring source of value creation and, in turn, competitive advantage. It is co-operating in order to compete.

Why co-operative innovation?

There is a long history of interest in economic co-operation. John Stuart Mill argued in the 19th century that "*we may, through the co-operative principle, see our way to a change in society which would combine the freedom and independence of the individual, with the moral, intellectual and economic advantages of aggregate production.*"[1] And the circle of interest in co-operation has come round again. There is a growing interest in its role in economic success. In the pioneering book on economics by Eric Beinhocker, *The Origin of Wealth*, there are five times as many references to co-operation as there are to competition. In the context of new thinking in economics, Beinhocker noted that "*co-operation is as vital an ingredient in economic development as 'survival of the fittest' individualism.*"[2]

Kai Engel, Partner and Global Co-ordinator of A T Kearney's Innovation and Research and Development Practice, reported to the World Economic Forum in the Swiss mountain resort of Davos in 2015 that 62 per cent of businesses across Europe say that a quarter of business revenue is now due to collaboration around product and service innovation. Furthermore, 71 per cent predict that, by 2030, co-operative innovation will account for over a quarter of their total revenues.[3]

There are four outstanding reasons today why sharing business ownership is good for Britain.

First, co-operation can boost productivity. The UK suffers from low relative productivity. And yet Gallup calculates the cost of low co-operation to the UK economy in terms of employee disengagement to be a minimum of £59.4 billion.[4] In the UK, employees who are engaged with their workplace take an average of 2.69 sick days per year, compared to 6.19 days for the disengaged, and engaged employees are 87 per cent less likely to leave an organization.[5] Research also shows that employee engagement correlates with increased productivity and performance, and employee-owned businesses report higher levels of job satisfaction.[6]

Second, co-operation can boost innovation. The most common sources of ideas for innovation are from employees and from customers. In response, there is an increasing recognition by companies of models of 'open innovation'. This includes, but is not limited to, open source and collaborative production – models which still rely on the protections of intellectual property but, subject to fair use, are voluntarily and freely circulated, creating the potential for a knowledge or innovation commons. In economic terms, more open models of innovation, based on defaults of sharing at least within certain communities, can outperform closed and protective models of business development. It also includes the wider field of 'social innovation', where new solutions to societal issues can be brought forward through social entrepreneurship.

Third, co-operation can boost entrepreneurship. As Dr Rebecca Harding, CEO Delta Economics, argues: "*today's policy focuses entirely on individual entrepreneurs without understanding how they build businesses and create change through co-operative relationships*." In her study of entrepreneurs across over a dozen countries, what emerges is a picture of the real motivation of entrepreneurs that is complex, rather than simple, and social as much as financial. There are lone entrepreneurs, focused on individual action, but these are the minority. The more common collaborative entrepreneur is a mix, to different degrees, of four core characteristics: innovator; risk taker; rule breaker; and co-operator.

Fourth, co-operation can widen active participation in society in ways that are good for democratic engagement and economic wellbeing. The economic sociologist, Mariano Grondona, has explored this by looking at the role of culture in supporting or hindering economic development. He has found that, over time, there are three groups of characteristics that explain success: norms relating to individual behaviour (strong work ethic, individual accountability, agency); norms relating to co-operative behaviour (value generosity and fairness, and sanction those who free-ride and cheat); and norms around innovation.[7] This is the recipe for success over time.

This is not just, therefore, about the class of business that is an exemplar for collaboration, which is the co-operative and mutual model of business ownership. But the role of co-operative enterprises is a bellwether for co-operation in the economy more widely. In the four BRIC countries (Brazil, Russia, India and China), 15 per cent of their populations are member-owners of co-operative enterprises, a fast-growing sector alongside wider businesses. This compares to less than four per cent across those same countries who are shareholders. Worldwide, the International Co-operative Alliance (ICA) has set an objective for co-operatives to be the fastest-growing form of business within a decade.

The Blueprint for a Co-operative Decade

The ICA Blueprint for a Co-operative Decade sets out an aim that by 2020, the co-operative form of business will become the:

- model preferred by people
- acknowledged leader in economic, social and environmental sustainability
- fastest-growing form of enterprise.

The Co-operative Decade sits within the context of several global trends: environmental degradation and resource depletion; an unstable financial sector and increasing income inequality; a growing global governance gap; and a seemingly disenfranchised younger generation. The starting point for the strategy for a global co-operative future, argues the ICA, is the powerful claim which co-operatives make to the outside world: that they have a way of doing business which is better than the one which is currently failing. Co-operatives are better because they give individuals participation through ownership, which makes them inherently more engaging, more productive, and both more useful and more relevant to the contemporary world. Co-operatives are better because their business model creates greater economic, social and environmental sustainability.

From this, the ICA identifies an overarching agenda based on five key dynamics:

- Elevate participation within membership and governance to a new level
- Position co-operatives as builders of sustainability
- Build the co-operative message and secure the co-operative identity
- Ensure supportive legal frameworks for co-operative growth
- Secure reliable co-operative capital while guaranteeing member control.

The nature of economic co-operation

What is a co-operative? At one level, it is easy to say, as it is all defined in the co-operative principles and identity statement of the International Co-operative Alliance (ICA).[8] In practice though, it is not straightforward to *apply* the principles and to do so in a consistent way. There is a diversity of co-operative forms. There is continuous experimentation around key issues, such as the nature of membership, interest in community benefit and new models of financing.[9] In the UK, you can register a co-operative using a variety of legal forms. There is also a diversity of language – co-operative, mutual, social enterprise, employee ownership and worker co-operatives. As Jacquelyn S Yates, who has reviewed national frameworks for social ownership, comments: "*There appears to be no limit to the inventiveness of humans in constructing formal institutional arrangements for collective ownership. Nor do they hesitate to adopt confusing terminology, calling the same idea by different names, or different structures by the same name*."[10]

At its heart, this is all a form of business where the ownership rests with one or another of the key participants in the enterprise, rather than with more distant investors. That gives the potential for a productive alignment of interests in favour of business success – what economists call incentive compatibility – but it can also allow for a different, or more complex, purpose than return on capital. The overriding incentive for businesses owned by investors is to maximise financial returns to shareholders over time, in terms of dividends and increases in share price. In co-operatives, and wider social-enterprise models owned by other stakeholders, there can be a decision not to pursue profit but to give priority to other aims. Consumers may value the quality of the product. In worker co-operatives, staff may value decent working conditions. In enterprise-owned co-operatives, businesses may value the quality of inputs to their businesses or effective marketing of their products.[11]

A good co-operative is a best-practice exemplar of economic co-operation. It can benefit by being able to align a partnership approach in both legal form and in organisational culture. It is open, with the kind of diversity that supports innovation. It is focused on member needs, able to anticipate and move ahead of the curve as these change. But, as the experience of the Co-operative Group demonstrated, in the period leading up to the 2013 capital shortfalls at the Co-operative Bank, it doesn't always work out like that.

Margaret Heffernan, author of *A Bigger Prize*[12], the acclaimed 2014 book on economic co-operation, argues: "*The co-operative movement is not sentimental or some kind of historic relic but a dynamic, creative mindset that roots long-term social value inside financial value. That when you run an organisation for the benefit of everyone it touches, your achievements are more lasting and more meaningful than the old hoary achievements* *of so-called shareholder value. And when you accord each individual the dignity of ownership you unleash creativity and innovation on a scale few traditional business leaders dare dream of.*" She also warns, though, that "*the co-operative structure alone, while it does so much to release human potential, cannot in and of itself guarantee sustainable success ... Don't get me wrong: the structure of distributed ownership is fundamental and it is transformative. But it may not be enough to vaccinate us, and co-operatives themselves, against the contagious concept of dominance: size for its own sake, price for its own sake, growth for its own sake. I have seen sane, intelligent co-operative leaders entranced by size, celebrity and applause. I have seen fantastic, high-minded, civic-minded businesses go head-to-head with companies that might have been their partners.*"[13]

The formation of or transfer to a legal co-operative[14] is not the only way to co-operate, nor is it a guarantee of lasting co-operation. There are many more pathways that economic co-operation can take. Here are some examples:

- In commercial projects, whether based in contract or a formal entity as a joint venture, economic co-operation is commonplace. Peugeot Citroën and Toyota shared components for a new city car, sold at the same time as the Peugeot 107, the Toyota Aygo, and the Citroën C1. Samsung and Sony, too, worked together to develop flat-screen LCD TVs.[15]
- Standards, from communications protocols and standards for the interoperability of technology through to fuel efficiency and the treatment of the workforce, are all examples of economic co-operation with extraordinary importance in economic success at national level and, increasingly, across borders. Standards, which co-ordinate economic activity in an open and collaborative way, account for between one eighth and one quarter of overall productivity growth in modern economies.[16]
- To support and institutionalise standards, a significant role is played by a wide range of professional associations, trade unions and partnerships across the economy – typically organised on the same membership lines as co-operatives, and with some indeed being the direct contemporary descendants of mediaeval craft guilds.[17]
- Innovations such as 3D cinema or Android software spread faster when there is co-operation across the value chain of different groups needed to make a success of them, able to overcome blockages if it is not in the interest of any one group to see them succeed. Innovation and diffusion are increasingly recognised as a multi-player, co-operative process. As Ron Adner argues, "*the need for collaborative innovation has defined progress since the Industrial Revolution – the lightbulb on its own was a miraculous invention but needed the development of the electric power network to turn it into a profitable innovation.*"[18]

- Peer production, from video journalism to Wikipedia, has emerged as one of the most influential models of organisation and information generation of the internet age. This is a model of co-operation, suggests Yochai Benkler, that succeeds because it is a more effective way of harnessing a diverse range of people and motivations than hierarchical models, characterised by formal contract and management.[19] He has charted the 'wealth of networks' that can emerge from peer-to-peer production and the rich and growing forms of co-operation that are liberated with the dramatic rise in connectivity online.[20]
- Alongside this, there is a growing recognition of the role of 'the commons' – forms of property resources that are held collectively and governed in a diverse and participative way.

These examples all point to the way in which the economy is increasingly organised around the creation of knowledge and the use of information. These growing sources of wealth creation rely less on traditional forms of capital, whether equity or land, and more on knowledge that acts to blur traditional roles and boundaries. It is less straightforward to enclose wealth creation within traditional corporate models, or at least there is an uneasy relationship if that is the route that is taken, if the creation of knowledge thrives on permeable boundaries and joint efforts. In that context, success comes to those that are oriented to organising rather than those serving an organisation, those who can engage people and mobilise resources in an agile way, adapting to a changing environment and anticipating emerging needs.

Software development offers an extraordinary set of examples of the power of open platforms for economic co-operation, in the form of free/libre software. Richard Stallman is the legendary pioneer in technology circles of the GNU project, to create a Unix-like operating system based on free software. He argues that this can be a model not of libertarianism online, which is often how the philosophy of the internet is portrayed, but of co-operative mutual aid. "*I would like to encourage more people to get involved in free software*", he says, "*that believe in helping each other, rather than just wanting to be able NOT to help others.*" The free software movement, he believes, is a sister of the co-operative sector in terms of the underlying value of ensuring freedom through voluntary and responsible collaboration.[21]

The co-operative effect

The co-operative and mutual model owes its origins to working-class entrepreneurs in the UK, the Fenwick Weavers and the Rochdale Pioneers. But, as with football perhaps, other nations have taken up our export and made more of it. Italy, four times winners of football's World Cup, is a leading co-operative economy, alongside countries such as Finland, Germany, India, Brazil, Argentina and the USA. A report released in 2014 by the European Research Institute for Co-operative and Social Enterprises has quantified the contribution of the co-operative sector to the Italian economy. The total number of co-operative enterprises is between 55,000 and 60,000, which employ up to 1.3 million people. The turnover is equivalent to over 120 billion euros, while the gross value added of the sector is over 140 billion euros. At a headline level, the co-operative sector in Italy accounts for 10 per cent of GDP.[22]

The impact of having 10 per cent of GDP generated through co-operative activity has a dramatic set of benefits on Italy as a nation. Famously, Harvard Professor Robert Putnam coined the phrase 'social capital' to describe the ways in which the embedded social relations in civic and business life can overlap for the wider benefit of the region, in personal, social and economic terms. It is never straightforward to compare cultures, but it can be argued that Italy has to some degree developed an economy that is in tune with its society, with a strong sense of community and high levels of civic participation. Over 90 out of 100 Italians say that they know someone they could turn to and rely on in a time of need, a higher level than for counterpart countries.[23]

More recently, scholars Marco Magnani and Paolo Di Caro explored 'what Italy can learn from abroad and vice-versa', concluding that central to innovation and adjustment in the most successful regions in Italy has been co-operation. One example they cite is the city and surroundings of Turin, once vastly dependent on FIAT and the car industry. "*Turin was able to revitalize the local economy after the automotive crisis by diversifying entrepreneurial activities, strengthening the sense of community and co-operation, and investing in promotion at international level.*" They also point to Ragusa province in Sicily, which has "*surmounted its remoteness through a combination of innovative entrepreneurship, deep social cohesion, dynamic local governance and socially efficient institutions.*"[24] More than one in three Italian small businesses are members of a co-operative, which, in financial terms, translates into better access to low-cost finance and better information for commercial partnerships at a local level.[25]

An outstanding example of the co-operative effect is around Bologna. Three out of four citizens in Bologna belong to a co-op and the city offers a remarkable tapestry of social co-operation that shines in its civic culture, welfare, enterprise, innovation and arts. There are more co-operatives in the surrounding Emilia Romagna province (8,000) than there are in the UK, as the region has the highest density of co-operatives in Europe. There are highly integrated networks of economic co-operation across sectors, operating both vertically (such as around supply chains or finance) and horizontally (such as around peer-to-peer learning or product development).

Co-operatives generate close to 40 per cent of GDP in Emilia Romagna and, notably, it is the region of Europe with the lowest socio-economic inequality between the rich and the poor.

There are other cities and local areas around the world which are investing in the co-operative effect. Co-operation Jackson in Mississippi is drawing together a network of interconnected yet independent institutions as an economic renewal strategy in the capital city of the poorest state in the USA. These include an incubator and training centre, a co-operative bank, and a federation of established co-operatives. New York has developed a comprehensive strategy for a 'solidarity' economy, while in London, Haringey has taken forward co-operative models for a low-carbon future economy at a local level.[26]

Outside of Italy, there are other countries where the contribution to GDP is around the same level or higher still. While the statistics are not as up to date as for Italy, in Finland, co-operatives have a dominant role in the private sector, accounting for 21 per cent of GDP. The fall from grace of Nokia has made all the more relevant the contribution to economic welfare of co-operative enterprises, whether in tradeable goods or in the service sector. In Switzerland, where the retail sector, for example, is dominated by two competing co-operatives, the contribution to GDP has been reported as around 16 per cent, while in Sweden, the comparable estimate has been 13 per cent of GDP. In Brazil, co-operatives are estimated to represent around 8 per cent of GDP, while in Argentina, 30,000 co-operatives contribute to an aggregate 10 per cent of GDP.

10-per-cent co-operation

The co-operative effect is the net societal contribution (social, economic and environmental) that is achieved when co-operatives form a 'critical mass' in the economy, forming at least 10 per cent of GDP. So, how does the UK compare?

The co-operative sector accounts overall for less than 2 per cent of UK gross domestic product. There are 6,323 co-operative enterprises in the UK with a combined turnover of £37 billion.[27] While that is no more than 0.3 per cent of all UK businesses, the number of co-operatives has been increasing – at a rate of 6 per cent per annum, averaged over the last four years. That represents around 250 new co-operatives every year.[28] Turnover in the co-operative economy has also continued to rise in the years since the financial crisis of 2008 – a sign of resilience. Evidence shows that whereas only 65 per cent of conventional businesses survive the first three years, over 90 per cent of co-operatives are still in business.

Growth in the co-operative economy, though, is not just about turnover growth, GDP or an improvement in business numbers. It is also about the expansion in member participation and greater co-operation among co-operative enterprises, in line with democratic values. UK co-operatives are owned and controlled by around 15 million members.[29] The carbon footprint of the co-operative and wider 'social economy' is lower than the private sector at large. These are homegrown businesses that are rooted in the local economy rather than footloose enterprises that will move with the winds of tax policy or corporate takeover.

Compared to our peers, other countries in the G7, the UK does not have high levels of distributed ownership across the economy. While there is a broad indirect ownership stake that is cascaded across society in a passive way, through pensions and savings funds, the proportion of shares in the stock market held by individuals has been in decline for a number of years and the UK ranks just above France in terms of the proportion of the adult population owning shares and holding a direct ownership stake in business (Figure 1). The co-operative model does help to widen this, as membership confers both ownership rights and an equal vote in strategic decisions (Figure 2). Across the G7 in total, and in the UK at a national level, there are more member owners than there are shareholders.

***Figure 1** Direct share ownership across the G7 (% population)*

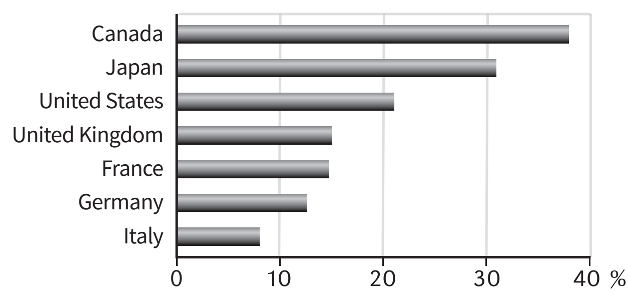
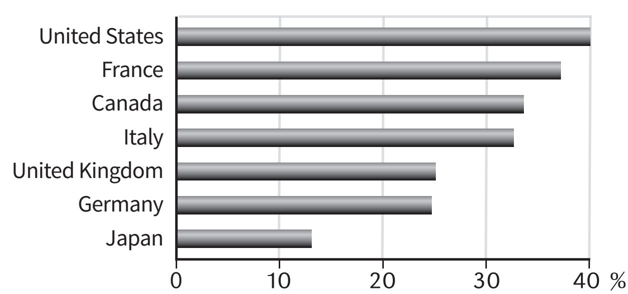


***Figure 2** Member share ownership across the G7 (% population)*



The goal of moving the UK economy over time to a level of 10-per-cent co-operative and mutual contribution to GDP therefore represents something that has strategic value in terms of rebalancing the economy and has the merit of being a proven strategy overseas. As such, it is not a target of growth for growth's sake – indeed, some of the most radical new thinking in economics, looking at zero carbon and circular models of resource flows, are based on ideas of de-growth. It is an aspiration for meeting the needs of people in a more effective and rounded way. How then would this be achieved?

The UK has many of the right building blocks in place. A new Co-operative and Community Benefit Societies Act came into force in 2014. Government policy action is helping to remove barriers to co-operative models such as around the conversion to employee ownership. The success of leading models of mutuality points to what can be achieved, from household names such as Nationwide Building Society and employee-owned John Lewis Partnership through to local co-operatives, such as credit unions and community-owned village shops, spreading like strawberries. The ‘strawberry patch’ is indeed the name for the innovation model used in Italy to spread the example of ‘social co-operatives’, involving people with disabilities, carers and wider users of social care. Each new co-op was required, on receiving start-up support, to support the set-up of another, similar social co-operative – small-scale and with no more than 100 members – in another part of town or in a neighbouring town. The result was to move from a handful of enterprises to 14,000 within 25 years.[30]

In the short term, the conversion of existing firms to the mutual model in which ownership is shared with those involved in the business, whether customer-owned, employee-owned or supplier-owned, can raise the size of the sector. Beyond this, the key to a significant scaling up rests on innovation in key sectors of the economy. In the past, the greatest success in co-operative growth has been seen in sectors where there is a new need and a model that is developed and spread by a community of practice that emerges in support of that innovation.

The purpose of this exercise is therefore not just to identify the rungs of the ladder towards achieving a target of 10 per cent of GDP in the UK, but to help start the climb. In this review, we analyse growth sectors and develop a map of potential innovation around which the co-operative model has an edge and a fit that offers a competitive advantage. The sectors in this review provide a cross-section of the current co-operative economy. They include sectors with significant co-operative presence, such as agriculture, as well as sectors with more modest co-operative activity, such as the creative industries. But they also go beyond this to explore innovation in sectors, such as tourism and transport, where new co-operative solutions are possible. The total economic value of the sectors that we look at adds up to 61 per cent of overall GDP and accounts for 64 per cent of total employment in the UK.[31]

The model of sector development is one that has a long history in economic policy-making. A sector strategy in conventional economic development is a term that describes a process for stimulating the absolute growth of an industrial sector or sub-sector. This would require a blend of demand and supply-side measures, such as: sheltered or supported markets; active marketing; dedicated finance; infrastructure; workforce development; business networks; research and development, including links to academic institutions etc. Often these would stem from public policy decisions and be supported by the state.[32] A sector strategy, though, is also about enabling existing enterprises to understand the trends that are shaping the markets that they operate in.

We have had the benefit of advice from Professor Michael Best, University of Massachusetts Lowell, an internationally recognised authority on sector development, as well as input throughout from Robin Murray, Associate of Co-operatives UK and LSE, and, on international best practice, from the co-operative innovator and researcher, John Restakis. We are also grateful for the input of a senior panel of national economic commentators, researchers and practitioners who formed a 'Pop Up Think-Tank'. This was held in 2013 at the Royal Society of Arts in London, the very same venue that hosted the first ever Co-operative Congress in 1869 – and that led to the formation of the Co-operative Union, now Co-operatives UK.

For each sector we look at, we assess a range of factors, which are: size of the sector; growth prospects for the sector; the co-operative 'fit'; barriers to co-operative entry; international co-operative exemplars; the current co-operative presence; and the likely level of co-operative innovation. What has emerged from this is an array of 55 co-operative innovations across the UK economy, each one a co-operative business opportunity in which the co-operative form can add a genuine and sustained competitive advantage.

Of course, the model of sector development is not a new one in the field of co-operatives and mutuals, so that, while the work that we have completed is more an analysis than an implementation plan and strategy, we have drawn on and learned from a range of existing sector-development agencies and networks in the field. While there is not an agency by any means in every sector that we looked at, there is a wide range of federal members of Co-operatives UK, such as: ABCUL, Confederation of Co-operative Housing, Co-operative Housing in Scotland, Country Markets, FARMA, National Federation of Tenant Management Organisations, National Society of Allotment and Leisure Gardeners, Plunkett Foundation, Radical Routes, Schools Co-operative Society, Scottish Agricultural Organisation Society, Supporters Direct, Building Societies Association and Energy4All. These agencies act as catalysts for development, drawing on bootstrap communities of practice. As a sector-development body, they have eight potential roles:

- Animation
- Strategy
- Global intelligence
- Formation of a coalition of interests

- A promoter of innovation
- A provider of advice and information
- Regulatory framework
- Funding channel

It is also true that not all sectors are conducive to mutual enterprise models. Where relationships are fleeting or transactional, or the financial capital requirements are high, the answer may not be co-operation. Co-operative enterprises are like other businesses, but they are not just like other

***Table 1** Fifty-plus co-operative innovations*

Agriculture	1. Cross-border co-operatives 2. Sharing know-how and raising productivity 3. Sustainable, distributed food and farming
Community food	4. Collaborative networks for scale and viability
Renewable energy	5. Community energy
Retail	6. Customer-led retail 7. Co-operation and Service Provision 8. Consumer control of data 9. Sharing economy 10. Sustainable consumption
Insurance	11. Discretionary mutuals 12. Takaful 13. Collective approaches to buying insurance cover
Banking	14. Mainstreaming credit unions and community development finance 15. Complementary currencies 16. Mutual guarantee co-operatives 17. Local banking 18. New mutual technology platforms
Creative industries	19. Freelancers co-operative 20. Commercial partnerships – creative consortia 21. Creative skills 22. Community-owned media 23. Open co-operatives
Sport	24. Supporter-owned amateur sports clubs 25. Supporter-owned professional sports clubs
Tourism	26. Destination marketing co-operatives 27. Sustainable tourism 28. Community-owned heritage 29. Consumer-owned tourism platforms 30. Social innovation tourism
Education	31. Early Years co-operatives 32. Co-operative schools 33. Further Education mutuals 34. Sixth Form Co-operative Colleges 35. Co-operative Higher Education 36. Educational support service co-operatives
Social care	37. Employee-owned care 38. Community health mutuals 39. Public-social partnerships 40. Home improvement partnerships 41. Integrated health and social care co-operatives 42. Mutual direct payments
Health	43. Patient-led approaches and enterprises 44. Cost-saving co-operatives 45. Productivity through co-operation
Housing	46. New co-operative and mutual housing 47. Garden cities and co-operative place making 48. Buy to co-operate
Criminal justice	49. Employment and resettlement co-operatives 50. Community payback mutuals
Transport	51. Co-operative rail and rail infrastructure management 52. Train operating co-operatives 53. Co-operative road tolling schemes 54. A mutual Highways Agency 55. Trust ports

businesses. We are looking for sectors where enterprises that aim to be exemplars of participation and sustainability can thrive and where, in turn, new co-operative approaches have the potential to challenge and even change the priorities of the market. In Italy, one benchmark country, Professor Carlo Borzaga comments that the competitive advantages of the co-operative model come to the fore in more employment-intensive sectors and where there are opportunities to connect small and medium-sized enterprises through co-operation that adds value through scale. "*Therefore,*" he writes, "*the co-operative form proves to be particularly suited either in sectors where the work is the strategic factor or in those in which the co-operation among producers enables them to take advantage of economies of scale while at the same time maintaining a high degree of flexibility in the production process at the base of the value chain.*"[33]

Outstanding Innovation Potential	Education
	Renewable energy
	Social care
	Agriculture
High Innovation Potential	Banking
	Retail
	Creative industries
	Health
	Insurance
	Housing
	Sport
Medium Innovation Potential	Tourism
	Transport
	Community food
	Community justice

Table 2* *Co-operative sector innovation

The sectors that emerge as the ones in which co-operative models hold the highest potential to add value through innovation are set out in Table 2.[34] Not surprisingly, perhaps, they also exemplify a co-operative fit in terms of relationships with people or with nature that illustrates the wider paradigm shift that is likely to be of relevance in terms of new economic models of wealth creation.

In this way, the co-operative movement could become the natural answer to the major challenges of our time by taking the concept of collaboration to new levels, not only to widen ownership but to spread democratic decision-making and participation, in line with the opportunities opened up by digital communications and social media. If so, this would be entirely in keeping with the pragmatic idealism and innovation of the Rochdale Pioneers, who were themselves, at the same time as starting co-operative enterprise, Chartists active in campaigning for democratic rights and reform in society more widely.

Co-operative advantage

Each of the chapters ahead looks at a distinct sector of the economy as a whole. They are there to read through or to dip into. In Chapter 17, we look at what we have learned from across these sectors, in terms of the landscape for co-operative advantage. The key components of a national policy framework to harness the potential of the co-operative advantage and help create an economy for the common good are then set out in more detail in Chapter 18. Here we argue for a 'co-operation policy', suggesting that co-operation, of urgent importance in today's economy, merits no less consideration and policy attention than competition. This is an agenda for

Government and decision-makers at all levels – recognising that, across the 'vertical' pipelines of sector activity, there is also a need for enabling 'horizontal' actions to make this possible – such as promoting better legal frameworks and spreading awareness among business advisers of the co-operative option.

This economic strategy fits the growing recognition of the benefit of a more rounded approach to economics, qualifying traditional assumptions that people are exclusively motivated by their own economic self-interest and best served by institutions that compete in order to deliver that. While these have often proved a convenient simplification, as in some situations most people may behave as if they were strictly self-interested, in many others, it can be deeply counter-productive.[35]

The great resource challenges of our time, including the energy and climate challenge, the biosphere and ecological diversity, are not organised as markets but as commons – in which fair use and appropriate governance is essential. The challenge of today is to re-invent our economic system to align it with the need to preserve planetary conditions that are conducive to human wellbeing. Many of the 20th-century institutions we have inherited are simply not fit for the economic challenges of the 21st century. If the last century was characterised by the ever-increasing importance of competition, then the defining principle of the 21st century may be that of co-operation.

In the 20th century, competitive advantage stemmed from restricted access to knowledge and resources. Intermediaries such as high-street travel agents had access to information (in this case flight bookings) and privileged access to customers (in this case high-street shoppers, achieved through prime site rental), and made their money by taking fees. The university educated the elite behind closed doors with knowledge that was unavailable elsewhere. The manufacturer used capital-intensive machinery to produce goods on a scale that prohibited new market entrants. If business in the 20th century was about dominating restricted channels of access to knowledge and the means of production in the pursuit of competitive advantage, in the 21st century, these channels are opening up and far more people and communities have access to information and potentially to the means of production.

Successful innovation comes less from the individually minded pursuit of competitive advantage and more from a coalition of the willing to create shared value – co-operative advantage. ■

1 John Stuart Mill (1871), *The Principles of Political Economy*, 7th edition.
2 Eric Beinhocker (2007), *The Origin of Wealth: evolution, complexity and the radical remaking of economics*, Random House.
3 Kai Engel (2015), 'How can big companies learn from start-ups?' World Economic Forum, January 2015.
4 David MacLeod and Nita Clarke (2009), *Engaging for Success: enhancing performance through*

employee engagement, report to the Department of Business Innovation and Skills.

5 KPMG (2012), *The Real Value of Engaged Employees: new thinking on employee engagement strategies*.

6 Ronald McQuaid et al (2012), *Fit for work? Health and Wellbeing of Employees in Employee Owned Business*, final report to the Employee Ownership Association, sponsored by the John Lewis Partnership.

7 Mariano Grondona (2000), 'A Cultural Typology of Economic Development', in Lawrence Harrison and Samuel Huntington (2000), *Culture Matters*, Basic Books, New York.

8 These have been endorsed by the United Nations as Guidelines in 2001 and by an International Labour Office Recommendation (193) in 2002, and have been written into many co-operative laws around the world. At the same time, the process of agreement shows that the ICA principles are a social construct, the outcome of a process of deliberation that took place among a particular set of people at a particular point in time. They cannot be set in stone and will probably be revised again or added to in the future. Indeed, particular sectors, such as worker co-operatives, have added criteria, but on top of these fundamental building blocks.

9 There is, in addition, no shared and settled test of how to comply with principles such as education and training or concern for community.

10 Capital Ownership Group (2001), *Ownership For All*: working group reports.

11 These three ownership groups – customers, workers and enterprises (with the latter sometimes combined as producers) – characterise the key types of co-operatives, with hybrid, or multi-stakeholder models in addition. See John Atherton, Johnston Birchall, Ed Mayo and Giles Simon (2012), *Practical tools for defining co-operative and mutual enterprise*, Co-operatives UK.

12 Margaret Heffernan (2014), *A Bigger Prize: why competition isn't everything and how we do better*, Simon & Schuster.

13 Margaret Heffernan (2013), address to Co-operative Congress 2013, Co-operatives UK, Cardiff, 29 June 2013.

14 Start-ups, buyouts of existing firms, such as for employee ownership, and new ventures by existing co-operatives are the most common arrival points for co-operative enterprises.

15 This is a model sometimes dubbed 'co-opetition'. See, for example, D Gnyawali, J He, R Madhavan (2008), 'Co-opetition: promises and challenges', in C Wankel (ed) (2008), *21st-Century Management*, Sage.

16 G M Peter Swann (2010), *The Economics of Standardization: an update*, Innovative Economics Ltd. See also Knut Blind (2004), *The Economics Of Standards: Theory, Evidence, Policy*, Edward Elgar.

17 In civic life, of course, there is also an extraordinary variety of informal associations that sustain culture and connections in a free society. See, for example, Commission of Inquiry into the Future of Civil Society in the UK and Ireland (2010), *Making Good Society*, Carnegie UK Trust. Chaired by Geoff Mulgan, this elegantly draws the connections between forms of social and economic co-operation.

18 Ron Adner (2012), *The Wide Lens: a new strategy for innovation*, Portfolio, Penguin.

19 Yochai Benkler (2014), 'Peer Production and Co-operation', in JM Bauer and M Latzer (eds), *Handbook on the Economics of the Internet*, Edward Elgar, forthcoming.

20 Yochai Benkler (2006), *Wealth of Networks: how social production transforms markets and freedom*, Yale University Press.

21 Richard Stallman (2013), personal correspondence.

22 Carlo Borzaga (2014), *Co-operation in Italy during the crisis years, second report*, executive summary, Euricse.

23 See **s.coop/1v7l1**

24 Marco Magnani and Paolo Di Caro (2014), *Think Globally, Act Locally: what Italy can learn from abroad and vice-versa*, **s.coop/magnani**

25 Marco Magnani and Paolo Di Caro (2014), *Reducing the Italian Credit Crunch: low-cost solutions*, **s.coop/dicaro**

26 See **s.coop/resilientnewyork** and **s.coop/haringeycarbon**. An outstanding overview of this field of community economic development, covering both practice and theory, is Pat Conaty and Mike Lewis (2013), *The Resilience Imperative*, New Society.

27 Co-operatives UK (2014), *Co-operative Economy 2014: Untold Resilience.*

28 The Inter-Departmental Business Register identified 2,037,710 UK businesses in June 2012. Source: Department of Business Innovation and

Skills, data extract released in December 2012. The Office for National Statistics' data table 'Long-term profile of gross domestic product (GDP) in the UK' provides GDP for quarters 1 to 4, 2012, totalling £1,504,777 million.

29 Co-operatives UK (2014), op cit. This represents the total number of members reported by co-operatives. The number of active members, particularly in the larger mass-membership consumer co-operatives, however, is likely to be less than this.

30 Bob Cannell (2014), personal correspondence – he points out that this is a growth model which only co-operatives can use, because of their distributed leadership and governance structures.

31 Calculated from Business Innovation & Skills (2013), *Industrial Strategy: UK Sector Analysis,* September 2013 (BIS analysis of ONS data).

32 In an EU context, they might in part avoid state aid restrictions by being applied across a sector and therefore not favouring individual firms.

33 Carlo Borzaga (2014), op cit.

34 Each chapter covering a sector includes a co-operative innovation rating. This has been completed by an invited panel, drawing on the analysis in the text.

35 As behavioural economics has shown, there are situations in which the inadequacy of this as an explanation leads to flawed conclusions and on to flawed policy. In the UK energy market, for example, consumers have never appeared to operate in the ways that the models predicted. Low levels of switching have allowed companies to get away with poor service and high margins, but the response by regulators has been to try to change consumer behaviour by exhorting them to switch, rather than to change their models of how the market was working. In a sense, that people behave in a rational, self-interested way has shifted from being an assumption behind policy-making to become the goal of policy itself.

2
Agriculture

Food, front and centre

The first great economic sector, the innovation that enabled the emergence of stable and co-operative human settlements, is agriculture: cultivating soil, producing crops and raising livestock. The importance of agriculture in modern economies will, however, often be overlooked. Other sectors have crowded out agriculture in terms of share of economic output or of employment, more people live in towns and cities and supply chains are more stretched out so that the links to farmers are less visible than ever. Yet agriculture, like energy, has a reach and importance as a sector in terms of a sustainable economy that should always put it front and centre.

In UK Government statistics, for example, agriculture refers to primary production or farming only. That misses the extent to which agriculture is an essential part of a food chain that supports much greater economic activity. And so it is with agricultural co-operation. Co-operatives in the sector are usually owned by farmers, but their activities extend far beyond primary production. Yes, there are some on-farm activities for which the support of agricultural co-operatives can reduce costs or add value, such as drying and storing grain that would otherwise be stored on individual farms. But agricultural co-operatives also extend beyond the farm gate, supporting farmers' participation in the wider food chain, including around sales, marketing and distribution.

The first co-operatives formed around food and this is a source of new co-operation today.

Farm income

In the last half of the 20th century we have seen a significant and consistent growth in agricultural productivity brought about by improvements in technology and techniques as well as by mechanisation and the achievement of economies of scale. At the same time, while producing more food, the amount of land used for agriculture fell, as did the number of active commercial holdings, the percentage of gross domestic product contributed by agriculture and the amount of employment in the sector. By and large this combination of trends has continued into the 21st century, although it would be wrong to assume that this will always be the case. There is no Moore's Law of agriculture, promising more and more food from less and less space – not in an age of climate change and, arguably, resource scarcity.

The total income from agriculture in 2012, in terms of primary production, was £4.7 billion. This is 11 per cent lower than the corresponding figure for 2011, but is two-thirds higher than the total income figure for 2005. Overall the trend in farming income appears to be upwards, despite the dramatic contrast in weather conditions we have seen in some recent years.[1]

Table 1 ***Economic indicators for UK agricultural sector***

Indicator	2011	2012
Total income from farming	£5,441 billion	£4,704 billion
Utilised agricultural area	17.2 million ha	17.2 million ha
Commercial agricultural holdings	223,000	222,000
Farm employees	476,000	481,000

Source: Office for National Statistics

Why is income going up? One reason is that agriculture is increasingly traded across borders and, at a global level, food commodity prices have been rising. So, why are prices going up? The two primary factors are growing demand and ongoing increases in the cost of the basic inputs that support agricultural production – animal feed, fertilisers and fuel. Global demand for food is increasing with the growth in the world's population, which passed seven billion in 2011 and is predicted to reach eight billion in 2027.[2] Animal feed, fertiliser and fuel are the basic inputs of modern farming and the cost of these items has increased substantially in the last 10 years due to high oil prices and poor grain harvests.

As a result, food prices in the UK have been increasing ahead of inflation in recent years, rising by 8.6 per cent between 2007 and 2014.[3] The food sector enjoyed annual growth of 0.5 per cent between 2000 and 2010 compared with average annual growth of 0.2 per cent across all sectors, but has faced more challenging conditions over more recent years.[4]

The geographical distribution of agricultural income is shown in Table 2. England is by far the largest generator of agricultural income, with the greatest land area and number of commercial agricultural holdings. This reflects in turn significant differences in agriculture across the UK. In general, the south of Great Britain has fertile soils, amenable climate and topography, while the north has something of the opposite. Around 85 per cent of Scotland, for example, is classified by the EU as a 'less favoured area'. The south is therefore mostly given over to crops, while the north is mostly devoted to livestock. In addition to landscape and climate, agricultural policies are also devolved to the level of the nations, each setting their own priorities. Agriculture has always been devolved.

Table 2
Distribution of total income from farming 2011 by nation

Country	TIFF	Percentage
England	£4,562 million	80.13%
Scotland	£614 million	10.79%
Northern Ireland	£308 million	5.41%
Wales	£209 million	3.67%
TOTAL	**£5,693 million**	

Source: Agriculture in the UK 2011, Office for National Statistics

Meet the farmers

There are around 222,000 individual commercial agricultural holdings in the UK. This is higher than the number of farms, as individual farms often have multiple holdings. In turn, that is higher than the number of farmers. There are many holdings or landowners that enter into contract farming or farm business tenancies with other larger farmers. The average size of commercial agricultural holdings in the UK has been increasing for around 70 years and continues to grow. Between 2006 and 2011 the average holding size increased by 54 per cent from 50 hectares to 77 hectares.[5]

Table 3 shows the distribution of agricultural land by the size of the holding in 2011. Interestingly, a little under one-fifth of commercial entities held almost three-quarters of UK agricultural land.

Table 3
Distribution of agricultural holdings by size

Size Range	Holdings	Hectares	Percentage
19.9ha or lower	105,000	703,000	4.1%
20ha – 49.9ha	42,000	1,397,000	8.2%
50ha – 99.9ha	33,000	2,400,000	14.1%
100ha or greater	41,000	12,564,000	73.6%

Source: Agriculture in the UK 2011, Office for National Statistics

Between 2006 and 2011, the number of agricultural holdings of 100 hectares or greater remained the same at approximately 41,000. However, the proportion of agricultural land held by these large entities increased from 65 per cent to almost 74 per cent of the UK total.[6]

At the other end of the spectrum, the vast majority of farm holdings are small or relatively modest in scale. In 2011 two-thirds of all farm holdings were less than 50 hectares and the combined proportion of UK agricultural land being farmed by them was less than one-eighth of the total. Many small farm holdings are managed only on a part-time basis.[7] The high value of land is potentially a contributing factor to why farms are getting bigger and new farmers are not entering the market at a smaller scale.

The demographic trend in ownership of agricultural holdings is towards older owners. The figures in Table 4 show that the proportion of farm owners aged 65 years and over increased from one-quarter to almost one-third between 2000 and 2010. Over the same time period the number of owners aged 44 years and under fell by almost two-fifths.[8]

Table 4 *Owner of agricultural holdings by age*

Age Profile	2000	2010
65 years & over	25%	32%
45 to 64 years	52%	54%
44 years & under	23%	14%

Source: Agriculture in the UK 2011, Office for National Statistics

Who then are tomorrow's farmers? Business succession planning has long been an issue for the agricultural sector, with uncertainty in the continuity of ownership of two-fifths of farm businesses. A survey of farm business owners found that 17 per cent did not expect to have a successor and another 24 per cent did not know whether a family member would succeed them or not.[9] One possible outcome is the acquisition of farm holdings by other farm businesses, leading to the continued decline of the number of businesses, but the increase in their size.

Markets for agricultural produce

As a nation, we eat around half of what we produce, and if crisis hit, we could produce much, but not all, of what we would need to get by. Around 50 per cent of the UK's agricultural-sector produce is for the UK market and the UK has the productive capacity to be 70-per-cent self-sufficient in food. However, demand from the UK market is likely to rise with forecast population growth over the next 40 years. The population is set to rise by 7.9 per cent between 2010 and 2025 and by a further 5.8 per cent from 2026 to 2050.[10]

UK agriculture exports relatively low levels of raw produce for which Europe is the primary export market, with the European Union accounting for 90 per cent of agricultural exports. The European population is forecast to fall by 5.6 per cent between 2010 and 2040, which may weaken overall demand in the future.[11] However, exports in specialist produce may still be able to grow their market share.

The relationship between the agricultural sector in the UK and Europe is likely to change in other ways that may impact upon export market success. Changes to the Common Agricultural Policy (CAP) and the removal of subsidies to producers should improve the relative competitiveness of UK agricultural products in Europe.[12] Beyond Europe, though, there are other export markets, with Scottish salmon and whisky being exemplars of global market development.

Another factor which is likely to be key for agricultural productivity in future is the state of the natural environment. There may be pressures to reduce environmental impacts and improve management of the countryside. Farming may extend to more non-food production to support renewable-energy solutions, such as biofuels, or land being used for wind or solar installations. Globally agriculture is responsible for 70 per cent of water consumption and 13 per cent of greenhouse-gas emissions. The sector is likely to come under pressure to reduce its environmental impact and to reduce the amount of waste it produces.

Economic and environmental considerations do not have to be mutually exclusive.[13] New technology can also be important, for example in reducing waste by targeting resources only where they are required – though GPS soil sampling, satellite imagery and yield-monitoring data analysis.[14] Not all technology is easy, though. Genetically modified crops, which claim the potential to boost agricultural productivity, are perhaps the most notorious example of policy divergence between Europe and the United States.[15]

The difference in policy must reflect an underlying difference in vision for the sector. The same challenges have been played out in different contexts – from international trade negotiations through to guidance on diet and food from the UK Food Standards Agency, whose first Chair, Sir John Krebs, clashed in public with the Soil Association over the science of health claims for consumers. It is a difference in vision which has only increased over recent decades, with a growing body of concern in recognition of some of the possible limitations of the current model of agricultural production:

- the environmental impact of intensive farming, not only in soil degradation and water contamination but also in the transport costs of national and global food chains
- the concerns over livestock conditions (notably chickens, battery beef, and pork)
- the quality of food from intensive farming systems
- the destruction of small farms and the multiple consequences of their disappearance.

Meet the co-operatives

In the agricultural sector, co-operatives are typically ‘enterprise-owned’, farmer-controlled businesses. Co-operative members are individual farm businesses that usually join a co-operative in order to improve their ability to compete beyond the farm gate, along the food value chain. The co-operative may operate downstream from the primary production process on the farm by providing access to markets for outputs. It may also operate upstream through purchasing inputs for farm members. In each case the co-operative is able to provide significant value to members through economies of scale and specialisation that result in more lucrative and secure markets and lower production costs.

Another area where farm businesses collaborate for economic benefit is in their ownership and use of machinery. Each ring acts as a management broker to its members, providing them with capital-intensive plant and equipment when it is required. This co-operative arrangement means that the machinery required is available to members and that it is utilised in the most cost-effective manner.

Although the largest co-operatives by membership and turnover tend to operate outside primary production, there are some agricultural producer co-operatives or growers' co-operatives. These are also typically enterprise-owned co-operatives and tend to operate in the horticultural sub-sector of agriculture.

Agricultural co-operatives provide farm businesses with the opportunity to combine to benefit from economies of scale, to share the cost of overheads and to improve their ability to negotiate and compete along the value chain. Co-operatives can play an important role in purchasing and marketing, providing their members with specialist services to get the most from relationships with suppliers and customers.

The business areas typically covered by agricultural co-operatives in the UK include: milk marketing and processing; crop marketing; potato co-operatives; horticultural produce; livestock marketing; crop storage and primary processing; input supply; and machinery rings.

Agricultural co-operatives can benefit from mutual taxation status where the co-operative acts as an agent on behalf of its members. The co-operative can accumulate reserves and hold them without incurring the corporation tax liability that would be payable if it were a private company, or if its members were holding the reserves as individual businesses.[16]

Alongside taxation is the potential for state payments and wider support to be channelled through to 'producer organisations' (including, and most commonly, co-operatives). This is a framework for support that has emerged out of policy reform of the Common Agricultural Policy.[17] At the same time, such policies, designed to improve competitiveness, exist in a degree of tension with wider competition policy.[18]

Co-operation in the UK

In the late 19th and early 20th centuries there was a great movement of agricultural co-operation in Europe, which demonstrated how small peasant farmers could survive agricultural depression and large-scale competition by realising many of the scale economies while retaining their autonomy. The first agricultural co-operative in Britain, for example, was set up in 1867, to supply seeds and fertilisers to its members. Horace Plunkett exemplified this movement, and explicitly saw his job as to inspire the small Irish farmers to take action for themselves. In Ireland, as in other continental countries, the focus of agricultural co-operation was the small farmer. In Wales and Scotland, by the 1930s, it was said that there was not a railhead without a farmers' co-operative at the end of it.[19]

Today, although collaboration within the agricultural sector in the UK is not as great as it is in some other countries, the agricultural co-operatives that do exist comprise a significant proportion of the co-operative economy in the UK.

We have identified 470 UK agricultural co-operatives.[20] But of these, only around a third are of any significant scale, with the others being very small, models for collaborating for non-economic reasons or dormant.[21]

Data on turnover, therefore, for 355 agricultural co-operatives in the UK makes for a combined total of £5,356,682,884, which was approximately 15 per cent of the turnover for the whole UK 'co-operative economy'.[22] Included in these co-operatives across the UK are highly successful, large-scale enterprises such as First Milk Ltd, Berry Garden Growers Ltd, Openfield Group Ltd, together with very efficient, fast-growing purchasing co-operatives, including Anglia Farmers Ltd and Atlasfram Group Ltd.

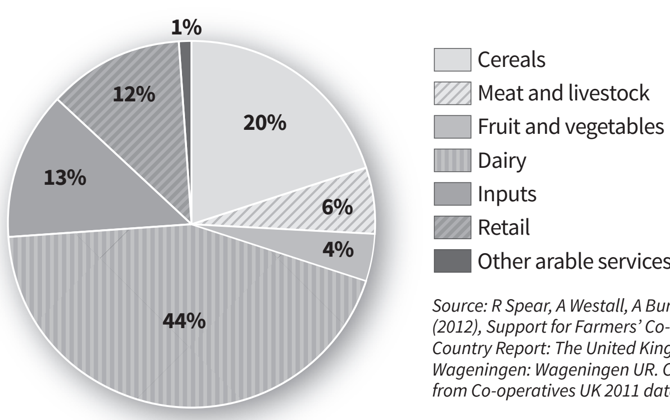
There are more agricultural co-operatives in the upper tiers of the league tables for co-operative businesses by turnover than in any other sector. Table 5 shows the high numbers of agricultural co-operatives by turnover band.

***Table 5** The significance of agriculture to the co-operative economy*

Turnover band	All co-operatives	Agricultural co-operatives	Percentage
Over £100 million	29	12	41.38%
£10 m – £99.9 m	64	28	43.75%
£5 m – £9.9 m	63	11	17.46%
£2 m – £4.9 m	113	31	27.43%
TOTAL	**269**	**82**	**30.42%**

Source: Co-operative Economy Report 2013, Co-operatives UK

***Figure 1** Turnover of agricultural co-operatives*



Source: R Spear, A Westall, A Burnage (2012), Support for Farmers' Co-operatives; Country Report: The United Kingdom, Wageningen: Wageningen UR. Calculated from Co-operatives UK 2011 data.

More than 30 per cent of the 269 co-operative businesses with a turnover of £2 million or more are agricultural.

Co-operation overseas

Co-operation in the UK agricultural sector is significant, but agricultural co-operatives here have not achieved the scale seen in other countries, including northern European countries with similar sector profiles and production methods to the UK. This remains true, even if it is also the case that the financial size of a co-operative is not necessarily an indicator of the benefits that members receive – the simple act of sharing machinery can slash a farmer's overhead costs in a way that nothing else can match. The Openfield Group is the largest agricultural co-operative in the UK, operating in a federal manner with independent co-operatives. It markets around four million tonnes, or 20 per cent, of the UK grain supply. Even so, on financial grounds alone, its annual turnover of £773.5 million is modest compared to some international peers.

Royal Friesland Campina in the Netherlands, for example, is 10 times the size of Openfield, with a turnover of around £7.75 billion. Royal Friesland Campina is the fourth largest agricultural co-operative in the world. There are larger ones in Japan, the USA and New Zealand. Globally, there are 25 agricultural co-operatives that have a turnover of more than £2 billion, including 15 in Europe: four in France, three in Denmark, three in Germany and one each in the Netherlands, Finland, Sweden, Switzerland and Italy.[23]

Similarly, the market share of UK agricultural co-operatives is relatively modest. There is no comparison in the UK to the market dominance of some co-operatives in Scandinavia, for example. In Denmark a single co-operative, Danish Crown, controls 90 per cent of the pig-marketing business and 90 per cent of pig slaughtering and processing whilst another co-operative has 92 per cent of the milk market. In Sweden one co-operative controls 61 per cent of the milk market.[24] In the UK, the equivalent figure is up to 40 per cent through a number of co-operatives, notably Arla Milk Link and First Milk.

At a regional level, agricultural co-operatives in areas such as Emilia Romagna, Italy, have developed into a sophisticated and multi-layered set of enterprises, including services such as:

- Specialist service centres that focus on shared services among both agricultural co-operatives and small private producers. These services include agricultural research and development, training for new products and markets, such as in the organic sector, shared use of agricultural machinery, shared purchasing of agricultural inputs, and shared processing facilities for value-added products. In the US Midwest and parts of Canada this has led to a new generation of co-operatives, working to capitalise, organise and market value-added production.

- Creation of co-operative capital pools for investment in agricultural development and growth. These are similar to credit circles, in which the member co-operatives and small producers that access the co-operative credit pool also guarantee the loans of other pool members.
- Creation of specialised training and development programmes for the creation of co-ops to preserve small farms from extinction. Small-scale co-operative farms also include the shared farming models that are now in use in many parts of Canada, and in particular British Columbia, and which allow a group of individuals to share in both the purchase and operation of a farm.

Barriers to co-operation

A survey a decade ago by English Farming and Food Partnerships (EFFP) found that two-thirds of UK farmers did not belong to a co-operative.[25] However, this has changed and also plays out somewhat differently across the nations. In Northern Ireland, there is a healthy degree of co-operation. A consistent framework of support for agricultural co-operatives in Scotland over many years has helped to encourage a network of new and established farmer co-operatives. Approximately two-thirds of farmers in Scotland are members of a co-operative, according to the Scottish Agricultural Organisation Society (SAOS).[26]

This historic inertia among farmers when it comes to forming or joining a co-operative may be due to a combination of factors. The central one, of course, is that from 1933 to 1980 there were statutory marketing boards in the UK for milk, eggs, potatoes etc, and a system of price setting and deficit payments that were negotiated annually between the National Farmers Union and the Government. In several other countries, farmer co-operatives were given an equivalent role to the UK marketing boards. For five decades, therefore, the market role of co-operatives was not required in the UK to a level comparable to its peers – and the culture that dominated was arguably one that assumed that the income of farmers depended as much on politicians as on markets. But there are other factors too that may be relevant.

First, market structure. Some argue that a larger average farm size in the UK means there is less pressure to combine in order to achieve economies of scale. However, the contention that large average farm size is a barrier, for example, runs contrary to another finding from EFFP, confirmed by SAOS, that larger farm businesses are more likely to collaborate than smaller ones. Whereas 38 per cent of all farm businesses surveyed were involved in collaboration in purchasing, 60 per cent of large farm businesses were collaborating in this area. Similarly, 41 per cent of large farm businesses said that they were collaborating in marketing compared to 25 per cent overall.[27]

A second factor is sometimes said to be the existence of a large home market – so that there is less pressure to combine to reach export markets.

A third factor may be the lack of policy recognition in the UK. This includes the lack of a specific agricultural credit system – so farmers are not brought into co-operation through financial management as in other countries. But when there is policy from the Government, as in the case of producer organisations in milk, it hasn't always been well designed – operating at a distance from the commercial context in which farmer co-operation needs to play out, with benefits to both members and commercial buyers.

A fourth factor sometimes cited is a weak evidence base, with a lack of consistent and timely data on agricultural co-operatives, and therefore scope for scepticism about the ability of co-operation to improve performance. Without that, the high-profile financial failure of one or two co-operatives in recent memory may outweigh the success of the majority. This links to farmer confidence. Even in highly successful agricultural co-operatives, the farmer-controlled business model is not always fully understood by members or even directors. Good governance is essential for agricultural co-operatives.[28] More widely, farmer co-operatives have tended to lack a national voice at UK level, a role more recently taken up through affiliation to Co-operatives UK.

More positively, there is evidence that interest in co-operation is rising among farmers, particularly since the abolition of the marketing boards. This reflects both a carrot and a stick. The carrot is the quality and success of current agricultural co-operatives in attracting and serving members. The stick is the threat of a changing commercial landscape, including global competition and the gradual diminution of production subsidies, which makes co-operation all the more attractive. Without co-operation and the market power of coming together, the farming sector arguably risks being squeezed by the rationalisation that is taking place both upstream of farming (in the animal feed, agrochemical and fertiliser industry) and downstream (with food processors, manufacturers, food service companies and retailers).

Innovation opportunities

1 Cross-border co-operatives

PricewaterhouseCoopers reported on considerations for the top 100 agricultural co-operatives at the International Co-operative Summit in Quebec in October 2012, with a follow-on presentation in 2014.[29] Their report, *World Map of the Agricultural Co-operative Movement and its*

Critical Issues, set out a series of strategic development choices for large co-operatives. Two of these were:

- Internationalisation – including mergers, alliances and extension of market involvement (upstream or downstream)
- Rethink finance and governance – to increase competitiveness.

The report identified the trend in the agricultural sector in recent years towards consolidation, with mergers and acquisitions involving some of the world's largest agricultural companies, such as Glencore and Cargill. Looking at economic performance, the top 40 non-co-operative companies in global agriculture saw average sales growth of 10 per cent between 2007 and 2011. In comparison, the top 40 agricultural co-operatives saw just eight-per-cent average sales growth over the same period. PricewaterhouseCoopers suggested that this growing gap in income between agricultural co-operatives and non-co-operatives may become a hindrance to co-operatives' ability to meet their financing requirements for development.[30] In addition, in an environment where commodity prices are becoming increasingly volatile, there is a danger that non-co-operatives use their greater scale to control access to these commodities to the detriment of co-operatives and their members.

There has been consolidation and a move across borders by the largest agricultural co-operatives, opening up large-scale raising of capital. There is, in short, an economic case for cross-border consolidation, accelerating perhaps trends that are already on view in the activities of some of the larger European agricultural co-operatives, or, as an alternative, more active cross-border trade by existing co-operatives, moving to the international stage. Berry Gardens, for example, markets berries grown by members in the UK and across Europe, in order to provide a year-round supply – also operating with partner growers in the USA and Australia.

The UK has some examples of this – including a collaboration between the two Scottish pig marketing co-operatives with Danish Crown to bring some pig processing into co-operative ownership,[31] while Milk Link has merged with Arla – but not at the same pace of change. Input supply and marketing appear to be globalising rapidly, in which case the classic benefit of co-operation, that of scale, moves from the national level to the international level, with a need for more transnational partnerships amongst agricultural co-operatives if they are to have a significant role in markets in the future.

2 Sharing know-how and raising productivity

The patterns of productivity in the agricultural sector were impressive in the latter half of the 20th century. Research and development played a critical role in supporting productivity gains.[32] Productivity, for example, increased by 20 per cent from 1986 to 2005. However, it has not risen substantially since 2005, and in 2012 UK productivity in agriculture fell by 3.2 per cent.[33] The strength of agricultural research in the UK is much weaker today than previously. The Government facilities associated with this research have either closed or been privatised and university facilities are facing stronger commercial pressures.[34]

This may be a role that agricultural co-operatives can play in order to enable their members to benefit from research and development opportunities. Individual farm businesses will not have the capacity or resources to build these knowledge transfer relationships, but larger co-operatives could add this to the portfolio of services that they offer to their members.

Agricultural co-operatives may also have a part to play in developing the information flows between farm business members, encouraging the adoption of new techniques and providing training.[35] They may also consider mechanisms for providing support to members looking to expand. Greater co-operation could then lead to greater productivity. Ultimately, though, improvements in productivity need to be delivered by farm businesses themselves. So, while co-operative models will not always be first choice for every farm business, there are opportunities for development, including through rationalisation, in:

- horticulture (including soft fruit and top fruit)
- grain
- livestock such as pigs
- milk
- energy and waste, including anaerobic digestion.

Horticulture, the production of fruit, vegetables, flowers and shrubs, is a sub-sector that has particularly high potential. Raising productivity in horticulture is challenging because, in structural terms, there are a large number of growers operating out of a large number of small enterprises with little co-operation. The results of this structural weakness are low adoption rates for best-practice techniques and technology and a low level of knowledge transfer between enterprises. Co-operatives in the sector, such as Freshgro, have been entrepreneurial in responding to this, investing heavily, for example, in research and development.

3 Sustainable, distributed food and farming

There is a more radical innovation scenario in which co-operatives are aligned with a deeper shift away from industrial models of food production that have dominated recent decades – and towards a system of sustainable food and farming.

Recent decades have seen the rise of a critique of industrial farming, with a range of alternative development paths in agriculture that are designed to respond to these. It is notable, for example, that protecting the livelihood of small farmers has been the inspiration behind La Via Campesina – an alliance of international peasants' movements that has member organisations across 70 countries – as well as Fair Trade in the Global South, which some are now trying to extend to small farmers in the North. Strategies to counter the decline of small farms have become a major part of agricultural policy in the Canadian state of Ontario, because of the loss to rural economic life of these trends. In Ontario this is a response to the fact that, while the number of high-tech and micro farms have both grown (the micro farms being owned and overseen by those employed in the city), the small and medium-sized farms are declining.[36]

There is a parallel with the industrial sector (and services) where there is a mass commodity stream with large scale and low margins, and there is a sector of small and medium-sized enterprises which operates as a source of innovation and flexible production. One of the key strategic questions is whether in agriculture there is a similar model for small and medium-sized farms which is potentially economically sustainable, and whether co-operative models can play a key part in this.

Some of the trends that could be in line with this are:

- the importance of product differentiation and branding
- the growing significance of 'green agriculture' both in its environmental impact and its product quality
- the capacity of food entrepreneurs for new product development in partnership with retailers and online platforms
- the revival of local food economies
- the significance of farms as a community resource (for leisure and tourism, forestry, education, health and renewable energy) and not just food.

What type of food economy will emerge in the UK? Whether niche or the next mainstream, there is evidence that community-based models of food will be part of the landscape. Existing trends include:

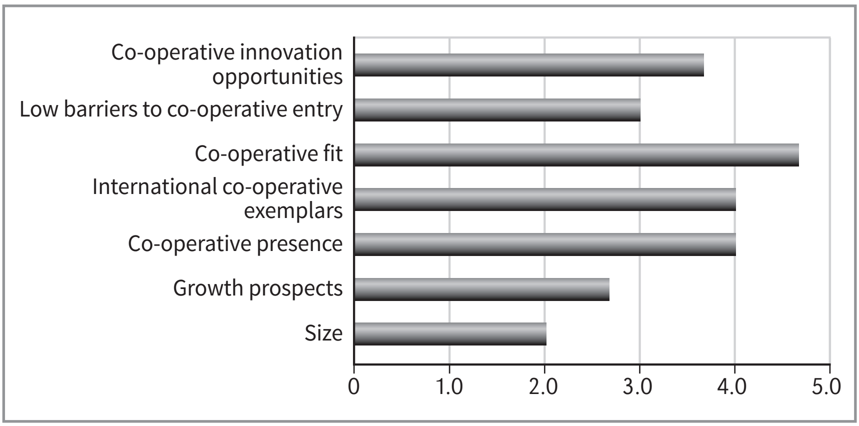
- organics (€2 billion in the UK but €6.6 billion in Germany)
- online and food box distribution
- models of self-help and mutual aid such as Landshare, and increases in self-provision by households and schools/health centres
- product differentiation (from farm to retailer) by small farmers
- local sourcing.

We examine the sector of 'community food' in the next chapter, as enough of this field of practice operates in markets that are even more removed from the farm gate. But the underlying link with the potential of a sustainable, more localised and less energy-intensive system of food and farming is strong. This option of a shift towards sustainability looks to be a very different co-operative business strategy from being drawn into mass product competition via expanded scale.

Just as agriculture should not be taken for granted as a sector of the economy, the future of agriculture is far from settled, with innovation playing a key role in defining what co-operation is possible and what success will look like.

Conclusion

AGRICULTURE



Agriculture is where economies start, but it is, no less than anywhere else in the economy, an arena for business change and innovation. Across the UK's varied landscapes and farming businesses, co-operation has emerged as a way to sustain agriculture and wider rural economies, by reducing costs, opening up access to markets and winning more of the value chain in a food system that in more open markets has been oriented towards commodity production and lower price. A long-term relationship with the land, coupled with the benefits to and commitment by farmers, provides a good fit for the co-operative model of business. This may be tested in the moves towards transnational partnerships and mergers as food goes global. From the grassroots, though, there is also innovation around alternative visions of new local food economies, rural and urban, that emphasise the role of small farmers and the scope for new forms of co-operation with consumers and communities. ■

1 Department for Environment, Food and Rural Affairs (2013), Total Income from Farming in the United Kingdom for 2012 – first release.
2 United Nations Department of Economic and Social Affairs Population Division (2013), World Population Prospects, The 2012 Revision.
3 Department for Environment, Food and Rural Affairs (2014), Food Statistics Pocketbook 2014.

4 Department for Environment, Food and Rural Affairs (2012), Food Statistics Pocketbook 2012 – in year update.
5 Department for Environment, Food and Rural Affairs and others (Department of Agriculture and Rural Development [Northern Ireland], The Scottish Government, Rural and Environment Research and Analysis Directorate, Welsh Assembly Government, The Department for Rural Affairs and Heritage) (2013), *Agriculture in the United Kingdom 2012*.
6 Ibid.
7 Ibid.
8 Ibid.
9 Department for Environment Food and Rural Affairs (2013), Farming Statistics, with Rural Business Research, Farm Business Survey.
10 Office for National Statistics (2013), National Populations Release.
11 United Nations (2013), op cit.
12 While historic subsidies have been paid in the UK as well as in other EU member states, the comparative value of these payments has been lower in the UK. This is in part due to the exchange rate between sterling and the euro. Exchange rates are a key determinant of agricultural profitability. If sterling is strong against the euro, then exports cost more and imports cost less. Therefore, European consumers are less likely to purchase UK products and UK consumers are more likely to choose imported European products. In addition, because Common Agricultural Policy subsidies are calculated in euros, the exchange rate can erode their value for UK recipients in comparison with their European counterparts.
13 For example, if techniques for the re-use of waste products from across the food chain could be developed by co-operatives and adopted by their members, then this could provide low-cost fuel. Mechanisms for the reuse of waste for energy are being developed in UK agriculture, such as for anaerobic digestion. However, such techniques are not without considerable challenges, including logistics, health risks in bringing waste products onto farms, capital investment and assurances of a return on investment made, for example through feed-in-tariffs.
14 New technology of this type is becoming cheaper and more mainstream on progressive farms although there may still be opportunities for farmers to collaborate on the use of emerging technology to share the cost and risk, as well as the potential benefits.
15 At present only one GM crop is grown commercially in Europe – a type of GM maize grown mostly in Spain. The European Union has blocked the introduction of all other GM crops amid concern that they may pose health risks to consumers and the danger that their introduction will lead to the loss of native plant species. This cautious approach has generally been supported by the media, consumer groups and environmentalists. But the debate is still very much an open one. One 2014 scientific report by UK plant specialists, for example, argues that many GM crops can offer rich environmental and nutritional rewards. The report to the Council for Science and Technology, which advises the UK Prime Minister, called for the wholesale reorganisation of the way that the crops are assessed by regulators. See Council for Science and Technology (2014), Letter advising the Prime Minister on the risks and benefits of GM technologies, published on UK Government website: **s.coop/1v7kr**
16 Mutual tax status is a clear benefit to members and an advantage of the co-operative model, but it has constraints. To qualify, an agricultural co-operative must comply with the requirement to conduct almost all of its trade with its members. Only a small amount of non-member trade is permitted and this could hold back development of the business if new trading relationships are required. One disincentive is the requirement for a ‘common fund’ to which no individual member has a claim when they retire. For this reason, capital-intensive co-operatives tend to opt for structures where member capital can be withdrawn on retirement.
17 First established in the UK in the fruit-and-vegetable sector, designed to improve farmer competitiveness, the EU has been exploring extending the model to the milk sector for EU member states, with possible options further out to extend these to beef and arable crops (cereals). The benefit of having the status of a ‘producer organisation’ is the ability to negotiate collectively without contravening competition law. Producer organisations supply market information to the EU. The intention of dairy producer organisations, for example, is therefore to improve the transparency of production (supply)

and market (demand) across the EU, to enable the market to function more effectively.

18 For some time, there has been recognition that agricultural products are excluded from aspects of competition law, for example in the Competition Act 1998. Under EU competition rules, a co-operative can determine prices and volumes without falling foul of competition law restricting the exchange of sensitive information between businesses, as long as their decisions are indispensable to the implementation of their marketing functions and their capacity to generate efficiencies – and as long as the co-operative does not hold significant market power, such as over 20 per cent of the market for that produce. The UK competition authorities also require that members' agreements in marketing co-operatives should not restrict production, as this could distort the market.

19 Robin Murray (2013), personal correspondence.

20 Co-operatives UK (2013), *Homegrown: Co-operative Economy*, data extract analysis.

21 Co-operatives UK (2013), 'Opportunities for Co-operatives UK: a review of the agricultural co-operative sector', unpublished briefing paper from David Neal Smith.

22 Co-operatives UK (2013) Homegrown: Co-operative Economy, data extract analysis.

23 Euricse (2012), *World Co-operative Monitor – Exploring the co-operative economy 2012* report.

24 DEFRA (2002), *Farming & Food – a sustainable future*, The Report of the Policy Commission on the Future of Farming and Food, January 2002 (the 'Curry report').

25 English Farming and Food Partnerships (2004), *Farming and Food – Collaborating for Profit*.

26 Scottish Agricultural Organisation Society (2013), Annual Report.

27 EFFP (2004), op cit.

28 The quality of governance is a critical factor in the success or failure of co-operative enterprise. The development of a code of governance for agricultural co-operatives by Co-operatives UK and SAOS may be helpful in this regard.

29 PricewaterhouseCoopers (2012), 'World map of the agricultural co-operative movement and its critical issues'.

30 Ibid.

31 James Graham, SAOS (2014), personal correspondence.

32 For example, arable productivity benefited from plant breeding leading to remarkable gains in yield per acre. Productivity improvements in the farming of livestock resulted from improved feeds as well as from breeding developments altering the body configuration of animals to ensure a high useable product after slaughtering. Better feeds also enhanced the productivity of dairy cows.

33 Department for Environment, Food and Rural Affairs and others (2013), op cit. The 2012 fall can be attributed to adverse weather at harvest and the loss of farm outputs, but the fall is marked because 2011 was not a great year for similar reasons.

34 The Agricultural and Horticultural Development Board does fund applied research through industry levies and there will still be improvements to come from research and development. However, the agricultural sector may need to engage with research facilities directly to help to realise the benefits of industry advances.

35 The literature for the sector suggests that there are large productivity gaps between farms in the same sub-sector and so the consistent and continuous spread of best practice could considerably enhance productivity.

36 Similar trends and concerns in Wales are reported to have emerged in the slipstream of the recent Co-operative and Mutuals Commission, launched by the Welsh Government. Robin Murray (2013), personal correspondence.

3
Community food

Local heroes

Even a generation ago, to grow up in the UK as a child was still to be aware of the range and reach of global food. The products on supermarket shelves reflect the world's harvests, while UK high streets have long enjoyed the presence of restaurants from overseas, whether Indian, Chinese or Italian, and have diversified still further as overseas travel and taste have broadened. It hasn't, of course, worked the other way – the British restaurants in Italy, India or China are few in number. For sure, there are drinks, some pubs even. We travelled as a nation, but we didn't travel with a pride in our food.

That has started to change, in an extraordinary shift in food culture in the UK – championed by chefs, food writers, gourmets and consumers, but led in practice by an extraordinary range of what Rick Stein called 'local heroes' – a co-operative and community food movement with a passion for conservation and for innovation.

The community food sector incorporates the range of enterprises in the UK involved in a diversity of activities in the local food supply chain. This is a diverse sector that includes community-owned shops, farmers' markets, country-market societies, food buying groups and community-supported agriculture. It is essentially a small sub-system of the food and drink industry that potentially spans the whole supply chain, but it is one that we have picked out, because of its cultural significance and its co-operative ethos.

Who is who in community food

We'll use the term 'community food' as a handle on a diverse range of enterprises and organisations that are run by communities for their benefit and are primarily involved in at least one part of growing, harvesting, processing, distributing, selling and serving food. They may also be involved in the sustainable disposal of waste food. Those involved are likely to be committed to local food as a way of ensuring quality and sustainability in the food chain. Like all names, the label 'community food' is useful if there is enough in common across those that are identified to make their differences ones that add up rather than pull apart.

One of the common features is that this is a sector that has attracted interest as a source of social innovation in recent years. Co-operatives UK was just one of an alliance of organisations involved in the Making Local Food Work programme, led by the Plunkett Foundation, which ran from 2007 to 2012.[1] While this programme focused on England, there are similar trends and activities across the UK, not least in Scotland, where the role of community food has long been recognised. The rationale for the project was to help communities take ownership of their food and where it came from and there are five broad enterprise models operating around community food that the programme focused on:

- Community shops are those that are owned and run by the community themselves through an appropriate legal structure, for community benefit
- Collaborative farmers' markets are those that are owned or controlled by a co-operative of farmers/producers and/or community members
- Country markets are co-operatives of producers of home-made goods who pay a minimal fee to become a member, and sell their produce at regular markets
- Community-supported agriculture initiatives represent a sustainable partnership between a farmer or landowner and the community
- Food co-operatives are community groups who come together formally in order to buy in bulk directly from a producer, reducing the cost of food for all members.

In August 2012, an economic impact report for Making Local Food Work estimated the turnover in the community food sector in England to be £150 million. This included £77 million in core food supply chain activity, plus associated activities including catering, education and food hubs. The report estimated that there were 1,031 enterprises engaged in community food in England in 2012, as shown by sub-sector in Table 1.[2]

Two sub-sectors, community-owned shops and food buying groups, make up the majority and account for more than 80 per cent of core

***Table 1* Community food enterprises in England**

Sub-Sector	Number	Turnover
Community-owned shops	271	£36.9 million
Food co-operatives and buying groups	404	£27.2 million
Country market societies	64	£7.7 million
Community-supported agriculture	80	£3.5 million
Collaborative farmers' markets	212	£1.8 million
TOTAL	**1031**	**£77.1 million**

Source: SERIO Plymouth University (2012) sector turnover. However, the turnover figures for community-owned shops include revenue from non-food as well as food items. In addition, community-owned shops are likely to stock and sell many items that are not locally sourced or produced. Around 40 per cent of all community food enterprises are co-operatives.

The turnover shown for collaborative farmers' markets does not include the revenue generated for individual producers from the markets, but only the income for the farmers' market organisation itself. The economic impact report estimated that another £20 million per annum was generated for producers by farmers' markets. Even so, in relation to the national agriculture and food sectors with a gross value added of £96.1 billion to the UK economy, community food is tiny in scale at less than 0.2 per cent.[3]

The community food sector spans the whole of the local food supply chain, but it is dominated by businesses at the customer-facing end of the chain. Only eight per cent of enterprises are primary food producers. The sector therefore relies on wider producers to supply food, and research for the Making Local Food Work programme estimated that as many as 12,000 of these producers may be connected to the sector.[4]

Community food also links to other food production and processing activities, such as home-produced food and allotments and leisure gardening, as well as the real bread campaign and artisan bakeries – and to activism such as guerrilla gardening. Community food enterprises themselves may be involved in multiple activities in the food chain.

Characteristics of community food enterprises

The sector is characterised by small enterprises, with two-fifths of community food enterprises having an annual turnover of less than £20,000 and one-fifth with less than £5,000 in turnover. Table 2 shows the percentage of enterprises in each turnover band. Just under one-third have a turnover in excess of £100,000 and there are very few in larger turnover bands.[5]

***Table 2** – Community food enterprises by annual turnover*

Turnover band	Percentage
Over £1 million	2%
£500,000 to £999,999	2%
£250,000 to £499,999	7%
£100,000 to £249,999	21%
£50,000 to £99,999	10%
£20,000 to £49,999	19%
£5,000 to £19,999	18%
Less than £4,999	20%

Source: SERIO Plymouth University (2012)

In part, the predominance of small enterprises can be explained by the fact that many enterprises are relatively new as well as by the fact that their focus is fundamentally local. However, for some involved in the sector there is a preference for small, or at least modest-scale operations, and this potential antipathy towards scalability may be a barrier to future growth.

There is also a predominance of voluntary labour, which helps to explain how many enterprises can survive on very low levels of revenue. The economic impact report found that 45 per cent of community food enterprises are entirely run by volunteers. Of those that do employ and pay staff, three-quarters have five or fewer full-time equivalents (FTEs) and two-fifths employ up to one FTE. The report estimates that there are 1,165 FTEs in the community food sector and that the sector provides opportunities for 28,000 volunteers. Where they do have paid staff, the enterprises tend to pay relatively low wages.[6] Food co-operatives, for example, have proved attractive and popular, for example among students, but they typically do not operate as a business with significant turnover – being closer to a voluntary organisation. The exceptions tend to be those that come to operate as community-owned shops.[7]

Community-owned shops

Community-owned shops have been one of the success stories of the community food sector. There were 271 shops in community ownership in 2011, generating a turnover of £36.9 million. This represents almost half of the turnover of all community food enterprises and more recent data suggests that the sub-sector grew again in 2012. Turnover was up, profits were up and there were no business closures.[8]

The Plunkett Foundation has provided extensive support to the establishment of community-owned shops as part of the Making Local Food Work programme. The emphasis has been on village shops, many of which would have closed without community ownership, for example through investment in community share schemes. Plunkett has also created a network for community-owned shops and provides subsidised services.

In Scotland, a longer-standing related programme of work around community retail has now been integrated into the model and support offered by the Plunkett Foundation, while there are also examples emerging in Ireland, north and south.

The demand for community ownership of local shops may remain high if the trend towards closure of high-street stores continues in the wider retail sector. According to research from the Local Data Company and PricewaterhouseCoopers, retail store closures stand at an average of 20 stores a day, up in 2012 from 14 per day in 2011.[9]

Where the market is unable to provide, it is possible for socially oriented enterprises to be seen as a response if they are able to sustain business activity using the difference that they bring – such as member volunteer time or customer loyalty.

Market potential

The sector starts from the basis that people deserve to have nutritious, great-tasting food and that this can be provided from local and sustainable sources. The case for community food has been strengthened by food quality and health scares in recent years and by public awareness of wastefulness in the food chain. These issues have highlighted the failings of the conventional food system.

At the same time food prices have been rising ahead of inflation during the economic crisis in the UK that followed the financial crash of 2008. It has therefore been challenging for consumers to balance quality and sustainability on the one hand with financial prudence and affordability on the other.

One proxy that can be used to demonstrate the challenge and the opportunity for community food is the market for organic produce. The community food sector deals primarily with organic produce and so, while the organic market is much wider, the commercial potential for community food will depend on some of the same influencers and drivers that impact upon the market for organic produce.

The Soil Association's Organic Market Report reports a return to growth for sales in the organic produce sub-sector after four years of contraction. Sales grew by 2.8 per cent in 2013, after falling by 1.5 per cent in the previous year.[10]

At present, organic produce sales in the UK are around half the total achieved in France and less than a third of those in Germany (see Table 3). European sales of organic products were £19.7 billion, with Germany and France accounting for 49 per cent and the UK for 8 per cent. In the right conditions, there is room for significant growth. Yet, even before the economic upheavals of 2008, in the years when there was growth in the UK organic produce market, annual increases were modest.

***Table 3** – Sales of organic produce by country*

Country	Sales
UK	€1.9 billion
France	€3.7 billion
Germany	€6.6 billion

Source: Organic Market Report 2013, Soil Association

The implication of the Soil Association's report is that a significant shift in consumer behaviour is required in order to achieve growth in the organic produce market. The Soil Association throws further light on the problem elsewhere in its report when looking at consumer behaviour. It identifies a committed core of organic-produce shoppers that are responsible for a substantial share of total sales. In 2012, over half of organic-produce sales were accounted for by six per cent of organic shoppers.[11]

Co-operation overseas

Consumer co-operatives in Japan have succeeded in linking consumers with small-scale organic growers – in what has evolved into one of the most sophisticated local, direct food distribution systems in the world. Seikatsu Club is a model of co-operation that combines locally grown, organic food production with a neighbourhood-based distribution system linking many of Japan's urban consumers to the region's farmers.[12]

The creation of local food hubs in a number of countries has proved to be a key innovation for the development of local food systems and the linking of small producers to markets and outlets in urban centres. Food hubs are being used with success in the US, for example, with exemplars such as Co-op Partners Warehouse in Minnesota and the Food Commons in California.[13]

Barriers to co-operation

A significant challenge for successful community food enterprises has been obtaining local produce at a scale that can keep pace with consumer demand. They can face problems at both ends of the spectrum when entering into purchase agreements with local producers. Small-scale producers may not be able to produce at the capacity required to satisfy large contracts. However, large producers may find that the modest demand from community food enterprises is insufficient to be attractive.

Middle and large producers may have entered into production contracts that bind them to a particular supplier, for example to a supermarket. These contracts provide certainty for the producer in terms of sale price and volume, enabling them to plan their business around this guaranteed income. Bringing these producers into the local food supply chain may be challenging in these circumstances.

Some food co-operatives have responded to difficulties in obtaining local produce by purchasing land for cultivation themselves. Manchester Veg People, for example, have used the growth in contracts to supply food to create a portfolio of agricultural holdings. Some of these holdings are being used to allow new start-up producers to develop their skills with the intention of growing the production base in the future.

Access to land is an issue that the Making Local Food Work evaluation literature highlights as an ongoing problem in community-supported agriculture. The problem arises from relatively high land prices and rental levels as well as from the lack of security of tenure which means that productive land can be taken back at short notice.[14]

Linked to the issues around land availability is that of the seasonality of food production in the UK and the challenge of providing produce to satisfy all-year-round demand. This is an issue that the conventional food system can meet through imports of produce from across the globe. For the community food sector, looking to limit overseas imports of food, seasonal limitations on supply may need to be managed through networks collaborating on a production timetable.

The second, fundamental, barrier to growth is the challenge faced by many community food enterprises in terms of establishing themselves as viable businesses. There are some significant enterprises, including perhaps 20 that have a turnover greater than £1 million and/or employ more than 50 people. These include worker co-operatives that were established because of a motivation of values and a market gap. However, the majority are, on current trends, likely to remain small businesses with a reliance on voluntary labour rather than paid employees.

Where they remain small, enterprises will remain vulnerable to the pressure of competition from conventional food business and to risk arising from external factors. They may also face the challenge of new market entrants as private businesses pick up on opportunities and demand that local food pioneers may have opened up. There is a need to balance the motivations and inclinations of their founders and members with the commercial imperative required for a successful and sustainable enterprise. There are enterprising and entrepreneurial people in the community food sector, but there is also a history of grant support and public funding as well as an antithesis towards profitability that may limit their potential and increase their vulnerability.[15]

The lack of profitability throughout the sector is a particular concern. If the community food sector is going to develop then there need to be more enterprises that are business-minded and focused on revenue and results – but also a strengthened system of production and distribution. Within this, informal initiatives like Landshare can play a key part, exemplifying the spirit of co-operation, as will larger enterprises that take up the work of pioneers and their prototypes, often commercial but still within the alternative food paradigm – Riverford Organics and Abel & Cole would be examples. This is similar to the way in which the rise of farmers' markets has led to changes in supermarkets – both in their provenance and in their store design.

As with fair trade, the early pioneers triggered changes across the mainstream, even though the pioneers themselves remained small. In a similar way, the rise of micro food processing has opened the way for the growth of small, distributed producers who then have an interest in co-operating in some activities. Often they arise from consumer campaigns (micro breweries and micro bakeries both emerged from such campaigns). And, as with farmers' markets, the success of these micro initiatives has forced a response from the mainstream players.

Innovation opportunities

1 Collaborative networks for scale and viability

The most promising pathways for growing community food relate to the idea of joining up community food enterprises into a more effective food system, through collaborative networks. Where growth has been achieved by community food enterprises to date, this has come from a business strategy aimed at extending reach and scope within a locality and/or deepening relationships with suppliers and consumers, or looking to secure scalable contracts with the public sector or with educational establishments.[16]

Linked to this is the opportunity to integrate more effectively with mainstream retailers. Community food enterprises are not isolated from wider food provenance. With health scares, regulatory pressures on supply-chain integrity, a new confidence in the UK's food culture with celebrity chefs and, for some time, rising household income, the consumer demand for locally, regionally and nationally produced food has grown.

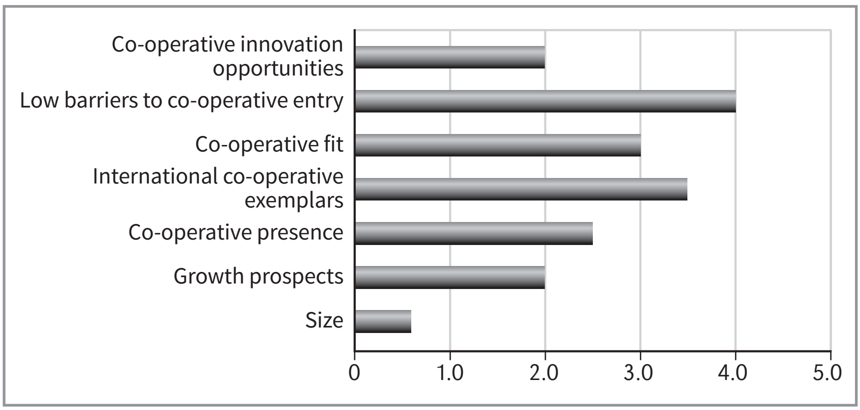
The UK's major food retailers have all developed policies on domestic sourcing of food and explored the sourcing of 'local food' in particular. Their constraints, of course, are that local food runs counter to the national scale of purchasing and distribution that is core to their business model. Local food tends to be positioned in the value-added, higher price range, which may also limit uptake or dissuade retailers from stocking it, given other concerns around availability and the fit or non-fit with existing distribution chains.

The co-operative retail sector faces the same challenges, having a national Co-operative Retail Trading Group to supply all of the independent societies. However, there is room for some flexibility with rule changes that allow for the potential to obtain local produce. East of England Co-operative Society established its 'Sourced Locally' range in 2007, working in partnership with local producers across Norfolk, Suffolk and Essex. The initiative has grown from a few suppliers to more than 130, who provide more than 2,000 different local products for the Society's stores, and the Society now holds annual Producer of the Year awards for its local suppliers.[17]

This trend may link to the growth of the convenience-store sub-sector within retail and the potential to adapt individual stores and their stock to local needs and demand, turning back the 'clone town' syndrome driven by retail centralisation. Purchasing from community food enterprises by consumer co-operatives such as East of England and Lincolnshire Co-operative Society is one channel of support, coupled with the important role they have played in mentoring their suppliers. Another is the use of co-operatively managed farm land. A digital hybrid model would be to promote local co-operative producers and their markets to the retailers' membership even if the retailer did not stock the products themselves. In the digital age, they can act as a shop window without necessarily having the products in the shops. The vision for this perhaps would be of a co-operative store as the physical place to connect local consumers and producers.

Conclusion

COMMUNITY FOOD



Community food enterprises have played a pioneering cultural role in recent years, championing sustainable food systems in general and local food in particular. They can act as a catalyst in the development of a range of localised food systems, leading to positive consequences in the way in which food is produced and consumed. They can also open up potential new markets for local growers and producers and link in to local economies, such as adding value to and growing tourism. And yet, to reach its full potential, there is an opportunity and a need for a step towards a more effective set of business models, to achieve scope and scale, and to move from innovation at the margin to diffusion and mainstream success. ■

1 Led by the Plunkett Foundation, the Making Local Food Work programme was delivered by six partner organisations – Co-operatives UK, the Campaign to Protect Rural England, Country Markets Ltd, FARMA, Soil Association and Sustain. Alongside this can be seen the work of networks such as the Federation of City Farms and Community Gardens and the National Allotment Society.

2 SERIO Plymouth University (2012), *Making Local Food Work: Understanding the Impact*.

3 Ibid.

4 Ibid.

5 Ibid.

6 The inclusion of voluntary labour is clearly an important feature of the sector. The volunteers are likely to be members of the venture and their involvement in one of the core activities of the business is likely to strengthen their engagement. It also allows the business to save considerably on overhead costs in terms of wages. Source: SERIO Plymouth University (2012), op cit.
7 Food co-operatives are more prevalent in the United States, but the model that they use may be more akin to small retail consumer societies in the UK.
8 Plunkett Foundation (2013), *A Better Form of Business: Community-Owned Village Shops*.
9 Andrea Felsted (2012), 'High street hit by rise in retailer closures', *Financial Times*, October 2012.
10 Soil Association (2014), *Organic Market Report*.
11 Ibid. It is likely that a similar committed core provides a significant component of sales in the community-food sector. Indeed, this is likely to include those that established community-food enterprises to provide local produce and their peers. To grow, they will need to think about the needs of a wider group of customers and how they can influence their behaviour through the development and communication of value propositions. The nature and outlook of the businesses involved is likely to influence their patterns of growth. For example, their local focus is likely to limit external expansion outside the locality. Community-food enterprises are unlikely to adopt the branch model of growth through looking to open up new geographical markets. Geographic growth is more likely to come from new enterprises setting up in areas that do not have them. Existing enterprises are likely to grow by spreading activity along the value chain.
12 See **http://www.seikatsuclub.coop/**
13 **http://www.cooppartners.coop/** and **http://www.thefoodcommons.org/**
14 SERIO Plymouth University (2012), *Making Local Food Work: Connecting land and people through food* – final evaluation.
15 The motivation for many is likely to be a passion for growing produce, or a desire to see better-quality food on sale in their locality. They may not have begun with a commercial concept and therefore some involved may lack the business skills to ensure survival and success.
16 One potential illustration of this is the development of co-operative consortia, to allow for secondary services, such as procurement and marketing, to support primary, local outlets. This model of enterprise networks is being explored by the Plunkett Foundation.
17 Duncan Brodie (2014), 'East of England Co-op launches voting for Producer of the Year contest', *East Anglia Daily Times*.

4
Renewable energy

A third industrial revolution

From food, we now move to energy. Energy is at the heart of any economic system. Every part of the economy relies on energy, just as people need food and water, but the pattern of energy supply and distribution can also have a defining influence on the shape of the economy. So, after years in which the energy sector has been dominated by large organisations, state and market, with centralised models of supply, the potential of renewable energy, with its scope for distributed models of supply, to be a force for disruptive innovation is significant.

The writer Jeremy Rifkin describes this shift as a 'third industrial revolution' – turning buildings into micro-power plants, using hydrogen and other storage technologies to store any surplus and using internet technology to create a distributed energy grid, for consumption and to fuel a new transport fleet of electric plug-in and fuel-cell vehicles. As he puts it: "*The creation of a renewable energy regime, loaded by buildings, partially stored in the form of hydrogen, distributed via a green electricity internet, and connected to plug-in, zero-emission transport, opens the door to a Third Industrial Revolution. The entire system is interactive, integrated, and seamless. When these five pillars come together, they make up an indivisible technological platform – an emergent system whose properties and functions are qualitatively different from the sum of its parts. In other words, the synergies between the pillars create a new economic paradigm that can transform the world.*"[1]

If that is the direction, or even a glimpse of it, what evidence of this are we seeing in the co-operative-led movement of community renewable energy in the UK?

The energy market in the UK

The answer is … the first baby steps.

In 2012, renewable energy sources provided only 4.1 per cent of the UK's energy consumption needs. Coal accounted for the production of 39 per cent of UK energy, gas for 28 per cent and nuclear for 19 per cent.[2]

So, to take a step back. What is it? Why is it coming? Renewable energy is energy derived from natural processes that are replenished constantly. This includes electricity and heat generated from solar, wind, ocean, hydropower, biomass, geothermal resources, and biofuels and hydrogen derived from renewable resources. Energy generation from renewable sources is seen as a desirable alternative to fossil fuels because of climate change and energy security. Burning fossil fuels to generate energy leads to greenhouse gas emissions associated with climate change. There is a finite supply of fossil fuels on the planet which means that the long-term generation capacity of these sources of energy is uncertain.[3]

Nuclear power is an important source of energy in the UK. Nuclear energy is not generated by fossil fuels, but nor is it a renewable energy source. UK Government policy is to invest in nuclear power in order to replace existing nuclear power stations that are coming to the end of their productive life and because nuclear is seen as a scalable alternative to fossil fuels in the future.

At 4.1 per cent of consumption, renewable energy is starting from a low base in the UK, but the sector has been growing in recent years and it is Government policy to increase the proportion of energy produced from renewables. Indeed, the Government is legally obliged to achieve a target of 15 per cent of energy consumption being satisfied by renewable sources by 2020. This target percentage applies to final energy consumption of heat, electricity and road-transport fuel. In order to achieve the renewable energy target for 2020, the sector will need to achieve year-on-year growth of 16.5 per cent. Renewable-energy use increased by only 9 per cent in 2012.

Beyond 2020, independent advice to Government from the Committee on Climate Change has concluded that there is scope for the penetration of renewable energy to reach 30-45 per cent of all energy consumed in the UK by 2030.

For now, the overall UK energy market is dominated by the ‘big six’ energy giants, companies that operate in a vertically integrated way across both the generation of energy and the retailing of it to consumers. The presence of a ‘competitive fringe’ of independent suppliers has ebbed and flowed, but in recent years there has been a positive re-emergence of independent suppliers.

But alongside this, though at a small scale, there has been action emerging in the last 15 years as people with an interest in renewable energy have identified opportunities to develop local projects, reflecting the fact that technologies such as Combined Heat and Power, district heating, small hydro and heat pumps, are all manageable at a local level. In this context, in early 2014, the UK Government published a Community Energy Strategy, intended to accelerate the development of co-operative or community energy initiatives, from demand-side energy saving through to renewable energy generation. These are the baby steps.

Next steps for UK renewables?

Table 1 shows the projected increase required in energy generation for renewable-energy sources in the UK to meet the Government's 2020 target.

***Table 1** Energy generation in the UK, 2010 actual and 2020 forecast*

	Energy generation 2010 (TWh)	Energy generation 2020 (TWh)
Onshore wind	7.0	24-32
Offshore wind	3.0	33-58
Biomass electricity	11.9	32-50
Marine	0	1
Biomass heat (non-domestic)	12.4	36-50
Heat pumps (non-domestic)	0.7	16-22
Renewable transport	14.1	Up to 48
Other	5.7	14
Estimated 15-per-cent target	**54.8**	**234**

Source: UK Renewable Energy Roadmap 2011

The Government's estimate for final energy consumption in 2020 is 1,557 terawatt hours (TWh). For the Government's 15-per-cent target to be met, 234TWh of heat, electricity and road transport fuel consumption in 2020 will need to be met from renewable sources.

To achieve this level of output, it is estimated that installed capacity for renewable energy will be 29 gigawatts (GW) by 2020. The Government's Renewable Energy Planning Database suggests that the pipeline for new plant across the UK is currently healthy, with around 22GW of potential new capacity in planning, with planning consent or under construction. However, not all of these schemes are likely to proceed and so new projects will probably be required to achieve the 29GW figure.

The potential for renewable-energy development is demonstrated by comparison with Germany. Germany has 32.4GW installed capacity of solar PV, which is almost one-third of this technology's global deployment. It also has 31.3GW of installed capacity of wind power. Taking these two renewable-energy sources together, Germany's installed capacity is five times greater than the UK's. In 2014, over 25 per cent of electricity in Germany was generated through renewable energy.[4]

According to the Green Investment Bank, the UK needs to invest close to £200 billion over the next 10 years to hit its renewables targets. This includes £110 billion for new low-carbon generating assets and supporting infrastructure, which it has proved difficult to raise finance for in the past. The Bank estimates that current investment levels of about £8 billion to £10 billion a year in renewables fall short of current requirements by 50 to 60 per cent. One of the reasons for establishing the Bank was to be a catalyst to encourage investors to fill the funding gap.

Two of the key factors that will influence whether renewables are able to approach these targets are: energy demand; and the price of renewables.

What is happening to UK energy demand?

There has been a levelling off of demand for energy since 2005, despite a slight increase in overall UK population. In 2012 energy demand was 206.2 million tonnes of oil equivalent, a level last seen in 1980. The fall in demand may be due to increasing energy efficiency driven by environmental concerns and the high cost of energy. Or it may also be a result of the economic slowdown and recession in the UK following the financial crash of 2008.

Looking further ahead, demand for electricity, in particular, may increase significantly. The Department for the Environment & Climate Change (DECC) has forecast that electricity consumption could grow between 30 and 100 per cent by 2050. This forecast is based on a model that takes account of population growth and economic output projections. It also includes factors such as the electrification of transportation, including the planned programme for the railways.

The price of renewables

At present, the financial cost of producing a unit of energy from fossil fuels is lower than for producing the equivalent amount of energy from renewables. This is why the Government has introduced a range of schemes over the years to provide incentives for renewable developments. The policy has been to mitigate the capital cost of renewable installation and to provide certainty of revenue over time.

The Government has been encouraging the development of a market for renewables and a supply chain so that costs will fall and renewables will become competitive with other energy generation sources. In addition, the cost of fossil-fuel energy generation may rise in the next few years, which will encourage renewables adoption.

The capital cost of renewables is now falling and is forecast to fall further in future years, which may lead to greater interest in energy projects. Between the summer of 2011 and the spring of 2012, the cost of solar PV installation fell by 50 per cent. Therefore large-scale solar energy projects, which have been rare in the UK, may become more viable in the next few years.

Capital costs for onshore wind projects are forecast to fall by 3.6 per cent between 2011/12 and 2015/16. The Government anticipates that offshore wind costs will reduce by one-third by 2020 and has established a Cost Reduction Task Force to support initiatives that lead to cost reduction in this sub-sector.

Greater adoption and adaptation of technology will also lead to lower operating and maintenance costs, which will help renewable-energy sources to compete with more conventional energy sources on price. It is Government policy to support the growth in the proportion of renewable energy beyond 2020, although there are no legally binding targets, which could create uncertainty for potential investors.

There is a possibility that expansion of renewable energy could be affected if fracking takes off in the UK. The Institute of Directors has suggested that shale gas extracted from fracking could meet 10 per cent of the UK's demand for the next 100 years. It has proved successful as a source of gas in the USA and the UK Government is introducing tax incentives to encourage drilling projects here.

Renewable sources

Onshore wind

Renewable UK is the trade association for the wind-energy industry. It claims that there are 431 onshore wind projects in the UK, with 3,923 wind turbines providing an installed capacity of 6.4GW. In addition, there are projects in the planning system that would provide a further 1.5GW of installed capacity if they were to go ahead.

As a technology, onshore wind is fairly mature compared to some other renewable-energy sources and so has a more stable cost base. It is also flexible in terms of scale and onshore wind turbines can be deployed in small or large numbers.

Scotland is likely to see the biggest increase in wind power in the next few years, both onshore and offshore. The Scottish Government aims to double installed capacity from onshore wind by 2020.

The Scottish Government is also committed to increasing installed capacity of renewables in community ownership from 147 megawatts (MW) in 2011 to 500MW in 2020. Onshore wind could make up a significant component of this growth.

Offshore wind

Offshore wind projects are amongst the most costly renewable schemes and they require large-scale development in order to make them viable. The UK Government is working with the industry to bring costs down over the next seven years, but new projects will still be highly capital intensive. Large private corporations that can attract significant capital investment, and that operate typically with imported technology, dominate the offshore wind industry.

Renewable UK has identified 20 offshore wind projects in the UK, with 973 wind turbines providing an installed capacity of 3.3GW. In addition, projects with the potential to provide 3.8GW of installed capacity have planning approval and projects that could provide a further 7.8GW of installed capacity are in the planning system.

The Government aims to have sufficient installed capacity to generate approximately one-fifth of the UK's electricity from offshore wind by 2020. A substantial proportion of new projects will be in the North Sea, off Scotland, although there are also some significant schemes being brought forward in the Irish Sea.

Bioenergy

Bioenergy uses biomass fuel from a variety of sources, ranging from agricultural crops to waste materials, to generate energy. It is the only renewable-energy source that requires fuel inputs for which there is a supply cost rather than drawing on freely available resources. However, this ability to source its own fuel means that bioenergy operations are not reliant on favourable weather conditions.

The potential scale of bioenergy deployment is highly uncertain. Factors affecting this include the high capital cost of building installations and potential fluctuations in the availability and cost of fuel. However, UK Government analysis has indicated that sustainably sourced bioenergy could contribute 8 to 11 per cent to the UK's total primary energy demand by 2020.

Imports, particularly from North America, currently make up the majority of the biomass fuel supply to the UK. There may be opportunities for more agricultural land in the UK to be turned over to fuel crops, although this will require an assessment of the opportunity cost of using land for fuel production rather than food production.

The Co-operative Group has in previous years been one of the largest agricultural landholders in the UK and cultivates crops for bioenergy. One of the facilities for which it provides fuel is the company's own headquarters, One Angel Square in Manchester.

Another opportunity for co-operatives to benefit from demand for fuel for bioenergy may come in the form of waste along the food chain from agricultural co-operatives to retail consumer societies. In addition, woodchip from forestry could be a commercial outlet for sustainably managed forests and woodland.

Biomass boilers

Biomass boilers are a very small component of overall energy production, but the market may grow in response to UK Government support. The Government believes that the Renewable Heating Incentive scheme will deliver up to an additional 100,000 heat pumps and an additional 24,000 biomass heat installations by 2020.

Biomass boilers are generally designed for individual dwellings, but larger installations may serve commercial, municipal or a combination of buildings. One new co-operative has been created in Greater Manchester to supply and install biomass boilers.

A biomass boiler could form part of a community energy project. Co-operatives could also be encouraged to investigate the suitability and viability of biomass boiler adoption for their own facilities, premises and homes, for example housing co-operatives.

Hydroelectric power

The UK currently generates about 1.5 per cent of its electricity from hydroelectric schemes – most of which are large-scale schemes in the Scottish Highlands.

A substantial hydroelectric development programme took place in the 1950s and 1960s which incorporated many of the most economically attractive sites for this technology. Opportunities remain for more modest schemes and recent studies estimate there is the potential for a further 850MW to 1550MW of installed capacity from hydroelectric power in the UK. This equates to 1-2 per cent of current UK generating capacity.

Where there is an obvious and accessible power source, small-scale hydroelectric projects offer a very positive opportunity and can be structured as co-operatives with local ownership. However, this is not to downplay the challenges of the economics of hydroelectric projects and the technical and legal requirements, including environmental permits, planning consent, easements for access and connection to the local electricity network.

Solar photovoltaic

The deployment of solar installations has increased dramatically in the last two years with 1.5GW of capacity installed, taking the total to 2.5GW. This includes a healthy number of solar PC co-operatives. This dramatic growth was encouraged by proposed changes to feed-in tariffs that were seen as highly attractive for commercial and domestic users. The announcement from the UK Government in 2011 that the rates payable from the feed-in tariffs would be reduced appears to have led to many projects being brought forward for installation.

Although the feed-in tariffs are now at more modest levels, the Government believes that there will be substantial growth in the future, with installed capacity reaching 20GW by 2020. One reason for optimism is that the growth in the industry has led to cost reductions and the potential for larger schemes to be installed.

The majority of solar installations at present consist of single-building projects, such as dwellings, commercial buildings and community or municipal facilities. The largest project remains The Co-operative Group's cladding of part of the 24-storey Miller Street building with solar cells in 2005.

As well as single-building schemes, there is the potential for large-scale projects such as the solar arrays proposed for former industrial sites in Cornwall and for a disused airfield in Leicestershire. The development of such scalable schemes is likely to be required in order to meet the UK Government's 2020 targets.

Marine

The development of marine resources for renewable energy is unlikely to move beyond the pilot-project stage by 2020 and the Government forecasts that it will provide 1GW of installed capacity at that time. Mega-projects such as the Severn Barrage tidal scheme have been discussed for many years and appear not to be a priority when assessed against other national capital investment projects.

Other renewable sources

Other technologies may help to provide energy for individual buildings, as part of a wider energy management scheme or as one of a mix of energy sources. These technologies include ground source and air source heat pumps, solar water heaters, micro combined heat and power systems and thermal stores.

Co-operative presence

Research for DECC suggests that there are around 600 community-scale renewable electricity projects – although often at an early stage of development. Over half of these are structured as some form of voluntary or charitable organisation, but there is rapid growth in co-operative models, often using the society legal form. There is around 66MW of community renewable electricity capacity installed, primarily funded through debt and grant, with over 200MW in development. A rapidly increasing number of co-operative projects are being funded or part-funded by local share offers, with to date over 40 share offers issued, raising around £17 million from approximately 10,000 community member investors.[5] Together, this fledgling sector is known as 'community energy'.

There are 106 environmental and energy co-operative businesses on the Co-operatives UK database, of which around half are involved in generating renewable energy. The co-operative model has proved attractive to community energy initiatives because it can be a vehicle for raising funds through community shares and because it gives communities real and meaningful ownership of the assets in which they are investing. There are other forms of social enterprise that have also been used. Having said this, UK co-operatives in this sector tend to be modest or small in scale and the majority of co-operatives generating energy are small enterprises. The UK does not have major power-generation co-operatives as are to be found in the USA, for example, where these were developed to deliver energy in rural areas.

Energy4All is a catalyst and exemplar in this field of co-operative and community energy. It is a non-profit social enterprise that encourages the development of community-owned renewable-energy schemes. The company promotes the asset-ownership model pioneered by Baywind Energy Co-operative, which was established in 1996. Baywind Energy was the pioneer of community ownership of renewable energy in the UK. The two Baywind Energy projects enabled a community in Cumbria to invest in three local wind turbines, raising £1.87 million through two share issues over three years. Supported with initial funding, capacity and know-how from Baywind – a great example of the 'Principle 6' which calls for co-operation with other co-operatives – Energy4All has helped to establish eight renewable-energy co-operatives in the last 10 years, primarily but not exclusively focused on wind technologies.

To do this, Energy4All has attracted a significant amount of investment to develop renewable-energy projects that are wholly or partially owned by a community co-operative. The co-operative has a partnership with Falck Renewables Wind Limited to help set up community co-operatives to invest in local commercial wind farms. As of April 2014, Energy4All has established five co-operatives in Scotland in partnership with Falck, with around 2,500 investors who have invested over £8 million in total.

At the same time, most UK co-operatives are committed to a more sustainable society and many have energy reduction, renewable-energy and climate-change goals. It is therefore not only those that are directly involved in the sector that have an interest in renewables. The Co-operative Group is the UK's largest co-operative business and has played a leading role in renewable energy adoption. The Group is committed to tackling climate change by reducing its energy consumption, procuring its energy from renewable sources. It has a strong track record of investing in environmentally sound technologies and developing renewable generation projects throughout the UK.

The Group has over 4,000 outlets powered by renewable energy and has built Europe's most environmentally sustainable large office building, completed in 2012. The Group has 58MW of installed wind energy capacity built or consented which will enable it to generate 15 per cent of its electricity usage from turbines on its own land. A further 32MW is awaiting planning determination. The Group also started to grow biomass fuel on its farms – some of which was then used to provide energy for its own buildings. The farms business, however, was sold in 2014 to the charity, the Wellcome Trust.[6]

The UK co-operative sector also includes two important environmental consultancy companies that are engaged in renewable-energy projects:

- Dulas is an environmental engineering consultancy offering professional services for renewable energy, including solar PV, wind, biomass, and hydro systems. The company operates in all areas of the renewables supply chain and has worked all over the world in 30 years of trading. Dulas is a worker co-operative with a turnover in 2012 of £23 million.
- Global design and engineering practice Arup provides technical, business planning and project management support for schemes in energy, including solar, offshore and onshore wind, marine, geothermal, waste and biofuel sources. Arup is an employee-owned business, and not a formal co-operative, with 10,000 employees around the world. In the UK the company turnover is approximately £380 million.

The market for community energy

Research commissioned by The Co-operative Group suggests that community energy could grow to generate 3.5GW of renewable energy by 2020. Modelling for DECC, published in 2014, suggests that this is a high scenario but that achieving 3GW of solar PV, onshore wind and hydro projects by 2020 would represent 14 per cent of the total capacity of these technologies and 1.4 per cent of total electricity consumption by the end of this decade, assuming typical load factors. The report suggests that "*this represents rapid growth over 6-7 years and lays the foundation for even more substantial growth to 2030 and beyond.*"[7] In Germany, for example, 5GW of renewable energy is currently generated from community sources, including 600 co-operatives.

Amongst the drivers for the expansion of community ownership in Germany has been the policy of successive governments expressed in the Renewable Energy Sources Act of 2001. The Act has provided investment security through guaranteed feed-in tariffs as well as priority connection to the grid for community renewables projects.

In January 2014 the UK Government published the nation's first Community Energy Strategy. The strategy aspires to produce enough sustainable energy (3GW) to power the equivalent of one million homes by 2020 – a 50-fold increase from today.

In the strategy, which is intended to dovetail with action by nations at a devolved level, the UK Government stresses a commitment to community energy schemes, with plans to:

- Set up an independent 'one stop shop' for advice and support for communities
- Tackle barriers to community renewables, including difficulties with connecting to the electricity grid

- Investigate whether community renewables projects can supply local people with electricity directly
- Ask commercial renewables developers to offer local communities a share in the ownership of wind farms
- Provide funding for local projects.

Co-operation overseas

According to the European renewable co-operative network, Rescoop, there are over 2,000 renewable-energy co-operatives in the EU.[8] The most significant examples of large-scale renewable energy co-operatives are to be found in Germany and Scandinavia. In Germany, around 750 renewable-energy co-operatives have been created over the last five years, which are owned in turn by over 150,000 German citizens. In Germany, as in Denmark, the co-operatives are often started by local landowners – including farmers on whose property renewable-energy grids such as wind turbines are located.

In both countries, the emergence of renewable-energy co-operatives reflects a broader policy framework and set of supportive measures in favour of renewable-energy solutions – including all forms of renewable-energy generation, such as solar, wind, biomass and geothermal. The German development bank, KfW, for example, allocates a significant amount of its funding to community renewable and energy-efficiency measures.

Given the scale of investment that is often required for energy generation, there are co-operatives outside of Europe that have emerged through direct ‘public social partnerships’ with municipal authorities, such as the urban Windshare Co-op in Toronto, Canada.[9] In addition to providing clean energy at a neighbourhood level, WindShare’s mission is to demonstrate leadership and action in the community wind-power sector, and to develop community power projects that are sustainable economically, environmentally and socially.

Other co-operatives are service oriented and focus on the development and servicing of renewable-energy solutions. These include groups such as Sustainability Solutions in Vancouver, which is a consulting group that provides design advice and development services for some of Canada’s most forward-looking development projects, including Vancouver’s world-renowned Convention Centre. More can also be done through the expansion of the co-operative model to promote energy audits, upgrades and retrofits for city buildings, including private dwellings. Such efforts are under way in Italy, with groups such as Fabrica del Sole.

Barriers to co-operation

If Denmark has done it over recent decades and Germany over the last decade, then why hasn’t the UK? Clearly there are important barriers that could hamper or even halt the domestic renewables sector. Certainly, compared to Denmark and Germany, the UK lacks the institutional focus and drive that helped to accelerate the growth of renewable energy. Yes, we have targets and yes, we have had energy policy statements aplenty. But energy is not a free market which responds to ministerial speeches. It is a highly regulated sector, with high externalities and barriers to entry, which needs the tools of the state, including economic regulation, market interventions and taxation, as a framework for how the market will work.

Having said that, there have been significant advances and commitments made in relation to the policy framework for community energy. Community energy has the potential to be a growth sector but there are two practical issues and challenges within the sector which are perhaps the most immediate: money and time.

Capital constraints

One issue facing community energy initiatives is the potential limitation of raising sufficient finance in the local community. This has been compounded more recently by uncertainties in the framework of regulation and tax incentives that the early pioneers were able to use.

For large capital schemes, there are examples of co-operatives having been formed to acquire a stake in what are otherwise privately financed commercial schemes. One example is the Isle of Skye Renewables Co-operative, which was formed to buy a stake in the Ben Aketil Wind Farm. The wind farm is owned by Ben Aketil Wind Energy Limited, part of the international renewable-energy firm Falck. This is an area in which the UK Government has been active, helping to create an agreed framework for shared ownership between communities and commercial developers.

Community shares are an excellent vehicle for facilitating investment, with a track record of successful fundraising. Fundraising targets through community shares increased threefold in 2014, compared to 2013. Even so, in practice the amounts raised through individual community share issues may remain limited – appropriate for projects, say, with a requirement of less than £1 million – although with outstanding examples of much greater sums being raised through community shares, such as Bath and West Community Energy in 2014. In some cases, this has been achieved by casting the net for investors wider than the local community alone.[10]

Because schemes are capital-intensive, there may also be a skew in terms of participation. Some community share-funded schemes call for a minimum initial investment of £250. This may be beyond the means of many people in a deprived community, which is spurring some experimentation such as payments that can be made in instalments or with credit union or reduced-rate loan support, or matched by external donors to increase leverage.

Time constraints

Renewable-energy projects vary considerably in the length of time that they take to move from initiation to installation. Solar PV projects such as Green Energy Nayland can take as little as nine months to complete. However, for wind-turbine projects the process can take many years. Valley Wind in Marsden was formed six years ago and it still does not have planning permission for installation.

The length of time reflects the physical nature of the development and its impact on the environment and the community. However, in the UK it also tends to reflect the generation capacity of the project. For example, Green Energy Nayland's primary-school installation generates 13,209KWh each year while, once fully operational, Valley Wind will have three wind turbines generating 18,000,000KWh per annum.

With a strong vision and dedicated volunteers, the time taken to bring projects to fruition may not be a problem. However, the constraints are often not about the community team, but stem from the burden of regulatory red tape and unfriendly finance. This creates a danger with these projects that commitment and interest wanes and community support is lost. Sheffield Renewables is an example of a project where an aspiration for a capital-intensive hydroelectric scheme had to be foregone in favour of a Solar PV scheme when the original proposal faced too many barriers.

In Scotland, the Scottish Government has responded to this through backing for a Scottish community energy support body that has an annual budget of £5.35 million. This is important because initiatives tend to rely heavily on a few committed volunteers and/or facilitators who need assistance in the form of, for example, specialist advice, feasibility studies and community development work.

Innovation potential

1 Community energy

Existing co-operative interest in renewable energy exists at a number of levels. The number of initiatives may well grow with the Government's Community Energy Strategy. This growth should be welcomed and co-operation in the community energy sub-sector supported. At a devolved level, there has been the emergence of support networks such as Community Energy England, together with new models of support, such as peer mentoring piloted by Co-operatives UK with the support of Esmee Fairbairn Foundation Trust.

There are limits to community energy initiatives in terms of scale, however, and growing the model fast may require a wider set of partnerships, for example with local authorities. There are examples of co-operatives overseas which operate in partnership with local authorities, but there can inevitably be tensions between whether an enterprise is primarily mutual or municipal. What the co-operative model offers is the participation of local people, through support for planning applications, financial investment as members and through their engagement in something that can foster and encourage individual and shared consumer behaviour change towards more sustainable lifestyles.

It also seems inevitable that innovation in this field, which is a regulated activity, is closely related to the quality and consistency of the policy frame work, including: financial incentives, primarily feed-in tariffs; grid connection; planning permission; and the possibility of local supply licences.[11]

Opportunities for community energy growth could come from a growth in solar-power installations on public buildings such as schools, hospitals and community facilities. Another could be the creation of projects to invest in offshore wind projects, using the Energy4All model of creating a co-operative to take a partial ownership of a larger scheme.

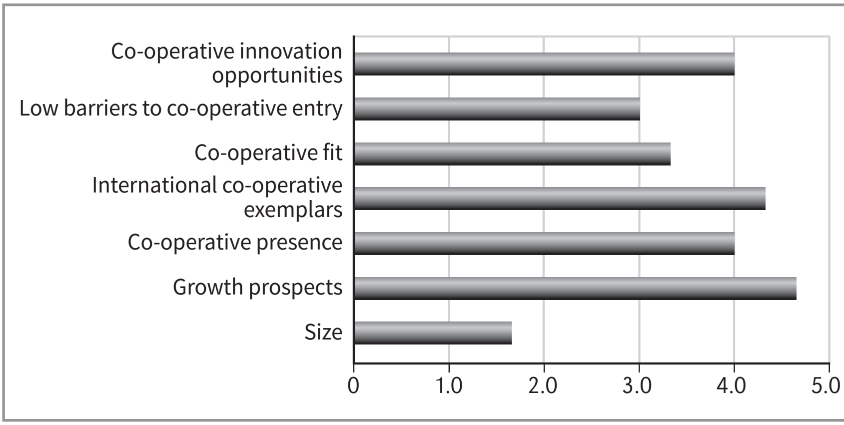
Co-operatives may be able to have greater impact through scalable projects that offer greater generation capacity and/or serve as demonstration projects for new technology. The pioneering work of the Co-operative Group over many years in this field is impressive. Other co-operatives may be interested and may also be able to pool resources to support research and development that aims to reduce energy costs for these co-operative businesses in the future.

Agricultural co-operatives and their members – the primary producers – have an interest in renewable energy. There are emerging opportunities to harness the potential for generating energy from waste in the food chain, such as through anaerobic digestion, that could be beneficial for those that produce food as well as those that distribute and sell it. Management of woodland and forestry, providing a supply chain for biomass to provide fuel for bioenergy projects, also has significant potential.

There is a close overlap too with wider co-operative innovation around land, housing and local economies. Housing projects are well placed to promote energy saving and to link into the supply of renewable energy. There will be opportunities too to work with supportive local authorities on renewable energy. This could include sharing best practice, combining facilities and assets to boost their renewable-energy potential and the creation of renewable-energy resources working with local communities, for example projects that take advantage of the Renewable Heating Initiative and other Government incentive schemes.

Conclusion

RENEWABLE ENERGY



If there is a third industrial revolution on the way, based on widespread distributed energy systems, then we are nowhere near the tipping point. What is visible in the UK, and all the more so in pioneer countries such as Denmark and Germany, is the spread of possibility in terms of new renewable-energy systems that are community owned. While the technology is adapting and will need to continue to do so, given the fundamental importance of energy to economic and environmental prospects, the key to change is not simply the innovation that embeds those micro-technologies in a business setting, which is the community-energy model, but the institutional framework within which this innovation will take place. For now, the regulatory and fiscal framework for energy is locked into a corporate and centralised model of generation and distribution, but when change comes, it will come fast. ■

1 See **thethirdindustrialrevolution.com**

2 Department of Energy and Climate Change, UK Renewable Energy Roadmap, Update 2013.

3 Another energy-security issue relating to fossil fuels, of course, is the source of the fuel. The UK imports coal and gas for UK power stations and for domestic energy use. This comes from Russia, Norway and the Netherlands amongst other countries. Dependence on fossil fuels therefore leads to reliance on the willingness of other countries to supply them in order to meet UK demand.

4 Stefan Nicola (2014), 'Renewables Take Top Share of German Power Supply in First', *Bloomberg*, 1 October 2014.

5 Peter Capener (2014), *Community Renewable Electricity Generation: Potential Sector Growth to 2020*, DECC.

6 In addition, The Co-operative Bank, floated off in 2013/14 by The Co-operative Group, had been the biggest lender to onshore wind farms in the UK and has been working towards a commitment of £1 billion of funding for renewables in general. However, again, this commitment came to an end in 2013, when the need to recapitalise the bank came to light.

7 Ibid.

8 See **s.coop/1v7kq**

9 See **http://www.windshare.ca/**

10 Attracting investors from outside the community

does not impact upon the democratic nature of community energy initiatives, but it may lessen some of the benefits of local ownership and participation that are claimed for them. There is inevitably a degree of both overlap and tension in the interplay of members coming into co-operatives as investors as well as co-owners of a project serving the cause of a more sustainable economy. While existing co-operatives are strongly community oriented, it is unhelpful to see renewable-energy generation as a way of generating income for other social aims. There is no need to saddle community energy societies with demands that they aim for unrealistic social gains in all cases or try to raise money on risky projects at very low rates of return. Climate change means that a co-operative or community enterprise that generates clean energy has a significant social benefit in its own right.

11 Co-operatives UK and the Community Energy Coalition won what could yet be an important victory in 2013 when the Government accepted the need to extend the upper limit on the proposed community feed-in tariff from 5MW to 10MW. Subsequently, it failed to get state-aid approval from the EU for this, but all the signs are that this is something that the UK Government could win on if it re-presented the case in a more effective way. This could lead to communities being able to commit to larger projects.

5
Retail

Large and small

Retail is the pulse of an economy. It is a sector that operates in every neighbourhood and touches the lives of everyone. It is also the sector that links production and consumption, connecting consumers with other parts of the economy and other parts of the world. Retail sales are rightly a bellwether of the wider economy and of consumer confidence. If there is to be innovation and economic change for the good, it will show up in retail.

The retail sector covers the sale of goods to customers for personal use. The sector encompasses all kinds of shops, mail-order and online businesses.[1] Not surprisingly, this represents a major component of the economy. In 2012, retail sales were £310 billion and the sector represented 5.2 per cent of UK gross value added (GVA).[2] The sector provides work for approximately three million people, 9.8 per cent of total UK employment.[3] Part-time work accounts for more than half of all retail jobs.[4]

The retail sector includes some of the largest and smallest businesses in the UK. Almost one quarter of retail turnover comes from the seven largest retailers listed on the London Stock Exchange and two-thirds of retail employees are employed by the largest 75 companies. However, 9 out of 10 retailers are small businesses employing fewer than 10 people.[5] In all, there are 189,280 retail businesses and 287,100 retail outlets.[6] The British Retail Consortium claims that nine per cent of businesses registered for value-added tax in the UK are retail businesses.[7]

Retail in recent years

During the mid-1990s through to the mid-2000s the retail sector sustained growth rates of more than two per cent per annum. Retail sales have fluctuated wildly since the financial crash of 2008 and subsequent recession and economic slowdown, with growth rates typically below this level.[8]

Lower consumer confidence, combined with changes in the retail cost base, has led to significant financial pressures in the sector.[9] Between 2006 and 2012 consumer spending rose by 12 per cent whilst operating costs for retailers increased by 20 per cent.[10] In addition, footfall in the principal shopping areas has been falling.[11] Improving macro-economic conditions and a reduction in the pressure on wages should encourage retail expenditure, although this may take two or more years to achieve and consumer spending may continue to fluctuate wildly over this period.

One consequence of the economic slowdown and recession that followed the financial crash of 2008 has been the failure of many retailers to continue trading. Between 2008 and 2013, 251 medium-sized or large retailers applied for bankruptcy orders, including some historic high-street brands such as Woolworths and Peacocks. These company failures affected approximately 22,000 stores and nearly 210,000 staff.[12]

Retail failures in 2012 returned to the historically high levels seen in 2008, with 54 businesses going into administration. The year 2013 was less bad, but still saw 49 retail failures, including Blockbuster, HMV, Jessops and Comet.[13] The ongoing volatility was due to weak sales, the continuation of the economic slowdown and the absence of a meaningful recovery. In some cases the failure of retailers to adapt their business models to new circumstances may have left them more exposed to changes such as the development of online platforms for products and services.

The challenging times for the retail sector during economic difficulties have been combined with rapidly changing consumer needs and behaviour. In particular, the relationship between the retailer and customer appears to be changing and the economic downturn has brought these changes into sharp focus.

In 2013, the Centre for Retail Research forecast year-on-year growth in the retail sector in terms of the value and volume of sales as shown in Table 1.

***Table 1** Growth forecasts for the UK retail sector*

Year	Value	Volume
2012	2.8%	1.4%
2013	3.9%	2.4%
2014	3.4%	1.6%
2015	3.4 to 3.8%	1.6%

Source: Centre for Retail Research (October 2013) Retail Forecast 2013-15

The largest percentage increases in sales volumes are forecast to come from the non-food retail sector. Non-food retail is expected to grow at twice the rate of food retail year on year by volume. The discrepancy between food and non-food retail is less pronounced in the forecast increase in the value of sales.[14]

There has been a growing trend towards internet shopping in recent years and this is likely to continue and to form a key component of retail growth. Online sales were worth £91 billion in 2013, up 16 per cent on the previous year and IMRG Capgemini estimates that e-retail accounts for 21 per cent of the total retail market. It expects online sales to have reached £107 billion in 2014.[15] Experian estimates that two-thirds of the growth in retail sales is coming from online transactions.[16]

The Government expects retail employment to grow modestly in the next seven years, with 55,000 more jobs by 2020. Many of the new jobs are likely to be more senior roles, as companies move towards integration and management of multi-channel operations.[17] However, the Centre for Retail Research suggests that the number of jobs in retail could fall dramatically between 2012 and 2018 with 316,000 fewer jobs, a reduction of more than 10 per cent due largely to the need for fewer staff in-store.

One of the major changes in the retail industry in the last few decades has been the decline in the number of stores or outlets. In 1966 there were around half a million stores. Forty years later, in 2006, the number had fallen by 40 per cent to around 300,000 stores. In 2012, there were 282,000 stores and the Centre for Retail Research forecasts that the decline is set to continue at a more rapid rate. The Retail Futures 2018 report suggests that there will be a 22-per-cent reduction in store numbers by 2018 unless there is proactive intervention by the Government.[18]

The retail model that has been dominant for the last 50 years is a real-estate-based model, with sales dependent on physical stores. The fall in store numbers is reflected in retail property vacancy rates in the UK's main shopping areas. In December 2008 the vacancy rate for UK retail premises was 5.4 per cent. From July 2010 to November 2013 the vacancy rate remained above 14 per cent, although it did fall to 13.9 per cent in December 2013. According to the Local Data Company monthly survey there are 21,975 empty shops in the UK's top 650 town centres.[19]

The decline over the last six years has arisen from a combination of pressures on the sector. These include the high cost of renting and running retail outlets together with the reluctance of customers to spend during the recession. In addition, the rapid growth of online retailing referred to earlier has changed consumer behaviour and challenged the current retail model that is largely based on physical stores.

In 2000, high-street stores were responsible for 50 per cent of consumer expenditure in the UK. Today, this share is forecast to fall to 40 per cent.[20] Stores are likely to remain an important part of retailing despite the growth of online shopping. However, national retailers may require fewer stores in order to sustain visibility as they move towards multi-channel strategies that integrate physical stores, online and social media as complementary ways of reaching customers.[21]

Grocery retailing

Grocery retailing accounts for more than half of all retail sales. In 2013 the grocery market was worth £169.7 billion, a 3.7-per-cent increase on 2012. IGD reported that the grocery market has been growing at an average annual rate of 3.9 per cent for the last 11 years.[22] The grocery retail market comprises six channels and the sales distribution by channel is shown in Table 2.

***Table 2** Grocery sales by channel – 2013 forecast*

Channel	Sales
Hypermarket and superstores	£74.1 billion
Convenience stores	£35.6 billion
Small supermarkets	£34.9 billion
Discount stores	£9.5 billion
Other retailers	£9.2 billion
Online retail	£6.5 billion
TOTAL	**£169.8 billion**

Source: IGD Grocery Retailing Briefing August 2013

IGD forecasts that retail grocery will see total growth of 21.3 per cent in the next five years, with the value of sales exceeding £200 billion in 2018.

Three-quarters of grocery market sales in the UK are from four big supermarkets: Tesco, J Sainsbury, Asda and WM Morrison. Tesco is the market leader with just under 30 per cent of the market, although its sales have been falling in the last 12 months. Indeed, all four leading grocers are under pressure from the growth of discount retailers, such as Aldi and Lidl, as well as the more upmarket Waitrose.

All the main retailers have substantial investment plans. Asda is investing £1 billion over the next five years to boost market share, lower prices and grow its online business. WM Morrison has invested £216 million to enter the online-grocery market and also aims to become a player in the convenience-store market. Tesco has embarked on a major restructure of its business under a new chief executive, following allegations of accounting irregularities, while J Sainsbury has replaced its chief executive after a 10-year tenure.

The discount grocery retailers are amongst the fastest-growing retail businesses. Aldi and Lidl now account for 7.1 per cent of UK grocery sales. Aldi has achieved double-digit growth in every quarter since early 2011 and the company more than doubled its market share in 2012 with one million additional customers. Lidl's growth rate has been more modest but it is still significant.[23]

This dramatic growth is partly a result of store expansion and the increase in population coverage. However, there is growing acceptance of the discount retail format amongst consumers and recognition that discounters are part of the retail landscape from within the industry. Aldi won the Which Supermarket of the Year award in 2012 and 2013. It is also the 2013 Grocer of the Year as awarded by the Golden Grocer Awards.[24]

The Co-operative Group, Waitrose and the food arm of Marks and Spencer sit between the discount retailers and the big four supermarkets in terms of market share. The Co-operative Group maintained a share of the grocery market of around 6.4 per cent in 2013 while Waitrose's share was around 4.9 per cent. However, the growth figures for the two co-operative or mutual businesses are very different. Waitrose has been growing at between 7 and 10 per cent per annum whilst the Co-operative Group over the medium term has seen like-for-like sales falling.[25]

The share of sales and growth figures tend to suggest that the UK grocery trade is entering a new phase in which the dominance of the four large supermarkets may be called into question. In 2012 and 2013 the fastest-growing grocery retailers were the discount retailers (Aldi and Lidl) and the premium players (Waitrose and Marks and Spencer). However, all grocers are adapting their business models to meet the new challenges ahead, in particular in terms of channel diversification.

The fastest-growing channel for grocery retailers is online sales. The online grocery market is currently worth £6.5 billion per year and is predicted by IGD to grow by 124 per cent over the next five years to be worth £14.6 billion in 2018.[26] However, the largest cash growth for grocery retailers is likely to come from convenience stores. These are stores that are less than 3,000 square feet in size, are not subject to Sunday trading hour restrictions and that primarily sell items from a core category list.

In the 12 months to April 2013 the turnover generated by convenience stores was £35.6 billion, an increase of 4.9 per cent on the previous year. IGD expects convenience-store sales to grow by 29 per cent in the next five years compared to a growth of 18 per cent in grocery retail overall. The main shopper motivations for choosing convenience stores are price, proximity, opening hours and product quality.[27]

One of the drivers for growth in this channel has been the restrictive financial circumstances faced by shoppers during the economic slowdown combined with a perception that things are unlikely to improve in the short term. In addition, smaller households and longer working hours are leading to changes in customer behaviour.

This has led to shoppers favouring budget control and reducing food waste at home. They are therefore likely to shop little and often rather than in one visit to a large superstore as they may have done in the past. They may also prefer to shop locally in order to reduce petrol consumption and for convenience.

According to IGD, retailers in this channel will need to invest in new formats for their stores as well as in providing ranges that offer value, quality and ranges that are locally relevant. It will be important that retailers differentiate themselves and their offer from their competitors and that they tailor the stores to their location and to the demographic profile of the customer base.

The convenience-store channel is highly competitive and includes symbols, multiples, co-operatives, forecourts and independents. Symbol groups have the largest share of the market with more than two-fifths of sales. Independent retailers that are not affiliated to an umbrella brand account for almost two-fifths of stores, as shown in Table 3.[28]

***Table 3** Convenience stores in the UK by type*

Segment	Sales	Stores
Symbol groups	£14.8 billion	16,889
Independents	£6.5 billion	18,826
Multiples	£6.3 billion	3,318
Co-operatives	£4.0 billion	2,637
Forecourts	£4.0 billion	7,357
TOTAL	**£35.6 billion**	**47,090**

Source: IGD (September 2013) Convenience retailing factsheet

The trends within the convenience channel are for a continued growth of symbols, multiples and co-operatives together with a decline in the number of independent stores. Some of the independents may go out of business whilst others may join symbol store groups. At the same time the multiples have been increasing their presence in the channel, increasing store numbers by almost 10 per cent in 2012.[29]

Co-operatives

Retail co-operatives are the largest component of the co-operative economy by turnover. In the *UK Co-operative Economy 2013*, retail co-operatives comprised 74 per cent of the overall turnover for co-operatives in the UK. Retail accounts for £26.5 billion from a total co-operative turnover of £36.75 billion.[30]

***Table 4** Retail co-operatives in the UK by type*

Co-operative Type	Number	Turnover
The Co-operative Group	1	£13,637,000,000
John Lewis Partnership	1	£9,541,300,000
Other consumer retail societies	22	£3,151,636,000
Specialised retailer	23	£84,568,058
Community shops	242	£14,617,943
Wholefood retail	41	£11,455,971
Country markets/Farmers' markets	96	£7,494,885
Other retail	40	£19,752,014
TOTAL	**522**	**£26,467,824,871**

Source: Co-operative Economy Report 2013 Data Extract

There are 522 retail co-operative businesses, including consumer retail societies, specialised retailers, wholefood retailers and a range of food-related and rural enterprises such as village community shops.[31] The Co-operative Group and John Lewis Partnership dominate turnover for co-operative retail and the co-operative economy as a whole. The Co-operative Group is a consumer retail society that had a turnover of £13.637 billion in 2012. The John Lewis Partnership is an employee-owned business with a turnover of £9.541 billion in 2012. At a smaller level, but with no less impressive performance, Unicorn is a worker co-operative with a turnover of £5 million from its one retail store.

The Co-operative Group

The Co-operative Group has a diverse range of trading interests, predominantly in the retail sector. The Co-operative Group was formed following the merger of the Co-operative Wholesale Society and Co-operative Retail Services in 2000. It has continued to grow, merging United Co-operatives in 2007 and in 2009 acquiring the rival food business Somerfield.

Co-operative Food is the largest component of Group turnover at £7.4 billion, but funeral care, pharmacy, banking and motor dealerships also made a significant contribution to Group turnover in 2012. In 2014, The Co-operative Group sold off its pharmacy business, in the context of financial losses following the recapitalisation of the Co-operative Bank. So, by 2015, these lines of business had narrowed to funerals and food, with some ancillary businesses alongside.

Co-operative Food is the fifth-largest grocery retailer, with a 6.4-per-cent share of total sales. The Group also runs the Co-operative Retail Trading Group, the central buying group for consumer retail societies and supplier to approximately 4,000 stores – predominantly convenience stores and supermarkets. In 2014, it was decided to set this up as a renamed federal entity with clearer and more formal relationships across member societies and with the Co-operative Group.

The Co-operative Group is a consumer retail society that is owned and governed by its members. Membership is open to everyone that shares the values and principles of the business. The Co-operative Group has up to seven million members and over 70,000 people work for Co-operative Food.[32] In practice, as with all mass membership consumer co-operatives, the engagement with members has become weaker over time, in part because the loyalty component of the traditional dividend model has become both eroded and less distinctive in an age of multiple loyalty schemes. This factor, of a somewhat illusory system of member ownership and control, was what underpinned debates in 2013/2014 around governance reform at The Co-operative Group.

Independent consumer co-operatives

Alongside the Co-operative Group, and part of the shared buying consortium, are a number of small and medium-sized independent consumer retail co-operatives, including the Midcounties Co-operative, the Scottish Midland Co-operative Society (trading as Scotmid), East of England Co-operative Society, Southern Co-operative, Lincolnshire Co-operative, Channel Islands Co-operative Society, Chelmsford Star Co-operative Society, Heart of England Co-operative Society, Radstock Co-operative Society and Tamworth Co-operative Society.

The number of retail societies has been declining due to merger, takeover and consolidation in the sub-sector. One hundred years ago there were 1,400 societies, today there are 20. The latest example of two societies combining is Central England Co-operative, which is a new consumer retail society formed through the merger at the beginning of 2014 of Midlands Co-operative Society and Anglia Regional Co-operative Society.

Before the merger Midlands and Anglia were the third-largest and the eighth-largest retail societies respectively. Following the merger they will have a turnover of almost £1 billion. Both parties viewed the merger as an opportunity to create the scale and resources, as well as the financial strength, required to compete.

The Co-operative Group and many of the other large retail consumer societies have disposed of their other retail operations in order to focus on the grocery business. Some societies still offer department stores and travel services, but these have mostly been sold or closed.

In 1950 co-operatives sold a quarter of Britain's groceries. In 2000 this had fallen to five per cent.[33] Lord Myners, in his forensic review of governance for the Group in 2014, ascribed this decline to a deep-rooted failure to adapt, both in commercial strategy and in terms of the governance and leadership expertise required for renewal. Reforms, he argued, were "*thwarted by traditionalists or delayed until they were too late to make a difference.*"[34]

An attempt by The Co-operative Group to halt the decline in the 2000s came with the acquisition of the Somerfield retail business in 2008, but, while sales saw a degree of recovery, this came at a cost of borrowing that was compounded by capital shortages in 2014 in the context of weaknesses at the Co-operative Bank, which we will look at in Chapter 7. Performance across the independent societies has been resilient in recent years, albeit with a renewed trend over the last 12 months towards the consolidation of some societies. The Co-operative Group has invested in its governance and leadership, with a clear strategy for its food business. But overall, the consumer retail societies share a set of challenges that revolve around the need for forms of renewal that can turn their distinctive characteristic of customer ownership into a sustained retail advantage.

John Lewis Partnership

The John Lewis Partnership is an employee-owned company which operates the John Lewis department stores and Waitrose grocery stores. The company is owned by a trust on behalf of its employees, who are known as Partners. Partners have a say in the running of the business and receive a share of annual profits, which is usually a significant addition to their salary.

The John Lewis Partnership does not describe itself as a co-operative. However, it does meet the co-operative criteria adopted by the International Co-operative Alliance in terms of member ownership and governance. The company is therefore included in the annual *UK Co-operative Economy* report statistics.

In 2012, John Lewis Partnership had a turnover of £9.54 billion, of which £5.76 billion came from Waitrose and £3.78 billion from John Lewis. The group is the third-largest UK private company.[35] It is also well regarded by politicians, who talk about the John Lewis model of mutual ownership, and by other businesses. In 2013, the John Lewis Partnership was placed fourth in Management Today's awards for Britain's Most Admired Companies.

Nisa

Nisa is a very successful symbol group operating in the convenience store channel. Founded in 1977 by Dudley Ramsden and Peter Garvin as the 'Northern Independents Supermarket Association', Nisa does not own or operate stores, but acts as a supplier to independent stores which then trade under a common banner, either as Nisa or Loco. Independent retailers join Nisa as members of the mutual rather than as franchise holders, which is the most common contractual arrangement for symbol groups to adopt. Nisa is the seventh-largest UK symbol group. The five largest symbol groups each have more than 2,000 affiliated stores, including Premier, Best One, SPAR and Londis.

Nisa has increased turnover in recent years and achieved sales of £1.43 billion in 2012-13.[36] The company has 1,134 retailer members that undertake to purchase a proportion of the goods that they sell from Nisa in return for a range of benefits, including branding, marketing, distribution and advice. As a bulk buyer, Nisa is able to achieve and pass onto its members beneficial buying terms from suppliers. In 2013, Nisa paid a rebate to its members of £16.5 million.[37]

Nisa is a mutual. If its turnover figures were included in the annual Co-operative Economy report statistics, then it would be the third largest co-operative by turnover behind The Co-operative Group and John Lewis Partnership and these three retailers would account for two-thirds of total co-operative turnover in the UK.

The Wine Society

The International Exhibition Co-operative Wine Society, or The Wine Society, has aims that have been unchanged for 140 years, which are to buy high-quality wines from all over the world and to offer them to its members at fair prices. It is owned by its members, sells only to them and exists purely for their benefit. Member satisfaction is paramount, maximizing profits is not.

The society has an enduring mission, but in the pursuit of that, it has become one of the most successful and novel home retailers, inventing a business model which has now been widely copied by for-profit competitors. The Wine Society, the recipient in 2014 of the 'UK Wine Merchant of the Year' award from Decanter Magazine for the fourth successive year, still outcompetes them all, on service, price and quality.

Worker co-operatives in the retail sector

Consumer co-operatives arguably created the world's first industrialised national supply chain in the 19th century in the form of the UK Co-operative Wholesale Society. Today, worker co-operatives have been pioneers of supply-chain innovation in wholefoods distribution. There are now three significant and successful worker co-operative wholesalers and distributors in the market – including SUMA, named Co-operative of the Year in 2014 – with a wide range of own-brand products that were and continue to be product innovations, and indeed new product categories.

What marks out worker co-operatives is the level of engagement and commitment that can come with a genuinely participatory model of business. As Britta Werner, of Unicorn Grocery, comments: "*I have studied employee engagement inside out and I know that worker co-ops fulfil every single one of the factors needed. Some of my colleagues have worked for the Co-operative Group and John Lewis and the truth is that they do not feel engaged in the same way. Their true co-operative spirit came out working at Unicorn.*" She goes on to describe a business that is a remarkable example of co-operative retail at its best: "*I had customers crying when they moved away because they said that they'd miss Unicorn so much. It's a meeting place, it brings the community together, people can rely on each other and co-operate.*"[38]

Community-owned shops

The Plunkett Foundation has provided extensive support to the establishment of community-owned shops as part of the Making Local Food Work programme, which involved a range of partners, including Co-operatives UK. There were 309 shops in community ownership by the start of 2014, up by six per cent on 2013, together generating a turnover of £48 million.[39] This represents half or more of the turnover of all community food enterprises.

Where the market is unable to provide, it is possible for co-operative enterprises to be seen as a response if they are able to sustain business activity using the difference that they bring – such as member volunteer time or customer loyalty. The demand for community ownership of local shops is unlikely to decline, if the trend towards closure of high-street stores continues in the wider retail sector. According to PricewaterhouseCoopers, store closures stood at an average of 30 stores a day in 2012, compared with an average of 14 per day in 2011. Year-on-year data from Local Data Company showed that the overall reduction in the number of stores climbed more than tenfold from 174 closures in 2011 to 1,779 in 2012.[40]

Co-operatives and trust

A historic advantage for consumer retail societies and co-operatives in general has been the trust that consumers feel towards them. But the reputation of the co-operative sector was dented by the chaotic reforms and infighting at The Co-operative Group, following the capital shortfalls at The Co-operative Bank, the revelations about its chair and the very public disputes over the shape of governance reforms for the wider Group. In research for Co-operatives UK, over half of people that were aware of the news coverage (53 per cent) said that, overall, they trusted co-operative businesses less than they did before the bank coverage. But, this is not dissolution of trust. Overall levels of trust in co-operatives amongst UK adults still remains high, with, in fact, a small rise in the number of people who associate co-operative businesses with the word 'trusted' (47 per cent of those who expressed a view, which is up two percentage points from earlier in 2013).

Co-operatives are, though, now viewed in a more critical light. While only cited by a small minority, the top four 'negative' associations with co-operatives, for those who expressed a view, are: old-fashioned (30 per cent), inefficient (7 per cent), unprofessional and greedy (both 2 per cent). Even so, these are all significantly lower than positive associations such as ethical (54 per cent), democratic (48 per cent) and honest (46 per cent).

It is said that it takes years for a business to build trust and it can take only hours to destroy it. The trust that the co-operative sector has built up over decades has emerged, so far, as more resilient than that. Public trust has declined, but from a high level. Trust in co-operative businesses is still far greater than companies at large (with just seven per cent saying that they trust shareholder companies). If it lives up to the promise, then the levels of public trust that the co-operative sector enjoys are still the stuff that marketers' dreams are made of.

Co-operation overseas

Seikatsu Consumer Co-operative is a long-standing and award-winning Japanese consumer co-operative. It operates in a different way from UK retail consumer co-operatives, including delivery rather than just in-store models and the development of community-supported agriculture and fair trade in Japan, but the innovation that stands out is what the UK Sustainable Consumption Roundtable some years ago dubbed 'choice editing'.

For products that are relatively staple but for which there is a wide variety of choice, Seikatsu members agree to purchase one product in common, rather than exercise their choice at the point of consumer purchase at the co-operative. The product is democratically chosen – with the benefit of consumer testing along the lines pioneered by Consumer Reports in the United States. As a simple illustration, rather than, say, eighteen types of washing powder divided by its 350,000 members, a Seikatsu has, in theory, the purchasing power for price negotiation from suppliers 18 times greater, as it focuses on a single product.

There are successful retail co-operatives in many European countries – including the top two food retailers in Switzerland and the S Group in Finland, which has 46-per-cent market share in food and groceries.[41] Eroski is a retailer that is an integral part of the highly successful Mondragon Co-operative Corporation in Spain. It operates across a number of countries now, in a highly challenging economic environment. Mondragon is a worker co-operative, but it was recognized at the formation of Eroski that retail is also about engaging consumers. It therefore operates a hybrid model of worker and consumer ownership. In principle, this is intended to contribute to consumer loyalty and to higher worker productivity.

In the United States, food co-operatives, which operate on a far more dispersed model than in the UK, have developed a 'Principle Six' consumer brand. Principle Six refers to the international co-operative statement of identity that makes co-operation a core way of doing business. This is used for in-store marketing and is attached to shelves and to products that are: from local independent businesses; from member-owned co-operatives; or from fair-trade producers further afield.

Whether the model in the United States can work at a larger scale in its present form is uncertain, but the underlying idea has value for co-operative businesses. By demonstrating that local businesses are present and welcome in co-operative stores, the approach helps to build a degree of differentiation in a crowded retail space, with opportunities for cross-marketing and sustaining customer loyalty.

Barriers to co-operation

Even in changing and challenging times the fundamentals of retail success are likely to remain the same. Successful retailers will need to understand their customers and to adopt business strategies that are focused on customer needs. However, the way in which they obtain information, how they use it, how they relate to customers and how they fulfil their needs may all be changing. Those that advise the retail sector are encouraging companies to rethink their business models in order to adapt to changes in consumer behaviour. Indeed, the advice from one consultancy is to plan for a range of possible futures and to build flexibility into the business strategy in order to be able to adapt along the way.[42]

The future trends identified by Bluefin Solutions include greater use of technology to inform decision-making, the need for stronger customer insight and segmentation, adopting multi-channel operations and providing a seamless shopping experience embracing all channels with integrated marketing solutions for the entire shopping journey. Bluefin's three new rules for success in the digital age are exploiting customer data, adopting emerging technologies and developing a flexible, customer-centric business model.[43]

Multi-channel retail is seen as the key to growth in making life easier for customers. This includes online and in-store options for viewing products as well as flexible delivery such as drive-through pick-up, click and collect, and convenient home-delivery slots. It may also mean greater use of technology in-store with scan-and-shop applications. Despite the claim that online retail can sustain a 'long tail' of a diverse range of suppliers, it seems more likely that at any significant commercial scale the need to be able to operate across different channels adds up to a barrier to entry and growth for those without that capacity and scale.

The UK is one of the most sophisticated online retail markets, with a greater proportion of consumers making purchases online than any other country. In 2011, 64 per cent of UK consumers had ordered or purchased goods and services online. The main motivations for online shopping are convenience and ease of use rather than price or transaction speed, although these may be secondary factors.[44]

Online retailing accounted for 10.7 per cent of retail sales in January 2014.[45] This compares to just 2.8 per cent seven years earlier in February 2007.[46] The Centre for Retail Research forecasts that online sales will be greater than 20 per cent by 2018 and will continue to grow as a proportion of retail sales.[47] Whereas in 2008 more than half of retail sales were achieved by pure-play online retailers, such as Amazon and Play, in 2010 multi-channel retailers were responsible for 59 per cent of online sales.[48]

The food retail category has lagged behind non-food retail in terms of online activity but demand is picking up and competition is strong. *Retail Week* suggests that the major grocers are seeing annual growth in online sales of more than 20 per cent.[49] The blueprint for the next generation of grocery shoppers is likely to be the purchase of a large ambient shop online, supplemented by visits to local stores for milk and fresh produce.

Of the three major co-operative retail groups, only John Lewis Partnership has a sophisticated online presence. Indeed, John Lewis has an award-winning website and Waitrose has an established online grocery operation, delivered in partnership with Ocado, that currently has a 12-per-cent share of the market. Co-operative Electrical is a purely online business, but it is a small operation.

Co-operative Food announced an intention to add an online service for customers but since then has put this on pause. Co-operative Food is a convenience retailer, trading on local proximity, but, even so, it will be the last of the major grocery retailers (excluding discount brands) to enter the online grocery market. If there is any benefit in that, it may be to learn from some of the wrong turns and high delivery costs of some of the pioneers.

In terms of the forecast growth of the convenience store format, Waitrose, Co-operative Food and Nisa should all benefit. It is the primary outlet for Waitrose and Co-operative Food and the sole outlet for Nisa. However, as this is also a growth channel for the multiple retailers there is likely to be fierce competition. Sainsbury's and Morrison's, in particular, have major expansion plans in the convenience-store channel.

In principle, Co-operative Food should be well placed to capture and collect data on customers. Many customers are members and use their membership card when they shop in order for the amount they spend to count towards their dividend later in the year. At present, however, The Co-operative lags behind competitors such as Tesco, which has used its loyalty card successfully to understand customer behaviour and to inform targeted marketing.

It will be important for convenience-store operators to make the most of technology in-store as well as online. This will include encouraging customers to register so that they can receive offers and product information directly to their smart phones and by adopting smart payment mechanisms. Customers can already compare prices in-store using the mysupermarket.com application for smart phones and the use of phones in-store is likely to grow as a new generation of shoppers uses the stores.

Innovation potential

1 Customer-led retail

In *Co-operation in the Age of Google*, Robin Murray argues that co-operatives have an opportunity to benefit significantly from changes in consumer behaviour and what some call a new revolution in retail.[50] Co-operatives were one of the great losers in the last retail revolution starting in the 1950s that saw the development of national retail chains with business models that were more efficient and effective.

The one factor that experts agree on that will be central to future success in retail is customer relationships. Whether on new technologies, that open up so many opportunities for wider engagement, or with old, access, convenience, emotion and pleasure will win out. So, while a weakness of the consumer co-operative retailers is that membership ownership and control has over time been anaesthetised in the race to scale and professionalism, the business opportunity, which should in fact be the societies' *raison d'être*, is member engagement.

Getting the technology right will be important. However, potentially more important will be the ability to develop strong customer relations through understanding customer needs and incorporating these into the retail brand and the offer. As an organisation with member ownership and democratic structures, consumer retail societies should have an advantage over their competitors in customer interaction.

To make the most of these potential advantages, consumer co-operatives will need to adjust their business strategy. They need to be good enough at the retail essentials.[51] They need to be distinctive. Co-operative Food stores do not look very different from those of private competitors. In many ways, if Co-operative Food did re-establish itself and halt the decline in market share in the 2000s, it did it through expensive borrowing and by emulating the competition rather than through daring to be different. If it does not create a unique identity, then consumers will treat it as just another store and will not show the loyalty that the brand could potentially command and that it will need in order to grow.

Being local is part of being distinctive. Part of building a unique identity and one way to develop customer relations could be to adapt the business model for Co-operative Food to allow for more local produce and a variation of produce in convenience stores. This would require greater intelligence and flexibility in the centralised procurement and distribution system than is currently on offer. It would need to form part of a wider brand and pricing strategy that is reinforced by the right culture and capability at the area level. Finding the right ways over time to strengthen the connection at store level between local members and store managers and staff is part of that opportunity.

As they did in the first half of the 20th century, Robin Murray argues that member proximity and democratic structures can provide co-operatives with an unmatched system of market intelligence through built-in interaction with the customer base around local stores and locally sourced goods and services.

2 Co-operation and service provision

Robin Murray takes the potential role of the local store interacting with customers one step further by proposing that local shops can become local service hubs. He points out that some major retailers have already extended their portfolios to include financial services and telecommunications as well as goods. This trend may become more prevalent as consumers look for greater convenience and ease of access.

The traditional provision of some services has come under threat in recent years with Government austerity and funding cuts. At the same time the growth of e-commerce and the range of services accessed via the internet could boost the role that retailers play in service provision. Retailers may be able to adapt their expertise in customer engagement and customer service online as well as in the management of data to support the development of new co-operative business opportunities.

In many ways the modern retailer is the modern town square or high street, offering goods and services under one roof or umbrella brand. There are already examples of health-related services and library services being offered at retail stores. Health, housing and education could all be services where retailers play a greater role in the future.

Co-operatives might have an advantage over other retailers in the provision of relational and informational services because of the greater level of trust that they enjoy over their competitors. In private companies shareholders may be keen to limit the financial flexibility of a company in order to safeguard profit. However, in a co-operative the case for long-term development of key services in line with customer needs and expectations may be seen as more acceptable.

Co-operatives also have the advantage of a convenience-store network that is larger than their rivals', experience of delivering related services such as pharmacy and funeral care and a membership base from which to draw service users. Indeed, ideally co-operatives would design and develop services with their members and with other co-operatives that operate in the relevant field.

This model can be dovetailed with collaborative efforts with other retailers and local authorities to renew high streets that are under pressure. In Wigan, this has been through a membership-based, electronic loyalty card, piloted by Hometown Plus. In Rotherham, the Shop Local initiative has 100 shops in membership and is used by 16,000 residents – helping to cut the number of boarded-up shops on the high street and keep the economy alive.

3 Consumer control of data

It is clear that 'big data' and the new information possibilities associated with the use and reuse of personal information is central to the future of retailing, as indeed it is for a wide range of other sectors. As business and social networks have moved online, we leave a footprint of data that has now become big business. According to the Direct Marketing Association, data mining generated $156 billion of revenue in the USA alone in 2012.[52] But whose data is it, and how should the gains of data sharing in turn be shared?

In Switzerland, the Swiss Health Bank has developed as a co-operative model for pooling personal health data. There are no co-operative models in the UK as yet, in health or more widely, that are genuine market leaders in this field. But there is a fledgling enterprise founded with a co-operative ethos that may offer learning about the potential for a particularly co-operative variant on the model. Mydex was founded by a successful entrepreneur, William Heath, with a big idea that rather than businesses collecting, analysing, warehousing and using personal information on consumers, consumers could own their personal information. The benefit, using data that can be passported across service providers, was conceived to be that the results could be more accepted, more revealing or intimate and more likely to be accurate.

4 Sharing economy

The idea of the sharing economy is that new technology platforms can allow consumers to make use of goods and services that they can spare for use by others. In most cases, money will change hands and the new sharing economy enterprises play the role of brokers, creating a platform and the design to enable trust and redress to encourage consumers to use the model. From sharing space in homes, competing with bed and breakfast, to sharing the use of cars, competing with taxis, the logic of the sharing economy is that there is tremendous waste that is locked up in the model of individual ownership and property use.

The early sharing economy was dominated by small-scale enterprises and voluntary initiatives. Casey Fenton, of CouchSurfing, explained that the functionality of sharing is what brings people in, but it is the community, the ability to meet with others and interact in a positive way, that keeps them participating.[53] A number of these are now growing at scale, backed by venture capital, often emerging from the technology sector. Many, such as AirBnB and similar platforms for home and room hire, are likely to have a profound effect on markets they operate in. At the same time, they may also raise issues, as a new market, on how they deal with issues handled by incumbent providers, such as insurance, liability, regulation and taxation. The most controversial example of this is Uber, which has pitted taxi drivers (which in many cities, from Belfast to Quebec, may include taxi-driver co-operatives) against the new venture. Seoul, for example, has committed to developing an alternative model that works for consumers, but handles those issues in ways that Uber is happy to ignore.

This is a sector that could leave traditional co-operatives behind, at least in the space that they are opening up. The upfront investment for platforms to reach scale does suit the investor-led model, but potentially the co-operative model is a more sustainable and more aligned fit for success over time, giving users a voice and a say in a community that they feel part of.

The challenge that sharing-economy enterprises then face is how to reconcile return on capital with the ease and convenience that attracts new customers – something that even the most successful digital enterprises such as Twitter still grapple with. In principle, consumer co-operatives could be ideally placed to deliver their existing mass membership for applications around the sharing economy, perhaps in partnership with digital enterprises. Alternatively, the platform and idea of peer-to-peer models online could be one in which consumer ownership was a sustainable way to make it work and make it last.

The question is, what vision will work for sharing economy enterprises as they scale up? Sascha Lobo, a technology blogger, has argued that many of the enterprises are not really about sharing, but are what he calls 'platform capitalism' – not simply marketplaces for reciprocal exchange, where the co-operative form would have value, but online ecosystems, designed to serve but also to lock in customers through the value of those exchanges.[54]

If the sharing economy wants to stay sharing, then it may become a new co-operative force. If it is about extracting value for investors, then the new retail will have a new offer but it may feel and behave much like the old. The jury is out.

5 Sustainable consumption

The market for ethical goods and services has remained resilient throughout the economic downturn. The Co-operative Bank Ethical Consumer Market Report 2012 looks at food, household goods, eco-travel and ethical finance. In 1999, sales in these categories were £13.5 billion and in 2011 sales were £47.2 billion.[55] Approximately one-third of the total is now derived from food and drink, goods for the home and personal products – in other words, items purchased from retailers.[56]

Table 6* *Considerations of ethical issues among grocery shoppers

Ethical Issue	2006	2007	2008	2009	2010
Organic food	12%	18%	24%	19%	17%
Local produce	15%	18%	25%	27%	30%
Animal welfare	11%	11%	14%	18%	18%
Fair trade	9%	18%	23%	25%	27%

Source: Centre for Retail Research (2012) Retail Ethics and Green Retailing

Grocery shoppers have been showing increasing awareness of ethical matters in the last few years. Survey respondents were asked whether or not they sometimes took ethical concerns into account when making purchases. Between 2006 and 2010 the percentage of shoppers that sometimes consider fair-trade matters has trebled and the percentage that sometimes consider local produce as a factor has doubled.[57]

As we explore in the chapter on agriculture, organic produce has fared less well during the economic downturn and less well than in leading countries such as France and Germany. It is possible that a fall in shoppers' concern for organic provenance may be down to budget management if organic food is perceived as more expensive than other produce.

Improved responses and interest in local produce may come from the growing popularity of country and farmers' markets, leading to an increase in opportunities to purchase these items. Concern for the need to reduce carbon emissions in the food chain may also have led to greater awareness of the place of origin for food, as may recent scandals such as the passing-off as beef of meat that contains horse meat.

The IGD's chief economist recently suggested that, in the future of retail, value will always count, but values will count more. In particular, he said that progressive companies have the opportunity to revolutionise their relationships with shoppers through openness, transparency and trust.[58]

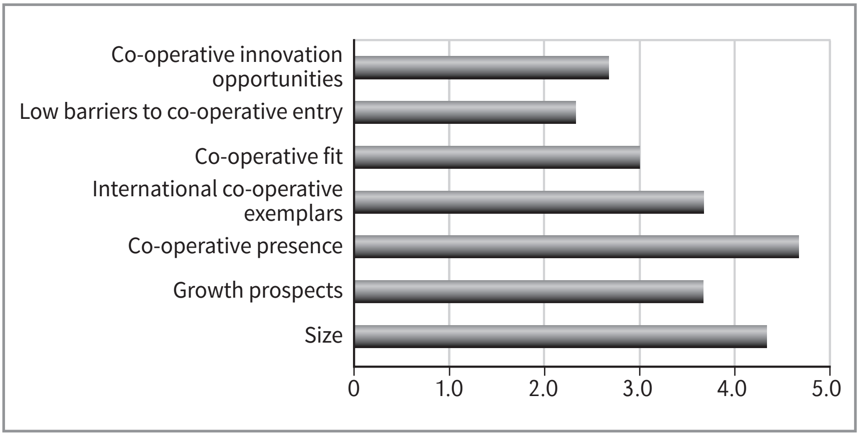
The Co-operative Group and John Lewis both have strong values and, in the case of the Co-operative, a reputation for leading the way on ethical and environmental matters. This could and should be a source of comparative advantage for these businesses. However, their retail competitors are also aware of the need to be seen to be taking action on ethical and environmental matters and are taking measures of their own.

The Co-operative Group pioneered mainstream retailer adoption of fair-trade products, but others have followed suit and Sainsbury's is now the largest seller of fair-trade goods in the world. Marks & Spencer has successfully built a strong association of its brand with sustainable fishing and Tesco has recently done something similar with food waste. All the main supermarkets have zero carbon targets that stand comparison with those of Co-operative Food.

At the same time, these are only stepping stones towards a wider goal of sustainable consumption. At present, retail is closely implicated in consumer lifestyles that are evidently unsustainable, in terms of carbon emissions or impacts on wider environmental concerns, such as biodiversity. It is a low-wage sector in general, and a target of campaigners for a living wage for staff. Whether the idea of sustainable consumption is something that is commercially possible in the current economic climate is far from certain, but the leaders are likely to be those who find the space and sophistication to move best practice in the market closer to what the imperatives of sustainability might require, taking their customers with them as they go. Co-operative and mutual models, owned by or responsive to their customers, could see this as a leadership opportunity over time.

Conclusion

RETAIL



With product innovation, technology change and global supply chains, the UK retail sector has become one of the most competitive in the world and there is no scenario in which retail business will sit still. New technology, as in the case of the use of personal information and platforms for the 'sharing economy', is likely to create space for new business models. In terms of co-operative enterprise, retail has been an area of strength. There are exemplars for all three forms of co-operative – worker-owned, enterprise-owned and consumer-owned – in the market and they each have opportunities to align with innovation trends. For consumer co-operatives, however, that potential advantage will come not just from keeping up but from a radical reinvention of what it means to be customer owned. ■

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17 Department for Business Innovation & Skills (2013), op cit.
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21 According to the Department for Business Innovation & Skills, consumers are likely to place an increasing premium on shopping that is convenient, provides an enjoyable customer experience and reflects the self-identity of the customer. Its *A Strategy for Future Retail* report suggests that retailers will have to think more about customer segmentation in the future in terms of products, premises, locations and customer service. Brands, labels and marketing will also be increasingly important. Within this segmentation are the potentially contrasting needs of consumers, especially those that fall into different demographic categories. From next-generation shoppers on the one hand and the growing population of older people on the other, the way in which retailers relate to customer segments in their business model will be important for future success. See Department for Business Innovation & Skills (2013), op cit.
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23 Kantar Worldpanel (2013), Grocery Market Share UK.
24 Aldi website, 'About Aldi, Awards and Endorsements', **aldi.co.uk**
25 Various sources, primarily articles report, Kantar Worldpanel Grocery Market Share releases.
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55 The average annual ethical expenditure per household, including energy-efficiency and renewable-energy measures, was £291 in 2000 and £989 in 2011. The largest growth areas have been sustainable fish, fair-trade goods and free-range eggs. In 2013, 51 per cent of eggs sold in shops were estimated to be free range. The Co-operative Bank's report suggests that a progressive core of retailers have factored sustainability into their products, services and produce. The Co-operative Group (2012), *The Co-operative Ethical Consumerism Report 2012*.
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6
Insurance

Risky business

The idea of co-operation in the face of risk lies at the heart of the insurance concept. Insurance began as a way in which the risks faced by individuals could be ameliorated by being shared collectively. Long before it was formalised into an industry, insurance provided a means for members of a community each to contribute so that when one of their number was unlucky enough to suffer misfortune things could be put right again. Principles of mutuality and solidarity were there at the very birth of insurance.

Somehow, that is not how it feels today in Britain. Any sense of a shared undertaking between insurance company and policyholder has, by and large, long disappeared. Insurance has successfully been commoditised into a set of products (of differing degrees of usefulness) and the relationship between insured and insurer is inclined to be one of mutual mistrust: individuals have the sense that insurers are all too keen to rely on small-print exclusions to avoid having to pay claims at the times when they most need help, while conversely insurers try their best to detect the growing number of fraudulent claims they receive.

Public mistrust may be legitimate, for the insurance industry has chased the lure of rich pickings by developing an increasingly opaque range of products of sometimes highly questionable utility. The mis-selling of payment protection insurance (undertaken by the banks, but with the complicity of insurers) is only the latest example of the public being taken for a ride. Before this, there was the equally widespread scandal of mortgage-linked endowment policies. And there remains, particularly on the life side, a raft of products which are widely sold but which seem curiously ill-suited to many people's real insurance needs. Insurance, the adage says, is sold rather than bought, and regrettably this has encouraged unacceptable selling techniques for inappropriate products.

The UK is the largest European insurance market by size of premiums, and is the third largest in the world behind the US and Japan.[1] According to the Association of British Insurers, it provides close to a third of all jobs in the financial-services sector, offering work to around 320,000 people.[2]

Insurance is divided into life insurance (long-term investment-based products, including pension, annuity and term life products) and general ('non-life') insurance, such as buildings and contents cover, motor insurance, health insurance and legal insurance. The life side is, in numerical terms, the more important, bringing in almost exactly two-thirds of the total UK insurance premium income of £211 billion in 2013; non-life contributed the remaining third, just under £70 billion. (On the non-life side, the UK is in fact in second place in Europe behind Germany in relation to total premium income.)

The insurance industry itself mitigates the risks it takes on through the sophisticated global reinsurance market. The reinsurance scene is rapidly changing, with the arrival of new sources of capital (from investment and pension funds) and new reinsurance investment vehicles.

Insurance is a regulated industry. There are around a thousand firms that are authorised to sell general insurance in the UK; a smaller number are permitted to offer life products.[3] The UK insurance industry suffered significant falls in premium volumes after the global financial crisis in 2007, but the industry is now growing again, albeit modestly. Premium income increased in real terms by 1.2 per cent between 2012 and 2013, following similar real growth between 2011 and 2012.[4]

An industry in the spotlight

Compared to the banking sector, which has certainly dominated the headlines in recent years, insurance can seem the duller end of the financial sector: a staid, tweedy sort of affair when compared to the slick city world of banks and bankers. But such an impression would be wrong. Indeed, there is growing awareness and understanding at a global level of the strategic importance which insurance can play.

The insurance industry is increasingly been seen as a major vehicle in helping the world tackle the systemic risks – such as the effects of global warming or climate change – which it faces. We can anticipate the role of the insurance industry coming to the fore on at least two occasions in 2015: first in March at the UNISDR (United Nations International Strategy for Disaster Reduction) conference, leading up to the renewal of the UN Hyogo Framework for Action on disaster risk reduction; and again at the highly important UN summit on climate change in Paris late in the year.

We can see something of this same trend happening in Britain, where the government has been working with the industry to develop adequate protection for homes against flooding, work which has taken on even greater urgency following the winter 2014 floods. The new Flood Reinsurance

Scheme (Flood Re), involving a levy on all building and contents insurers, comes in during 2015.

The mutual market share

Mutual and co-operative insurers have long seen themselves as sharing a common business model, one that is quite distinct from the proprietary (shareholder-owned) model. Indeed, what had been the global organisation for co-operative insurers admitted mutuals as far back as 1992, when it became the International Co-operative and Mutual Insurance Federation (ICMIF). According to ICMIF data, mutuals and co-operatives play a significant role in the global insurance market, holding a 26.7-per-cent market share (2012). This represents a significant increase over the 23.4-per-cent share held at the time of the financial crisis in 2007, making the mutual/co-operative sector the fastest-growing part of the global insurance industry since then.

The mutual/co-operative share is even more pronounced in some countries, at around 50 per cent in the Netherlands, 45 per cent in Germany, 42 per cent in Japan, 40 per cent in France and – perhaps surprisingly – 34 per cent in the US. By contrast, the mutual/co-operative share in the UK is one of the lowest of all major markets, at about 8 per cent.[5]

There is a simple explanation: the major demutualisations of the 1990s and early 2000s, which saw firms such as Standard Life (the largest European insurer at the time), Norwich Union, Friends Provident and Scottish Widows leave the mutual sector. Although less publicised than the building-society demutualisations, the same motivations were present. One guide at the time targeted at individual investors concluded cheerfully: "*These industry rationalisations should bring much joy, and a fair amount of money, to the carpetbaggers of the world.*"[6]

Those firms may have previously been technically member-owned but in practice had long ago lost any sense of being run for their members' benefit. The tidal wave of demutualisations (together with the disastrous management of the mutual Equitable Life) has led the remaining insurance mutuals to reassess their role and certainly encouraged some to address issues of accountability and governance. A new code of corporate governance (overseen by the Association of Financial Mutuals) was introduced in 2008. Some mutuals have changed their strategies in order to emphasise their role as member-owned institutions: one example would be Engage Mutual (previously Homeowners Mutual). More could still be done in this area.

Britain's remaining mutual insurers include some with a strong focus on a common link between policyholders: an example would be Cornish Mutual, which is primarily an insurer for West Country farmers. There are also two mutuals with continuing links to trade unions. The UIA (at one stage known as Nalgo Insurance, formed in 1890 as a mutual for local government officers) remains closely linked to Unison and has Unison representatives on its board. Teachers Assurance, also with 19th-century roots, was once a part of the National Union of Teachers but is now organisationally separate, although the NUT continues to market its services.

Any survey of the mutual insurance sector in Britain also needs to note the remaining larger, less specialised, mutual insurers such as Royal London and LV.

Specifically *co-operative* insurance in Britain has its roots in the 19th century in the Co-operative Insurance Society, initially a secondary co-operative serving co-operative societies' needs, which was later absorbed into the CWS, now the Co-operative Group. The life and investment side of the business was recently sold to Royal London, but the Co-operative Group currently retains the general insurance operation as one of its business divisions following an abortive attempt to sell this too.

Learning from abroad

Because of both the loss of the demutualised insurance giants and the relatively niche role historically of co-operative insurance in Britain it makes particular sense to look at what is happening in other countries.

Just across the Channel, for example, is a very healthy mutual insurance market, with many leading mutuals strongly emphasising their role as member-serving institutions rooted in the principles of solidarity.

Many French mutuals have their roots in particular occupational groups, or in geographical areas. For example, the French mutual la MAIF was originally set up to provide insurance for primary-school teachers, and although it has since expanded its scope, it remains strongly orientated to the educational world. Another French mutual, la MACIF, created in 1960 with la MAIF's assistance, was established as a mutual focused on the needs of shopkeepers and other business owners. It too has grown beyond this initial base to the point today where it has approaching five million members.

La MAIF, la MACIF and many other French mutual insurers strongly promote their differentiation from those conventional insurers which are simply run for profit: la MACIF's website, for example, asserts that the organisation identifies itself by the principles of collectivity, solidarity and democracy. Its governance structure, while complex, is designed to reinforce the power of members of the mutual, who elect around 2,000 delegates to 11 regional boards. La MACIF says that these delegates directly influence the way that the insurer undertakes its work (one recent example is the initiative launched, at delegates' request, to provide insurance products and services specifically targeted at the hard of hearing).

There are many similar examples from other countries. In Germany the leading insurer HUK-COBURG organisationally remains a mutual dedicated to civil servants and other public-sector workers who make up the organisation's membership (although its products are open to all). In South Africa, the Professional Provident Society (PPS) was set up by eight dentists in 1941 and, although it has extended its scope to graduates and other professionals, it remains committed to this relatively niche market.

Elsewhere, major insurers can trace their origins back to late 19th-century or early 20th-century labour and trade-union initiatives, at a time when commercial insurers were inclined either to disregard working-class needs for insurance or to offer very ungenerous terms. P&V in Belgium, the country's sixth-largest insurer, is one example. Sweden's Folksam (the largest insurer in Sweden) also has social democratic and co-operative roots. Also in Sweden is an interesting experiment in re-mutualisation, as Skandia Life's business in the country was purchased from Old Mutual with the intention of this returning to mutual ownership over time.

Rebuilding co-operative and mutual insurance in Britain: the barriers

Insurance cannot be run on the basis of short-term profit maximisation. Insurers regularly undertake modelling exercises to consider the risk of events expected to occur only once every 100 years, or 500 years, or even once every millennium. And on the life side, insurance companies have custody of enormously large investment funds which have been built up to provide the long-term savings and pensions of their policy-holders. Co-operatives claim that their business model is one which is sustainable over the long-term. Unlike plcs, which face constant pressure to maintain short-term shareholder dividends, or businesses run by private-equity firms, whose strategy is normally based only on a handful of years of ownership, co-operatives can take the long view. The longevity of many mutual insurers makes the point. ICMIF has recently pointed out that 20 mutuals operating today are over 200 years old, and that it has 31 members that have traded for more than a century.[7]

Despite this, a first assessment might suggest a set of very significant difficulties in any plan to use co-operative and mutual business structures to deliver innovative new insurance services.

Culturally, the concept of mutuality in insurance arguably needs re-establishing almost from scratch in the UK, following both the demutualisation wave and the decline over many decades of mutual friendly societies. If the task of education to rebuild public awareness of co-operative business in Britain is a large one, there is surely an even greater task required to change public perceptions about insurance provision towards one which has greater understanding of the mutual principle. The relatively limited co-operative insurance tradition in Britain (and the Co-operative Group's troubles in 2013/14) add to the difficulties.

Regulatory barriers would appear to pose even greater difficulties. Insurance is a highly regulated business, and any would-be new insurance firm would require both significant capital reserves and considerable patience before the Prudential Regulatory Authority would be likely to award it regulated status. The Solvency II Directive, a European-wide regulatory regime currently in the process of being introduced, strengthens regulatory requirements in a number of key areas, including that of capital adequacy. (It can be noted in passing that some mutual insurers in Europe, led by the French mutual association Roam, expressed considerable concern during early debates on Solvency II as to its potentially damaging effect on smaller mutual insurers.)

The reality therefore is that, while it is relatively straightforward for a group of ordinary people with a common interest to come together in Britain to use credit-union legislation to establish a new savings-and-loan co-operative, the same people would find it an altogether different affair if they wanted to establish a regulated insurance mutual.

Nevertheless, there are some very interesting developments taking place, which suggest that co-operation and mutuality can indeed play an important role in terms of innovation in relation to insurance provision.

Innovation opportunities

High-trust, data-rich mutuals

We live in an age where corporate access to information – including the opportunities of so-called 'big data' – has been utterly transformed. The costs of data storage have declined as rapidly as the capacity to capture data through our digital footprints has exploded. Around 90 per cent of the world's data, according to some commentators, has been produced in the last two years.

Underwriting by insurers is based on assessment of risk, which in turn is based on having access to appropriate information, including past claims events and risk profiles. Some of the key features of the economics of insurance – including adverse selection, risk pooling and information asymmetries (the concept that helped Joseph Stiglitz to a Nobel Prize for Economics) – are driven by the characteristics of information theory. This suggests a question: what are the implications of the information revolution for the business of insurance, and could mutuals and co-operatives, whether existing providers or new entrants, be well placed to seize new opportunities?

Although the sector has not been slow to take advantage of the new distribution opportunities (web-based portals, online sales, etc), the effect of technology on product design has been less rapid. There are some interesting developments, however. One example is the development of motor-insurance policies which are linked to actual car usage and driver behaviour (speed, braking and cornering skills, etc) which are monitored through telematic devices fitted to users' cars. Mutuals (including most notably Italy's Unipol, but also Sweden's Folksam, Denmark's ALKA and the UK's CIS) have shown themselves to be at the forefront of this development.[8]

The promise of 'big data' is the promise of 'big insight' – that the capacity to crunch through or combine mass data sets can allow the pricing of risk to be more accurate as well as more personalised. The businesses that are building data-driven commercial offers, if so, could be the insurance success stories of the future. Just as banking, on some accounts, is waiting to be reinvented because the traditional model is one of an expensive intermediary just at a time when digital connections make disintermediation the order of the day, so insurance could be waiting to be reinvented from a system of pooling risk, based on a lack of data that can drive differentiation, to a system of scoring risk based on a surfeit of data. Both promises may be overstated – customer demand for retail banking has not gone away and managing portfolios of risk over time is a proven competence of insurance companies that new entrants still have to match. Data and analysis, though, is central to what will drive innovation over time in the insurance sector.

However, access in this sort of way to what is all too often highly individualised data, rather than composite data drawn from large groups of people, raises significant concerns. The obvious one is personal privacy. There may also be the danger of cherry-picking: in other words, if insurers know from personal data exactly which individuals pose the greatest risks, then these people may find themselves excluded altogether from cover or priced out of the market. Insurance, in its origins a collective form of mutual self-help, becomes more and more an individualised affair. Mutuals potentially could offer an alternative route forward, re-emphasising traditional collective values behind the insurance principle.

Individuals in Britain have up to now shown themselves generally happy to trade personal data (sometimes highly personal data) in exchange for the business services they desire and/or for lower prices, almost irrespective of the privacy implications. But this may change. In this situation mutual insurers, as 'closed' organisations under member ownership and control, may be able to offer better protection for the personal data they hold. There may be a strong *mutual advantage* to be had here, if mutuals can demonstrate that they are more trustworthy and less focused on the single bottom line of profitability than their plc counterparts.

There is a particular issue in relation to individuals' health and genetic data. There were significant discussions between the Government and the industry in Britain in the period around 1997-2001[9] on the implications for life products of genetic profiling of individuals. This issue was quietly parked at the time, but the implications of DNA testing remain profound for the future. Again, as customer-owned businesses, mutual insurers may be able to benefit from demonstrating greater levels of trustworthiness and member engagement.

One would hope too that mutual and co-operative insurers, as organisations committed to environmental and social as well as economic objectives, would be more ready than their commercial counterparts to respond to new social trends and insurance needs. Interestingly, the Swiss mutual insurer Mobiliar has recently teamed up with the large retail co-operative Migros to try out ways in which car insurance can be made available to Swiss people in urban areas wanting to develop car sharing. Mobiliar and Migros are participating together to develop Sharoo, a new business which seeks to exploit a car-sharing platform developed by Migros.

Other emerging areas for insurance which could be identified include cover against the implications of identity theft. Here too mutuals – if they can genuinely demonstrate their member-owned credentials – may be able to have an edge over commercial competitors. We can call these 'high trust, data rich' insurance mutuals.

Discretionary mutuals

Although little publicised, the last few years have seen the creation of a number of new mutuals in Britain established to provide their members with an alternative way to meet their insurance needs. These are the so-called *discretionary mutuals.* One example would be the NFRN Mutual, set up in 1999 as an offshoot of the newsagents' and independent retailers' federation, the NFRN. The NFRN Mutual, which now has over 3,800 members, offers commercial, household and liability cover only to independent retailers. The NFRN Mutual has recently collaborated with the Plunkett Foundation and a number of co-operatively run community shops now participate in the mutual.

A similar initiative has seen the creation of a mutual for outdoor activities centres, the Activities Industry Mutual, which provides protection for licensed adventure activities providers. This mutual has around 600 members.

At the other end of the spectrum, perhaps, is the Livery Companies'

Mutual which has been set up by the Livery Companies in the City to provide shared protection for their buildings, assets and activities.

All three of these mutuals are managed by the specialist independent company Regis Mutual Management, which has developed a niche service in helping to create these new mutuals and in administering them thereafter. Importantly, these new mutuals are not regulated insurers. As Paul Koronka, Regis CEO, explains: "*It has become practically impossible to develop new authorised mutual insurance companies in Europe. The only viable alternative mechanism available is the discretionary mutual, which derives from case law. Discretionary mutuals do not by their very nature offer insurance. Instead they offer the right to have one's claim considered by the mutual at the discretion of the board of directors. The board of directors are elected by the members of the mutual. The members therefore effectively have control over the exercise of discretion. The discretionary element means that a level of trust must exist between the members and the mutual that all valid claims will in fact be paid, even in the absence of a legal obligation to do so.*"[10]

The track record of discretionary mutuals (both in the UK and Australia) over more than a decade is generally fairly good and suggests that the model can function efficiently. Discretionary mutuals, particularly in their early days before reserves are built up, tend to mitigate the risks they are running through conventional insurance cover.

Regis is currently in the process of launching The Military Mutual for armed forces personnel. Regis has also made exploratory contact with co-operative networks, such as the Confederation of Co-operative Housing.

Takaful

A second area of innovation has been around the development of takaful, an alternative to conventional insurance that complies with Islamic Sharia law. (Conventional insurance can be seen as breaching Sharia prohibition of gambling, of the payment of interest, and of contracts based on uncertainty.)

Takaful is an Arabic word meaning "guaranteeing each other" or joint guarantee. At the heart of takaful is the idea of donation or gift by scheme members to other members faced with difficulties. Takaful companies receive their income from administering schemes, rather than from profits earned by underwriting the risk.

Takaful has been taken up in many countries with large Muslim populations and is offered both by locally based companies and by some large global commercial insurers. There is debate in takaful circles about the extent to which some of these products really meet Sharia law.

The principles behind takaful are very close to those of mutuality and co-operation, and the International Co-operative and Mutual Insurance

Federation has been working in recent years to promote good practice in takaful and to develop links between existing co-operative/mutual insurers and new mutually minded takaful operators. Takaful companies can join ICMIF as members, and ICMIF also runs a dedicated takaful website and newsletter.[11]

Some existing co-operative/mutual insurers have launched takaful operations. One example is the co-operative insurer CIC in Kenya, which has supported the launch of Takaful Insurance of Africa. In Sweden the mutual Folksam has worked to tailor its products so that they meet the needs of Sweden's large Muslim community. Folksam now has the endorsement of the Swedish Muslim Council.

Takaful in Britain has been slow to develop. An opportunity exists for co-operative and mutual insurers to take a lead in creating interest and in launching appropriate products.

Collective approaches to buying insurance cover

There are also opportunities for co-operative approaches towards the purchase of insurance. This is in essence an extension of the affinity group concept, a way of enabling individuals in theory at least to access the discounts which bulk purchasing can achieve.

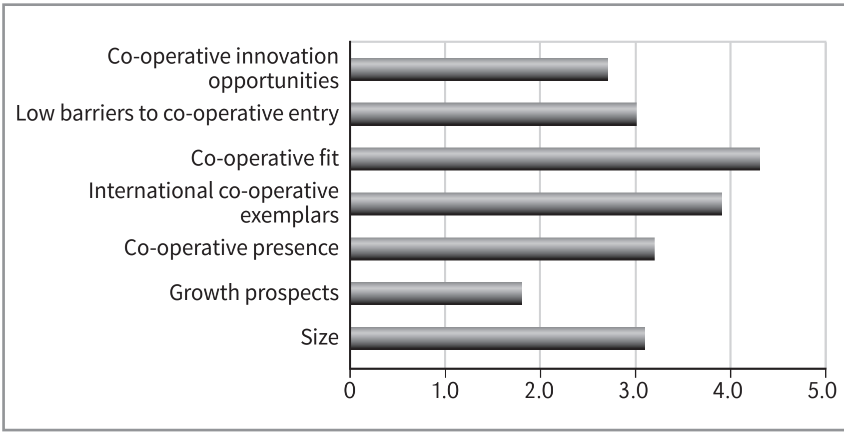
Trade unions are among a wide range of membership groups which have tried this approach in recent years, offering members discounted rates from selected commercial insurers. Their experience has been mixed. To be successful, insurance affinity schemes need to be carefully set up and continually monitored, to ensure that members are genuinely receiving value for money and appropriate policies.

There has also been some interest shown by local authorities and housing associations in helping those on low incomes to obtain affordable and appropriate home contents cover, through promoted tie-ups with insurers or through direct insurance-with-rent schemes. The initiatives taken by some local authorities to bulk-buy energy for local residents could perhaps be extended into the insurance sector.

There could, however, be potential to link developments elsewhere in the British co-operative movement with collective insurance provision. As we have seen, some co-operative village shops are already participating in the NFRN Mutual. There could be opportunities for the growing number of co-operatively run pubs to meet their insurance needs collectively; workers' co-operatives and housing co-operatives might also consider a collective approach to insurance.

Conclusion

INSURANCE



Despite the evident barriers, there is reason to believe that there is considerable scope in Britain to develop the co-operative and mutual insurance sector in line with innovation trends. The challenges for mutuals in the sector are no less than for all insurance businesses, but there are opportunities too for innovation. Insurance, more than other parts of the economy, is concerned with the long-term and about the best ways of organising together in the face of uncertainties now and in future. ■

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1 Swiss Re (2014), *World Insurance in 2013*, Sigma, No3/2014.
2 ABI (2013), *UK Insurance Key Facts*.
3 Ibid.
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5 ICMIF (2012), *Mutual Market Share.*
6 Chartwell Investment Management (1998), *The Carpetbagger's Guide to Life Companies*, third edition.
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8 ICMIF, *Voice*, issue 74.
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10 Paul Koronko (2014), personal correspondence.
11 **www.takaful.coop**

7
Banking

Saving the banks, or changing them?

There have been more reviews, commissions and commentary on the banking sector since the catastrophic failures of the markets in 2007 than for any other part of the economy. There has been an overhaul of regulation, the concept of 'ringfencing' wholesale and retail banking, followed by the promise of an electric ringfence, albeit keeping banks intact. In the public domain, trust in banking is lower than for second-hand car dealers and door-to-door salespeople. At a grassroots level, there has been the growth of activist campaigns, such as Move Your Money. Yet, at the same time, the national economic policy to respond to the credit crunch has focused on saving the banks and then financing them, in effect, through quantitative easing, to be proper banks, lending in the economy on the back of prudent assets.

So has there been real change? And are there prospects for innovations around a more mutual future for UK banking?

A consolidated market

Retail banking, with a combined network of over 9,000 branches and 63,000 ATMs, is a key part of a wider financial-services sector which makes up 8.9 per cent of UK GDP, employing directly around one million people.[1] There are more bank accounts than people in the UK, with approximately 76 million accounts.[2]

The state of the UK retail banking sector has been charted over recent years by reports of the Independent Commission on Banking (ICB) and the Parliamentary Commission on Banking Standards (PCBS), including the extent to which the sector is dominated by the big five shareholder-owned banks, alongside one remaining large mutual, Nationwide. So far, this has not yet changed in any significant way. New names (the Metro Bank and Virgin Money, for example) remain small and localised, whilst others are specialised in small and medium-sized enterprise (SME) lenders. TSB was floated on the London Stock Exchange as a spin-out from Lloyds Bank, and the Royal Bank of Scotland (RBS) has planned to spin out William and Glyn's, another medium-sized bank. Both banks were required by the European Commission competition authorities to sell branches following receipt of 'state aid' in the form of taxpayer-funded 'bail-out' funds from the UK Government. HSBC is believed to have considered floating its UK commercial banks, as has Santander, whose head office is in Spain. Santander pulled out of buying the branches RBS was required to sell, and The Co-operative Bank was forced to withdraw from its attempt to purchase the Lloyds 'Project Verde' branches. In both cases, significant opportunities for scaling up challenger banks were missed.

Meanwhile Citibank's Citi-Savings has reduced its UK ambitions substantially in the past couple of decades and NAB (the National Australia Bank) seems keen to sell Yorkshire Bank and Clydesdale Bank when the price is right. Foreign banks more widely are not necessarily thriving, with the exception of the Swedish Handelsbanken UK branches; as in Sweden, they are devoted to 'relationship banking', like the German savings and co-operative banks, and have chosen to grow organically from a small UK base. Other overseas banks may be reluctant to enter the UK market. Given that banks tend to have to offer current accounts for free and then need to sell other things to make money, the UK market may appear unattractive with a combination of low margins, barriers to entry and customer inertia, as people tend not to move their account.

The inescapable conclusion seems to be that the five big UK banks dominate household and SME banking and the payments system and that the core products and services they supply have the nature of utilities in a modern economy; with the money transmission system itself being infrastructural, much like the electricity grid.[3] In UK banking, as in many other countries, we have an oligopoly with a competitive fringe – and the fringe suffers from the disadvantage that the big banks enjoy implicit taxpayer insurance that they are not fully paying for and tend to control the payments systems. It was in this context that the Competition and Markets Authority launched a full market investigation in late 2014 into retail banking, on personal accounts and small business services, for completion by May 2016.

Demutualisation

Co-operative and mutual savings banks were leaders in their markets of savings and loans, notably mortgages, in the UK through most of the 20th century.[4] However, alongside this was a process of consolidation and then demutualisation.

In 1986, legislation was passed to allow building societies to diversify, to offer current accounts and SME loans, and to demutualise if they could gain sufficient support from member owners. A number of building-society boards offered financial inducements (derived from historic profits and reserves built by deceased members who perforce could not vote, and ignoring the rights of potential future members) and achieved affirmative votes. Sensing the opportunity, speculative investors, dubbed 'carpetbaggers', opened accounts so they could vote for demutualisation and share the spoils. The largest building societies, with the exception of Nationwide, demutualised to become non-mutual, shareholder-owned, 'mortgage banks'.[5] This enabled them to raise new capital by issuing ordinary shares and thus to expand more rapidly. Some dabbled more than others in SME lending; others in 'buy-to-let' mortgage origination (Bradford and Bingley) and property development lending; in addition to traditional mortgage lending.

These mortgage banks increasingly adopted the 'originate-to-distribute' model following the lead of progressive exponents such as Northern Rock, based on the issuance of mortgage-backed securities, which could package portfolios of mortgages and sell them on to investors.

City-based UK municipal banks, such as the Birmingham Municipal Bank, were absorbed into the trustee savings bank network along with former local trustee savings banks regulated by HM Treasury and then amalgamated into a single bank, the TSB, which was taken over by Lloyds Bank to form 'Lloyds TSB' in 1995.

The origin of savings banks is worth a short digression. The story begins in 1810, when Henry Duncan, minister of Ruthwell, a small village on the edge of the Solway Firth in South West Scotland, decided to set up a parish bank. Local landowners backed his idea as they liked the idea of getting people off parish poor relief through their own savings. Duncan had the right skills, as he had spent three years working in a bank in Liverpool before becoming a minister. People could open a savings account with just six pence. The business model was easy to copy and within five years of the first bank opening, there were savings banks throughout the United Kingdom, then spreading around the world. However, as Professor Johnston Birchall comments: "*Unfortunately, they had a flaw; they were not really owned by anyone, but administered as trusts by whoever could get their hands on them.*"[6]

There is now one authentic savings bank left, the Airdrie Savings Bank in Scotland. The new TSB, relaunched in 2013, uses the name, but of course is not a genuine trustee savings bank. It is a spin-off from Lloyds TSB (which then returned to the simple name Lloyds Bank) of 632 branches that were required by the European Commission's competition directorate to be sold as a *quid pro quo* for receiving 'state aid' from the UK Government at taxpayers' expense as part of the bail-out of Lloyds Banking Group in October 2008. This was made necessary by the 2007-9 financial crisis following Lloyds TSB's merger with the troubled HBOS, which was waved through by the Government, despite misgivings by the UK competition authorities, in January 2009.

Every single building society that demutualised has either closed down or been bought up by its competitors. Santander has achieved critical mass by absorbing former building societies, starting with Abbey National, which was the second largest when it became the first to demutualise following the enabling Building Societies Act passed in 1986.[7] Another building society, Cheltenham and Gloucester, whose name is no longer used, was demutualised in 1995 and subsequently taken over by Lloyds TSB. Halifax, which was by some margin the largest building society, demutualised in 1997 to become a 'mortgage bank', and then merged with the Bank of Scotland in 2001 to form 'HBOS'.

Within this banking 'landscape', where did The Co-operative Bank fit? It was not a primary mutual, in the sense of being owned directly by its depositors and borrowers. Indeed, it was structured as a shareholder-owned company, which is not typical for a mutual, though also not unknown. This may be because it is not clear that UK regulation would have allowed a co-operative society, funded by member shares, to be licensed as a bank. Its shares were, however, held by The Co-operative Group, which is a mutual, owned by its members, including other consumer societies, retail shoppers who receive dividends and, latterly, bank customers. It was therefore a co-operative by extension.

The Co-operative Bank's distinctiveness derived from its policy of ethical banking, adopted in 1992. This included customers attracted by its Smile online banking services. It also catered for organisations that aligned with that ethical policy, such as charities, trade unions and clubs. However, over time, other specialist banks have emerged to serve these, such as the Charity Bank from 2002 and the Birmingham-based Unity Trust Bank, which was established in 1984 as a jointly owned venture by trade unions and The Co-operative Bank – although the latter has announced its intention to sell its stake in Unity.

It should be noted there are other ethical banks. These include the Ecology Building Society, founded in 1981; and Triodos, which arrived in the UK after a merger in 1994 with the mutual, Mercury Provident, and specialises in green investment, but is less geared up to provide full-service current account banking. There is also the Al-Rayan Bank, which does not invest in businesses that are 'Haram' (outlawed under Sharia law). It can provide mortgages and savings accounts, but does not engage in full interest-bearing current-account banking and interest-based lending, because the paying and charging of interest is not Sharia compliant.

The membership of Britannia, which had remained a mutual, voted in April 2009 to merge with The Co-operative Bank to form a 'super-mutual' with a substantially increased branch network. The merger did not play out well, though. Alongside the failed attempt by The Co-operative Bank to purchase the 631 Lloyds TSB branches, a £1.5-billion capital shortfall was identified in June 2013 by the Prudential Regulation Authority, which had taken over the regulation of all deposit-taking institutions (banks, building societies and credit unions) from the Financial Services Authority on 1 April 2013. With The Co-operative Group standing behind it, a deal was reached in late 2013 to limit the liabilities all round and to move to list The Co-operative Bank under a new private ownership structure, albeit with co-operative values embedded in the constitution, on the stock exchange.

The causes of the failed purchase and the capital shortfall are the subject of a number of inquiries, notably the Kelly Review, issued in 2014. This established that there had been a fundamental failure to establish adequate internal risk controls and a failure of corporate governance in terms of its responsibility to assure that banking activities were properly managed by its executive officers and overseen by an effective board of directors.

The Co-operative Bank didn't 'fail' because it was a co-operative, though, but because it was a bank. Like other banks in the UK, and elsewhere after 2007, it got into deep trouble, with the only redeeming feature being that it did not have to be bailed out by taxpayers. Even so, the hope for The Co-operative Bank since the launch of its ethical policy had been that it would be different, not the same as other banks. In truth, as a bank that was never fully customer-owned in the way that co-operative banks in other countries have been, perhaps it was not different enough.[8]

After that settlement, The Co-operative Bank now has good leadership, a strong commitment to ethics and a clear recovery programme with a focus on its core markets. It offers, in many ways, an important hybrid model, combining an entrenched set of ethical values with access to investor capital. The lesson overall, though, remains that it is not enough to have 'co-operative' in your name, if the structures of governance and accountability are not effective in ensuring that the business operates in line with the values and interests of its customers.

Banking co-operatives and mutuals

Credit unions are savings-and-loan co-operatives. The first UK credit union was in Derry, Northern Ireland, in 1960. In Britain, the first credit union was established four years later, in Wimbledon. The first legislation, in 1979, was the dying act of the Labour Government, drawing on the supportive recommendations of the National Consumer Council. The UK Government since then has taken successive steps to upscale credit unions, including some relaxation of the requirements for members to share a common bond and an increase in the cap on interest rates they can charge, from two per cent to three per cent per month in 2014 (although remaining at one per cent per month in Northern Ireland).

There has been a consolidation of the numbers of credit unions, but with an increase year on year in the overall membership levels, passing the one-million mark in Great Britain in 2012. Total assets have risen from £432 million in 2004 to £957 million in 2012, with the largest credit union operating with around £100 million and the smallest with just £20,000. In 2013, the UK Government signed a contract with ABCUL, the leading credit-union association, worth up to £38 million. In the devolved setting, the Welsh and Scottish Governments have also promoted credit unions.

Table 1 *Credit unions: people*

Adult members	1,405,608
Child savers	214,102
Total number of staff employed	2,226

Source: Bank of England, Credit Union Statistics, July 2013 edition. Data for 2012, covering Great Britain and Northern Ireland

Table 2 *Credit unions: money*

Number of:	Britain	Northern Ireland	UK Total
All credit unions	421	174	595
Total assets (£000)	956,614	1,221,632	2,178,246
Gross loans (£000)	605,787	498,120	1,103,907
Loans as a % of total assets	63%	41%	51%
Total capital (£000)	116,970	153,184	270,154

Source: House of Commons Library Briefing Note on Credit Unions, updated October 2013

In a similar way, socially oriented Community Development Financial Institutions (CDFIs) are seen as helping to plug the micro and SME lending gap faced by 'non-bankable' firms. Many of these are mutuals, such as the Aston Reinvestment Trust, Black Country Reinvestment Trust, London Rebuilding Society, Fair Finance, Moneyline Yorkshire – and Co-operative and Community Finance, which is the longest-standing CDFI operating on a self-sustaining basis. In an international setting, a forerunner is Shared Interest. Recent initiatives include the proposal to refer enterprises that are turned down by mainstream banks to CDFIs as a matter of course – something that would require a remarkable growth in the sector. To serve only half of unmet demand in the UK economy, one estimate is that CDFIs would have to expand their operations 123-fold in the case of business loans (as well as 4-fold in the case of social enterprise loans and 71-fold in the case of personal loans).[9]

There are now 53 CDFIs, and the sector has formed the Community Development Finance Association (CDFA) to share best practices and monitor the economic and social impact of its members. In 2013, CDFIs lent £123 million (down from £145 million in 2012) to 50,700 customers, operating out of 125 branches and employing around 670 staff.[10] The most common focus is on enterprise lending. But, as with credit unions, a number have taken on paid staff and moved into shop fronts and their finance provision has diversified into several growing fields, including:

affordable personal credit, housing improvement loans, community share raising, social venture capital and community land trusts. Some specialize in particular activities:

- personal lending, including East Lancs Moneyline, Scotcash and My Home Finance
- home improvement, including Street UK, Wessex Resolutions, Parity Trust, Lancashire Community Finance and London Rebuilding Society
- social venture capital, including Big Issue Invest, Merseyside Special Investment Fund and Bridges.

Older by far, and fundamental to everyday life over that time are building societies, conventionally classed as mutuals, even if this in turn, as in the insurance sector, tends to be the name given to co-operatives in the business of financial services. The first short-life mutual was perhaps the terminating building society – where savers took it in turns to draw on the savings pooled from members in order to buy the materials to build themselves a house. It was a pub landlord that helped to start the first of these – Richard Ketley, in the Golden Cross Inn in Birmingham – in 1775, one year before the publication of Adam Smith's *The Wealth of Nations*. Today, there are 45 building societies, at national and local level, with combined assets of over £300 billion.

There are, of course, co-operatives elsewhere in the wider financial sector, not covered directly in this look at the banking market. This includes, in a major way, insurance business, with 83 mutuals and $25 billion in premiums,[11] and, on a smaller scale, innovative initiatives such as: Ethecol, a co-operative that provides shops with services/terminals to accept debit/credit-card payments; local currency schemes, such as the Bristol and Brixton pounds; and, in financial advice, the Ethical Investment Co-operative.

Co-operation overseas

There are many examples and varieties of mutual savings banks overseas, including:

- Savings and loan associations in the USA
- credit unions and allied 'caisses' in Canada
- co-operative banks in Germany (Völksbanken)
- agricultural co-operative banks such as the 'Norinchukin' in Japan and the network of agricultural co-operative banks that existed in France, prior to their amalgamation into Crédit Agricole, the world's largest co-operative bank
- Rabobank, in the Netherlands, which was also built by amalgamating smaller agricultural finance co-operatives
- Raiffeisen banks in Austria and Germany, which were early co-operative

banks or credit unions that started lending to small farmers in the mid-19th century and more recently, in Austria, amalgamated to form the Raiffeisen Bank (Group).[12]

Such mutuals are often also related to a range of other socially oriented savings banks, including national post office savings banks and municipal banks, such as the Sparkassen in Germany and the Caja or Caixa in Spain.

By international standards, credit-union penetration in the UK, despite some recent growth, is comparatively low. Ireland, Australia, Canada and the US have significantly higher levels of participation, as does the Caribbean, with membership ranging from 12 per cent of the population in The Bahamas to 93 per cent in Dominica.[13] Caribbean credit unions date back to 1942, if not earlier – at least 15 years before schoolteacher Nora Herlihy and colleagues started the first credit union in Ireland. Across the 17 member states comprising the Caribbean Confederation of Credit Unions (CCCU), there are 2.24 million members, which represents 40 per cent of the regional population.[14] While the share of the financial services market is lower, between 3 and 10 per cent across the region, there is work under way on the idea of an aggressive competitive expansion of credit unions, drawing on enabling policy, product innovation and more effective secondary co-operation, to move towards a 15-20 per cent market share over the coming decade.

One of the inspirations for this has been the dynamic evolution of credit unions in Poland over a period of around 15 years, becoming a highly competitive credit union-owned financial complex, with 1,892 service centres providing scores of services and online products to 2.6 million members under the SKÖK brand.[15]

The US community investment movement is twice as old, if still young compared with many European co-operative and mutual banks, and provides an important example of how trends might develop in the UK. Looking back 15 years, the US sector had already diversified and formed a single alliance to lobby on its behalf, such as there are now attempts to form in Britain.[16] In the decade that followed, assets in community development loan funds grew from $1.7 billion to $11.9 billion, assets in community development credit unions grew from $610 million to $11.1 billion, assets in community development venture capital funds grew from $150 million to $2 billion and assets in community development banks grew from $2.9 billion to $17.3 billion. The US movement has been aided by the Community Reinvestment Act and associated legislation that places an affirmative obligation on commercial banks to re-invest in areas from which they take deposits.

We can qualify the comparison with the UK by recognising that the building block of community investment in the USA has been housing finance. Here, this works in a different way, including a stronger role for social housing and agencies for this that are able to access mainstream finance on the back of asset values, the assurance of regulation and implicit subsidy of housing benefit. Even so, community investment in America has come of age and the post-credit-crisis decline in regional commercial banking has created opportunities for them to expand.

Beyond traditional banking, there has also been a rise in experimentation and practice around local currencies and, of course, crowdfunding:

- One of the most successful international examples is the WIR (the ring) – a complementary currency system set up in Switzerland in 1934 by Werner Zimmerman and Paul Enz, as a creative way to provide low-cost inter-trading and mutual credit for enterprises. Now a full co-operative bank, the WIR's success has proved to be enduring. Today, this economic trading circle of members provides finance of $2 billion annually for over 75,000 small businesses, based on an interest-free savings-and-loan system aimed at helping its members secure mutual credit at fee rates of between 1.5 and 2.5 per cent.
- In the crowdfunding field, Symbid operates a technology platform in the Netherlands, launched in 2011 with regulatory approval, that raises seed equity capital and growth finance for small businesses, using the model of investor co-operatives. It has raised capital from over 22,000 people, who become members with their stake in the success of the businesses that are funded.

Barriers to co-operation

Capital

A core element of the regulatory policy agenda after the financial crisis has been to raise capital requirements on banks. Although, with very few exceptions worldwide, mutual savings banks were not implicated in the kind of financial trading that led to the crisis, the response by regulators treated all banks as if they were the same. Many had, however, become over-exposed to weakening housing and wider property markets, given the nature of their business, particularly the Caja in Spain. This put pressure on financial mutuals. The challenge they face is that they cannot directly issue equity (shares) to outside investors to raise capital because they are owned by insiders (depositors and savers) and, in the case of mutual building societies, by borrowers. It is not that mutuals can't build capital. It is just that they have to do it patiently. Beyond raising more capital from members, there is no short cut.

Following the 1986 Building Societies Act, UK building societies were allowed to issue hybrid debt-equity capital instruments, that qualified as 'Tier 2' capital under the Basel Accord[17], in the form of permanent interest bearing shares ('Pibs'). They were, however, restricted to raising no more than 50 per cent of deposits from non-members via the wholesale money markets. Since the 2007-9 financial crisis, the internationally agreed Basel Committee risk-weighted capital adequacy requirements have been raised. In addition, more 'core' equity (primarily 'ordinary shares' and retained profits) is required to be held along with near-equity 'Tier 1' assets, while Tier 2 requirements have been downgraded.

This could present a problem for mutual banks because they cannot issue ordinary shares. Retained 'profits' – or surpluses, for they are not 'not-for-profit' organisations – are their major source of core capital, which is essentially raised from profits not distributed to member-owners. However, first Rabobank, in September 2012, and then Nationwide, in November 2013, have designed and issued quasi-equity (Tier 1) capital instruments to the satisfaction of regulators and have found institutional investor demand for them. For Nationwide, this instrument included key mutual safeguards: one member, one vote; capped distribution; and no interest in proceeds from demutualisation.

For credit unions and CDFIs, at least for those that can accept member capital, access to capital is not necessarily a factor of the strength of the current balance sheet – as member deposits or investments can match outgoings, if losses are carefully managed – but the ability to grow the business with sufficient capitalisation.

This is a fundamental challenge. If lending is oriented towards those not served by mainstream markets, the risks may be significantly higher, while it is hard for small organisations to compete with mainstream banks that have access to wholesale funds at lower rates. Neither credit unions nor CDFIs typically aim to make surpluses sufficient to grow the capital base rapidly through retained earnings. There are also fewer sources of gift capital or programme-related investment such as those deriving from charitable foundations in the USA, or from government, in the form of the CDFI Fund of the US Treasury, which has awarded over $1.8 billion in equity grants since 1995.

Policy and regulation

The process of demutualisation changed Britain's banking landscape for the worse. This is an illustration of how regulation and markets co-evolve. If policy favours investor-owned models of business, then investor-owned businesses will win out. Demutualisation was an undoubted failure, as the shareholder-owned mortgage banks that resulted all failed. At the same time, with only one new entrant in recent decades, the Ecology Building Society, the building societies themselves have become, while still vigorous, distinctive and competitive, something of a closed island of mutuality rather than joined to a wider mutual banking continent. For cultural, governance or other reasons, the UK building-society sector has not been effective at secondary co-operation of the form that could allow for greater levels of self-regulation, attuned to the mutual model – especially when compared with the German co-operative banks, which audit each other and share capital, or the highly successful, federated model of Desjardins, bringing together 376 credit unions (caisses populaires Desjardins) serving 5.8 million members in Canada.

It doesn't have to be this way. The Building Societies Association has recently joined the European Association of Co-operative Banks and it may well be that there are options too for pooling capital, to meet rising regulatory requirements, with wider co-operatives and mutuals worldwide. At a domestic level, the Credit Union Expansion Project is also interesting in this context, as an initiative focused on collaboration in relation to technology infrastructure that could, in time, lead to more coherent forms of secondary co-operation across credit unions – reflecting earlier ideas, espoused by Fred Goodwin (of all people), about a Credit Union Service Organisation.

There are signs too that policymakers are opening up to mutual options. Andrew Haldane of the Bank of England has written that:

"*At the start of the 20th century, the prevailing ownership and control models in banking were the public limited company and the mutually owned co-operative. Under the first, ownership and control are vested in a small minority of stakeholders, with rights assigned according to weight of portfolio: it is an equity dictatorship model. Under the second, ownership and control are vested in a much wider set of stakeholders, with rights unrelated to weight of portfolio – a stakeholder democracy model… It isn't difficult to conceive of governance models that combine the best bits of both. To give one example, voting rights could be extended across a wide group of stakeholders, but weighted by stake. Governance and control would then be distributed across the whole balance sheet, curbing the profit-seeking incentives of the equity minority, while weighting voting rights by size of portfolio to avoid the inertia of mutuality. Bank governance would then be a wealth-weighted democracy, a hybrid of the mutual and joint-stock models.*"[18]

Innovation opportunities

The future of banking, while hard to predict, is likely to be fundamentally different from both past and present. While the focus is currently on regulatory policy, stress testing and business lending, the more transformative drivers of change are ones of innovation. The key innovation drivers in banking include the role of data – for example in pricing risk – and technology in services, allowing for disintermediation and direct contact (such as consumer to consumer, or consumer to capital markets) in a context where the traditional role of banks has been to act as an intermediary. In this context, customer-owned models ought to be well placed to understand and respond to changing customer demands, with the potential to reconstruct a beneficial intermediary role through mutual ownership and the use of new technology platforms. So, where might this lead to mutual innovation and where is the member-owned co-operative form well suited to the trends in hand?

1 Mainstreaming credit unions and community development finance

Lack of access to finance and payments services is an increasing issue in many rural areas as the big banks have entered into yet another phase of cost cutting through branch closures. Barclays, for example, recently announced that it is to instigate substantial cost cutting, possibly leading to further branch closures, and other big banks are expected to follow suit. Barclays has already reduced its branch network by eight per cent since 2012 according to British Bankers Association figures and the total number of bank branches in the whole country has been reduced by nine per cent over the same period.

A 2012 report to Government on financial inclusion analysed the market for financial services for people on lower incomes, finding that:

1. 1.4 million have no transactional bank account at present
2. 4 million incur bank charges
3. up to 7 million use sources of high-cost credit, and
4. more than 60 per cent say that they would use credit-union services if such were available.[19]

The report concluded: "*The banks have already opened nearly four million basic bank accounts (British Bankers Association data) since 2003 and it is considered unlikely that further significant expansion will occur in the absence of mandation. Credit unions appear to be the only other realistic option.*" Given, in addition, the investment that banks were required to find for the Post Office Card Account, this cautionary conclusion won agreement and from this has emerged the credit-union expansion project now led by ABCUL, designed to support credit unions to meet these needs. These can, of course, be linked. Basic bank accounts do not offer credit facilities, but that creates the opportunity for provider banks to point customers towards sources of affordable credit and free money advice.

Alongside this is a not unrelated 'underserved' market of enterprise and wider finance. Research conducted by GHK, sponsored by NatWest, in 2013 has estimated that the potential annual demand for community finance is up to £6.75 billion.[20]

Credit unions and community finance initiatives could potentially spread to fill the gaps left by branch closures. If they were prompted to do so, for example through regulatory levers, the big banks could then perhaps use the local bank or credit-union branches as agents. As in Germany and elsewhere, the future of mutual banking would be local relationship banking. There are some potential competitive advantages that credit unions and CDFIs can call on, notably that they are closer to their market and are able to price risk and make credit decisions on a more informed basis. There are also innovations that they may be able to take up, including in credit scoring for personal lending like that offered by competitors, including payday lenders. However, without some sort of subsidy, and some redress of the big banks' taxpayer-backed competitive advantage, it is hard to see how the change can be 'encouraged' decisively in the UK.

Is it credible, for example, that credit unions are seen both as alternatives to predatory lenders – by Justin Welby, the Archbishop of Canterbury, among others – and yet also as potential challengers to the dominance by the high-street banking behemoths of current-account banking? To mount such a twin challenge, they would need massive investment and innovation in practice as well as policy changes to open up access to banking payment systems.

If credit unions are to be encouraged to grow into potential challenger banks or mainstream enterprise financiers, it may be that they, and CDFIs that follow that route, face a tension in terms of remaining as community banks. A degree of such 'mission drift' is also observed amongst micro-finance institutions around the world, particularly those that are investor-owned rather than member-owned co-operatives, as they try to achieve 'financial sustainability' or to 'commercialise'. In sum, they fill a gap left by the banks, but do not eliminate the financial exclusion at the 'bottom of the pyramid'.

While not all are strictly mutual institutions, the key to the community investment success in the USA has been the kind of capital that the sector has attracted to enable it to grow. This matters, because if mutual lending institutions grow on the back of impatient capital, they may be hard to distinguish in a wider field of impatient capitalists. Key in the USA, building on the base of previous work around community reinvestment, was:

- the development of innovative and effective methods for providing patient capital and quasi-equity
- collaborative work with government opened up access to public-sector loan guarantee funds, a success that has now been repeated in the UK
- the establishment of the CDFI Coalition, a broad-based consortium that united all the relevant trade bodies to enable the movement to achieve joint advocacy to speak with one powerful, 'community investment' voice to campaign for change.

In the UK, there are signs of progress and backing from the public sector, even in times of austerity, including the design of tax credits and investment in credit-union growth. Even so, the credit union and CDFI sectors will want to learn from the more extensive and effective menu of policy action and collaborative advocacy in the USA.

2 Complementary currencies

While there is more experimentation than scale and success in the field of complementary currencies, the WIR stands out as a model that has worked, and could be less complex to grow in the context of today's mobile and communications technologies. RES, a WIR mutual-credit model, has recently been introduced, for example, in Leuven, Belgium, while in southern Germany the Chiemgauer currency is supported by co-operative banks such as GLS Gemeinschaft.

RES members include businesses, voluntary organisations and consumers. This has provided a solid platform for rapid expansion and today it has 5,000 business members and 100,000-plus consumer members in a co-operative money system which operates as both a co-operative bank and a co-operative marketplace. The co-operative currency is only electronic, based on debit cards/mobile phones, linked to the euro, and turnover has reached the equivalent of 35 million euros. Another example of a mutual network using the connectivity of consumer devices as a platform for payment and credit systems is M-Pesa, which is a mobile-phone-based money transfer and micro-financing service operating in Kenya.

For the co-operative sector itself, in the UK or across Europe, there could be scope for a trading circle that operates as a secondary co-operative comprised of co-operatives and mutuals, potentially including credit unions and building societies, offering finance and mutual guarantees to the sector and operating on a self-sustaining basis.

3 Mutual guarantee co-operatives

In many other countries in Europe there are consortia co-operatives of SMEs for finance, operating through the use of guarantees. These are created by SMEs, which provide the capital and apply for a loan guarantee in the form of co-operative or mutual shares. Each member has an equal voting right and participates in electing the general assembly and board of directors. Working together, SMEs can then negotiate a better deal from banks, while for the banks the underpinning of the co-operative guarantee provides partial security on otherwise unsecured enterprise lending. The risk is lower, so the price of money is lower. The deal flow is greater, and underpinned by peer review from SME members, so access to capital is easier. On one estimate, around eight per cent of all SMEs in the European Union have benefited from the activity of co-operative guarantee societies.

A previous attempt to introduce co-operative guarantee societies in the UK foundered in 1997 because the regulatory context was uncertain or unfavourable. Co-operatives UK has been working in a collaborative way with the Financial Conduct Authority to attempt to clarify the regulatory interpretation. Alongside this is the potential of technology platforms for peer-to-peer finance, which serve to reduce the barriers to participation. While, to date, these work on a point-to-point rather than a reciprocal, mutual basis, the underlying model is of relevance and could reduce the costs and timescales for growth that have faced continental guarantee societies over past decades.

4 Local banking

There is an emerging body of work that points to the potential for a renewal of local banking. In part this reflects frustrations with the UK banking market, which, with honourable exceptions, including building societies and credit unions, has long been more centralised than in many other countries. In part, it reflects a more recent combination of policy change, which has focused on reducing barriers to entry in the market, and technology innovation in the form of the concept of a 'bank in the box'. Whereas the costs of setting up a new bank have been prohibitive in the past for anything at a smaller scale, these have the potential to underpin a new set of local banking models.

The 'bank in a box' approach packages a set of services that are compliant in terms of regulation and adaptable for local use without incurring the development costs that would otherwise have applied. These services, typically software based, allow the local bank to put its own wrapper on a service, whether banking products, card management or back office functions, such as cheque processing. With lower costs of set-up for the basic infrastructure, the local bank can then focus on creating value through its distinctive marketing reach as a place for local deposits reinvested at a local level. In that context, mutuality would seem to be an advantage, as it removes the cost of external shareholders and builds in a local responsiveness and accountability that dovetails with the essential proposition. This would be even more so if the bank-in-a-box services were themselves constructed as a secondary mutual for the local banks, which comes close to the expansion plans and ideas that the credit union association ABCUL has started to develop for its members.

There are still the upfront capital costs, but among the groups that might be interested are existing organisations that see the potential to add deposit taking to their services, community development finance initiatives that grow to scale or new banks set up with support from local authorities. The Hampshire Community Bank, for example, promoted by a team led by Professor Richard Werner, has seed funding from public-sector sources, with an intention of focusing on enterprise lending and energy efficiency. The opportunity, as he sees it, is to open up to mutual membership from the Solent region, and to build a mutual network of local banks, drawing on the support of local municipalities.

There is also scope for intelligent policy action at the national level to make the local hurdles somewhat less challenging. In Germany, the KfW state bank provides annual funding support to the small banks as part of the government's annual budget. This takes the form of subsidised liquidity funding which enables the co-operative and community banks to compete with their larger competitors. When the UK Government introduced the temporary Funding for Lending scheme, this was only utilised by the big five banks, which have used it as a source of cheap funding. The rules were too complicated and the restrictions too great for the scheme to have any value for smaller operators in the banking market – but this does not have to be the case.

5 New mutual technology platforms

At present, the clearest disruptive innovation in financial services is the upstart field of peer-to-peer finance. Alternative finance activities such as crowdfunding, peer-to-peer lending and invoice trading have emerged as a significant funding mechanism and source of capital in the UK in recent years. Meeting the capital needs of both individuals and businesses, facilitating fundraising activities for civic projects and social causes, alternative finance intermediaries have become online marketplaces where individuals, rather than institutions, work collaboratively to form capital. As the alternative finance market continues to grow in the UK, the need for more focused regulation has emerged, with the Financial Conduct Authority introducing a series of new rules and safeguards to the sector at the beginning of 2014. Indeed, the regulatory regime recognises the diversity of products and forms that characterises alternative finance in the UK and has introduced tailored measures linked to the varied types of emerging finance.

For instance, both peer-to-peer lending and peer-to-business lending models have developed rapidly – £482 million and £276 million respectively over the last three years – and this loan-based crowdfunding is subject to specific regulatory treatment. The sector's growth, led by platforms such as Zopa and Funding Circle, is a result of the relatively low risk profile and the favourable interest rates available. In particular, the peer-to-business intermediaries allow SMEs to receive loans from a pool of online investors in a very short period of time by bypassing the most complicated bank lending processes. For many firms, the speed with which they are able to obtain funding, often in a matter of days, makes this model significantly more attractive than traditional banking.

The other key area of alternative finance is investment-based crowdfunding, in which platforms are directly offering unlisted shares and debt securities. In particular, equity-based crowdfunding has grown fast, to over £28 million in 2013. Again, new regulation has sought to introduce tighter controls on investment-based crowdfunding that has a higher risk profile, while also recognising its diversity, with platforms like Crowdcube and Seedrs offering to investors the sale of registered security by mostly early-stage commercial ventures. These have not extended as yet to the Dutch model, pioneered by Symbid, of investor co-operatives.

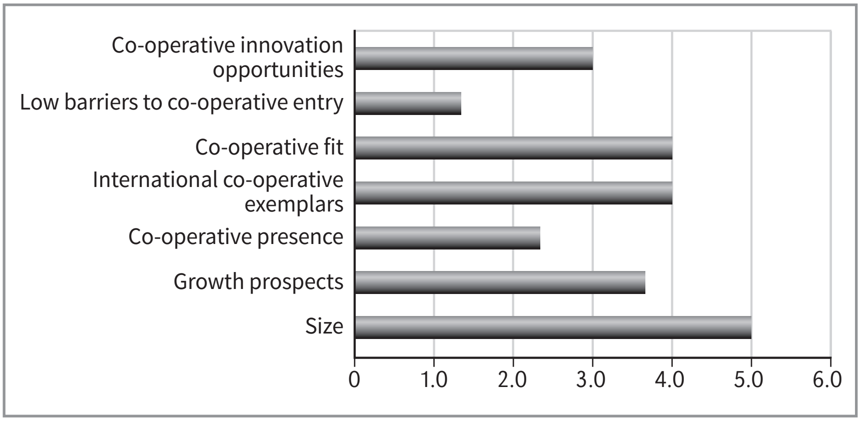
Also in the equity field, though, and something of a pioneering development, community shares refer to the sale of shares for enterprises serving a valuable community purpose – such as shops, pubs and renewable energy. Community shares use a special type of share capital linked to co-operative and community benefit societies, which is designed to raise capital from members, encouraging their participation and often focusing on a community benefit. As such it is not covered by company share-promotion regulations.

As these develop, they may in turn start to recreate what will be mutual stock markets, with the advantages of shared rules, peer accountability and the public trust that this can win. As with local banks, the idea of mutual stock markets may sound like a return to the past rather than an embrace of the future. After all, at one point most stock markets were organised essentially as mutuals. They were associations of enterprises that would agree to abide by common rules in order to establish a platform for trading and investment. The arrival of the stock market as a separate investor-owned company came much later. But if it is a good idea that allows for trust and mutual action, then it may be an enduring idea that will come back in new forms, based on electronic platforms.[21]

Conclusion

BANKING

Co-operatives have a potential competitive advantage in the provision of loans because they do not have to provide a return to outside shareholders. It is that advantage that saw the formation and steady progress of many large mutual building societies, which grew by accumulating surpluses over the long term. It is not clear now that the same strategy is possible. Retaining and accumulating surplus on the same scale as before demutualisation would take a very long time. Doing so at the same time as competing with the big banks is also less feasible as long as those banks are able to chase speculative returns with the implicit underwriting, at least in part, of the taxpayer – thus earning high returns with low risk.



Where there are large-scale mutuals, such as Nationwide and a number of other building societies, they can also compete on other advantages of the mutual model – being well placed to carry consumer trust and to understand and respond to changing customer need. For new mutuals, though, the opportunities seem stronger in the field of more localised banking. Banks, currencies, small business lending, stock exchanges: these are innovations that could aptly operate on a mutual basis. Given time and a fair wind, rather than being marginal to the financial-services market, they could potentially become the next mainstream. ■

1 Accenture (2012), State of the Banking Industry, **s.coop/stateofbanking**

2 Office of Fair Trading (2012), Review of Personal Current Account Market, **s.coop/1v7kn**

3 And yet access to finance for many remains restricted. There is 'no universal service requirement', unlike for other utilities; although the Government has encouraged banks to offer 'basic' bank accounts through post offices. Government interventions to make current-account switching easier may help inject competition, but consumer inertia as regards account switching has been evident in other network utilities such as gas, water, electricity and telephone services.

4 A mutual savings bank is a financial institution, which takes savings from its members, who are also the owners, and makes loans, sometimes to members only, sometimes also to non-savers, who may then become members and owners. The loans are commonly to households, but in some cases may be to small businesses. They are commonly retail banks, funded by retail deposits collected through branches, or credit unions, attracting member shares, rather than larger wholesale deposits from other banks or businesses through the money markets, including the 'interbank' market. Alongside these are then a range of non-bank credit providers or intermediaries in the field of 'community development' finance that are set up along mutual lines or with a mutual ethos. Unlike in a mutual savings bank, where member deposits or shares benefit from a degree of Government protection, the capital for these come from investments that are fully at risk in the event of failure.

5 Abbey National, the second largest at the time, in 1989; Cheltenham & Gloucester in 1995; Halifax, by far the largest, in 1997; and Bradford and Bingley in 2000; and, of course, Northern Rock, in 1997, which subsequently grew extremely rapidly until the credit crunch.

6 Johnston Birchall (2014), personal correspondence. It was the co-operative and mutual model, Birchall argues, that offered a remedy to this flaw elsewhere, through

membership and board election.

7 It then added the Alliance and Leicester, previously associated with the Post Office Savings Bank and the Girobank, and then, during the crisis, Bradford and Bingley, once it had been cleansed of its problem loans. These problem loans were absorbed by UK Financial Investments (UKFI), which also holds the Government shares in Lloyds (43.5 per cent reduced by 6 per cent or so following a relatively successful sale of shares in December 2013) and RBS (82 per cent). UKFI was originally set up to hold the shares in the demutualised building society, Northern Rock, which had suffered a 'run' on 14 September 2007 and had had to be all but nationalised in February 2008. The shares in the 'good bank' UKFI created from the wreckage were sold, at a loss to the taxpayer, to Virgin Money in November 2011. The UKFI continues to run down assets of the 'bad bank' it also created.

8 It was never therefore subject to the culture of prudence that comes when you are managing money on behalf of depositors rather than investors. See Johnston Birchall (2013), *Finance in an Age of Austerity*, Edward Elgar.

9 Community Development Finance Association (2012), Just Finance.

10 Community Development Finance Association (2013), Inside Community Finance: the CDFI industry in the UK. Note that the majority of this comes from two larger CDFIs with banking status – Triodos and Charity Bank.

11 International Co-operative and Mutual Insurance Federation (2014), Global Mutual Market Share.

12 This now lends to SMEs and larger firms and developed a strong branch network in Central and Eastern Europe post 1990.

13 Melvin Edwards (2014), 'The Next Chapter Of Growth In The Caribbean Credit Union Movement', paper presented at Co-operatives' Power of Innovation, Quebec, October 2014.

14 Ibid. Note that Puerto Rico, Haiti and the Dominican Republic are excluded.

15 Ibid.

16 For example, in the form of the nascent Community Investment Coalition.

17 **www.bis.org**

18 Andrew Haldane (2012), 'The Doom Loop', *London Review of Books*, Vol 34 No 4, 23 February 2012, pp 21-22.

19 Department for Work and Pensions (2012), Feasibility Report, DWP Credit Union Expansion Project, Project Steering Committee.

20 ICF GHK (2013), *Mind the Finance Gap*, evidencing demand for community finance, Community Development Finance Association.

21 A pioneer for this may be the initiative ETHEX, which offers itself as an exchange for direct ethical investments, such as bond issues, alongside the Microgenius site, established by Co-operatives UK and Locality, which supports growing numbers of peer to peer equity raising in the form of 'community shares'. See **www.microgenius.org.uk** and **https://www.ethex.org.uk**

8
Creative industries

Symbolic branding

Who wouldn't want to be thought of as creative? The recognition of what Government defines as the creative industries, defined in the 2001 Creative Industries Mapping Document as "*those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property*", was a masterful example of strategic branding. Robert Reich, the former US Labor Secretary, called them 'symbolic analysts' – but the 'symbolic industries' never carried the same positive connotations.

It is not that Government got it absolutely right. The focus on individual creativity misses out the extraordinary shared dimensions of both creativity and intellectual property. But it offered a starting point. The Department for Culture, Media and Sport (DCMS) has since applied the definition to cover a wide range of activities, across a variety of industry groups, including advertising, architecture, design, designer fashion, film and video, interactive leisure software, music, the performing arts, publishing, software and computer services, and television and radio.[1]

The business of being creative

When you bundle together so many trades, it is not surprising that the creative-industries sector that emerges in statistics is fragmented in nature, but there are some common themes:

- There is a high proportion of small and medium-sized enterprises and new start-ups. Overall, there are around 106,700 creative enterprises, which accounts for 5.1 per cent of all UK enterprises.[2] In some sub-sectors the market is dominated by a few large commercial players. In others, such as television and radio, there are also significant public-service bodies. Some 90 per cent of UK design practices employ six people or fewer.
- There is growth. The sector has grown rapidly in the last 12 years and has consistently outperformed the growth rate of the UK economy as a whole. The gross value added (GVA) of the creative industries is £71.4

billion, which represents 5.2 per cent of the UK economy.[3] There are also exports. The value of services exported by the creative industries is £15.5 billion, 8.0 per cent of total UK service exports.[4]

- Information co-operation matters. The opportunity to network informally with peers across industry groups is particularly important in stimulating innovation, for example, leading to new products and services and to new businesses being established.
- The model of industrial organisation is typically one of working around projects, with teams being assembled project by project and in some cases, such as in the film industry, companies being formed for projects.

The reason for the growth in the creative industries is explored in *A Manifesto for the Creative Economy*, a paper from NESTA, the National Endowment for Science, Technology and the Arts. The paper argues that growth in the sector reflects technology adoption and the digitisation of the economy, together with a rising demand for content and service providers that can produce it. Digitisation has reduced the cost of creative products and, in response, consumers and companies are spending more on them.[5] In addition, the paper suggests that consumers are interested in the outputs of the creative economy as means of self-expression, differentiation and taste. This helps to explain why it is not only the digital consumption of culture that has been rising in recent years. For example, expenditure on live performance of art and music and on fashion has also increased.

Employment

The role of the creative worker, as defined in the NESTA paper, is to devise original ways of meeting a differentiated need or requirement that is not expressed in precise terms. Their creativity, in other words, is in the capacity to differentiate products and to cater precisely for discretionary requirements of segmented groups of customers. Linked to this is the ability to nurture relationships with customers and to offer batch products for a limited period that are highly tailored to particular market segments. There is an opportunity within the creative industries for high-quality, low-quantity products and experiences in contrast to traditional mass-production approaches.

That sounds like good work. Whether or not it actually is good work would be a question to pose to the 1.68 million people who work in the creative industries. Even then, it might depend on whom you asked: within that total workforce, there are said to be creative employees (888,000) and non-creative employees (796,000). But in both cases these are growing numbers.[6] The IT, software and computer services industry group is by far the largest employer within the sector, with over 30 per cent of employees.

Publishing employs 15 per cent, film, video, TV and radio combined employ 15 per cent, music and the performing arts combined employ 14 per cent and advertising and marketing employ 10 per cent.[7]

London is the UK's primary centre for the creative industries.[8] The city is home to 35.5 per cent of the country's creative-industry-sector businesses, compared with 16.7 per cent for businesses in all sectors. London and the South-East of England combined account for more than half of creative industry businesses in the UK.[9]

Creative industry co-operatives

The dataset used for the *UK Co-operative Economy* report includes 272 co-operatives in the creative industries. This represents 4.4 per cent of the co-operative economy by number of enterprises. Turnover figures were only available for one-third of creative co-operatives. Their combined turnover was approximately £20 million.[10]

Co-operative businesses are distributed across a range of sub-sectors of the creative industries, although more than half are engaged in the arts, including performing arts.

The largest governance models for co-operatives in the creative industries are worker ownership and enterprise ownership, also referred to as co-operative consortia. There are 101 employee-owned and worker co-operatives and 89 co-operative consortia.[11] Co-operative Development Scotland has enjoyed success in supporting creative co-operatives – with examples such as Screen Facilities Scotland, McOpera, Atomised, Wee Agency, West Highland Free Press and Yellow Brick House.

***Table 1** Largest creative-industry co-operatives by turnover*

Co-operative enterprise	Turnover
St Luke's Communications	£6,201,625
New Internationalist Publications Ltd	£2,845,460
Calvert's North Star Press Ltd	£1,110,889
Co-operative Web Ltd	£890,000
Peoples Press Printing Society Ltd	£819,398
Arts About Manchester Ltd	£810,206
Ludus North West Dance in Education Ltd	£603,735

Source: Co-operative Economy Report 2013, data set

While there are some great examples of co-operative creative businesses, the large co-operatives in this sector have generally been in business for many years. Of the three largest co-operatives by turnover, St Luke's Communications, was founded in 1995 and New Internationalist and Calvert's both date back to the 1970s. The co-operative economy does not appear to have attracted the new high-growth creative enterprises that may be found in the wider creative economy, more focused perhaps on what could be termed 'lifestyle co-operatives'. There is a wide variety of creative co-operatives, including artists' and writers' collectives that are not focused on finance and growth.

One explanation for this is that some co-operative entrepreneurs in the creative industries prefer their businesses to remain small. Another reason could be lack of awareness of the co-operative model and/or a perception that it is more complicated than other business forms. Or, at start-up phase, they are responsive to funding opportunities, while some funders, such as Arts Council England in the past, may have been reluctant to support co-operative models.

Availability of venture capital could be another reason why creative entrepreneurs do not choose co-operation. Much of the growth in start-up enterprises in the creative industries is dependent upon the ability to obtain venture capital early on in the life of the business. There are other sources of finance, of course, such as the Technology Strategy Board. And there are other countries such as Italy, which offer alternative models of business financing through co-operative consortia and mutual guarantees – though these are not well developed in the UK. The nature of venture capital does not fit well with co-operative models and this is likely to act as a barrier for some involved in the sector.

The creative commons

This is a sector in which the role of co-operation in recent years has been prominent, as technology lowers the costs of social participation and exchange, but rather different from the focus of traditional co-operative models which start at the level of the firm – a bounded enterprise, formally constituted and legally owned. The genius of the creative commons is that there are resources online which can be shared and developed through peer-to-peer collaboration. These can meet needs and create economic value, outperforming the mainstream, as in the case of digital products that reflect the model of 'free, libre, open source software', but they typically link people across the boundary of individual businesses rather than being enclosed in a single model of business – although some warn that proprietary control of online platforms, such as social networking, may lead to this over time.

What started in software has spread to experimentation in open-source hardware, extending the same principles of co-operation. It has started to question the way in which national policy treats the creative sector – seeing sharing rather than restrictive intellectual property as an element of success. As Yochai Benkler comments: "*The rise of co-operation as an alternative approach to markets and hierarchies has placed the most direct and politically mobilised pressure on law and policy in the areas of copyrights* *and patents.*"[12]

More widely, there is an increasing recognition by companies of models of 'open innovation', reflecting, further, the potential for a knowledge or innovation commons. Companies that used to see research and development as a closely guarded internal process are moving to models of exchange and open co-operation with customers, staff and suppliers.

It has not all been benign – illegal file sharing is an act of collaboration, but ignoring the embedded rights of composers, authors and performers is not. The new institutions that have emerged have been about managing this collaborative production and distribution: open source, creative commons, and the various protocols about contributing, curating, version control and terms of use. A co-operative strategy should acknowledge that you don't always have to have a formal co-operative to be co-operative in style. This holds true, arguably, for the key characteristic of the creative sector: creativity.

It can be that the key arena for co-operation is across the very firms that are then engaged in competition, where acting alone cannot succeed. This will be true of the field of standards in technology and markets, whether regulatory or voluntary. Robin Murray has pointed to the key role of co-operation in one example – the success story of the UK broadcast and film digital-imaging industry.

This was an industry that President Clinton said was more crucial to the US now than the auto industry, and where Britain became a world leader. "*The reason was,*" Murray explains, "*that the industry and broadcasters, notably the BBC, worked together to develop a set of common standards (a 600-page manual, constantly updated, which was adopted by continental Europe and the US) and a shared testing facility to ensure the inter-operability of products before they went into full production. Large firms co-operated with the small, the public BBC with the private. The state itself followed this shared pool of technical expertise.*"[13] Inter-firm co-operation, he argues, can also change the market dynamics faced by businesses of different scale.

Co-operation overseas

Co-operatives are an established business model in the field of arts and crafts, enabling sole traders and micro-enterprises to come together, to access services or get a better deal at scale. Marketing co-operatives are among the most widely used co-operative models to support the work of artists and crafters alike and to allow their members to sell their work much more effectively, sometimes through a centrally located storefront.

There is no set structure for a marketing co-operative, as each is established to meet the specific needs of its members. Typically, an artist interested in joining such a co-operative would apply to a member selection committee and would be expected to meet certain criteria, such as being a local resident or achieving a certain quality of work. Successful candidates would be required to purchase a share. Successful examples of marketing co-operatives abound, and include stores such as Circle Craft in Vancouver[14], the largest marketing co-operative in western Canada, and Arctic Co-op in Nunavut, the largest distributor of Inuit art in the world.[15] In Vancouver, a live/work artists' complex, CORE, has been developed by artists in partnership with the City of Vancouver and a property developer, including artists' units and shared wood and metal shops. A wider mutual for self-employed people is the Freelancers Union in New York State, which has over 230,000 members.

In relation to cultural assets, including theatres and museums, the cultural land trust has emerged as a variant of wider 'community land trusts'. This uses the land trust as a means of both assembling and managing cultural properties through the use of covenants that shield designated properties from the speculative land market. While cultural land trusts employ a range of organisational structures, usually charitable foundation or non-profit society, co-operative models include multi-stakeholder structures that allow a range of stakeholder groups to exercise member control rights, including tenants of trust properties, donors, individual community members, corporate entities such as arts organisations and public bodies such as municipalities. An example is the Petit Champlain Co-operative in Quebec City that owns and manages 27 properties – the largest collection of art spaces, studios and shops in Quebec.

The world of online co-operation and peer-to-peer production is rich with examples of what Robin Murray has dubbed 'co-operatives without walls'.[16] More recently, with the intellectual backing and leadership of the P2P Foundation, led by Michel Bauwens, and entrepreneurs such as Indy Johar, co-founder of Hub Westminster and key to the spread of the social innovation Hub model worldwide, there has been an interest in models of 'open co-operation', which match the 'commons' model of working with a 'commons' model of formal ownership and accountability. A pioneer in this field is the fair coin or fair.coop project of the Catalonia Integral Co-operative, which will combine a complementary currency (which emerged as a key innovation in the last chapter) and a mutual credit system for peer production.

Barriers to co-operation

In practice, while deeply entangled with the private market economy, the aesthetic of much of the creative sector is co-operation. However, in the case of TED, for example, there seems to be a default button somewhere that steers the organisation back to courting traditional corporate forms. The returns to scale online for example, coupled with the loss-leading investment required to reach scale in the first place, seem to favour venture capital as a model for commercialising innovation – as both risk and reward are so high. Is there a co-operative alternative for the creative types that want to see the spirit of collaboration and co-operation continue?

Some of the literature on the creative industries suggests that a significant element amongst those that establish businesses in the sector are often motivated by values other than purely economic ones. For many, the theory goes, the drivers can be personal passion, pride, commitment and peer recognition. This approach of creative professionals to business and to their careers suggests that the primary interest of a significant proportion of those involved in the sector is in doing what they do well rather than achieving scale and expanding or selling the business. In some cases they do not even establish a business to do what they do. As well as collaboration, there seems to be a level of camaraderie in some parts of the sector and a shared interest in expanding the boundaries of creativity as well as technology. Cities where creative companies are clustered are awash with networks.

This being the case, it is perhaps surprising that more of the new start-ups in the sector have not been co-operatives. It is likely that, in common with other sectors, there is a lack of awareness of co-operation in the creative industries. But there may be more fundamental reasons for the lack of co-operatives in the creative industries:

- It is relatively straightforward now to have informal co-operation, without ever needing to create a formal structure to do this. Of course, this is dependent on the good will of the people involved – unless co-operation is codified somewhere, there is always the risk of those involved withdrawing when it is least helpful to the group as a whole.
- However, the creative sector does operate with a lot of formal, new start-ups for which traditional private business forms have dominated. It may indeed be of little concern to those establishing the business which model they choose – if it is a small company, then those that set it up will be able to control the direction of travel and work to their own values and principles without co-operative governance. In these circumstances, the comparative advantage of co-operation over other forms of business may be less clear to those involved – in other words, why would a co-operative model be better than a private one?
- Another factor is the partnership model of company ownership, which is a common private business form in some sub-sectors of the creative industries. A limited liability partnership is a partnership in which some or all partners have limited liabilities. A UK limited liability partnership is a corporate body – that is to say, it has a continuing legal existence independent of its members. Some limited-liability partnerships are highly supportive of co-operation and associate themselves with the business form. Pentagram is an example of a highly successful international design

partnership. The firm shares some of the values and principles of co-operation and adopts some of the policies and practices that might be found in a worker co-operative. Members employ their own teams and have their own trading accounts within the partnership.

Innovation opportunities

1 Freelancers' co-operative

While there are some very large creative enterprises, many of the businesses that are established in the sector are small and remain so. In addition, the sector relies on a relatively high proportion of self-employed workers and freelancers that use networks and contacts to secure work. Rather than creative workers being employed, the model is often to contract with them on a freelance basis. These are the people that fit the definition of the new 'precariat' – those who are self-employed and entrepreneurial but at risk. Could co-operation give more security and more market power and opportunity to those involved?

An example would be musicians who hold teaching roles. As public funding cuts bite, many teachers previously employed by local authorities are losing jobs, moving to become self-employed. A co-operative model would allow self-employed teachers who would otherwise be competing for jobs to work under an umbrella which also offers parents and schools reliable quality assurance. This would fit the development of 'music hubs' around schools in England and provide a steady stream of income (in contrast to the higher-risk field of arts funding).

The concept of a freelancers' co-operative has been developed by the union BECTU, working with Co-operatives UK.[17] Across the field of film, TV and music, it concludes, co-operatives could be well placed potentially to support freelancers – such as musicians who want to protect themselves from the middle people (producers, agents, third parties) whose business model is designed to strip away their potential income. Outside of the virtual sphere, there are still benefits in coming together, often at a local level. There are orchestras that are established as co-operatives and scope too for local cultural venues, such as jazz clubs.

Those who have worked as freelancers in this way often have the capabilities to make a success of co-operation, being flexible and adaptive in finding their own sources of support. Some of this culture is shared among those who start enterprises and employ others. While the rise of this 'precariat' does create an opening for the people involved to find strength through banking together, if co-operation is to become more relevant to the creative industries then there will be a need for a more systematic push with clarity as to the benefits that it will bring and how it will help creative people achieve their goals.

2 Commercial partnerships – creative consortia

One area where there may be an opportunity to grow the number of co-operatives is in the collaboration that takes place between creative companies. Informal co-operation is already a feature of the creative industries – for example to bring together specialists to deliver a project brief. There are also examples of formal co-operatives being established to strengthen the ability of smaller businesses to win large projects and to share overheads.

Enterprise-owned or consortium co-operatives already comprise approximately one-quarter of co-operatives in the creative industries. Members may be businesses, partnerships or individuals, and the co-operative may be for any purpose that supports the members – typically buying, selling, marketing or sharing facilities or services, or joint bidding for contracts.

The model allows member businesses to retain their own brands, independence and control while helping them to work together to improve performance in agreed areas. Co-operative Development Scotland has, in recent years, been promoting the consortium model to the creative industries in Scotland, in conjunction with Scottish Enterprise, with some success.

If much of the innovation and the value added in the creative industries comes from collaboration, then there may be more that co-operatives can do to promote the consortium model to the sector. One area that is raised in several research pieces on the sector is the need to allocate the benefits to the collaborators that have been/will be achieved through shared input into the development of a product or service.

Traditional intellectual-property approaches do not appear to provide clarity on this matter. In addition, in a world of file sharing, intellectual-property rights are probably not the way in which small businesses are going to realise value in the future.

If co-operatives could offer governance guidance and develop an off-the-shelf model for collaboration, including creative and technical collaboration, then this might help to establish a relevance within the creative industries that is currently missing. From this position, it would become easier to spread messages about worker co-operatives and other co-operative forms across the sector that might also lead to results.

3 Creative skills

Education is also important for the creative industries when it comes to supporting the search for people with the right skills. Such skills are also relevant more widely across the economy, with the rise in importance of the skills of collaboration and teamwork. The creative economy, which includes creative industries and other creative occupations, employed 2.55 million people in 2012, representing 1 in 12 jobs. It is also an area of the UK economy where employment is increasing.

This could be something for co-operative schools to consider in terms of the demands of this growing sector in the UK economy. Co-operative schools could be well placed to develop free-thinking, well-rounded, creative and highly computer-literate school-leavers that are ready for the world of work.

Co-operative education in universities would be a good supplement and would ensure that creative entrepreneurs in the future have as good an understanding of co-operatives as they have of other business forms. Perhaps those that drift into private business forms at the moment, possibly for want of an alternative, will be open to co-operation in the future.

4 Community-owned media

Currently local newspapers are disappearing at a rate of more than 30 a year, with 250 papers closing in the last eight years. This is the local effect of a dramatic change in the economics of publishing – in music, books, magazines etc – which has served to erode the business model of many of the old industrial publishers that dominated their field. In the new networked distribution model, advertising moves online and a new set of behemoths, such as Amazon, have emerged to take advantage of the 'power-law' character of sales, in which blockbusters win out, but a long tail of others can be sustained at a lower margin.

At the same time, the demand for high-quality local news remains as strong as ever, so that the closures don't have to signal the death of local media. While the traditional business model for the local press is no more sustainable than for their national counterparts, co-operative ownership has the potential to bind in the key parties to make a success of the enterprise in tough circumstances. An example is the employee-owned *West Highland Free Press*, which was purchased from its founders by the 13 employees, who have seen their newspaper weather the storm much better than comparable publications across the UK.

The central issue restricting the growth of the sector is the difficulty in securing titles to transform with community ownership. Unlike pubs, where owners can be open to a sale to a community enterprise, newspapers are rarely sold on a single basis, with major ownership groups preferring to sell large regional, sub-regional or sometimes national groups *en masse*. When titles are closed or merged due to owners believing them to be unviable, neither communities nor employees have the opportunity to make a bid, still less the time to mobilise and raise the necessary finance.

One route in could be steering local media back from a voluntary into a commercial space. In many places, competition to existing titles (or filling the vacuum in places with no print title at all) is now provided by online news sites – often called hyperlocals – which take advantage of the free or cheap means to publish that the internet provides. Because these are very flat teams of people working together (and sometimes just one or two people), issues of governance, control or incorporation don't apply in the same way. The critical issue for this nascent sector could be the challenge of sustainably meeting demand. Volunteer-driven organisations work best where demand is predictable, and what needs to be done maps neatly onto what time volunteers can spare and when they can spare it. At some stage, the issue of compensating people for what they do becomes an issue for all volunteer-run enterprises, and at this stage, the free-fork nature of the hyperlocal blog starts to have to consider issues like incorporation, legal form and business model. It's at this point that co-operative and community ownership comes into its own, providing a means to get the member relationship to drive reader support, whilet maintaining the open and equitable nature of the publication.

5 Open co-operatives

The idea of open co-operatives is one that looks to combine the power of digital models of peer production with the analogue experience of co-operatives around business form and ownership. For now, open communities of peer producers still tend to be oriented towards the start-up model and, if they grow, as in the case of the hugely successful game Minecraft, the growth or succession strategy is locked into the investor model. Conversely, co-operatives may have addressed some of the issues of scale and capital, but remain typically closed in terms of their approach to knowledge, relying on closed intellectual property and focused on exchange outside of the digital sphere.

Michel Bauwens, of the P2P Foundation, sets out the thinking behind the open co-operative approach:

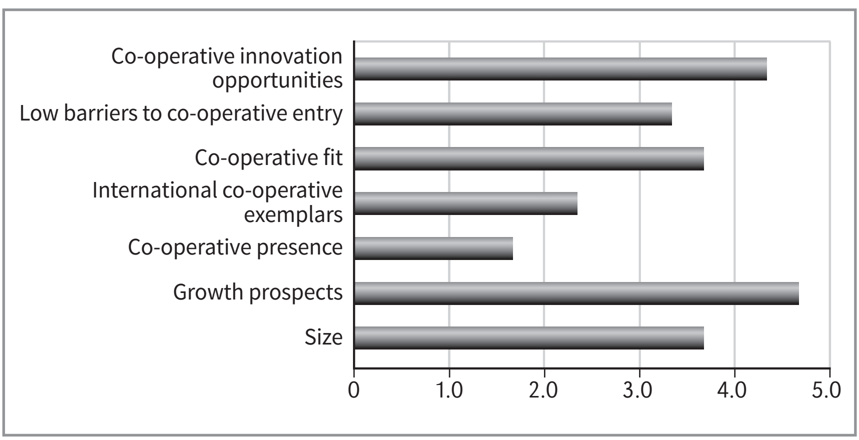
> *"We need a new convergence or synthesis, an 'open co-operativism', that combines both commons-oriented open peer-production models, with common ownership and governance models such as those of the co-operatives and the solidarity economic models. In the new model of open co-operativism, a merger should occur between the open peer production of commons, and the co-operative production of value. The new open co-operativism integrates externalities, practises economic democracy, produces commons for the common good, and socialises its knowledge. The circulation of the common is combined with the process of co-operative accumulation, on behalf of the commons and its contributors. In the beginning, the immaterial commons field, following the logic of free contributions and universal use for everyone who needs it, would co-exist with a co-operative model for physical production, based on reciprocity. But as the co-operative model becomes more and*

> *more hyper-productive and is able to create sustainable abundance in material goods, the two logics would merge."*

The idea of open co-operatives can be relevant to any economic activity where there is value in collaboration. The principle of openness can also, as Indy Johar argues, become an organising model for a very different approach to enterprise. Being open is one of the original co-operative values, and an integral part of the Statement of Co-operative Identity of the International Co-operative Alliance. The idea of open co-operatives takes this further by asking what it is of an enterprise that does *not* need to be open. Turning the tables in this way, Johar envisages open co-operatives that are open about: rewards, resources, finance, ownership, taxation, contracts, political donations, software and data. This is a radical potential transformation of the business model – recognising that business can be best when it is an intermediary for people to come together to create value, rather than an entity owned by a few for which the many create value.

Conclusion

CREATIVE INDUSTRIES



The creative sector, for all its diversity, is the part of the economy in which moves towards shared value and partnership as a way of working is perhaps most advanced. As such, it has also seen the most open disagreements around future business models and economic policy – including around intellectual property and the need to balance appropriate rewards for creators with the encouragement of appropriate conditions for creation. While there is growing recognition of the value of co-operation, such as team working and partnerships, the majority of this does not fall within a traditional co-operative model of ownership. There are opportunities to apply a traditional formula, such as community ownership or enterprise ownership, in a new context, such as the rise of freelancers or the decline of local media. The more radical innovations, though, are those that conjure up entire new approaches to business, rooted in peer-to-peer production and open co-operation. ■

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1 As of 2014, DCMS has extended its statistical releases to include the creative economy as well as the creative industries. The creative industries are a subset of the creative economy, which includes the contribution of those who are engaged in creative occupations outside the creative industries as well as all those employed in the creative industries themselves.

2 Department for Culture, Media and Sport (2011), Creative Industries Economic Estimates, Full Statistical Release.

3 This has increased by 15.6 per cent since 2008, compared with an increase of 5.4 per cent for the UK economy as a whole. The largest sub-sector was IT, software and computer services with GVA of £30.9 billion. Department for Culture, Media and Sport (2014), Creative Industries Economic Estimates, Statistical Release, January 2014.

4 Department for Culture, Media and Sport (2014).

5 Hasan Bakhshi, Ian Hargreaves and Juan Mateos-Garcia (2013), *A Manifesto for the Creative Economy*, Nesta.

6 Publishing is the only sub-sector to see a significant reduction in business numbers.

7 Department for Culture, Media and Sport (2014). Note that the UK Government introduced a new definition of the creative economy in 2014 that breaks down the creative sector into three groups. The groups allow for the creative economy to incorporate relevant industries, occupations as well as industry and occupations. What this means is that employees of non-creative businesses that are doing creative jobs can be included in statistics about the creative economy. In 2012 there were 866,000 employees in this category which added to the number of employees working within the creative industries gives an employment total for the creative economy of 2.55 million in 2012, or 1 out of every 12 jobs in the UK.

8 Location is an important factor for this sector because organisations within the creative industries often choose to locate in close proximity to one another. This is because they are then able to take advantage of knowledge-sharing, market development opportunities, human scale and concentrated labour markets.

9 Department for Culture, Media and Sport (2011), Creative Industries Economic Estimates, Full Statistical Release.

10 Co-operatives UK (2013), *Homegrown: The Co-operative Economy* – dataset analysis.

11 Ibid.

12 Yochai Benkler (2014), ‘Law, Policy, and Co-operation’, in Edward Balleisen and David Moss, eds, *Government and Markets: Toward a New Theory of Regulation*, Cambridge University Press, forthcoming.

13 Robin Murray (2012), personal correspondence.

14 See **circlecraft.net/**

15 See **arcticco-op.com**

16 Robin Murray (2010), *Co-operation in the Age of Google*, Co-operatives UK. Indy Johar separately points to “This new Open sector is already in emergent formation ... [as with] Buffer driving transparency in employee pay, , Creative Commons Licences creating a whole new gradient of Open Intellectual Property,Open Corporates driving data-driven institutional transparency into the corporate world, Linux driving the most used software in the world, GitHub creating a platform for reputation driven open collaboration, Arduino creating Open Source platform for Electronics, Hublaunchpad creating an Accelerator for the Open Startups, Open Source Ecology – building a range of open source farm machinery, The Wikihouse creating an Open Source locally printable House – just to list a few.” Indy Johar, (2014), personal correspondence.

17 Chris Funnell (2012), *Works for You: a guide to setting up a co-operative in the media and entertainments industry*, BECTU and Co-operatives UK.

9
Sport

Play ethic, work ethic

Sport is where your play ethic is your work ethic, and vice versa. It is inclusive, enabling almost everybody to participate, but also exclusive, highlighting the most exceptional talents.

By definition, sport covers all forms of physical activity that aim at expressing or improving physical fitness and wellbeing. As an economic sector, it includes the operation of sports facilities, the activities of sports clubs, fitness facilities and other sports-related activities. The sports sector encompasses the internationally renowned professional football clubs of the Premier League as well as the organisations for voluntary enthusiasts that are the grassroots of sporting involvement and participation at a local level.

Sport is one of the top 15 sectors in the UK by gross value added (GVA) and contributed £23.75 billion to the UK economy in 2010. It also employed 487,000 people and is the focus of significant activity in other sectors like the creative industries through advertising, media and broadcasting. In 2010 sports-related gambling expenditure in England alone was valued at £4.9 billion.[1]

***Table 1** The value of sport to the UK economy in 2010*

Division	GVA	Employment
England	£20.3 billion	400,000
Scotland	£1.9 billion	43,000
Wales	£0.9 billion	26,000
Northern Ireland[2]	£0.65 billion	18,000
TOTAL	**£23.75 billion**	**487,000**

Sources: Relevant national development bodies in each of the four nations[3]

Sport can be more than just a commercial proposition. There are a range of benefits that are not directly economic that are related to sport, including health and wellbeing, regeneration and community development as well as educational attainment and combating youth crime. Sport is also important because of the contribution that it makes to society through health benefits and volunteering. In England alone, the economic value of these benefits is estimated at £2.7 billion for health and £11.2 billion for volunteering.[4]

According to the Sport & Recreation Alliance, the trade organisation representing national governing bodies for sports in England, there were approximately 151,000 sports clubs in England in 2009. If the distribution of sports clubs were to mirror population in the four nations, then there would be approximately 180,000 sports clubs in the UK.

Economic trends in sport

Sport is a sector that has continued to grow in commercial terms over a difficult economic period since 2007. Major sporting events are often completely sold out and competition for broadcasting these events to a paying television audience is increasing. Sponsorship is also a significant part of the business of sport and is likely to grow as economic conditions improve.

The success of the 2012 Olympic and Paralympic Games in London was an example of the popularity of major sporting events as well as an example of the attractiveness of these events to advertisers and sponsors seeking brand exposure.

The English Premier League is the world's wealthiest professional football club championship by gross revenue – although of course, if you subtract expenditure over the last two decades, then on the definition of Charles Dickens' Micawber, it may be one of the poorest too. The Premier League clubs have increased their collective revenue by almost 14 times in the last 20 years – from £170 million in the 1991-92 season to £2,360 million in 2011-12. The combined revenue of all 92 clubs in the four English professional football leagues exceeded £3 billion for the first time in 2011-12.[5] With the pattern of broadcast revenue and entry of a new class of owners, English football at the top end has been absorbed into the heart of international financial capital.

***Table 2** English football club revenue by league in 2012*

Division	Income
Premier League	£2,360 million
Championship	£476 million
League One	£120 million
League Two	£79 million
TOTAL	£3,035 million

Source: Deloitte Annual Review of Football Finance 2013

This doesn't mean to say that all of it is good business. Revenues may be at record levels for football clubs, but there remains considerable uncertainty in the financial condition of many football clubs. For example, according to Deloitte Annual Review of Football Finance 2013, the combined amount of debt for Premier League clubs exceeds their annual income – at £2.4 billion.

Operating margins for clubs in the Premier League average out at only four per cent and in the second tier of English professional football, the Championship, clubs spend on average 30 per cent more per annum than they generate in income.[6] The financial instability inherent in English football is demonstrated by the fact that half of all 92 professional football clubs have become insolvent since 1992.[7]

Insolvency practitioners Begbies Traynor contrast the fate of top clubs that benefit from ownership by an overseas billionaire with that of others that stagger from one season to the next on an inevitable downward spiral. In a report that looked at the 72 professional clubs outside the Premier League, they suggested that six were facing critical financial pressure potentially leading to insolvency in October 2013.[8] Many more, though, are only counted as going concerns because of the availability of shareholders' funds.

In the UK, professional football clubs have come to be seen as private businesses that are owned by wealthy individuals or shareholders. For a large part of the 20th century, a club Director was part of a collegiate group of like-minded souls, while the image of a club owner was that of a benevolent businessman who usually was or claimed to be a lifelong fan and who ran the club as a hobby.

Modern football finances have raised the stakes in football-club ownership considerably. The financial opportunities of promotion to another league or qualification for European competition are considerable. Larger clubs in England and, to a lesser extent, in Scotland have attracted new owners and new interest with investment to attract players that, it is hoped, will bring the team success.

Player salaries have come to dominate club expenditure in professional football. A report from Deloitte suggests that, on average, 70 per cent of Premier League club revenue was accounted for by player wages in 2011-12.[9] This compares with around 54 per cent in 1992.

In these circumstances, there has been a succession of clubs whose finances have been overextended. In particular, clubs that are relegated may face substantial loss of income while still carrying commitments to players and staff that are not sustainable in their new circumstances.

In effect, the owners have been gambling on future success that is gloriously unpredictable in the world of sport. In this way the modern professional football environment appears to encourage a strategy that sets clubs up to fail. The trend to higher spending on players bids up the player costs in an inflationary spiral. The level of risk involved in this 'boom or bust' strategy would be unacceptable for owners of a business in almost any other sector of the economy.

A related issue is that football clubs, in fact sports clubs in general, are not just any other business. Sports clubs have a series of unique characteristics that set them apart from other forms of enterprise in respect of their historical development, their strong ties to the local community and the connection that their supporters feel to their team. This latter connection is something way beyond brand loyalty, although some involved in the business of football will talk in such terms. It is a deep-rooted association and a sense of belonging that borders upon feelings of ownership and shared interest with those of the club and potentially with a communal fellowship of supporters.

Interestingly, one of the leading insolvency practices in the UK, Begbies Traynor, has noted the growing interest in what it calls 'community ownership' as a solution for clubs in financial difficulties. Gerald Krasner, a partner at the company, commented that: "*There is no doubt that the trickle of clubs that have become majority owned by the fans in England will become a steady flow over the coming seasons.*"[10]

International perspectives

Co-operative ownership of professional football clubs is more prevalent elsewhere in Europe than in the UK. Europe's three largest football clubs by revenue are owned by their supporters.

Table 3 *Top-earning football clubs in Europe*

Club	Income
Real Madrid	€519 million
FC Barcelona	€482 million
Bayern Munich	€431 million
Manchester United	€424 million
Paris St. Germain	€339 million

Deloitte Money League Survey 2014

In Germany, 35 of the top 36 clubs are majority-owned by their supporters. While the co-operative origins of Real Madrid and FC Barcelona are culturally and historically rooted, the German Bundesliga operates in a mutual way because of the contemporary framework and settlement that supports the model. At Bayern Munich, for example, 130,000 fans own 84 per cent of the club. They are majority-owned in this way because the German FA mandates that, in effect, typically they will be so (a '50+1' rule).

The contrast between the financial stability of German and English football clubs is striking, as it is 42 years since a leading German football club went into administration.

Barcelona and Real Madrid have approximately 170,000 members each and are co-operatives through supporter ownership. It is fair to note, though, that the size and success of both is shaped in part by their dominance of revenues from broadcast coverage of Spanish club football, rather than this being shared more widely. Barcelona has a presidential management structure with the president being voted for by supporter-members in elections held every four years. In theory, any member can stand, although in practice the candidates for the board places tend to be slates of wealthy individuals who can collectively underwrite the club's debts while in office.

Co-operatives

The data used to compile the *Co-operative Economy 2013* report contains details of sporting co-operatives with a combined turnover of £87 million – 2.4 per cent of the co-operative economy total. There are 152 sports clubs, 142 supporters' trusts, three community sports bodies and three fitness clubs.

These figures show that a tiny proportion of sports clubs in the UK are co-operatives. If the estimated figure of 180,000 sports clubs that was suggested earlier is correct, then less than 0.1 per cent of sports clubs are co-operatives. The society form is used in rugby, below the semi-professional level, and in golf. However, to turn this on its head, if the vast majority of clubs are unincorporated associations, then they may be operating in ways that are akin to co-operatives, so would count for over 90 per cent of sports clubs overall. It is possible that other clubs which are member-owned organisations may operate in a very similar way to a co-operative. Nine out of ten sports clubs are not-for-profit organisations.[11]

Sports and leisure services run by local authorities is one area in which social enterprises have a strong presence, including mutuals such as the pioneer GLL, formerly Greenwich Leisure. Mark Sesnan, Chief Executive of GLL, argues that this is the strongest social-enterprise sector in the UK, with the social value of leisure trusts now well understood and embedded within the procurement and commissioning regime.[12] "*Leisure trusts provide 30 per cent of public leisure centres in the UK, with a combined turnover of over £739 million, and employ almost 50,000 staff*," reports Brian Leonard, Chief Executive of Sporta. "*The trusts don't fit a particular model,*" he explains. "*While around two-thirds are charitable companies and a third are mutuals, they're all committed to providing facilities that are as accessible and affordable as possible for everyone.*"[13]

Cricket

The turnover figure for sports co-operatives is dominated by nine county cricket clubs that collectively account for 85 per cent (£74 million) of the total. There is little research or any other published insight into the prevalence of co-operative models in English cricket. At least half of the first-class counties are industrial and provident societies.

One explanation is that cricket clubs have found the industrial and provident society form of ownership to be a convenient and efficient way of managing member control of an organisation that holds significant physical assets – principally cricket grounds and stadia. Cricket clubs have traditionally been owned by their members that enjoy preferential access to facilities and matches – as well as having a say in how the club is run. Some cricket clubs developed resembling gentlemen's clubs; indeed some clubs excluded women from membership until fairly recently.

Through membership, and possibly through having a relatively wealthy membership base, county cricket clubs may historically have been able to develop their facilities on their own. They could raise finance from membership fees to support physical development costs during critical periods of their development (probably the first half of the 20th century) in a way that football clubs were unable to do – partly because of the short-term capital needs football clubs faced in the explosive early growth of football.[14] The earliest cricket clubs started before football clubs, at a time when land values were lower, and were able to grow through retained earnings in a patient way – in tune of course with the nature of the sport.

Supporters' trusts and Supporters Direct

Co-operative ownership structures have developed as supporters of clubs that have fallen into financial difficulty have looked for ways to 'rescue' them. They have been helped by the growth of supporters' trusts, which have been established as fans look for a way to have a say in how their club is managed and run. Short of co-operative ownership, this has led to supporters obtaining at least a share of ownership and representation on the boards of a number of football clubs.

Since it was established in 2000, Supporters Direct claims that supporters' trusts have ensured the survival of approximately 50 professional clubs in football and rugby league, bringing in £30 million of investment. Dundee, Portsmouth, Exeter City, Wycombe Wanderers and AFC Wimbledon are majority-owned by their supporters. Swansea City is an example of a club where fans have a minority ownership, with 20 per cent.

In practice the opportunity for supporter ownership tends only to arise when clubs are in crisis because the value of the club in good times, or at least the bill in terms of underwriting expenditure, is likely to be well beyond the means of ordinary supporters. There may be an option for supporters to request the purchase of a small or modest stake if they have a benevolent owner and can persuade them of the advantages.

When football clubs get into difficulty there are three possible solutions available, short of insolvency. The club can be propped up by generous director's loans from the current owner, a new wealthy benefactor could agree to take ownership and take on the debt built up by the previous owner or the supporters could take ownership of the club. When supporter ownership is considered, then co-operative business models are among the most common although an alternative legal structure is a community-interest company. Companies of this form have been established in Darlington and Dunfermline. Interestingly, insolvency practitioners Begbies Traynor are now openly offering their services to club owners with regard to supporter ownership through the creation of a community-interest company.

There is political support for greater supporter ownership in sport. All three of the main political parties included it in their election manifestos for 2010 and its value was recognised by the DCMS Select Committee Football Governance Inquiry. However, no measures have been introduced to make supporter ownership more attractive and the national governing bodies for most sports do not see changing the ownership structure as a priority.

One of the most successful co-operatively owned sporting clubs in recent years is FC United of Manchester. The club was formed in 2005 by disgruntled fans of Manchester United following events that led to the Premier League club, which is a PLC, being taken over by a private owner backed by large financial loans that were transferred to the club upon the deal being done. This was the last straw for many who had become disillusioned with how they were being treated as supporters and with their inability to have any influence over decisions that impacted upon the club of which they felt a part.

The club enjoyed early success in the lower leagues of English football. The strength of the support and the membership encouraged them to look to build their own stadium, which they have part-funded through a community share issue that has raised £1.8 million. Work started on the new stadium in Manchester at the end of 2013. Having its own stadium will allow the club to have access to full gate receipts for home games, thus ensuring financial stability in the long term. In 2014, FC United of Manchester became the first football club in the UK to commit to a living wage across all its contracts.

FC United of Manchester is an example of how supporter ownership can ensure that clubs are run responsibly and are financially stable. It also demonstrates that supporter involvement is a means of driving and creating sustainable sports clubs.

Innovation opportunities

1 Supporter-owned amateur sport

The Sport and Recreation Alliance annual survey found that sports clubs in England had an average turnover of £42,845 in 2012, which was up by 12 per cent on 2011 and 20 per cent on 2010. However, club incomes were going through a process of recovery after they fell in 2008 during the economic recession.

The survey suggests that the last five years have been challenging for sports clubs, with income rising overall by 6 per cent, but expenditure increasing by 14 per cent during this period. In 2012, the average club surplus was £1,825, which is 39 per cent less than in 2007. More than half of club respondents were worried about finance and funding in the future.

This financial frailty could be a cause for concern because of the preponderance of not-for-profit organisations amongst sports clubs. It is therefore particularly important for these clubs that annual income covers annual expenditure. Of the respondents to the Alliance's survey, 48 per cent made a surplus, 28 per cent broke even and 24 per cent were in deficit.[15]

In response to the financial challenges being faced by sports clubs, the vast majority were focused on increasing income rather than reducing expenditure. The top five measures being taken were increasing fundraising, applying for external funding, actively recruiting more members, more social events and increasing membership fees. Interestingly, 45 per cent of sports clubs own, part-own or have a long-term lease on their facilities while 49 per cent hire their facilities.

Where the sports clubs own an asset, or wish to own an asset, such as a sports hall or pavilion, there may be the potential for 'community shares', a flexible form of equity for co-operative and community enterprise, to be introduced as an income source for the clubs. This would require a change in governance model for the clubs involved, but it may be an acceptable move if the financial security that it may provide is taken into consideration. According to the survey, 54 per cent of clubs want to improve their facilities and so community shares could be a vehicle to help them to achieve this goal.

Linked to this is the potential for this to be supported through policy innovation, by developing an approved template for unincorporated clubs to benefit from legal personality and limited liability, while remaining unencumbered by burdensome regulation. In Austria, this has led to the introduction of a new legal form – similar to a German 'Verein'.

More than 6,200 sports clubs are registered as Community Amateur Sports Clubs (CASCs) with HM Revenue and Customs, a status that provides financial savings in the form of business rate relief of 20 per cent.[16] To qualify, clubs must have a turnover from selling goods and services to non-members that is no more than £30,000 and must meet a range of other criteria, including having open membership and promoting participation in their sport. Unsurprisingly, bearing in mind the business-rate incentive, the proportion of CASCs that have material interest in the ownership of their facilities is high, at 82 per cent.[17]

CASCs do not need to be co-operatives in order to be good at membership or participation. However, there may be best practice that existing co-operatives can share in these areas linked to practical implementation of co-operative principles. In addition, co-operatives may be able to recruit sporting participants from their own staff and/or membership and customers in line with encouraging healthy lifestyles. There may even be opportunities to share facilities, for example, with co-operative schools and with co-operative sports and social clubs where these exist.

This may be an attractive opening for a national co-operative initiative given the ongoing cutbacks to local-authority funding in the UK, both for schools and for leisure. The Co-operative Schools Society could be an ally given the growing number of co-operatively structured trust schools and academies.

2 Supporter-owned professional sports clubs

For professional sports clubs, achieving future growth in gate receipts may be challenging as the more successful clubs are already at or near capacity for their stadia. Clubs are therefore looking to new markets in the south and east of the globe where there is a growing population with increasing spending power from which they may be able to benefit, for example in the form of merchandise sales. The Deloitte Football Money League report noted that Premier League club revenues predominantly comprised ticket sales in the early 1990s. Broadcasting rights became the largest component of revenue in the late 1990s with commercial sales now taking over, i.e. merchandise and sponsorship.

In terms of the business of broadcasting and advertising, sport provides two distinct products – a stream of content for pay TV and a live sport event, unique in time and place, which can be sold to advertisers (the Superbowl model). For supporter-ownership to spread, one factor may be the extent to which the model creates a multiplier effect that is seen to be of benefit to sponsors. In different ways, commercial value flows from the passion with which the sport is followed – if you can enhance the quality of support, you can enhance the potential for this to be ‘monetised’.

Sports sponsors, for example, are increasingly expressing a desire to become embedded within the product that they support, not just a name associated with it. A report into the global sport market by PricewaterhouseCoopers in 2011 identified that trends in brand and product placement in the entertainment industry were starting to be reflected in the sports sector, particularly with live events.[18]

Increasing commercialisation alone won’t achieve this. Commercial opportunities or pressures, for example, have led to club owners asserting influence on the identity of clubs in a way that has brought them into conflict with supporters. The owner of Cardiff City, nicknamed the Bluebirds, has changed the colour of the club kit from blue to red and the owner of Hull City has declared an intention to change the club name to Hull Tigers. In both instances, club traditions that date back over 100 years have been changed at the insistence of owners, whether on a whim or informed by what they see as commercial marketing opportunities overseas. Not all commercial changes are unwelcome to supporters. The printing of a sponsor's brand name on team shirts is now an accepted practice, as is the naming of stadia. However, open commercialism does not necessarily go down well with supporters and there may be tension between paying fans and owners in the future if changes being made are not deemed to be beneficial.

Because of the vast amounts of money involved in the Premier League, it is hard to envisage that, without regulatory change in support of it, football fans will be able to take over a club in the top flight on a participatory basis. What happens at a European level, may, however, be relevant. UEFA's Financial Fair Play system is intended to take the inflationary pressure out of player salaries and transfers, while there is the potential for a broadcast-friendly European Super League in future. If this in turn freed up the Football League from the incentives currently in play, due to revenue sharing dominated by the big clubs and therefore the pressure to mimic their model in order to gain, this would be a significant structural change that could be allied productively with a shift to the mutuality and long-term resilience of greater fan ownership. As before, it would be innovation in the broadcasting of football that would drive changes in the ownership and culture of clubs, rather than the other way round.

In the meantime, a step forward at a more local level would be for clubs to ensure that, where supporters' trusts have been established, they have a direct say in the running of the club through being able to elect a member of the club's board or equivalent body.

In other leagues, supporter ownership should be seen as a viable means of bringing stability to a sector that has been dogged by financial failure. Building on the ability of fans to register their team's stadium as a community asset and on legislation that allows communities to take control of services and facilities, there is an opportunity to give supporters a right to buy when their clubs fall into financial difficulty.

Through the work of Supporters Direct and the activity of supporters' trusts, the UK has been leading the way in transforming football and other sports clubs through community ownership with the use of a co-operative model. This model can also be extended to include membership/control rights to individuals outside a geographic community to include club supporters and investors from around the globe via the internet.

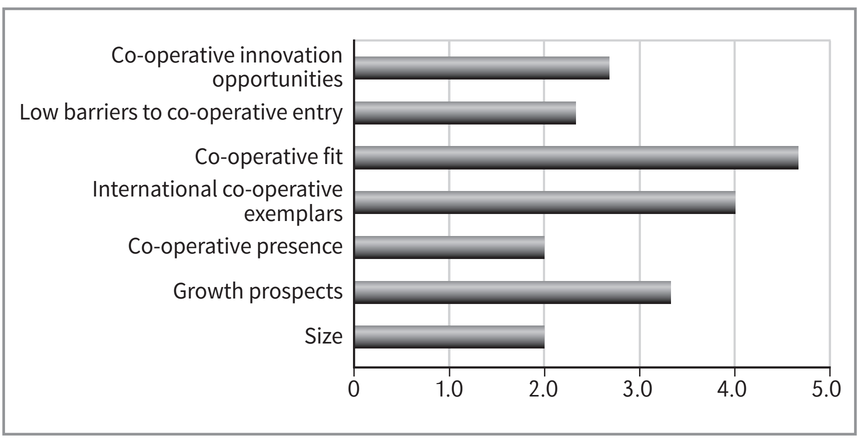
The co-operative business and operating model has been found to be one that naturally aligns the interests and incentives of clubs and their supporters. It is also one that can be incredibly successful, as demonstrated in European football.

There is a crowd-funding market developing to attract investment in sport. In some cases this is used to support budding individuals in progressing in their sport. It can also be used to help clubs to maintain or acquire assets. As with many crowd-funding initiatives, the market currently resembles a sophisticated system for charitable donations or sponsorship rather than an investment or ownership opportunity. Where returns are offered, these are usually modest and in-kind.

However, there are still only a modest number of supporter-owned clubs in UK professional sport. In addition, despite the economic weakness inherent in the model, private ownership is still the most likely outcome when a sports club fails. Supporters Direct has called for a Community Football Fund to be established to provide social investment that can facilitate supporter ownership as well as pre-emption opportunities for supporter share purchases and tax relief on shares.

Conclusion

SPORT



Whether by engaging in sport directly or indirectly, as a fan, sport is a wonderful engine of social and economic participation. The opportunities for co-operative models to add value lie in the extent to which it is able to connect that direct and indirect engagement in new ways – the claim, for example, that fan ownership can sustain long-term success because of the perfect alignment of incentives. Sport is not a free market though, and different models, including co-operative and mutual models overseas, have been shaped by regulation that reflects local conditions and local interpretations. The field of leisure trusts, working with local authorities, represents one case in which the mutual and wider social-enterprise model has become the norm. The field of amateur sport is also one in which the organisational model is naturally more co-operative and it may be here, rather than in the high-profile arena of professional sport, that mutuality is likely to thrive. ■

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5 Deloitte (2013), Annual Review of Football Finance.
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8 Begbies Traynor (2013), *Red Flag Alert Football Distress Report*.
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10 Begbies Traynor, op cit. Gerald Krasner is the former chairman of Leeds United Football Club.
11 Sport & Recreation Alliance (2013), Sports Club Survey.
12 Mark Sesnan (2014), personal correspondence.
13 Simon Birch (2013), 'Leisure trusts help councils save money', *Guardian Professional*, 21 March 2013, **s.coop/leisuretrusts** . For more on the work of Sporta, see **sporta.org**
14 Dave Boyle argues that private ownership took over from open membership in football club ownership due to the clubs' need to raise capital for building stadia as interest in professional football grew. Dave Boyle (2012), 'Would your football club be better run as a co-operative?', *The Guardian*.
15 Sport & Recreation Alliance (2013), Sports Club Survey.
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10
Tourism

The dreams market

Away. Travel and tourism, holidays, are where business and economics is driven by imagination. Away from home, away from what you know, away in a place that you can be renewed, where you can learn, rest or play.

That imagined world, 'away', is reminiscent of the utopian tradition dating back to Thomas More. A dream. The reality, of course, can be very different – ask any tourist. The business of tourism has changed over the years, from the mass-produced holidays of Butlins and the packaged-tour era to the self-managed consumer (or 'prosumer', the consumer who does the work) of adventure travel, city breaks and wellbeing. Tourism reflects the changing ideas of holiday over time, and changing ideas of the good life.

What is the tourism market?

Tourism is travel and the economic activities related to travel that may take place for recreational, leisure, health or business purposes. It includes the demand-side activity of visitors as well as the supply-side activities of those that cater mainly for visitors. The tourism sector is also sometimes referred to as the visitor economy.

Tourism includes the destination marketing, transport, accommodation and visitor attractions directly supported by tourism. It can also incorporate sport and leisure facilities or restaurants that are indirectly supported by visitors.

There are three types of tourism defined by the kind of travel involved:

- Domestic tourism, involving UK residents travelling within the country
- Inbound tourism, involving non-UK residents travelling in the UK
- Outbound tourism, involving UK residents travelling in another country.

In 2013, tourism directly delivered £58 billion of gross value added, accounting for 4.1 per cent of the economy. If investments and support for other businesses in the supply chain are taken into account, then the economic contribution of tourism rises to an estimated £126.9 billion, 9.0 per cent of UK gross domestic product.[1]

Tourism is also an important contributor of employment to the national economy. The sector directly employs 1.75 million jobs, but supports a total of 3.12 million jobs if those in the supply chain and related businesses that rely on tourism are taken into account. Between 2010 and 2012 one-third of all new jobs in the UK were created in the tourism sector.[2] Almost half of employment in tourism is in part-time jobs.[3]

The sector is also one of the fastest-growing sectors of the UK economy, returning to growth more rapidly than other sectors in recent years following the financial crisis and recession. Tourism expenditure has been rising since 2011 and the sector is predicted to grow rapidly at an annual rate of 3.8 per cent through to 2025.[4]

According to forecasting by Deloitte, the UK will have a tourism sector worth over £257 billion by 2025, supporting almost 3.8 million jobs. This means that between 2013 and 2025 the sector will grow from representing 9 per cent to 10 per cent of the UK economy and from contributing 9.6 per cent to 11 per cent of total UK jobs.

Within these growth projections, inbound tourism is forecast to grow at 6.1 per cent a year to 2025 while domestic tourism is forecast to grow at 3.0 per cent a year and outbound tourism at 1.5 per cent a year over this period.[5]

Tourism is a highly diversified sector with many different types of businesses. In the accommodation services sub-sector alone, the scale of businesses can vary from multinational hotel chains to family-managed bed-and-breakfast establishments.

There were 249,000 tourism businesses in 2012, of which more than 80 per cent were small businesses employing fewer than 10 people. The largest sub-sector in terms of business numbers is food and beverage with 58.0 per cent.[6]

***Table 1** Tourism businesses in the UK by type of business*

Sub-sector	Number	Percentage
Food and beverage	143,805	58.0
Cultural services	31,115	12.5
Sport and recreation	24,215	10
Accommodation services	19,255	8
Road passenger and transportation	10,205	4
Transport equipment rental	4,120	1.7
Exhibition and conference	3,345	1.3
Other transport	2,695	1.1

Tourism Alliance (2013) "UK Tourism Statistics 2013"

Changing patterns of consumer behaviour

Tourism is dynamic and subject to constant change. The tourism sector has had to adapt to changes in consumer behaviour following the recession of the late 2000s. Consumers have acquired a more central role in the tourism sector thanks to more information and choice made available by online developments in tourism and travel.

Europe is the UK's largest contributor of inbound tourists and the Eurozone crisis has severely affected demand. The depreciation of sterling as a currency has made the UK cheaper to its top source markets such as the US and Japan while making travel abroad for UK citizens more expensive.

Outbound tourism has also been affected by exchange rates and by the squeeze on household income and job uncertainty that difficult economic times in the UK have brought. The lucrative market for business tourism has also been impacted as companies and organisations look to reduce expenditure on hospitality and discretionary purchases.

What has emerged from the recession is more caution among potential tourists who are searching for quality and value and are also taking up lower-risk options. One example is short breaks in the UK, which have been increasing in the last few years while short breaks in Europe have become less appealing. The phenomenon of UK citizens taking more holidays in the UK has been dubbed the staycation.[7]

The post-recession period has coincided with the rapid development of technology in relation to the tourism sector, giving consumers the ability to research, purchase and share their tourism experiences online. According to research by Google quoted by PricewaterhouseCoopers, 90 per cent of travel-buying decisions in the UK are in some way influenced by online activity.[8]

Tourism is also dependent upon social and demographic trends. The ageing populations in Europe, Japan and North America are likely significantly to affect UK tourism. In these locations the number of people aged 60 years or more is increasing more quickly than the number of people aged 59 years or less. This has an impact on tourism, but also on the labour markets available to the tourism industry.

Changes in the character and culture of modern tourism are particularly important because competition in the sector is so fierce. Many of the factors that affect the flow of tourists may appear to be outside the control of individual tourist businesses that cannot influence exchange rates, consumer spending or overall economic performance. However, there are other drivers of tourism such as investment and destination attractiveness where they may be able to play a role.

Tourism policy

The UK's national tourism agency is Visit Britain. Visit Britain is a non-departmental public body that is funded by the Department for Culture, Media and Sport (DCMS). The agency is responsible for promoting Britain worldwide and developing its visitor economy. The agency is delivering a four-year marketing campaign valued at £100 million with the aim of attracting four million extra visitors to the UK by 2016.

The Government's tourism policy, published in 2011, set the target of becoming one of the five most productive visitor economies in the world by 2015. The UK is currently seventh. The Government also wants to increase the proportion of UK residents who holiday in the UK to match those who holiday abroad each year – raising the percentage of expenditure on UK tourism by UK citizens to 50 per cent.[9]

The Government's tourism policy also identifies the need to improve the economic performance of the sector, making it more productive, competitive and profitable.

In addition to Visit Britain, each of the four UK nations has its own tourism agency: Visit England, Visit Northern Ireland, Visit Scotland and Visit Wales.

The Tourism Alliance is the trade body for the tourism sector, with membership organisations, trade associations and destination management organisations (DMOs) amongst its 50 members. The Tourism Alliance was established in 2007 by the DCMS and the Confederation of British Industry. Britain on Foot is a campaign alliance established by the Outdoors Industries Association, a member of the Tourism Alliance. The campaign is chaired by the former chief executive of the HF Holidays co-operative, Brian Smith.

Destination management organisations

Destinations are the places that tourists want to visit and experience. In the last 20 years there has been a growth of destination management organisations (DMOs) in the UK that seek to manage and integrate the components that make a successful destination. They may provide marketing and promotional services, but they can also act as a focus for long-term planning and strategy in developing what is sometimes called the visitor economy.

According to Visit England's growth strategy document: "*Local tourism businesses, alongside destination management organisations, local government and relevant sectors, such as transport, must share responsibility for creating a successful destination experience. Effective destination management requires an integrated approach, taking into account both visitors' and residents' needs, opportunities for growth as well as environmental considerations. Visit England has the objective 'to offer compelling destinations of distinction': destinations are the heart and soul of England's Visitor Economy.*"[10]

DMOs typically emerged as initiatives from the public sector as local authorities sought to develop tourism as part of their strategic approach to economic development. However, they have commonly developed into partnership bodies and many DMOs now have a membership component that includes tourism businesses and organisations.

In their most basic form DMOs provide a vehicle through which tourism businesses, the local authority and other stakeholders can combine resources to promote and market an area. However, they can also add significant value through development of the product, maintenance and enhancement of the visitor experience and provision of a common vision.

The most successful DMOs will encourage teamwork between those involved that will support significant added-value activity – for example, co-ordinated bids for events and conferences that will bring significant value to the local tourist economy. These mega-events, as PricewaterhouseCoopers describe them, can bring substantial new investment into the local economy.

As the landscape for tourism support is changing, DMOs may need to increase the role that the private sector plays in setting priorities and managing collaboration. Public-sector investment has been reduced by the cuts introduced by the Coalition Government in 2010. In particular, the closure of the regional development agencies in England removed an important source of income for DMOs.

In the future more DMOs will operate as businesses and their members may want to become owners, in which case enterprise co-operative models may be appropriate. This is a model that has shown modest signs of growth in Scotland in urban and rural areas. Merchant City Glasgow is a co-operative that looks after tourism development and promotion in a particular part of the city.

The Heart of Argyll Tourism Alliance is a co-operative marketing group formed by local tourism operators, businesses and organisations. One of the motivations for the initiative was the closure of the local tourism office by the local authority. There was already some connection between the local businesses and organisations through a Heritage Lottery Fund project focused on natural and cultural heritage in the area and the Alliance forms part of the legacy of this project.

Together, the group is committed to implementing a tourism marketing action plan designed to generate awareness in key markets, grow visitor numbers and increase tourism revenue in the Heart of Argyll. There are 40 to 50 members and they have been successful in obtaining additional public-sector funding to support the project.[11]

Businesses

With 80 per cent of all businesses in the tourism sector being small businesses, there are going to be constraints on what they can achieve individually in terms of innovation and growth. Tourism is a fragmented sector with limited access to the expertise or information required to develop, meaning that flexibility and the capacity to change can be difficult. Small and medium-sized enterprises (SMEs) may not be cash rich and will have limited access to capital in order to invest for incremental or significant change.

Owner-managed businesses are prevalent in the sector and small businesses that rely on the owner to deliver change may suffer from a lack of confidence to change to meet market demands. The sector also attracts those that are interested in 'lifestyle businesses' and do not wish to grow and/or are resistant to change. Even if small businesses do want to innovate they are likely to face prohibitive factors such as lack of time and lack of market information – which can be costly.

Large enterprises are likely to be the most active in product and service innovation, with a focus on high performance and competence. They are also more likely to have an understanding of and access to marketing intelligence, consumer research, marketing knowledge or business management as well as making connections outside the sector. It is often through these networks that ideas are generated.

Technology

Tourists are becoming increasingly digitally enabled and mobile-phone technology is likely to play an even bigger part in the industry than online – with the needs of tourists being addressed throughout the visitor's experience, not just for research and booking before arrival. In this way technology encourages brand interaction and provides opportunities for customisation, communication, promotion and loyalty.

Even for small businesses, this opportunity for a new interface with the customer is going to be difficult to ignore. In addition, there are the information advantages that technology will bring, in that it can be used to segment and understand customers and to offer them more relevant and targeted choices. Such market segmentation could be particularly valuable if it allows generational segmentation.

Providing a highly personalised service to meet the needs of customers has been undertaken in the tourism sector for many years. However, it could be taken further and utilised to create real growth. In this environment, tourist organisations will need to invest in technology to be successful, although knowing which technology is the right technology at the right price may be a significant challenge to overcome.

Harnessing social media represents a challenge and an opportunity for tourism businesses and destinations. It is an opportunity to build brand awareness and create a sense of community around the brand, but it can be a challenge because it can highlight poor performance and create brand inconsistency. Brand perception is more often influenced by experience than by product and tourists now have a variety of ways in which they can comment upon and share their experiences with others.

Greater use of technology and more efficient processes – such as online booking systems, mobile technology and social networking interfaces – may contribute to improved productivity. In this way those that can get their approach to technology right may enjoy multiple business benefits.

Staff skills

There are varying degrees of skills required in tourism although employment in the sector is characterised by the preponderance of low-skilled positions. There is a shortage of qualified staff for more senior management positions. In addition, many roles require unsocial and irregular hours and many are casual, temporary, seasonal and part-time.

On the one hand this means that there is an opportunity for rapid recruitment and flexibility in employment. On the other hand it can lead to job insecurity and low pay, which in turn impacts upon productivity and service quality. Staff turnover is also an issue for the sector and it is hard to maintain competitiveness with high fluctuations of staff. Loss of staff also creates the expense of recruitment and training.

A study for the International Labour Organisation (ILO) found that companies need strategies to decrease staff turnover and engage employees, in order to enhance their trust and motivation. The report also noted that the sector suffers from lack of social dialogue and a lack of skills development that could improve competitiveness.[12]

Low pay in the sector and changes to the minimum wage could be a particular problem for small businesses. The three main political parties have all recognised that there is a case for raising the national minimum wage by substantially more than the annual rate of inflation as a corrective measure. A one-off uplift of this type may be a shock to small businesses that operate on low margins.

Co-operative presence

There are 45 tourism co-operatives in the UK. Turnover figures for 10 of these co-operative businesses were included in the *Co-operative Economy 2013* report gave the sector a turnover of £30,333,000. However, 85 per cent of this turnover figure is contributed by just one co-operative business, HF Holidays.[13] A significant addition to these domestic co-operatives is the international franchise chain, Best Western, which operates in effect as a co-operative membership association. Formed after 1945, with a strong presence in the West of the USA, the chain has expanded to become a global partnership organisation, including around 280 Best Western hotels within the United Kingdom.

Until 2012 there was also a strong co-operative interest in retail travel services as consumer retail societies operated travel-agency businesses in high-street outlets. Some consumer retail societies have retained their own retail travel operations, but the majority of branches were rolled into a joint venture with a PLC. The company formed from this joint venture is not a co-operative.

New co-operative businesses in recent years have been enterprise co-operatives formed through collaborations between tourism businesses looking to promote their local area or particular sub-sector of the visitor economy. Co-operative Development Scotland has enjoyed particular success in supporting these new co-operatives – with examples such as Argyll & Isle Tourism Co-operative and Breadalbane Tourism Co-operative. At a rural level, there may be connections too with farmer co-operatives, either as a diversified income stream on farm for members or, more indirectly, through the development of distinctive local produce that can underpin the value of tourism to a region.

HF Holidays is Britain's biggest walking and outdoor leisure holiday specialist, with 50,000 customers each year. The company offers a range of walking, cycling and leisure activity holidays and has been trading for over 100 years. It is structured as a consumer co-operative with 34,000 members and an asset base that is valued at £20 million, including a property portfolio of country houses across the UK.[14] In 2012 the company turnover was almost £26 million.[15]

The Co-operative Wholesale Society operated a retail travel division, CWS Travel Services, throughout the 20th century. Indeed, in the 1950s, CWS Travel Services was the UK's fifth-largest travel business. A series of mergers earlier this century led to the creation of Co-operative Travel, which became part of a joint venture in 2012 between Thomas Cook plc, The Co-operative Group and Midlands Co-operative. The Co-operative Group owns 30 per cent. Thomas Cook owns 70 per cent of the joint-venture business and manages the approximately 400 Co-operative Travel branches that were transferred as part of the deal – and that retain, for a period, the Co-operative Travel branding and signage. Other consumer co-operative societies, such as Midcounties, operate wholly owned co-operative travel outlets, under their own branding.

At a more micro level, there are at least two co-operative tourism destinations, given the strong heritage of the co-operative sector in the UK – New Lanark in Scotland and the Rochdale Pioneers museum in Toad Lane managed by the Co-operative Heritage Trust.

Co-operation overseas

There are examples of consumer co-operatives, worker co-operatives and enterprise-owned co-operatives across Europe, including:

- Hotel Gromada in Warsaw, Poland
- Hotels and spas run by the Central Co-operative Union in Bulgaria
- Eroski Tour, a travel agency in Spain
- Reka Holiday villages in Switzerland
- Equotube short-stay sustainable tourism in Italy.

In some cases, such as many of the consumer co-operatives, travel has emerged as a service through diversification, although this is also true for some worker co-operatives, such as tourism with fishing co-operatives in Italy – participating in the fishing, tasting on board and staying in the houses of member fisherpeople. Italy has a wide range of tourism co-operatives, from co-operatives maintaining railway stations for tourist access through to social co-operatives, which include members who are disabled or marginalised, and offer employment through the operation of hotels and ancillary tourism services. Le Mat uses an innovative social-franchise model to replicate these co-operatively run hotels and the model is one of Europe's first, and largest, examples of a successful social-franchise venture that has since spread to Sweden. With links to local organic-food suppliers, environmentally conscious hotelier policies, and a strict procurement policy favouring local businesses and suppliers, the linkage between local economic development, social inclusion and community tourism has been a winning formula.[16]

A programme of co-operative development in the tourism sector in Slovenia has pointed to some of the lessons that may be relevant elsewhere too:

- Bottom-up models worked more effectively than national, government schemes
- The concerns of individual entrepreneurs over loss of control were reduced when it became clear that co-operative efforts were focused on where they lacked skills, such as international marketing or tourism information
- The destination tourism offer was relevant locally and to the tourists being targeted – in this case, enterprises that worked well included agri-tourism (wine roads, heritage trails, farm tourism, cultural and religious history), with small groups, and activities which appealed to independent travellers.[17]

Social co-operatives have been used to provide travel and other tourism services to members of families who have special needs. These co-ops arrange for excursions and other travel and recreational arrangements that cater to those who experience intellectual or physical disabilities.

At a larger scale, enterprises have also come together to develop tourism infrastructure. In the region of Trentino in Northern Italy, much of the public infrastructure for skiing was developed through consortia that included co-operative banks, the regional municipalities, and key business interests. These consortia were, to all intents and purposes, structured as co-operative development groups with key stakeholders as members.

Barriers to co-operation

There is not the same tradition of co-operative business organisation in the UK as in Italy. Part of the reason for this is the role of the state, with the emphasis of tourism policy focused on taxpayer-funded services, such as tourism advice. Another part may be the wider role of grant-funded charitable models in the heritage and arts sector. More important, though, may be the barrier that also represents the greatest opportunity for tourism co-operation, which is the fragmented nature of tourist enterprises and the extent to which they have operated below scale by not coming together, whether for marketing, joint purchasing or finance and peer support.

More widely, productivity is a challenge in the tourism industry. Productivity gains are driven by skills, investment, competition, innovation and enterprise – such gains are achieved by training, processes, tools, layouts, policies and technologies. However, with a preponderance of small businesses and employment that is often part-time and/or seasonal, these inputs are often lacking in the sector.

According to analysis by Deloitte and Oxford Economics, productivity in the UK tourism sector has fallen in the last five years. While employment levels have recovered to reach their 2007 pre-recession peak, productivity is only 95 per cent of the level that it was before the financial crisis and recession.[18]

Innovation opportunities

1 Destination marketing co-operatives

There are a number of opportunities for the tourism sector to grow through greater innovation. Digital technology, for example, can clearly bring better ways to engage with potential visitors, share information with customers, and make sales more efficient and effective, as well as drive the creation of new products.

In conjunction with technology adoption, there are other ways that tourist businesses can improve competitiveness and organise in such a way as to capitalise upon the opportunities that may present themselves. As in other sectors, small businesses can benefit from working together to create capacity for enhancements that they could not achieve on their own as well as networking and developing new ideas. This creates opportunities for co-operative destination marketing organisations to add significant value for their constituent members.

DMOs provide opportunities to collaborate in a range of areas that can boost business performance and productivity. By coming together local businesses can create something that is greater than the sum of the parts, collaborating to strengthen external promotion, but also internal improvements.

DMOs can provide packages of shared services to tourism businesses operating in a well-defined geographic area. For example, a DMO acting as a shared service co-operative could provide such services as marketing, bookings, travel services and web presence to a group of local hotels, restaurants, tour operators and guides. These have particular value in connecting up tourism opportunities in both rural and urban areas. It is easy to think that tourism is only about rural/coastal locations, but more than half of jobs in tourism are in urban areas. London is the dominant tourist destination.

As has been noted, many small businesses in the tourism sector struggle to access training to improve skills and processes. DMOs can provide business networks that are a useful source of ideas, support and encouragement. They can also facilitate employee training across a number of businesses in order to create a critical mass of trainees and manage costs for employers.

As bodies that are collaborative bodies by their nature, there is a case for DMOs to be established as co-operatives owned by the enterprises that are members. In the past, strong public-sector involvement and financial support may have discouraged a co-operative model. However, in changing economic circumstances, local authorities and other public bodies are looking at how their role develops at a time when, in many cases, the case for collaboration among interested parties has been proven.

It is likely that DMOs will become more commercial in their focus and some may even look to adopt new models along the lines of the public-service mutualisation that has been seen in other parts of the public sector. A co-operative model may help to harness private-sector support through ownership as well as membership for DMOs.

Where DMOs do not exist, the model provided by organisations in Scotland, such as Heart of Argyll and Merchant City Glasgow, points to a co-operative route to success. However, in both instances there was strong public-sector financial support for establishing these organisations and, in the case of Merchant City Glasgow, an ongoing contribution to running costs.

Some support may be available for DMOs in England through local enterprise partnerships, although each of the 53 partnerships will have different strategic priorities and different levels of funding targeted to support them. In Wales, Scotland and Northern Ireland, enterprise support operates at a national level. Co-operative Development Scotland, which has promoted co-operative consortia in tourism, is part of Scottish Enterprise.

Collaborative marketing organisations are also relevant for sub-sectors of the tourism industry that can combine to achieve collective benefits. The Scottish Mountain Bike Consortium is an example of co-operative collaboration that brings together like-minded businesses working in the mountain-biking sub-sector in Scotland. The businesses share the common goal of making mountain-biking the ultimate family-friendly adventure activity and realise that they will benefit from working together to achieve it.

DMOs will vary in size enormously depending on location, function and membership. DMOs in cities can employ tens of people in a range of business development activities, for example, with a budget in the millions. However, at the other end of the scale, DMOs may simply be frameworks through which businesses build relationships and work together without employees or internal services. There may be a case for larger DMOs exploring new services for members, including financial services. Tourism businesses are particularly vulnerable to external factors and changing conditions that reduce visitor numbers or otherwise hamper their trading position. The provision of insurance on a mutual basis or the joint approaches around finance, whether credit or insurance, may reduce costs and add a degree of resilience.

2 Sustainable tourism

One of the new developments in the sector is sustainable tourism. Sustainable tourism is partly about environmental impact, but also about the contribution that tourism can make to the prosperity of the destination – especially retention of visitor expenditure within the local economy.

Sustainable tourism is also about enhancing the visitor experience. Tourism businesses need to work to make the visitor feel that they have had a valuable and worthwhile experience and that they have paid a fair price for it. This was always the basis of tourism but, as the values of the tourist customer change, so the offer of the destination has to respond.

Sustainable tourism should:

- Minimise its impacts on the environment
- Ensure that local communities benefit from tourism
- Ensure that local economies are enhanced through tourism
- Respect local culture and traditions.[19]

According to the International Labour Organisation, tourism is responsible for about 5 per cent of global carbon emissions, of which 75 per cent are created by transport and 21 per cent by accommodation.[20] Consumers are becoming increasingly concerned about the environment and want to purchase products that are less carbon-intensive. The growth of domestic tourism may be a response to the recession but it is also in tune with the sustainable concerns of UK tourists.

Sustainable tourism is therefore a growth opportunity and a possible source of innovation and competitive advantage for tourism businesses and destinations. For example, strong sustainability credentials could be used as a promotional tool for environmentally aware customers. The growth of eco-tourism is one example.

In the future it is possible that sustainability will move from being a selling point to being a qualifier for facilities and also for destinations. This could mean that those offering tourist opportunities will need to think about sustainability in terms of the whole supply chain and the community as well as the individual businesses.

In these circumstances, the individual business working together through a DMO or similar body can be valuable in encompassing, packaging and promoting opportunities to use local companies. The umbrella body could also define and monitor standards and even act as a vehicle for investment.

DMOs and other collaborative organisations may also be able to support initiatives that improve sustainability in a particular tourist market. For example, they could take the lead on renewable-energy projects, local food sourcing and the retention of tourist expenditure within the local economy.

This could help to increase the involvement of residents in the development of the local economy. It could also create investment opportunities for tourists that value the localities that they visit, for example, through community shares in renewable-energy projects or saving local pubs that help to sustain the local economy.

Sustainability is also about fairness in employment. In a sector dominated by part-time seasonal employment and low margins, improving the pay and conditions of employees is a challenge for businesses. However, as a high growth sector for the economy, it is a challenge that businesses should be encouraged to overcome.

Employee ownership could be a model that tourism businesses consider as a way to improve motivation and raise standards. It could be a way for some businesses with employee teams, such as hotels, to manage succession when the owner wants to move on. While low-paid employees are unlikely to have sufficient capital to be able to buy a share in an existing business, worker buy-outs can be structured on the basis of specialist debt finance that makes it possible and attractive for committed employees.

3 Community-owned heritage

The traditional model for heritage assets, beyond the private sector, tends to have been municipal/state stewardship, such as Historic Scotland, or being held in the form of charitable trust, including the National Trust, which was co-founded by Octavia Hill, drawing on her work with and experience of co-operative societies in the 19th century. There is potential for heritage assets that are under threat, including by the withdrawal of funds from the state sector or weaknesses in terms of private ownership, to turn to models of community ownership as ways to ensure use and access as well as support, in time or money, from a model of membership. An example of this, which offers an innovative hybrid of charity and co-operative, is Hastings Pier, which is due for extensive refurbishment after a long community campaign, with a twin-track strategy of raising large-scale charitable funds for capital investment alongside smaller-scale community shares from members, in order to build effective and democratic community engagement.

4 Consumer-owned tourism platforms

It is easy to paint the tourist in the tourism industry as being a relatively passive, albeit increasingly well-informed, consumer. This misses the growing opportunity of their having an active role in creating their own leisure or holiday activity. There are instances where groups of individuals have come together to purchase canal boats, and block booked and shared holiday cottages or estates to create a shared benefit for each other that they could not have achieved alone. A co-operative approach offers some assurance in terms of fair treatment, as those involved have a direct say. After all, the principle of sharing underpinned the success of the concept of time-share apartments in tourism, but it was the mis-selling by unscrupulous operators that brought the model into disrepute. The innovation potential, building on the wider ‘sharing economy’, would be for a co-operative model based on harnessing technology platforms to enable such tourists collectively to bargain or procure their common leisure and holiday experiences.

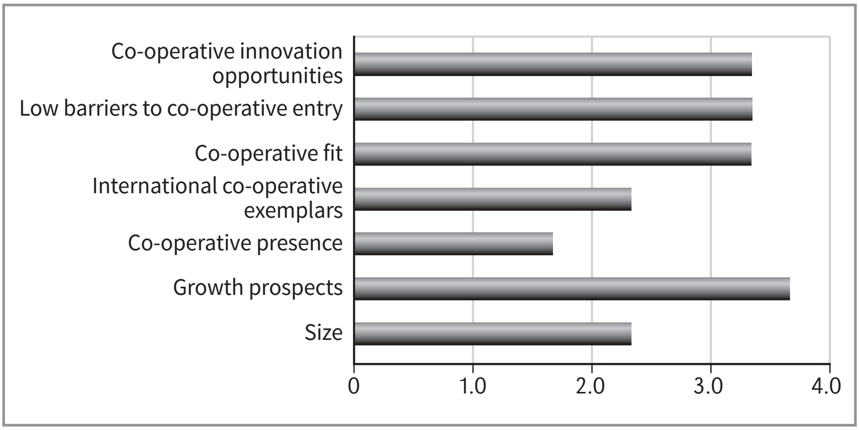
5 Social innovation tourism

The example of social co-operatives developing an extra income stream through facilitating visitors in Italy is matched in other countries, such as by Mondragon in Spain and fair-trade producers in developing countries, but also on a small scale in the UK by initiatives such as BedZed, a zero-carbon housing development. While small-scale and niche, this is significant as an innovation – partly because it is a revenue stream for co-operative and social-innovation pioneers, but also because visits and the power of ‘seeing is believing’ have been important ways in which the practice of such exemplars has been more widely diffused.

Conclusion

TOURISM

At its best, tourism is a people-centred industry. Perhaps reflecting that, the sector is characterised by an extraordinarily long tail of businesses that are



bound up in the success of in-bound tourism. That has traditionally made them a little more fragmented, harder to join up and reliant perhaps on state efforts when it comes to their shared interests around destination marketing. The conditions for co-operation have improved, with technology, growing ease of travel and allied competition plus changes in consumer preference. This suggests that there are strong opportunities around enterprise-owned co-operation and sustainable tourism, in which co-operative models can offer sustained co-operative advantage. ■

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11
Education

A new skill set

The education system in England is going through a period of profound and rapid change – to a greater extent than in the other nations of the UK. This is due to a number of interlocking factors. As the UK economy has faltered in recent decades, greater attention has been paid to the capacity of the education system to equip young people with the appropriate skills set for a 21st-century world. In addition, the role of the state has changed, with the introduction of legislation that has systematically reduced the role of local authorities in the provision of education. This chapter focuses on universal education through the welfare state, from early years through to adult education.

A sector in change

The UK spends around £90 billion on state schooling, including around £5 billion on early years, £27 billion on education in primary schools, £36 billion on secondary schools and £15 billion on tertiary education in universities and colleges.[1] So, who runs state schools?

It is not as clear as it used to be. The reduction in the role of local authorities began in the 1980s with the removal of the Further Education sector from local authority control through incorporation. A few years later, local management of schools devolved control of budgets down to individual schools. This accelerated the process of giving more autonomy to schools that was completed by the academy legislation of both the previous and present governments. Schools adopting academy status are removed from local-authority control. The Further Education and Higher Education sectors have also been affected by significant funding cuts.

Alongside these changes in public-sector management and structures, there are extraordinary changes in education across the world. The old model is out of kilter with the new economy, as new technology transforms the way that education can take place, allows the emergence of new institutions, changes traditional functions and roles in the old, and reshapes the type of education now required in the age of the knowledge economy. Just as other cultural industries are being transformed, education stands on the threshold of similar radical changes, from the Khan Academy to new models of massive, open online courses for learning.

It is in the context of these profound changes in the education sector that space has opened up for new models, including the rapid growth of a co-operative schools sector, that can be seen as building on the instinct amongst many in the education sector for collaboration and co-operation rather than unfettered competition.

The current state of play

Early Years

Let's start, before coming to schools, at the beginning: Early Years. Traditionally, Early Years education in the UK has been provided by a mixture of: stand-alone nursery schools; informal provision via playgroups; childminders; and wider private-sector provision. The landscape of pre-school provision in England has been changing rapidly through a series of legislative and regulatory changes over the past two decades. These have led to the rapid erosion of high-quality nursery provision within the state system, without a corresponding, and expected, expansion of private-sector engagement. The name of the former Department for Children, Schools and Families reflects the then Labour Government's linking of childcare and Early Years education. This was supported by a framework of entitlements to childcare and pre-school education under the 'Every Child Matters' banner and the development of the Sure Start scheme.

Local authorities responded by developing Children's Centres linking childcare traditionally provided by social services departments with nursery-education provision. Professional qualifications in childcare were introduced, together with increased regulation through the Office for Standards in Education, Children's Services and Skills (Ofsted). Children's Centre leaders were mainly drawn from the former social services childcare sector as the cost of Early Years education teaching professionals were and remain much higher than childcare assistants.

The assumption of rapid expansion of private-sector provision may also explain the reasons why nursery schools are excluded from being eligible to convert to foundation schools with a trust, and remain similarly excluded from the provisions of the academies legislation. While nursery schools are recognised as schools and have an Ofsted profile higher than that of other parts of the school sector, their future remains uncertain. Flagship centres such as Penn Green in Corby, which has an international reputation, including for research into Early Years education, are now in serious jeopardy.

However, in the face of extensive cut-backs in local-authority funding, Children's Centres are also increasingly under funding pressures and sustainability is becoming a real concern for many – as well as for their local authorities. It is probable that the majority of local authorities are currently reviewing their Early Years structures with a view to cutting back significantly the numbers of Children's Centres as well as the range of services provided or accessed through them. Indeed, some smaller local authorities are closing all or nearly all of their centres.

In addition, local authorities are also reviewing the cost and nature of childcare provision delivered through their Children's Centres. This has typically been provided through a mixed-economy process with a mixture of centrally employed council staff, school-based staff and also a large number employed by private and voluntary providers. The latter includes a wide range of social enterprises, charities and other organisations, for example pre-school playgroups.

Schools in England

The time children spend in full-time education is increasing. Children normally start primary school at the age of four or five, but many schools now have a reception year for four-year-olds. Pupils now will stay in some form of education or training until they turn 18. To help them to do this, there are 16,784 primary schools and 3,281 secondary schools in England.

They come, though, in many different shapes and sizes, and of course there are also independent schools. The growing number of types of state schools reflects in part a lack of policy coherence across various initiatives of Government over time. Most schools still receive funding via local authorities but academies and free schools are now directly funded from the Department for Education (DfE). They are all required to follow the national curriculum with the exception of academies and free schools. All schools are inspected by Ofsted, which bases its inspection framework and standards on the national curriculum. This means that in reality academies and free schools generally follow the national curriculum.

Many schools are now looking for alternative models in the face of the structural changes and the rapidly reducing role of local authorities in education. More schools are becoming aware that the 2006 Education and Inspections Act, which allows schools to become foundation schools with a trust, remains on the statute book. Many see the potential resilience of this model, the core characteristics of which are the same as have been used by church schools for decades.

The Coalition Government of 2010-2015 set a policy for all schools to become academies. By September 2014 over 50 per cent of secondary schools had either converted to Academy status or become Sponsor

Academies. However, only 10 per cent of primary and special schools had converted to academies by the same point.[2]

There were, however, clear differences in strategy emerging from the main political parties in the run-up to the 2015 General Election. The Conservatives made clear that they would wish to see the total 'academisation' of the English school system within the lifetime of the Parliament. Labour placed much greater emphasis on improvement in teaching and the professional status of teaching, rather than structural change, while at the same time expressing support for co-operative schools. A speech by Tristram Hunt, Shadow Education Secretary, indicated that he envisaged at least 3,000 co-operative schools by the end of the Parliament elected in 2015.

Additional pressures on the school system come from changing demographics, with rising birth rates in many urban areas creating an acute shortage of primary-school places. The policy assumption is that free schools or academy chains will fill the gap rather than local authorities strategically planning for such provision. How this works out going forward remains to be seen. There were indications in 2014 that a more aggressive approach was being taken by the Coalition Government, accelerating the academy conversion programme.[3] The appointment of regionally based schools commissioners in 2014 was part of this process. They have been given substantial powers, and are key instruments in implementing the academies programme. Their appointment reflected a sense that the DfE was incapable of centrally managing school improvement for 22,000 schools in England.

Conflict and legal challenges around this programme are inevitable. The Education Select Committee has expressed concern at the significant overspend on the academies budget and the disproportionate amount of DfE staff time spent on academies. The Committee's report on schools partnership and co-operation called for a level playing field in terms of funding for various structural options, while its 2014 enquiry into the academies and free-school programme also received evidence from key teachers' professional associations strongly advocating trusts.

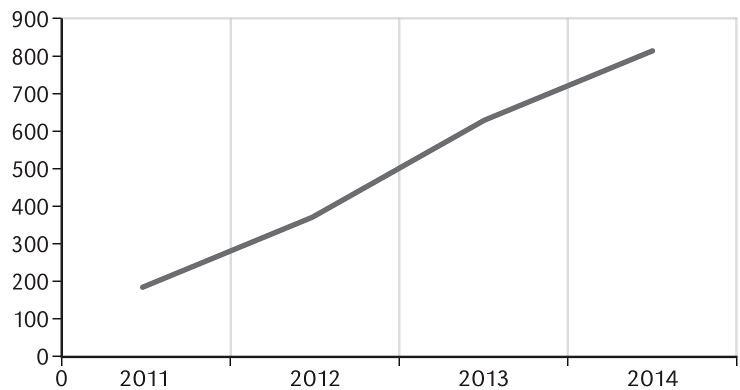
The rise of co-operative schools

Despite this challenging environment, the co-operative-schools sector has become one of the fastest-growing parts of the economy. Today over 250,000 young people attend co-operative schools in England and over £4 billion of assets have been transferred from local authorities to co-operative trusts. The legislation through which co-operative schools have been established applies in England only.

What is a co-operative school? There are two key features. The first is that the co-operative values of democracy, equity and fairness are applied as an ethos across the school. The second is a governance model that directly engages key stakeholders through membership of the trust, where it is a trust school. This model provides a formal way to include parents and carers, staff, the local community and the pupils themselves. Together they form a community-based mutual organisation.

The first school using the model, Reddish Vale Technology College in Stockport, implemented the trust in 2008.[4] Since then numbers have grown rapidly, near doubling each year. By September 2014, the Co-operative College reported that over 800 schools were part of a co-operative trust, with around 150 more involved in legal consultation on the process. Most schools adopting the trust model are in clusters of schools, committed to working together to safeguard and improve education across their communities. At the heart of the growth of co-operative schools is a strong commitment to inclusiveness and raising achievement for all learners.

Figure 1
Co-operative schools



Source: Co-operative College, September data for each year

Co-operative schools can face challenges in adapting to their new form such as building the membership and the democratic structures. Resources have been developed by the Co-operative College to support the process, together with Continued Professional Development (CPD) sessions and workshops, as well as joint modules for CPD-based Masters programmes with Manchester Metropolitan University, Leeds University and Keele University. A formal partnership is under discussion with Canterbury Christ Church University to support the development of co-operative trusts throughout Kent, one of the biggest local authorities in England. The College has introduced a Co-operative Identity Mark – a self-assessment tool to help schools implement co-operative values throughout the school.

The geographical distribution of co-operative schools in England continues to widen, with schools adopting the co-operative model in areas previously under-represented, including Hampshire, Norfolk and parts of the North-East. The co-operative trust model has become firmly embedded in many parts of the country.

In Cornwall, over 100 schools have adopted the model and are part of 13 trusts. Most of these are geographically based clusters, enabling small village primary schools to be part of a learning community with a secondary school that most of their young people will move on to. One of the leading advocates of the co-operative model in the South-West, Dr Pat McGovern, former headteacher of the Helston Community College, has made the reasons for this clear:

> *"There is a strong sense of community in Cornwall and it is natural for us to think of how we do things ourselves through shared action. The last thing that the people of Cornwall want to see is a big education chain coming in to run school services and take money out of the area. That money is best kept serving the local economy and the local community. Our co-operative is about a mutual solution to local needs."*

It is a view that is reflected elsewhere. In Leeds, a significant proportion of the city's schools are already in co-operative trusts and others are in the consultation process. The Brigshaw Federation, one of the first trusts in Leeds, now provides a wide range of services to its member schools. Its development director, Peter Laurence, described the reasons for this:

> *"We could all see the direction of travel of Government policy and the rapidly changing role of the Local Authority. To us, self-help is a natural solution. We are now working as a co-operative to support schools improvement and a wider range of opportunities across our partnership for the benefit of all the young people in the communities we serve."*

The co-operative schools' governance model has also proved an adaptable one with strong take-up amongst special schools and a model under development for alternative provision pupil referral units as well as converter academies.

Co-operative schools have also established their own national network and apex body, the Schools Co-operative Society (SCS). This is organised as a secondary co-operative, owned and controlled by co-operative schools together with representation from the Co-operative College and The Co-operative Group, which provided financial support to help establish the network. Regional groupings are emerging and establishing joint CPD programmes and other activities previously provided by local authorities.

In the light of Government priorities, SCS is working on a co-operative framework for schools improvement. While many Co-operative Schools have transformed their achievement outcomes, including the co-operative National Challenge Trusts, a small number have experienced dips in performance or face other issues in areas requiring urgent attention following Ofsted inspections. SCS is now an approved academy sponsor, providing an in-house co-operative 'lifeboat'. It sponsors a secondary school in South Gloucestershire, which is now known as the Beaufort Co-operative Academy.

The principle of co-operation and collaboration between schools underpinning sustainable improvement has resulted in new organisational forms. In Leeds and Manchester, schools have formed legally constituted schools-improvement co-operatives. In Cannock, Staffordshire, the trusts themselves have led schools improvement, clearly demonstrating the power of co-operation and collaboration in improvement, as opposed to the Government's favoured 'hostile takeover' sponsor academy model.

Following pioneering agreements between SCS and the union, UNISON, and subsequently with the NASUWT union, SCS and the Co-operative College have worked with the TUC on a national agreement with its affiliated education-sector unions.[5] This was formally adopted by all parties in 2013. The agreement builds on the commitment given by co-operative schools consulting on the change in status to recognise and work with trade unions and actively engage all employees as stakeholders in their Trust. The National Joint Forum, established as part of the tripartite agreement, is now in place and meeting quarterly.

Schools in Scotland

Scotland has 2,099 primary schools, of which 318 are faith-based, and 372 secondary schools, of which 53 are faith-based – all Catholic. The vast majority of faith-based schools in Scotland are Catholic.

The extensive reforms in the education sector in England that created the space for new co-operative models to emerge have been firmly rejected by all political parties in Scotland. The country has a proud record on educational achievement. Thus work, particularly through the Co-operative Education Trust (CETS) has centred on getting co-operation into the curriculum. Alongside this, CETS has developed a model for schools to take up the mantle of some co-operative elements – to become a 'Scottish School of Co-operation' – but short of the fuller, self-governing model that has emerged in England. It is unlikely that there will be opportunities for co-operative models for schools in the near future.

Schools in Wales

Wales has 1,435 primary schools and 222 secondary schools – all of which are comprehensive. The schools system in Wales has not pursued similar changes to those in the English schools system over the past two decades. Local authorities still play a key role, with far more limited powers devolved to school governors. There is also a strong rejection of the marketisation of the education system in England.

The schools system in Wales has been under intense review in recent times in view of the position of its schools in the Programme for International Student Assessment tables, produced by the Organisation for Economic Co-operation and Development. A major review and consultation has been undertaken, leading to a report, 'The future delivery of education services in Wales' by Robert Hill, published in June 2013.

The report highlights the potential of the co-operative trust-based governance model, stating: "*The merit of this approach is that it provides schools with the option of greater autonomy, but does so within the framework that promotes partnership, maintains links with the community and supports more effective governance.*"

The Wales Co-operative Commission, which reported in early 2014, also looked at education, with cautious recommendations on the need for a co-operative governance model for schools and co-operative input into the curriculum if Wales is to mainstream co-operatives as part of its overall economic strategy. A partnership has now developed between the Co-operative College and the Wales Co-operative Centre to work with the Welsh Assembly to progress the education recommendations and the Wales Co-operative Commission Report, and in time build the case for co-operative schools in Wales.

Further Education

Further Education colleges educate and train over three million people and 853,000 16-to-18-year-olds study in colleges compared with 435,000 in maintained school and academy sixth forms. Over two million adults study or train in colleges and 257 Further Education colleges provide undergraduate and postgraduate-level courses.

The Further Education sector was incorporated following the 1992 Act when Further Education colleges were removed from local-authority control and set up as corporations. The Act preceded devolution, so the models are broadly similar throughout the United Kingdom, but with each of the countries within the UK carrying out its own reviews. Alongside these, of course, there is a rich legacy of community and adult learning led by co-operative and co-operative-sympathetic bodies such as the Workers' Educational Association, trade unions, and the University of the Third Age.

The growing competitive pressures in the education sector also affect the post-16 sector, where private-sector providers now directly compete with traditional general Further Education for volume-delivery programmes – modern apprenticeships being a good example. The response of the sector has been twofold: consolidation and diversification.

The background to consolidation was, in the years following the incorporation of colleges, a series of governance scandals and failings at a number of colleges. This then resulted in far more stringent governance supervision. These compliance pressures, combined with a complex funding methodology that required substantial investment in IT, encouraged the rapid consolidation of the sector through mergers between colleges. This created a number of very large and powerful colleges which subsequently formed their own network, the 157 Group. This has more recently been followed by other groupings of colleges such as 'The Gazelle Group', to gain the benefits of shared services without loss of identity.

In terms of diversification, many of the traditional roles of the Further Education sector disappeared with the decline of manufacturing industry in the UK. Colleges responded by diversifying, initially vertically, providing Higher Education-level courses within Further Education, and more recently downwards into the school system, now that they are able to take on 14-year-olds.

With the introduction of tuition fees, many Further Education colleges saw the opportunity to offer degree programmes in popular subject areas at a lower price than universities while catering for students who wished to study while living at home. A more recent trend has seen Further Education colleges compete for school-age learners, initially through collaboration on vocationally based programmes for 14-to-19-year-olds, but increasingly through entry into the school system itself. They have competed enthusiastically to be partners in the new university technology colleges and studio schools. They have also become academy sponsors, and in late 2012 the Secretary of State wrote to all Further Education college principals asking them to consider becoming sponsors of primary academies.

Sixth-form colleges

There are 94 sixth-form colleges in England, with a smaller number in Wales (and none in Scotland, this not being a model that has developed for Higher Grade or Advanced Higher students). They provide education for 16-to-18-year-olds and act as a stepping stone between the worlds of compulsory education, higher education and employment. Over 150,000 students are currently enrolled at a sixth-form college, with almost 90 per cent studying for A-levels or equivalent.

Sixth-form colleges are incorporated organisations under the 1992 Act. Unlike the general Further Education sector, which remains under the auspices of the Department for Business, Innovation and Skills, sixth-form colleges are funded by the DfE. This has been a source of tension between the two parts of the post-16 sector as sixth-form colleges, the main providers of traditional A-levels, has always been seen as receiving preferential funding compared to the general Further Education sector.

The sixth-form sector also faces challenges. The sector is highly regarded by parents who aspire to see their children move on to university by bridges between traditional schools and the university sector. However, the raising of the participation age introduced by the previous administration has resulted in more and more schools introducing their own sixth forms. The academy programme of the previous administration also required academies to provide for sixth forms.

Other schools have used the converter academy model to fulfil their ambitions to have a sixth form. While the quality of provision and the range of options available in small sixth forms may be questionable, the increased competition is placing pressure on the whole of the sixth-form sector.

Higher Education

Universities in the UK operate under a variety of legal forms. Pre-1992 universities were generally established by Acts of Parliament or via a Royal Charter granted by the Privy Council. Post-1992 universities were created by provisions within Acts of Parliament and 'conducted' by the Board of Governors. It is the Board which is incorporated, not the university.

Most universities created since 1992 are Higher Education corporations, while a small number, mainly in Greater London, are incorporated as companies limited by guarantee. Oxford and Cambridge Universities' constitutional frameworks directly descend from medieval guilds, and could in many ways be regarded as an early form of co-operative. Their governing bodies are dominated by members of the university. Other pre-1992 universities are also membership based, with membership drawn from students and staff.

There are approximately 110 universities in the UK, of which over 90 are in England. There are also more than 130 Higher Education institutions, such as colleges of Higher Education, that do not have university status.

While governments see them as crucial in helping drive a successful economy, they are under enormous competitive pressures. Universities are now part of a highly competitive global sector whose performance is judged by positions in international league tables as well as by capacity for research, innovation and workforce development. High fees (albeit with different arrangements across the nations), increased competition and increased marketing to address more demanding consumer behaviour make the industry more volatile and money-orientated. Universities are also major economic actors, frequently being among the largest employers within localities and having a major impact on local economies.

Educational support services

The wide range of educational support services that have traditionally been provided by local authorities in England are also undergoing change. Education support services are extensive and cover both statutory responsibilities and discretionary traded services of which many local authorities have rightly been proud and which schools have valued. These include professional services – human resources support and advice, including employment and recruitment matters, legal support and advice, finance and ICT, schools improvement services, insurance, asset management and maintenance, governor services and in some cases specialist services such as the peripatetic music service. Statutory services have been largely funded by a levy (top-slicing) known as LACSEG, which stands for the Local Authority Central Spend Equivalent Grant, on all maintained schools within the local-authority area which has also been used to subsidise the traded services.

One of the possible attractions of becoming a converter academy for high-performance schools is that they are funded directly by the DfE, and thus retain the local-authority element. Following the election of the Coalition Government in 2010, the DfE website included a 'ready reckoner' whereby schools could enter basic financial data and learn how much estimated 'additional' funding they could gain by converting. Many appear to have naively thought this was additional money, rather than the funding that paid for such services. However, a growing number of academies, particularly in the secondary sector, has seriously impacted on the ability of local authorities to fund these services. Practice varies from cuts in service provision, to the complete removal of some services and, in extreme cases, the outsourcing, often to a private provider, of all or most such services.

Co-operation overseas

In Spain there are a range of models of co-operative schools. In many parts teachers own and run co-operative schools and frequently borrow against future salaries to pay for co-operative membership fees, which provide the capital base for the schools to develop and grow. The first wave of co-operative schools in Spain developed in the 1930s, often with the support of the trade unions, and as a response to what was seen as the excessive influence of the Catholic Church. A second wave of initiatives in the 1960s and 1970s was led by parents dissatisfied with the education service at the time, particularly in Catalonia. The 1980s saw a further wave of growth following the political and social changes in Spain, and in particular the rise in unemployment among teachers. [6]

While the majority of co-operative schools in Spain today are teacher-led models, multi-stakeholder models are still strong, particularly in the Basque region. There are around 550 co-operative schools in Spain, the majority of them providing free state-funded education. In total they are represented by 15 per cent of privately delivered and publicly funded education.

While there are many local differences, there are three characteristics which stand out. The commitment to:

- teach in the local language and to promote the local culture
- meet local needs (in the Basque country and Valencia there are programmes of vocational training designed in partnership with local employers)
- be inclusive – some of the schools have specialised in providing education for those with special needs.[7]

Co-operative schools are highly integrated into federative support networks. They operate in all of Spain's regions and nationally. For example, in Valencia a co-operative school will usually be a member of FVECTA, the regional body for worker co-operatives, which in turn is connected into a regional federation of co-operatives, a national federation of worker co-operatives and a national body for the wider social economy. Through FVECTA, the school will also be a member of the national Union of Co-operative Schools.

There are also co-operatives that are housed within schools, often set up by students as part of their learning. These are widespread in countries such as Malaysia. In the primary and high-school years, the Caisses Populaires movement in Quebec has for many years taken the lead for the development of credit unions for students inside the schools themselves. These student-run credit unions are a major source of co-operative education and involvement for young people. Alongside this are many international examples of student co-operatives that have set up housing and dormitory co-operatives, and a very important student movement in Quebec that has established co-operatives for the purchase of all types of student articles, including textbooks, sports equipment, clothing, and learning materials such as computers and accessories. Student co-operatives are also responsible for organising recreational activities, excursions and vacations.

Co-operative models are widely applied in the education system in Portugal, from nursery schools to universities, including a strong presence in vocational training institutions. In France, the Central Office for Co-operation in Schools was established in 1928 by teachers and active co-operators. They understood the need for schools to teach the values and principles of co-operation, adopting the slogan: *"Learning with others, by others, for us, not on your own against others."* They now have members from nursery schools to universities, involving over 4.5 million co-operators in 45,000 co-operatives.

In parts of Africa agricultural producer co-operatives have established or supported schools in their localities. This has developed further in recent years with the growth of fair trade, with organisations such as Kuapa

Kokoo in Ghana and the Oromia coffee co-operative in Ethiopia using the fair-trade premium to support the development of schools. Co-operative schools are also well established in South America, often supported by financial co-operatives such as Sencor Seguros, and are particularly strong in Argentina.

Barriers to growth

All parts of the education sector are in a period of profound change. These changes create opportunities for co-operative and mutual models in all parts of the sector, but, to fulfil that opportunity, investment of time and expertise is required. The Co-operative College's work with schools has unleashed a new dynamic part of the co-operative sector. Its development is akin to the growth of the consumer movement in the latter half of the 19th century, a genuine movement that provides a democratic alternative in the schools sector. This has been achieved through significant investment in time and resources by the College, with minimal financial support from the wider co-operative sector. The potential for this sector to play a transformative role also goes far wider than the institutional form of the education provider. This lies in the promotion and development of a co-operative pedagogy and content for the curriculum, including but not limited to co-operation in enterprise, that offers better outcomes in terms of children's needs and potential compared to the current orthodoxy, focused on competition between children for results.

To meet the opportunities in the wider part of the education sector, it is essential that resources are identified to provide capacity for the difficult initial stages, working with interested institutions to develop models that are capable of scaling up. The difference now is that public funding schemes that were available in the initial phase of the schools work are not there for the other sectors. No matter how strong the ideas and possibilities, the potential will not be fulfilled unless that resource gap is addressed. This has a wider importance too, remembering that, as the 2014 report of the Wales Co-operative and Mutuals Commission argued, effective co-operative education is an essential building block for a wider co-operative economy. In business studies and business schools, for example, a new generation of leaders is starting to indicate an interest in a more pluralistic business education than they themselves received. That means changing what is taught in business schools and management departments.

The national policy framework is an important factor in terms of what happens next with educational co-operatives. In 2014, Professor Lori Beckett, Winifred Mercier Professor of Teacher Education at Leeds Beckett University, described the current Government's policies on schools in England as "*a dangerous social experiment*". She continued:

> *"More worrying, in the absence of adequate research-informed system support to meet pupils' academic and social learning needs, is the power allocated to these politicians to shut down these schools, which are then cut adrift from the local authority and reopened as academies with corporate sponsors intent on profit-making and wealth creation. This then paves the way for global edu-businesses to come in and take over the nation's state-school system, which in turn raises serious questions about knowledge control and the control of teachers' work, not to forget the fate of pupils from poor and deprived family and social backgrounds."*

National policy can be a barrier, a nuisance or a springboard to realising the potential of the co-operative advantage in education. There is no shortage of options, though, that could be carried forward by the UK Government over a term of office, including to: establish that co-operation should be the basis of school improvement – not 'eat or be eaten'; ensure a level playing field in models for schools[8]; open up seedcorn funding for support; build awareness, not least among DfE officials; and develop leadership.

Alongside this, it is clear that technology will be of extraordinary significance as a 'disruptive' innovation – in the sense of overturning the business models of previous education providers through new ways of delivering services that are seen to meet needs more effectively or more competitively. Technology itself is not a bar to co-operation and could clearly be an enabler. The barrier, to date, is the underlying business model. The rise of massive online open courses (MOOCs) – and models such as the Khan Academy – opens up access to high-quality course material wherever you are in the world, just as intelligent systems and gaming offer new ways to redefine learning methods. In some ways, these models echo the opportunities of the creative commons, discussed in relation to co-operation in the creative-industries sector. However, the business models remain uncertain – how you make money when your competitors are offering access at marginal cost is something that has challenged the media sector as well – and there is no strong co-operative presence as yet.

Innovation opportunities

1 Early Years co-operatives

There are a number of opportunities for co-operative models to develop. Children's Centres can provide one of the most appropriate structures for multi-stakeholder co-operatives, which link parents, staff, local families and the local community. Parents have a passionate interest in the centres, which need not only to provide high-quality childcare but also to develop the broad social skills as defined in the Early Years Foundation Stage, which in many ways could be described as a core co-operative skills curriculum.

Some pro-active local authorities are trying to maintain a core quality element in their Children's Centres, including for childcare provision, and are now looking at a multi-stakeholder model to deliver these services. It is also envisaged that such a model offers a unique opportunity much more effectively to involve key stakeholders living as well as working within a Children's Centre's area. Its mutual co-operative nature should also positively affect the quality of provision as well as improve the quality and impact of what is being accessed and delivered. As we move to a new emphasis on local authorities having a crucial part to play in influencing the delivery in their localities of a living wage, it provides a viable alternative to the race to the bottom which privatisation and marketisation all too often bring in their wake.

As the role of local authorities continues to change, there are also opportunities to explore models for clusters of Children's Centres, so that managerial and support skills are shared. For this to work well, however, it is vital that sympathetic local authorities both at political and policy level clarify their commissioning criteria. All too often officers who have a commissioning brief translate it into a 'lowest competitive tender' process, which tends to disadvantage genuine co-operative mutual models. It is important to appreciate that commissioning allows other elements to be brought into the process, specifically the impact that the commissioner wishes to see achieved as a result of that service being commissioned out. A key part of the specification will therefore be not only the cost of the provision but also the wider value-for-money considerations that will be achieved in commissioning an organisation that will achieve the desired educational, health, social and indeed economic outcomes set out in the commissioning specification.

A multi-stakeholder co-operative model was developed for a Children's Centre in Millmead, near Folkstone in Kent, but it remains the only centre known to have adopted the model.

The majority of English nursery schools are standalone and do not include a Children's Centre. They face a potentially harsh future as most are small, few having more than 100 pupils. Their staffing costs, particularly where they include the employment of a headteacher and a lead teacher, are seen as disproportionally high. Hard-pressed and cash-starved local authorities are increasingly looking at mergers and closures in such situations. In a number of parts of the country nursery schools and more sympathetic and pro-active local authorities are exploring ways in which they could adopt co-operative models. A number of legal firms specialising in education are exploring options, and it is likely that these will be tested in the coming months.

Consumer co-operatives also now operate in this sector, with Midcounties Co-operative Society running over 50 nurseries, having expanded through the acquisition of groups of nurseries from other providers. In other parts of the world pre-school education and childcare is largely the province of the co-operative sector. Networks of co-operative nurseries/Early Years centres are strong in a number of countries, including Spain, where it has become the dominant model in many regions, Sweden, where it has been actively supported by the co-operative-development sector, and Canada, where a flagship co-operative kindergarten system developed in Ontario and beyond. A co-operative presence in Early Years ought to be an ideal option for children, parents and society more widely.

2 Co-operative schools

With approximately 50 per cent of secondary schools and nearly 90 per cent of primary schools in England still to determine their long-term structural form, there is a likelihood that the co-operative share of the England school system will continue to grow. Within a decade of the establishment of the first co-operative school it is possible that the sector will secure a market share that it took the consumer movement nearly a century to achieve. It is already the third-largest network of schools in the country, following the Church of England and the Roman Catholic schools.

Key co-operative insights from the growth of the co-operative-schools sector are:

- Keep it simple. The secret of growth has been viral marketing – schools talking to other schools and spreading the word.
- The right idea at the right time – providing a democratically accountable, community-based and values-driven alternative model to the ‘command and control’ chains.
- Building strategic alliances and partnerships. The Co-operative College has worked hard to address areas of concern early and to build partnerships for success. A strong relationship with the trade unions is one example, as is the growing partnership with the Higher Education sector, which opens the door both to research on co-operative schools but also to professional development for those involved.
- The value of simplified support. The Co-operative College provides an effective support service to schools wishing to convert to co-operative trusts or co-operative converter academy models using part-time associate consultants recruited from schools that have previously gone through the process.

The development of local and regional networks amongst the schools helps them address performance and schools-improvement issues.

3 Further Education mutuals

The co-operative model would provide opportunities for new levels of engagement for key stakeholders – students, staff, employers, local authorities, the wider college community and, in the case of sixth-form colleges, parents.

A number of colleges have expressed interest in the potential for co-operative and mutual models for the sector. These ideas build on reports such as the Independent Commission on Colleges and their Communities final report, *A dynamic nucleus*, which emphasises putting colleges at the heart of their communities, and the Department for Business Innovation and Skills document, *New Challenges and New Chances*, which highlights the importance of students being key to the college, as well as opportunities to free colleges from central-government control and enabling governors to fulfil their strategic responsibilities through greater freedoms to respond to local needs.[9]

The former Minister for Skills, Matthew Hancock MP, encouraged Further Education colleges to use the freedoms to be innovative and responsive to key stakeholders. He was quoted in *Further Education Week*: "*The new freedoms and flexibilities open exciting options to colleges, allowing innovative solutions to local needs. The range of opportunities for colleges have become wider and wider in recent years.*"[10]

The sector faces significant challenges, however. A tough round of Ofsted inspections in the academic year 2012-13 placed many colleges, previously seen as flagships, under notice to improve, and many others are also rated as financially at risk. While the 2011 Education Act included freedoms for Further Education colleges to look at new structural options, very few of them have done so to date, with a major concern for both this sector and the Higher Education sector being the unresolved matter of pension-fund liabilities.

The case for co-operative and mutual models in Further Education is perhaps strongest when it offers ways to bind in key partners into long-term success, for example in the case of administrative or teaching staff, or in the case of community-based colleges and local employers, or when it offers ways to achieve a culture change that will be needed in future, such as a learner focus or an entrepreneurial footing for the college itself. For now, regulation and legal models do not make it easy for this to happen. It may be that a pathfinder programme to encourage innovation in the governance models and in particular encouraging the Further Education sector to look at mutual options could be a catalyst to move this forward.

4 Sixth-form co-operative colleges

A range of sixth-form colleges are ready to explore collaboration. Initially this appears to be in the form of shared services, but a number have expressed interest in the potential of a co-operative model, particularly from those involved in co-operative schools in their localities. This seems to be a natural link and extension of the model.

5 Co-operative Higher Education

With the rise in student tuition fees and marketisation in recent years, an increasing number of academics have started to explore alternative models for universities and the potential for free delivery of Higher Education. These include the development of massive open online courses (MOOCs) either through collaboration between groups of universities or outside traditional university frameworks. While there is clear commitment by many to make Higher Education resources available, particularly to the disadvantaged, the challenge remains of matching that aspiration with the financial demands of universities. At present it is not possible to obtain a full university qualification through such programmes, though you can complete the learning and in the case of the UK Open University-led consortium, a certificate.

Other academics have looked at more radical models, such as the Occupy University set up as part of the Occupy Movement, or the Social Science Centre in Lincoln which is now offering 'free co-operative higher education', organised on the basis of democratic non-hierarchical principles, "*with all members having an equal involvement in the life and work of the SC*". The Synergia project is a scoping project designed to test how an online course, using a MOOC model, can make co-operative know-how much more readily available.

Perhaps more significant is the growing number of academics now engaging with the co-operative sector and raising debate on structural forms within their own institutions. A group of 16 universities has formed a consortium promoting teaching and learning on social enterprise. Other universities have worked with The Co-operative College to develop modules based on co-operative values for Masters programmes for serving teachers, together with research programmes and a joint PhD studentship to help build the evidence base.

The Co-operative College is now seeking to build on the relationship and the formal institutional partnership with universities aimed at building a cross-disciplinary engagement to develop in-depth expertise on co-operation.

Given the increasingly competitive environment, it is inevitable that some universities will see a role as a local provider rooted in its local community as the best way of securing their future. In that context, encouraging and stimulating debate on the potential of co-operative and mutual models within the Higher Education sector can open up the prospect of adapting existing structures into genuine co-operative models.

6 Educational support service co-operatives

Some local authorities have sought to establish arm's length companies as providers of support through service-level agreements with schools. Some have called themselves mutual and/or social enterprises, but upon closer examination, they are anything but.[11] On the other hand, a small number of local authorities have looked to develop genuine new mutual models – of which Newham Partnership Working and Sandwell are good examples.

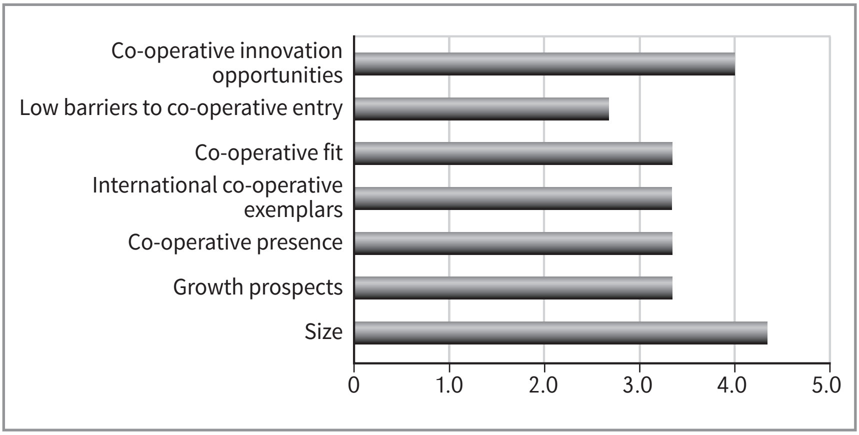
Supply teaching is an area where the local authorities have traditionally played an important role, but this has largely been replaced by the rapid rise of supply employment agencies. Several attempts have been made over the years to establish supply-teaching co-operatives, but these have been too small to have any impact on the market and provide a mutual competitor. Attempts in Cambridge and the North-East failed after a relatively short period of trading. The North-East Music Co-operative does, however, provide an example of where a co-operative has succeeded in maintaining a service when the local authority withdrew provision, but it has not been replicated elsewhere to date.

The Robert Owen Society, with its headquarters in Leominster, provides another example of the co-operative model in the provision of educational services – in its case primarily school-based initial teacher training. It has also become an approved free-school provider, opening Oaklands Free School in Hereford in September 2013.

The examples of success in this field would suggest that two key factors are the scale of the client base and quality of commitment from the local council. Perhaps the best example of a new co-operative initiative to do this, taking on services previously run by the local authority, is in Plymouth, which is part of the growing Co-operative Councils movement. Here, as in Newham, it was a long-established Primary Heads Association that took the initiative in establishing a co-operative community-interest company to deliver a range of services. With all bar one of the local authority's primary schools and their governing bodies in membership, just a year after its legal creation it now has an annual turnover of over £5 million and is trading into South Devon and Exeter as well as across the Tamar into Cornwall.

Conclusion

EDUCATION



There is little doubt that the marketisation of the education system is now deeply entrenched, with no signal from the major political parties that there is likely to be a fundamental change in direction. There does, however, remain within the education sector at all levels the deep belief that co-operation and collaboration are the best means to secure an inclusive and values-based system.

The fact that over 800 schools have adopted the co-operative model despite the complete absence of any marketing project or funding to promote the model, and in the face of the full resources of the state being employed to promote its preferred models, provides an indication of the potential to build a strong co-operative presence in the education sector. There have been calls for an expansion to 3,000 co-operative schools by 2020, from nursery schools to higher and adult education. Judging by experience abroad, Early Years provision seems tailor-made to suit a co-operative model. However, if that potential is to be realised, it will require partnerships with unions and professional associations, and targeted resources, as well as changes in regulation to allow co-operative and mutual models to be taken up in other parts of the education sector. ■

1 Paul Bolton (2014), 'Education Spending in the UK', House of Commons Library information note SN/SG/1078.

2 If national policy continues in the same way, it appears likely that structural change will gather pace, as more schools see the rapid reduction in services available from local authorities as the public-expenditure cuts impact.

3 This approach aims to secure the conversion of at least 15 per cent of primary schools into academies and a further third of the remaining secondary schools in the current year. Local authorities are being put under pressure to assist this process and converter academies

(high-performing schools allowed to adopt academy status without the need for a sponsor) are being 'reminded' of their responsibility to support weaker schools through sponsorship, thus enabling them to become sponsor academies.

4 Trust schools, the predominant co-operative governance model, developed following the 2006 Education & Inspections Act. The Co-operative College recognised the potential to capitalise on the progress made by schools specialising in business & enterprise sponsored by the Co-operative Group, and used the Trust Pathfinder programme to develop a co-operative model for trusts.

5 In turn, this draws on agreement on best practice by the wider co-operative and union sectors. See Co-operatives UK and the TUC (2013), *Public Services, Co-operatives and Mutuals: best practice guidance*.

6 A good analysis of the development of Spanish co-operative schools is given by FS Segura and MJ Pons Fuster in *Cuadros de Pedagogía*, No 351, November 2005, pp 50-53.

7 Segura and Pons Fuster, op cit, pp 61-65.

8 For example, to amend the statutory instrument used to implement the 2006 Education and Inspections Act to enable schools to use co-operative and community benefit models as defined in the Co-operative and Community Benefit Societies Act 2014 as well as companies limited by guarantee and similarly amend the statutory instrument to allow nursery schools to form or join foundation trusts.

9 Elsewhere, work by the Cabinet Office and the New Mutual Taskforce has emphasised the value of providing a much stronger voice for employees (hence its frequent references to the 'John Lewis' model). The Cabinet Office's wider Mutuals programme has been developing an evidence base that demonstrates the value of such a model, hence its advocacy in a wide range of public-sector reforms. An invitation-only workshop arranged in partnership with the Association of Colleges in early 2014 indicated that there is interest in exploring alternative governance models. While there is no blueprint for a co-operative model in the Further Education sector, there is significant interest at Cabinet and ministerial level around the potential advantages of such a model. It provides an opportunity for forward-looking institutions and their leaders to create and develop the core contents behind a new model as an alternative to the current accepted pathways, and the predominance of mergers and giant institutions as the only way forward.

10 In a letter to Chairs of Further Education Corporations, he added:
I would also like to draw your attention to an article I wrote recently about college mergers… In the article I emphasise that the starting point for any college considering a change to their business model should be an assessment of need and consideration of the full range of models that might best meet that need, recognising that a merger may never be the right option. It is essential that any college considering structural changes undertakes a College Structure and Prospects appraisal to ensure that the needs of learners, employers and the community are thoroughly considered, and that where a new model of delivery is confirmed as necessary, then the process for achieving that new model should be undertaken openly and competitively.

11 The Schools HR Co-operative in Hillingdon is arguably one such example.

12
Social care

To support and sustain

With a gently ageing population and a pattern of service delivery that is more labour-intensive (but lower-carbon) than many sectors of the economy, social care ought to be high on anyone's list of opportunities for co-operative action. However, it has not worked out this way to date, partly as a result of a cultural unwillingness to value high-quality social care (delivered in both formal and informal settings primarily by women) and partly because of the way in which social care has been handled in the welfare state.

As the 2011 report of the Commission on Funding of Care and Support, chaired by Andrew Dilnot, set out, since the introduction of the NHS there has always been a tension between health services that are free at the point of delivery and social-care services that have to be paid for – typically from local-authority funds, through welfare benefits for the disabled or from other forms of individual and family financial contributions. The Commission characterises social care as activity that: "*supports people of all ages with certain physical, cognitive or age-related conditions in carrying out personal care or domestic routines. It helps people to sustain employment in paid or unpaid work, education, learning, leisure and other social support systems. It supports people in building social relationships and participating fully in society.*"[1]

Against a rising pattern of demand from an ageing population, this split between a statutory free service and a limited local-government resource service has meant that social care has over the years been beset with a funding crisis that has become acutely evident since 2010, as local-authority cutbacks have deepened. Many service users have to top up from (private) income and savings. Quality and continuity of care from one area to another is highly variable. Private providers have been involved in the health sector in relation to GPs and dentists since the founding of the NHS. Private providers have become dominant in the social-care market. One can argue whether there is any correlation, but the conditions of the workforce have worsened, especially in recent years with austerity pressures.[2] Home care based on 15-minute in-and-out provision has become the norm, while research by Age UK and Leonard Cheshire Disability has shown that such marginal provision is not adequate and cannot take the place of rigorous, sensitive and dedicated social care.[3]

The National Health Service and Community Care Act 1990 came into force in April 1993. While community-based care services and forms of social enterprise date back to the late 1970s, two decades ago this legislation diversified the provision of a wide range of social-care services from the public sector to the third sector and the private sector.

Since 1993 there has been some growth in care provision by the charitable sector and additionally within the co-operative sector and wider social economy. However, this expansion has been far outstripped by the huge growth in market share by private-sector providers. In recent years, new growth trends have emerged in the social-enterprise provision of care that are encouraging.

Crisis and opportunity

Social care and other related health services have been much in the news. The conviction of 11 care staff at Winterbourne View in Bristol in 2012 for abuse and maltreatment of vulnerable people has highlighted some of the worst problems in the system. Underlying problems appear to be endemic. The collapse of Southern Cross and its 750 residential care homes indicated that the privatisation model for care was in trouble. The sale and leaseback financing model for care homes developed by private-equity investors and used by Southern Cross is common throughout the private-care sector. Indeed care-company insolvencies have been growing year on year, from 35 in 2010 to 73 in 2012. The debt burden on residential care homes in the private sector has swelled to £4.5 billion.

Age UK's report and national campaign, *Care in Crisis*, highlights what it describes as a 'catastrophic' impact of a 15.4-per-cent cut in funding for social-care services – a drop of £1.2 billion since 2010 against a rising demand from an ageing population.[4] Research by The King's Fund is showing that cuts in home care are costing the NHS more, as elderly people cannot be discharged from hospitals for days at a time because the right care cannot be secured for them at home.[5]

In the provision of home-care services, private-sector market share has expanded from 5 per cent in 1993 to 87 per cent at the end of 2011. The home-care workforce in the private sector is now over 350,000, compared with 48,000 in the voluntary sector and 36,000 employed by local authorities.[6] Price has driven this switchover with council services operating at rates of £35.50 per hour for in-house home-care provision compared with private-sector charges averaging £14.60.[7]

The UK Home Care Association (UKHCA), the trade body for care providers, has produced data to show that, based on only payment of the minimum wage, national insurance, holiday pay and typical overheads, this works out at a minimum charge for local authorities of £15.19 per hour of care provision. The Association of Directors of Social Services recommends that councils adhere at least to this minimum.

However, social-care costs account for one-third to one-half of local-government core budgets. The pressure to make savings is glaringly evident from the latest research. According to a BBC File on 4 investigation, a large number of local authorities are buying care for far lower than £14 hourly.[8] The BBC found only 4 out of 100 local authorities paying the £15.19 minimum rate recommended by UKHCA. While most councils pay more than £11 and the average rate currently has dropped to £12.26, File on 4 found rates in one London borough of just £9.47 and a North-West council paying £9.09. The BBC research revealed that 9 out of 10 councils have not been increasing their rates in line with the retail price index.

In a 2012 review (based on 13,000 inspections), the Care Quality Commission (CQC) found that one in five care homes and one in ten nursing homes failed to provide service users with the food and drink they needed.[9] The CQC report found that the vast majority of care homes, nursing homes and home-care providers failed to meet the minimum standards for providing their staff with "*proper training, supervision and development*" support. Many providers failed to manage medicines properly and to keep records adequately.

Low pay is pervasive in the private care sector. In the home-care sector, eight out of ten workers are estimated to be on zero-hour contracts.[10] The non-payment of the travelling time of carers between home visits is common in the private sector. This practice enables private-sector agencies to pay below the minimum wage because they only count 'contact time' as work time. A study by Kings College London in 2011 estimated that 150,000 to 220,000 care workers are being paid below the minimum wage in this way.[11] This research has led to a crackdown by HMRC, which has been issuing £20,000 fines to seek to curb this practice.

There has been a growing differential between what local authorities pay contractors through block contracts to procure care for those on the lowest incomes and what older people above the means test themselves pay for care. Recent comparisons show a cost of £636 per week to be the average charge made by care homes in England.[12] This charge is 25 per cent above the rate paid under block contracts. The charges do vary regionally but an approximate 25-per-cent premium charge is common. In the North West, for example, the open-market rate is £710 per week against a regional block contract average of £580 per week.

While policy on social care is one that is devolved to the level of the nations, with important differences in how this plays out, there has been a shared move towards an encouragement of direct payments – moving away from block contracts towards individual procurement through user choice. This is a move that is welcome for users that have the confidence and capacity to make a success of it, but it does raise a series of further risks in terms of the fragmentation and value of care.

Co-operative presence

Most UK social-care co-operatives are worker co-operatives but a few involve service users as members and in governance. A number have operated successfully for 20 to 30 years, including Sunderland Home Care Associates, Care Co-operatives in Brighton and Hove, Wrekin Home Care in Telford and Bridgnorth Home Care Co-op in Shropshire.

Highland Home Carers in Scotland is fully employee owned, with 300 worker owners. The care service was privately owned until 2004 but the owner wanted to transfer ownership to the employees. Existing good will, a strong relationship and block contracts with the local authority were key assets, along with an excellent management team. These factors put them in a strong position to attract the finance to achieve the ownership transfer.

On the Co-operatives UK member list there are about 25 social-care co-operatives or care-support organisations. This would appear to be under one per cent of the national market. Additionally there are around 50 other forms of mutual and social-enterprise providers that have emerged since 2008 out of the Labour Government and the Department of Health 'Right to Request' scheme that have enabled primary care trust staff to convert their services to mutuals. Many of these organisations are trading as 'community-interest companies with one member, one share, and significant employee ownership and participation.'

The market for social care

The state currently spends £14.5 billion annually on adult social care in England, with £8.3 billion spent privately.[13] How will this level of spending now develop? All the nations in the UK have been exploring how to manage the boundary between state and private funding. In England, the Government intends, following the report of the Commission on Funding of Care and Support, to raise the local-authority financial assistance eligibility threshold from an asset ceiling level for individuals of £23,500 to £123,000. The Care Act 2014 secured all-party support and has embraced many of the Commission findings. Local authorities have a new statutory duty to promote people's wellbeing – and not just for service users but for carers as well. Moreover, those receiving care from a regulated provider, whether residential or home-care service, are covered by the Human Rights Act if local-authority funded, but not, however, for those paying for their own care.[14]

The demand for better-quality care is likely to grow with an ageing population. These voters will carry an influence on state spending, but even if this were restricted, the demand for services funded by users is likely to grow. It seems reasonable to believe that there will therefore be a growing mixed market of some form for social care, within which models of social-care co-operatives could find a productive and expanding niche or wider role.

There is, furthermore, some encouraging evidence of this already beginning to happen. In relation to state spending, the Public Services (Social Value) Act now requires all public-service commissioners to factor in social value. This means that local authorities and government-funded organisations will need to consider how the services they commission can improve the social, economic and environmental wellbeing of localities. John Craig of the Innovation Unit, an independent social enterprise, estimates that, if scaled up, co-production social enterprises could save the NHS £4.4 billion and radically improve health outcomes through innovation measures.[15] Alongside this is an active programme of support for mutuals run by the Cabinet Office, in concert with the Department of Health, which has encouraged experimentation around different mutual models for spin-offs, from social-work partnerships to community-health social enterprises.

Social co-operatives are ideally placed to offer this form of innovation and added value. While there can and will be different ownership models, from charities through to worker co-operatives, social care is particularly well placed to benefit from multi-stakeholder models. The engagement of service users is a principle that has long been embraced and the practice has moved forward more recently with the approach of 'co-production'.[16]

In this context, it seems reasonable for there to be a benefit and preference for multi-stakeholder co-operatives where the service users are able to participate fully. The advantage is one that will then be sustained over time, in that it is likely that co-production will wither within an organisation if it is not built into its governance, and only multi-stakeholder co-operatives do this systematically. This was a view strongly endorsed in 2014 by the report of the Welsh Co-operative and Mutuals Commission: "*There is a compelling case for a greater role for social-care co-operatives because of the added value they can bring to social-care services, including: high-quality services that are based on co-operative values and principles and not on private profit; services that are responsive to people's needs, as they are citizen directed, giving a much stronger voice and greater control to service users and carers; greater contestability in a market dominated by large, private providers.*"[17]

Mick Taylor of Mutual Advantage sees several strategic opportunity areas for social-care co-operatives to be cultivated. He describes five broad pathways in the table below.

Pathways	Description	Challenges to overcome
1. Contracting	Open and competitive process led by a procurement body	Difficult process Opportunity and risk High cost
2. Externalisation	Negotiated process to transfer staff and service to a co-operative	Transfer of Undertakings Culture and management Re-configuration
3. Partnership	Set up by a charity or voluntary body for the community as a co-operative service	Ability to trade Culture change Hard to let go
4. Society venture	New business set up by a co-operative society	Poor return Risk to the core brand No appetite
5. New start	Started by stakeholders such as carers, activists and community backers	Regulatory hurdles Time and effort Hard decisions

Co-operation overseas

It can be helpful to see the pattern of independent provision in the social-care sector within a longer-term and comparative context and with reference to a different pattern in other countries where the co-operative care sector is strong and a major provider. Other European countries have approached non-governmental provision very differently from the private-sector pattern that has become dominant in the UK.

Alexander Laidlaw, the Canadian Secretary General of the International Co-operative Alliance, called on the co-operative movement to consider ways to provide and deliver growing welfare services in 1980. No other country since then has been as successful as Italy in expanding the market share of the co-operative sector in the field of social care and other welfare areas. As a consequence, other countries have drawn inspiration from this good practice and have been following the Italian lead, beginning in the 1990s in francophone Canada.

What emerged in Italy mainly from the late 1970s onwards was a new form of multi-stakeholder co-operative that blended together the co-operative legal form with a non-profit social mission. In the early period of the contracting out of services by the UK public sector more than 20 years ago, Roger Spear at the Co-operatives Research Unit at the Open University led a review in 1994 of the state of development then of the UK co-operative care sector.[18] The findings drew comparisons two decades ago to the development in other industrialised countries.

The research led by Spear examined the rapid expansion occurring within the Italian social co-operative movement, then with almost 1,000 care co-operatives compared with a small number in the UK. The report recommended development work on a multi-stakeholder co-operative model and said that "*the Italian case noted earlier is the best inspirational example*". The review also noted the similarity between the Italian model and the multi-stakeholder Care Co-ops in Brighton, which was set up in 1982 with 40 per cent of voting rights each for worker members and for service-user members and the remaining 20 per cent of voting rights for other community members. This road forward for the UK was, however, not then pursued or taken up.

While the UK has seen some larger care-sector co-operatives emerge, the rate of growth bears no comparison to the more than 14,000 social co-operatives operating today across Italy and employing over 360,000 staff. The striking fact is that the Italian care co-operative sector exceeds the employment level of 350,000 in the private sector providing home care in the UK.

An increasing number of European countries have been adapting and introducing the social co-operative model. In 1997 the Quebec provincial government passed specialist legislation to define multi-stakeholder co-operatives in law and to provide an enabling policy framework. Portugal passed similar legislation in 1998, Spain in 1999, France in 2001 and Greece in 2011.

Finland passed legislation in 2003 and Poland in 2006 but these laws for multi-stakeholder co-operatives are focused more restrictively on workforce integration of disadvantaged people and not on the wider provision of social and healthcare. Hungary is developing a model and, beyond Europe, the health co-operatives in Japan have evolved remarkable practices – especially through their local *han* groups, which actively mobilise members in public-health promotion and with peer-to-peer support.

Inspiring forms of mutuality in the prison service operate effectively to resettle Italian offenders and to stop reoffending. Pausa Café, for example, was set up as a social co-operative in Turin's main prison. It provides a guarantee of a job both in prison and on the outside. Prisoner members of Pausa Café roast and package a wide range of coffee beans in the prison and then work outside the prison on release with a growing chain of coffee bars. Other co-operatives fabricate doors and window frames in prison that ex-offenders fit and install on building sites, and another has been established as a microbrewery co-operative within Saluzzo prison. The co-operative real ale produced has become so successful that it is now exported to many countries across Europe.

Barriers to co-operation

Finding gaps in the market to develop co-operative care services in ways similar to what has been achieved internationally will be challenging in today's mature market in the UK – especially when the private sector holds such a dominant position.

The current move within commissioning to personalised budgets provides a potential way through the barriers of private-sector incumbents and arguably gives customers the chance to have a better relationship, choice and continuity with the people who provide services. Existing infrastructure is weak but digital and smart technology offers cost-saving pathways that could radically transform the provision of services.

The privatised paradigm appears structurally flawed, as high rates of profit appear to be sustained by reducing wages, by sacrificing quality, by trying to reduce competition with price undercutting and in some cases by the use of corporate tax havens. A study of care services in 1994 revealed rates of pay for home carers of £4 to £6 per hour.[19] The pay in the sector today has not kept pace with inflation, with the minimum wage of £6.19 pervasive in the private sector.

A glaring and growing crisis is under way – driven both by public-sector austerity cuts and by the fact that other alternative models are not well enough known, positioned and resourced to offer something better and entirely different. Co-operative economic solutions, both worker co-operative and multi-stakeholder, appear therefore to hold potentially the keys to solving this problem for the state, social-care workers, service users and taxpayers.

There is a strategic market opportunity for the co-operative movement to collaborate with other stakeholders in the public, voluntary and social-enterprise sectors to develop specific well-designed multi-stakeholder models for social care. Creative partnership with co-operative and community development finance organisations will be needed to design a social financing system. The democratic involvement of workers (paid and unpaid) and service users is a challenging but potentially generative area for the development of effective solutions as the international experiences described support.

In home-care services, social-care co-operatives will require a mixed pricing system and a targeting of a wide spectrum of care-service users in ways that enable some services to be run on a break-even basis for lower income users and other services provided by self-funding and relatively better-off service users that will enable social co-operatives to trade positively.

This is an opportune time to move forward with a social co-operative model as the shift of funding from the NHS to the local-authority sector and the devolution of a public-health budget opens up strategic opportunities to engage public-health teams and other commissioners.

In the UK there are 6.3 million unpaid carers, more than 10 times those in paid caring roles. Social co-operatives in Italy have demonstrated diverse ways for paid and unpaid carers to collaborate through localised co-operative systems. For social co-operatives, membership is socially inclusive and equality and democratic provisioning can become both means and ends.

In Japan there has been superb integration between co-operative healthcare and public health services, along the lines proposed in the Beveridge report. In addition, the involvement of volunteers can assist in bringing unpaid carers into paid professional work.

The Japanese health co-operatives focus primarily on prevention rather than cure by mobilising the active involvement of members. Nurses, social workers, doctors, physiotherapists and other health-care professionals participate as collaborative partners in a community-led model of integrated health and home-care services. The *han* groups that provide mutual aid in peer-to-peer ways by members show how public health services and co-operative systems can be co-developed in complementary ways.

These multi-stakeholder social co-operative practices would appear to prefigure a wider and deeper new social settlement that needs to be negotiated and agreed.

Innovation opportunities

Every service sector in the economy is likely to have to adapt to new patterns of delivery that are focused on the needs and preferences of users. As Shoshana Zuboff puts it, the decentralised and networked business model of the future is tailored to service-user circumstances and is thematically about 'what do you need?' and 'how can we help?' This is an inversion of many business models that are primarily about 'what do we have?' and 'how can we flog it to you?'[20] Zuboff points out that weaknesses of the large private-sector health and social-care providers are increasingly rooted in their concentrated centralised control, overpaid senior management and investor ownership. All these factors have a tendency to load costs into the pricing equation and thus favour high-cost solutions that are not prevention-oriented.

Offering a people-centred business model, offering trusted advice, managing costs and meeting needs with the active involvement of those engaged in the business of social care is the innovation promise of co-operative models. The following market niches and opportunities are illustrated by organisations where there are exemplars in practice and are indicative of the application areas and the wide potential for social co-operatives, covering both established models for worker ownership and emerging markets for multi-stakeholder co-operative development.

1 Employee-owned care

Founded as a social enterprise in 1994 by Margaret Elliot with a small grant of £10,000 from Sunderland Council, Sunderland Home Care Associates became an employee-owned business in 1998. From its early days as a service with 20 carers, today it operates as a larger mutual with 600 worker owners delivering over 10,000 care hours per week. The organisation is not a worker co-operative but an employee-owned firm and it provides home care for the elderly as well as adults with a range of disabilities.

To develop a social franchise for this model, Care and Share Associates (CASA) was developed as a larger mutual to bring together a growing range of care providers that are replicating the model. Thus far, CASA social franchises have been developed in Newcastle-upon-Tyne, Manchester, North Tyneside, Halifax, Leeds and Knowsley.

CASA's approach has moved from a former social-franchise model to a larger consolidated employee-owned business. It found this to be necessary because of the minimum asset requirements specified by care commissioners. In practice, the locally based CASA firms operate as semi-autonomous mutuals, but legally they have become sub-divisions of a larger national-scale worker-ownership business.

CASA also reports low turnover of staff at only 6 per cent compared with an estimated national turnover range annually of 25 per cent to 50 per cent among private-sector care providers. Guy Turnbull, the Business Development Director, has described the economic benefit directly arising from employee ownership:[21]

"Because our employees have a share in the business, our staff turnover is much lower than the private sector and overall our business model yields significant benefits on performance. This is crucial in healthcare as you aim to have continuity of support, as you want to have the same person toileting you every day. Plus, as we have no external shareholders, we can reinvest our surpluses in staff development and training.'"

The new larger and unified business structure will increase the worker-ownership stake to 90 per cent.[22] CASA also recognises trade unions and 80 per cent of their worker owners are in a trade union.

2 Community health mutuals

The evolution of Primary Care Trust (PCT) commissioning over the past 10 years has seen a rise in provision of services by social enterprises. The changeover since April 2013 from PCTs to Clinical Commissioning Groups offers a major opportunity area for multi-stakeholder mutuals to emerge. Community health services operate in the space between the services of GP surgeries and the acute services of NHS Foundation Trust hospitals. These services account for 10 per cent of NHS expenditure and include health visitors, midwives, community and specialist nursing, physiotherapists, speech therapists and rehabilitation services.

Arising out of this change in commissioning, Mutuo reports that 47 social enterprises have been set up that in aggregate involve 25,000 NHS staff who have opted to restructure their operations in this way.[23] Many community health mutuals are big, with an annual turnover in excess of £50 million. A number are in the South West, including SEQL in Swindon and Peninsular Community Health in Cornwall.

Services provided by the third sector now account for 10 per cent of staff involved in community health services, 11 per cent of NHS provision and a combined annual turnover of £900 million.

Mutuo has been working on multi-stakeholder legal structures that have some similarities to the social co-operatives in Italy and the solidarity co-operatives in Quebec. Since 2011, four large community-health-services mutuals have been established along these lines. Together they provide services for almost a million people and have an aggregate staffing level of 3,600. The four new mutuals are: Anglian Community Enterprise CIC in North East Essex; Medway Community Healthcare CIC covering Medway, Swale and West Kent; Your Healthcare CIC in Kingston-upon-Thames and Richmond; and Care Plus Group in North Lincolnshire.

3 Public-social partnerships

The Foster Care Co-operative (FCC) was established in 1999 as a mutually owned foster-care agency. It currently supports children and young people placed in foster care from more than 50 local authorities in England and Wales. Its success in securing public-sector support in the UK is noteworthy and it is the only registered co-operative in the foster-care sector. Foster Care Co-operative (FCC) in Scotland has opened and there are plans for expansion in London, Northern Ireland and in Ireland. Its turnover was £6 million in 2012.

There are 50 FCC staff who are full members, plus 250 foster carers (mostly couples) that are associate members. The regulations in England and Wales presently do not allow foster carers to be full members as legally they cannot control or manage the agency for which they foster. To seek ways to overcome this barrier, the FCC has written into its memorandum of association an explicit commitment to consult both foster carers and social workers at support meetings every six weeks.

The FCC has expanded steadily because its democratic ethos is seen as a superb fit both with the shared values of local authorities as public-service providers and with trade unions. The asset lock and common ownership structure of the co-operative plus the reinvestment of surpluses for community benefit are all attractive aspects. High-quality training and agency support for all staff and foster carers has been key to success. A free legal advice service to update members and associates is part of the support system.

Laurie Gregory led the work to found and develop the FCC, and he sees big opportunities to develop a similar model for home-care co-operatives. The strategic opportunity and the unique selling point would be a multi-stakeholder co-operative model with the extension of full membership and democratic rights to service users.

Gregory sees two options for local authorities. The first would be the outsourcing of the service to a co-operative that could be co-developed with the local authority and staff transfers negotiated with the trade unions. The second option would involve 'in-sourcing' as a halfway house that would preserve a high degree of local-authority control.

Scotland is currently testing a 'Public Social Partnership' model that could provide a vehicle for the second pathway. This arrangement would be similar to the arms-length management organisations used over many years for attracting private-sector investment and well developed in England to regenerate and modernise public housing. Essex Cares operates like this and was set up in 2009 by Essex County Council as a Local Authority Trading Company for adult social services. It employs over 1,000 staff that provide home care, day centres, community support services and training services for disadvantaged people.

4 Home-improvement partnerships

A key area for making cost savings for the state is preventing older and disabled people from having to go into institutional care. Home Improvement Agencies were set up in the 1970s to help vulnerable homeowners to carry out essential repairs and home improvements, ranging from safety features for baths and showers to roof repairs, window and door replacements, improved heating systems and insulation. Grant funding was the main source of this work until 10 years ago but this funding has become more and more restricted.

Community Development Finance Institutions (CDFIs) are not-for-profit local and regional lending organisations. There are over 50 operating across the UK and they make loans that banks and building societies decline – either because they are commercially unattractive due to low margins or deemed high risk. CDFIs tend to make larger loans than credit unions and most of them are mutually owned. Most focus on the provision of loans to small businesses and social enterprises but a growing number have diversified their lending into home improvement over the past 10 years. Their target market has been clients of home-improvement agencies and their track record with such lending has been excellent, with over £100 million in aggregate advanced to date and with no bad debt or arrears problems.

Wessex Home Improvement Loans (WHIL) is an exemplar CDFI that has developed an extensive co-production partnership over the past eight years with 20 local authorities and a similar number of home-improvement agencies across the South West from Wiltshire to West Devon and from North Somerset to West Dorset. They have made over £7 million in loans to over 1,300 households.[24] WHIL has led the regional development of a practical co-delivery service by themselves as lenders with Home-Improvement Agency staff managing the tendering and contracting of the builders to carry out the repairs. The co-production system is underpinned by a partnership agreement. Service user satisfaction levels are rigorously monitored and this has achieved an 88-per-cent level of excellence.

The savings to the state of this co-production service between CDFI mutual finance and Home Improvement Agency services is considerable. A hip replacement for an elderly person who slips and falls getting out of a bath without handrails runs to almost £30,000 for the NHS. Many times hospital discharges are impeded and bed blocking has occurred because of the poor state of repair of a patient's home, as they cannot be released until emergency improvement work is carried out.

WHIL takes referrals from its network of partners and from other advice bodies like Age UK. However, it has found that there are a number of gaps in the advice services network so to meet these it has expanded its work beyond lending to provide welfare rights advice, some counselling and other support to both service users and other family members. All services are now part of Wessex Resolutions CIC – a community-interest company. Wessex Home Improvement Loans remains a trading name of Wessex Resolutions CIC.

For low to moderate-income homeowners, borrowing is a big concern, as it is for other family members. There is a gap in the market to develop a social co-operative service to involve service users more fully and give them a democratic voice in the co-production system of Home Improvement Partnerships.

There is strategic scope to connect the work of the small but growing network of regional home improvement CDFIs to other carbon reduction and energy services co-operatives that are keen to collaborate with CDFIs like Wessex Resolutions and London Rebuilding Society. Social co-operatives and co-operative consortia are key innovations that could integrate creatively the co-design and co-delivery of these social economy innovations. Support to link up a full supply chain of co-operative elements might be secured from Co-operative Energy and from regional co-operative societies.

5 Home-care co-operatives

The support for social-care co-operatives has had a mixed history among larger co-operative retail societies. Midcounties Co-operative is succeeding with childcare co-operatives but, on the other hand, consumer co-operatives have pulled out of residential care homes over the years because the model of local-authority support was seen to have made it impossible to combine high standards of care and living wages for care-home workers. So any model to secure strategic and financial backing from a major co-operative retail society or even a smaller one would have to be premised upon a compelling business case. But what might this look like?

Robin Murray has described the state of the care-services market as a gathering 'scissors crisis', with both needs rising on the one hand and public-sector spending falling on the other. This adverse environment has triggered a reduction in services and expedited pervasive privatisation. The result has been an evident and growing decline in services quality that an innovative approach could tackle, especially if developed by the co-operative sector.

Murray points to research carried out by Carr Saunders on the economics of co-operative retailing that showed in the 1930s that established co-operative societies hold key cost advantages over smaller private-sector firms and that these hold even by comparison to some larger firms. The advantages include lower-cost logistics, access to lower-cost capital, land and property ownership, and administrative infrastructure.

The related cost-savings aspects in Murray's analysis could be used: "*to develop a model of care where co-operative costs are decisively lower and the standards of care higher, so that co-operative care outruns the private-equity [care] chains*". He argues that there are seven ways in which a co-operative retail society could deliver cost savings:

- Use of back-office services
- Use of shops and premises as care hubs
- Use of training facilities and access by care workers to employee-benefit schemes
- Use of marketing and advertising services
- Access to lower-cost transport and energy
- Supply of trusted pharmaceutical services at modest margins
- Provision of good-quality food and other inputs at reasonable prices.

Murray argues that these savings can enable carers to be paid more, the service quality to be enhanced and a virtuous circle to be facilitated. Co-operatives can also drive up quality because they uniquely involve workers as key stakeholders in the governance of the service. Fundamentally the innovation in design must put the service users first and to "*assemble a group of services around them, customised to their requirements*".

However, as Murray makes clear, this approach requires higher pay for the carers to incentivise the development of the quality. While this revenue can come from savings elsewhere as indicated, this would not be sufficient to enable a trading surplus to be made in order to attract the interest and the investment of co-operative societies. This is the showstopper challenge. Going it alone by a large co-operative society is not the only way forward. There is the issue of comparative financial returns and reputational risk that might hold back testing out this way forward. However, a co-operative partnership model could be a viable solution.

Many social co-operatives in Italy use paid and unpaid workers for service provision and do so through forms of co-production that are backed financially by co-operative banks. Many co-operative retail societies in the UK have existing links and some partnerships with credit unions. Frequently among the smaller credit unions these involve a mixture of paid and volunteer workers. So there are precedents for such collaborative economy models in the UK between larger and smaller co-operatives.

Murray argues that technological innovation and the creative use of volunteers is key to stakeholder inclusion, to maximising quality and for securing a margin to attract co-operative societies into the market. As an alternative to the large private-sector payout to shareholders, a social co-operative trading surplus achieved by this strategy could be reinvested in staff in order to maintain quality and to improve and develop services.

6 Integrated health and social-care co-operatives

It has long been recognised that there must be opportunities in developing an integrated model for health and social care for improving outcomes for people and reducing the costs of delivery. As Hilary Cottam of Participle puts it in relation to an innovation she has helped to lead, 'the Circle', the starting point is not needs but capacities. It is people supporting themselves collectively in many different ways, within a wider web of support. The potential, for some, is to move towards a system of distributed and personalised support that can replace residential care – this is where the large economies are. It does not replace residential care but seeks to make it more punctuated. In policy terms, residential care becomes merely one part of a wider system that includes also the GPs and other primary-care services, all of which would ideally be included in a single budget so that savings in one area could be fed through to others and to support the social network.

The Circle model itself is still in a relatively early stage of development, with the need to move from project, the start of which would still most likely require grant or state support, to self-sustaining enterprise, or network of enterprises. It is also not yet a co-operative, as the ownership is retained by the founders. With a similarly circular metaphor, though, the Oxfordshire Wheel is a path-finding multi-stakeholder care co-operative with a mission to develop a broad range of services provision for and with disabled people and their carers.

As a majority of its organisational members are disabled people, it is a user and stakeholder-led organisation supported by institutional founding members like Headway Oxfordshire and Oxfordshire Family Support Network. Work has been ongoing over the past three years to develop the co-operative, with a heavy emphasis from the outset on a 'user-led organisation'. Oxfordshire County Council has been a supporter and legal and technical guidance has been provided by Co-operative Futures.

The mission of Oxfordshire Wheel is the promotion and development of self-directed support to ensure that its service-user members have choice and control of the support and help they need in their daily lives. Such support is about enabling disabled people to arrange care based on their priorities including: staying in their home; being involved in determining their own care plans; and managing help from family and friends. Launched in 2010, the company is registered as a multi-stakeholder co-operative. Its board of directors is elected from three categories of membership including: individual service users; user-led organisations for disabled people in Oxfordshire; and organisations representing people with disabilities and other service users.

At the heart of the co-operative's vision is the development of ways and means to assist disabled people into paid work. The challenges are formidable, as many of their members with learning disabilities or severe injuries have been out of work for 15 to 20 years. To move things forward, Oxfordshire Wheel has been developing the infrastructure to provide a range of key services linked to its mission. The services include:

- Information and advice provision to members
- Brokerage referrals
- Training and accreditation for brokers and personal assistants
- Support services for carers
- Quality assurance
- Advocacy
- Research
- Consultation services.

It may well turn out that pioneers such as these demonstrate not that all health and social care can or needs to be integrated, but that there may be a specific group of users with a strong pattern of demand for both, around whom new, more responsive co-operative models of delivery can be built.

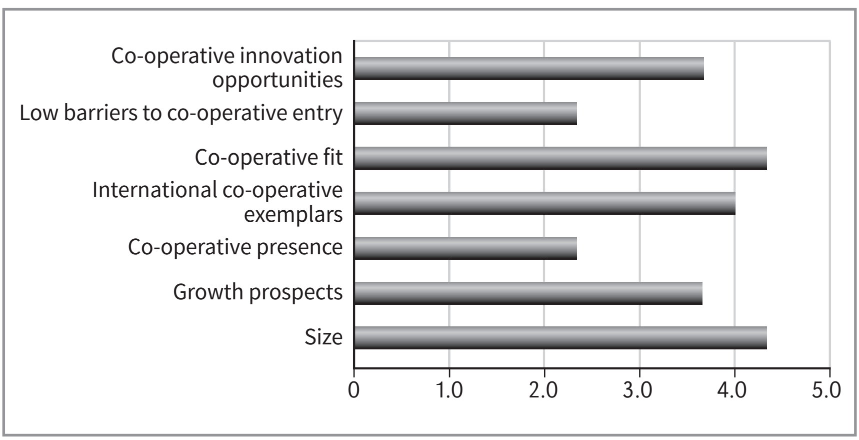
7 Mutual direct payments

The idea of a co-operative of members using direct payments to manage care in a facilitated way has been the subject of past research by Co-operatives UK.[25] The co-operative would facilitate the update of personal/individual budgets and overcome some of the legislative and contractual challenges of individuals directly and employing their care support.

One advantage of the approach is that it would extend the benefits of direct payments, including empowerment and choice, to a wider group than the narrower group of people who are currently confident in their ability to manage on their own. The barrier, however, has been that direct payments in principle are significantly lower than the rates that agencies will receive for delivering the same services. If a co-operative were formed of users who moved to direct payments, then the business model would require something closer to agency rates (a step that would, after all, be of financial benefit all round if these were users new to direct payments). Community Catalysts have continued to explore this theme, as has the think tank Mutuo. Even so, this may be a model that requires policy innovation and not just business innovation – in the form of a clear recognition by social-care commissioners that this represents a new model of 'mutual direct payments'.

Conclusion

SOCIAL CARE



Centred on people's needs and aware of their strengths as well as their vulnerabilities, a co-operative model of social care could have many strengths. Across private and public provision, the demand for social care is likely to increase. However, the regulatory and public-sector framework within which social care has been delivered to date has not proved helpful to models of fair care. As moves towards more mixed provision across the nations of the UK grow, this could change and it is likely that co-operatives could play a transformative role. This includes social co-operatives that give a voice to users and to staff – a form of '360 degree' co-operative that involves the key parties as member owners and embeds the concept and innovation of 'co-production', a partnership model of self-help, mutual aid and professional service, at the heart of social care. ■

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2 See: **docare.co.uk/docs/business-clinic.pdf**
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19 Ibid.
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23 Cliff Mills and Chris Brophy (2011), *Community Health Services: Made Mutual*, Mutuo.
24 Data and information about Wessex Home Improvement Loans is from a presentation made by Andrew Wallace, the managing director, at the Co-operatives UK Deliberative Inquiry on 11 July 2012 in Birmingham.
25 See **s.coop/coopsukcarereport**

13
Health

Healthy foundations

Your good health... is not so simple. The National Health Service (NHS) is the world's largest publicly funded health service.[1] With services free at the point of use (need or delivery), the NHS is publicly funded from national taxation, with the exception of prescriptions, optical and dental services. The system employs almost 1.5 million public servants and has a budget of over £100 billion across the UK.

And yet, in commercial terms, your health, the health market in the UK, stretches beyond the NHS. Over 15 per cent of the population are covered by health insurance.[2] The Office of Fair Trading reported that, in 2009, the total value of the market for acute private healthcare in the UK was around £5 billion.[3] Retail sales by pharmacies and drugstores were worth £13.47 billion in 2009, with sales on an upward trend.[4] More widely still, the health and beauty market is worth yet more, with a significant and increasing role played by online sales.

Even with the NHS, the division between state and private health providers is not as clear as it might first appear. While hospitals and other local health services have been state-owned and controlled, GPs, dentists, opticians and pharmacists have more commonly been self-employed and privately contracted. Private hospitals have carried out surgery for NHS patients for many years and charities have played a critical role in delivering a wide range of health services.

While there has always been diversity in the type of organisations delivering health services, the balance has shifted. NHS founder Aneurin Bevan himself suggested that the "*service must always be changing, growing and improving*".[5] Since the first major review of the NHS in 1953, when the Guillebaud Committee concluded, more or less, that everything was about as good as could be expected, upheaval and continual reforms have become the norm.

The next few decades brought new structures and revised boundaries and, with the introduction of stronger budgetary controls for each authority in

1976, the NHS took its first steps in a seemingly inevitable journey towards a more 'business-like' model. Further reorganisations at the start of the 1980s also introduced the first competitive tendering for some ancillary services, an important step in the marketisation of the health service. In 1984, general management replaced the consensus management of various stakeholders which had been criticised by some as 'management by veto', arguably another step towards a more commercial model. An 'internal market' was introduced by the Conservative Government in the early 1990s with GP 'fundholders' and health authorities managing their own budgets and commissioning and procuring services from hospitals and other providers.

After their election in 1997, the New Labour Government, while initially sceptical, ultimately retained this 'purchaser-provider split' and primary care trusts were born. The NHS Plan of 2000 extended the potential role of the independent sector, encouraging competition among providers and, for the first time, introducing the prospect of organisational failure. The health system became subject to greater devolution with different policy approaches in different countries and, after 2000, the creation in England of NHS walk-in centres and independent-sector treatment centres were illustrative of the new opportunities for private and social-sector providers to deliver health services under contract to commissioning authorities.

Co-operatives and mutuals in the UK health system

The National Health Service in the United Kingdom was created on the shoulders of a co-operative tradition. The seminal 1942 Beveridge Report recommended that the NHS be structured along co-operative principles, with mutual friendly societies at its heart. While this ambition was watered down as the plan took shape,[6] the movement nevertheless played a defining role. As he launched the English National Health Service in July 1948, with the opening of a hospital in Manchester, Aneurin Bevan announced: "*All I am doing is extending to the entire population of Britain the benefits we had in Tredegar for a generation or more.*" He added, rather less elegantly: "*We are going to 'Tredegarise' you.*" The Tredegar Medical Aid Society had operated in Wales for some time, supplying healthcare free at the point of need to all members in return for an annual contribution and delivering services for 95 per cent of the local population.

Indeed, the health system in the UK was a system of mutuality before the creation of the modern NHS. From the early 19th century, citizens had started to come together to build schemes that would support their medical needs. Healthcare was often provided through a combination of philanthropic organisations, working-class self-help and mutual models such as friendly societies, which provided mutual insurance, co-operatives and trade unions.[7] Around 19,000 mutual friendly societies provided co-operative healthcare before the Second World War.

The Peckham Health Centre in South London, for instance, worked to improve the health of the working classes through the integration of public health initiatives, leisure facilities, healthy-eating programmes and health education. Hospitals were sometimes publicly funded, sometimes in partnership with universities, while other health providers were funded voluntarily, such as the institution founded in London by Victorian philanthropist Thomas Guy.

In 1910, there were 26,877 health mutuals with 6.6 million members, or one in eight of the population.[8] Even today, beyond the core NHS services, many co-operative pharmacies operate across the country, and six major health-insurance mutuals with a turnover of over £600 million provide health plans and insurance to over five million customers. Lincolnshire Co-operative, for example, has been running a pilot scheme to integrate pharmacies and libraries in areas that would not otherwise support a library.

The 1980s and 1990s saw a minor renaissance of health co-operatives. In the 1990s, GPs joined together through co-operative models to share their out-of-hours duties in the evenings and at weekends. The co-operatives introduced a triage service, telephone screening and advice, surgeries and home visits and by 2000, two-thirds of GPs belonged to an out-of-hours co-operative. By 2004, the National Association of GP Co-operatives had more than 300 co-operative members. However, most of these structures were subsequently washed away with further reforms as, when given the choice, "*almost all physicians opted to relinquish the responsibility of 24-hour care*".[9] These reforms had other consequences – surviving co-operatives came together, such as Local Care Direct, which was formed from the merger of seven GP co-operatives in 2004, successfully bidding for each of these contracts.[10]

Today, the mutual model continues to provide inspiration for NHS systems designers. The Health and Social Care Act 2003 led to the creation of NHS Foundation Trusts in England as quasi-independent "*public benefit corporations modelled on co-operative and mutual traditions*".[11] Foundation Trusts were, while still public bodies, not-for-profit organisations with some degree of independence from the control of the Department of Health and strategic health authorities, with their own legal personality and greater flexibility and freedoms to self-determine. These trusts were intended to enable greater local engagement of not only staff and local authorities but also patients and public, because "*for the first time in the NHS, this introduced the concept of grassroots membership*". While Foundation Trusts are some way short of operating as true mutuals, Monitor, the health regulator, reports that there are over two million members of Foundation Trusts and that "*over*

50 per cent of trusts say that members have influenced what they do, on issues such as communication and the development of new services."[12]

More recently, a Social Enterprise Unit was set up within the Department of Health. This worked to support a number of 'pathfinders', made targeted funding available and introduced the 'right to request' for staff to 'spin out' into newly formed social enterprises. Many of these were built around, or inspired by, co-operative and mutual principles, with a degree of staff or employee membership, ownership or control. These community health 'mutuals' have a combined annual turnover of over £900 million.[13]

The current Government subsequently pursued the 'right to provide' for all NHS staff, as the 'right to request' was extended beyond community services, and described how employee-led social enterprises would deliver "*high productivity, greater innovation, better care and greater job satisfaction*".[14]

By the end of the first decade of the 21st century it was estimated that there were more than 6,000 social enterprises delivering health and social care within the NHS.[15] Unison estimated there were over 20 mutual providers of out-of-hours services, such as SELDOC and Devon Doctors. Co-operatives UK figures suggest that health-and-social-care co-operatives make up 1.8 per cent of the turnover of the co-operative economy (or 5.5 per cent by number). Around 20 health co-operatives are known to Co-operatives UK, some of which are staff-led, while others follow a multi-stakeholder model. These co-operatives deliver a wide range of services, including out-of-hours services, emergency and primary care, surgery and dental care. They vary in size and maturity, some serving small communities and others operating across the country. Together, they have over 3,000 members and over 6,000 employees, service almost 10 million patients and have a turnover of almost £200 million. Northern Doctors, for instance, provides out of hours and other services to over one million people across North East England. Local Care Direct delivers urgent and primary-care services across Yorkshire, employing 800 people and turning over around £20 million each year. South East London Doctors' Co-operative (SELDOC) provides services in Lewisham, Southwark and Lambeth and has expanded from 20 GPs to more than 600, providing services for almost a million people.

Co-operation overseas

Beyond the UK context, we have much to learn from health co-operatives globally. Worldwide, 53 of the largest health co-operatives have a combined turnover of over $20 billion.[16]

Japan has perhaps one of the most mature co-operative health sectors, running over 81 hospitals and over 350 health centres, dozens of dentistry clinics and much social-care provision.[17] One of the strengths of the Japanese co-operative healthcare system is the focus on patients.[18] The health-and-care co-operative sector of around 120 co-operatives employs 28,000 full-time equivalent staff, has three million members and turns over more than 280 billion yen. Beyond this, a more informal *han* system of over 26,000 groups supports participative engagement of small groups who promote local healthcare at the neighbourhood level and feed into the design of local services. They focus on mutual self-help and healthy lifestyles, mitigating the risk of isolation of elder and disabled citizens.

In Spain, an integrated co-operative health model often sees the combination of a consumer co-operative that owns and manages a hospital with a worker co-operative, brought together through a jointly owned health-insurance co-operative. In Barcelona, a health co-operative of 170,000 members owns a hospital run by 5,000 doctors along with local clinics. Elsewhere, a worker co-operative of 20,000 doctors owns a health-insurance company that manages the largest network of non-public hospitals in the country. The development of these co-operatives is supported by the Espriu Foundation, set up in 1989 to provide strategic support for the sector.

Across Europe, mutuals employ 350,000 people[19] and provide a large variety of services including health insurance, healthcare and social services to 160 million European citizens.[20] In the health sector, mutuals play a major role especially, for example, in France and Belgium. In France, mutuals provide almost eight per cent of health services, covering 38 million people. These mutuals provide mainly complementary health coverage, providing for medicines, dentistry, a part of hospital costs, optics and complementary payments for primary care. In Belgium, mutual insurers provide the majority of health financing: compulsory state healthcare insurance is managed by mutuals with 99 per cent of people living in Belgium using a mutual for their compulsory health insurance. These Belgian mutuals also provide additional complementary healthcare coverage. Meanwhile, in the Netherlands, mutuals also provide compulsory health insurance, while mutuals are active in voluntary or supplementary health insurance in around 15 other European countries.[21]

There are a number of very large health co-operatives across the rest of the world. In Brazil, for instance, Unimed is a medical co-operative and health insurer, probably the largest of its kind in the world, owned by over 100,000 health professionals and with over 300 branches and more than 15 million users. In the Netherlands, Univé-VGZ-IZA-Trias is a co-operative association of 26 member co-operatives with around 150 outlets, which offers life insurance on a not-for-profit basis. Meanwhile, in the US, HealthPartners is the largest consumer-governed, non-profit healthcare business in the country, providing healthcare, education and other services to its members.

Barriers to co-operation

A number of barriers hold co-operative approaches back from playing a greater role in supporting a more effective health system. The first – and most incontestable – is how rules in the system act to create a distorted playing field, not least for co-operative and mutual organisations seeking to play their part. As the health regulator, Monitor, has explicitly acknowledged, distortions in the system are significant and problematic, where "*providers are directly or indirectly excluded from offering their services to NHS patients*"; where "*some types of provider face externally imposed costs that do not fall on other providers*"; or where "*some providers' ability to adapt their services to the changing needs of patients and commissioners is constrained by factors outside their control.*"

Too often, this distorted playing field is skewed against co-operative and mutual approaches, compared to public or private alternatives. Monitor admits that incumbents often have an advantage – this works against co-operatives. VAT rules work against non-statutory providers, and therefore co-operatives. Cost of capital is higher for non-statutory providers and often a particular challenge for co-operatives with their unique governance structures. NHS pension rules remain a challenge for non-statutory providers, access to the statutory insurance scheme has also been a problem. The list goes on. These issues are not just sentiments emerging from the perspective of co-operatives themselves – they are explicitly recognised by the regulator, NHS England and the Department of Health in their work to create a more level playing field. But progress in implementing changes to level the playing field has been slower than it might have been and there is still more work to do for NHS England, the Department of Health and the Treasury in responding to Monitor's recommendations.

The second challenge is less concrete but related. Within the minds of many politicians, policymakers, officials, think tanks, lawyers, commissioners, budget-holders, consultants and others who shape the NHS bureaucracy, there is often a clear distinction between public and private which shapes their work. But co-operative approaches are less well known and understood. Social enterprise is often forgotten. The voluntary sector is commonly an afterthought.[22] This 'wall in the head' has become a significant challenge to the potential for co-operative approaches to play a greater role, as co-operative enterprises, their advocates and representatives are constantly fighting a rearguard action to ensure that co-operatives are given an equal footing in NHS strategies and policies, for example in commissioning and procurement. Too often, we are fighting to prevent the creation of further 'unintentional' distortions of the playing field which then need levelling out at a later date. Dr José Carlos Guisado, President of the International

Health Co-operative Organisation, agrees, describing how: "*…health costs are a significant financial burden for governments and, in some cases, the system's sustainability is far from guaranteed. This situation opens the doors for health co-operatives to act as a complement or alternative, depending on the case, to public health; however, this requires legislation to galvanise citizens into taking part in co-operatives and to promote the co-operative business model.*"

Third, innovative co-operative approaches in public-spending decisions have simply been disallowed in UK and EU procurement and competition law. While it is sometimes understood that we have three broad areas of the economy – the command and control of the state, competition in the private sector and the co-operation of the social sector, our legal framework for commissioning services allows just the first two, forcing co-operative approaches to adapt themselves to a competitive environment. Put simply, an NHS budget holder can either award work to a state provider, or can run a competition. These are the options. But a third possibility – a co-operative one – has not really been allowed, except in a few isolated circumstances. This route is described by Mutual Ventures' Andrew Laird and Jessie Cunnett, where a budget holder might, at least in theory, take "*a more proactive 'market-making' approach and engage with local organisations to bring potential providers together … by and large, these organisations would rather come together in collaboration than be forced into winner-takes-all competition with each other.*"

In domestic and EU law, this option barely exists. Only recently, the introduction of a new EU law allows public authorities to reserve certain contracts for a time-limited period to social-purpose organisations with a degree of mutual governance. If this sounds radical, then it demonstrates the powerful effect of the blinkers we have been wearing, presenting us with a worldview where under competition law, to be anti-competitive is to break the law and co-operating is illegal. Another example is how the body which started life as the NHS *Co-operation* and Competition Panel has now become Monitor, a body with little responsibility to support co-operation but, instead, with a mandate to "*tackle anti-competitive practices*".

Finally, on the rare occasions when the law, political ambition and a keen understanding of co-operation at official level combine, policy and programmes are just not easy. This is often new territory for policymakers and budget holders, as well as lawyers, economists and accountants. The journey for most mutual spin-outs has been tough and lengthy. The pace of change has been slower than ministers envisaged. There is always a temptation for these groups to take haven in the public and private alternatives with which they are more familiar.

Innovation opportunities

1 Patient-led approaches and enterprises

Many observers of the NHS argue that one of the answers to financial challenges bearing down on the system is to develop a greater role for patients in meeting their own health needs. This includes models of self-care, co-production, talk of 'expert patient' approaches or user-led models. Nesta describes how co-production means not 'doing public services to people' but 'organising public services with people'. This means seeing patients as potential assets who can contribute rather than liabilities or a drain on the system. This may mean helping them play a greater role in delivering services, and helping them find ways to manage their own health problems.

Many NHS agencies struggle truly to engage patients beyond surveys and questionnaires, and other similar feedback models. It is not easy to encourage patients used to having services *done to them* to turn this model on its head. Foundation Trust structures have not gone as far as they might in genuinely giving ownership to communities. Yet co-operative and mutual models, through their very structures, can help create mechanisms for deeper and more meaningful service user engagement. These can be genuinely patient-led enterprises which embed models of co-production in ownership and not just in culture. As staff ownership can offer a greater voice to employees, user ownership can help patients realise the increasing opportunities they have to shape services to their need and expectations.[23]

There is indeed some evidence that employee-owned businesses are well placed to support innovative activity.[24] Meanwhile, Social Enterprise UK's evidence reports that 56 per cent of social enterprises developed a new product or service in the last 12 months compared with 43 per cent of SMEs.[25] A study by Lyon et al of public-sector mutual and social-enterprise spin-outs concluded that innovation has "*been shown to be faster and easier in spin-out social enterprises compared to experiences in the public sector*". These included innovations to empower staff and service users; improvements to existing systems and services; new treatments and wellbeing services and new ways of communicating health and wellbeing messages.[26] The research concluded that "*processes of innovation have been strongly linked to the involvement of multiple stakeholders*", including staff and users.

In terms of new-start enterprises, one interesting innovative model is the Rochdale Circle, developed by Participle in the home town of co-operativism. This is a membership-based service open to anyone over the age of 50, based on the premise that people can be each other's solution, and which "*backs it up every day, week and month by helping each other out with life's practical bits and pieces*". This is real health enterprise, with a particular promise to support citizens' mental health, which has grown from ideals of participation and trust, companionship and meaningful relationships. Members learn new things, enjoy hobbies and interests with each other, connect with each other to go for a meal, to a car-boot sale, or shopping, and benefit from the support of a real social network. At the same time, as with many early-stage innovations, Participle has found that the revenue model for a venture such as this is weak when it is also learning, adapting and proving its worth.[27] In Salford, a more developed model, focusing on self-help and mutual aid but underpinned by strong relationships with local agencies, is the community benefit society, Unlimited Potential.

Furthermore, one seldom discussed risk in a system where providers take diverse forms and co-production is an essential ingredient, is that patients and service users may have a reduced appetite for working with 'conventional' private companies who are seeking to extract profits from their work. Will patients enthusiastically contribute when the fruits of their added value accrue to a global health corporation or an enterprise owned by a hedge fund? The co-operative and mutual model offers a convincing way to mitigate this risk, with profits recycled for community purpose, or among members themselves.

2 Cost-saving co-operatives

The NHS cannot just keep spending more every year. One answer to this is that public-spending settlements which emerge from negotiations between the Department of Health and the Treasury will simply be less generous. In practice, to avoid overspend, crisis and parts of the system just running out of money, keeping costs down relies on a combination of the actions of individual budget-holders within the system and more effective managing of demand. Our thoughts should therefore turn to how we can create new and innovative incentives for those budget holders and for patients.

With respect to the first of these, in the for-profit sector, budget-holders are seeking to generate a margin, by creating a space between money that comes in and what goes out. This creates an incentive to reduce costs – so far so good. But the margin created accrues to the shareholders and investors, not to the NHS. So this incentive does not work to the benefit of the system. Meanwhile, in the public sector, budget-holders commonly try to ensure that what they spend matches what they know is coming in. Overspend is bad. Underspend is bad. Hitting budgets is good. This means there are fewer incentives to cut costs – beyond mandated cost-improvement plans – as managers often seek to protect budgets and spend what they have, in part to build the case for receiving a similar level of resources in the following year. This is the traditional model. Yet co-operatives and mutuals can offer an innovative model in this context which combines the best of both worlds. On the one hand, there is an incentive to cut costs, to create a margin.

On the other, this margin is either reinvested in the community or distributed to patients and staff within the system, not to remote investors.

Experts in the system also note that co-operatives can look more financially sound. In conversation with Monitor, the regulator has described how social enterprises, co-operatives and charities can tend to look more financially credible than their public or private counterparts. On the one hand, many foundation trusts are in significant financial trouble (as financial pressure builds on the acute sector), which can count against them as and when they seek to compete for NHS business in, say, community services. On the other, big private providers are often financially opaque, with complex group structures and investors who have first claim on assets. The co-operative and wider social-economy sector has clearer and simpler group structures, is regulated by the Charity Commission, Community Interest Company Regulator or the Financial Conduct Authority, and often have the security of asset locks, which prevent money 'leaking out'.

In primary care, GP co-operatives have a track record in relation to out-of-hours services. But they could equally be a potential business model for GP practices and for federations of GP practices – not least as a strategy for business continuity and the values of the NHS as competition in the health sector increases with the entry of more, and more aggressive, investor-owned chains.

With regard to demand, existing co-operatives show us how creating a more concrete link between patients and the service-delivery organisation can help reduce pressure on the system. Benenden Healthcare has a membership of 900,000, organised in branches with a democratic structure. It was voted 'the UK's most trusted healthcare provider' in 2011, 2012 and 2013. Crucially, Benenden exemplifies: "*not just satisfaction but also responsibility. The claim rate on services is significantly lower than for private-health insurers, because, rather than seeing it as an individual consumer transaction, operating as a zero-sum game, Benenden members are aware that they are drawing on support that is pooled and to be shared equitably for all members according to need.*" [28]

Further, the health system is likely increasingly to evolve along the lines of the social-care sector, which has seen the emergence of mixed models that offer care to private clients as well as to those who are supported by the state – and sometimes offer a mix even to the same people. Squeezed resources are likely to lead to more narrowly defined services and so the possibility of co-payments or 'top-ups'. Moreover, health sells. The health-and-beauty retail sector has grown significantly over the last few decades and consumer demand continues to grow. Perhaps providers such as co-operatives which are able to see over the fences between conventional public-sector administrative barriers may be the pioneers best placed to lead the extension of these models.

3 Productivity through co-operation

The conventional hope for innovation in health-sector productivity is technology and tele-health. There is no question that the health sector can expect to see radical innovation, just as other sectors will. Personal healthcare tools, from Apple iWatches to pedometers, remote sensing, remote access to GPs, intelligent systems, digital communities that have emerged around health conditions are on today's landscape. The promise of extending life, as advocates such as Ray Kurzweil hope for, or the transhuman agenda, which argues that technology can aid and support human capability – just as pavements help people walk or spectacles help them see – are prospects for tomorrow's landscape. There is, however, a 'yes but'. New technology is not always a force for new patterns of productivity, but can be a way of reinforcing the current provider model. The shift to personalised drugs, oriented to genetic make-up in ways that the traditional blockbusters were not, do offer health advances, yes, but at a cost that can soak up health budgets and further lock NHS spending into acute services rather than those of health development.

The other innovation potential, though, is no less important and it is one around which co-operative models ought to shine. It is people.

Perhaps the most important driver of productivity in an area which relies so heavily on the human touch is staff engagement. When a service provider is literally owned by staff, as is the case with a worker co-operative, it is not hard to see how this can engender a greater sense of commitment and engagement, thus improving productivity. Evidence of the benefits of employee ownership in the health sector is growing, including work by the Nuffield Trust, the Employee Ownership Association and The Cass Business School.

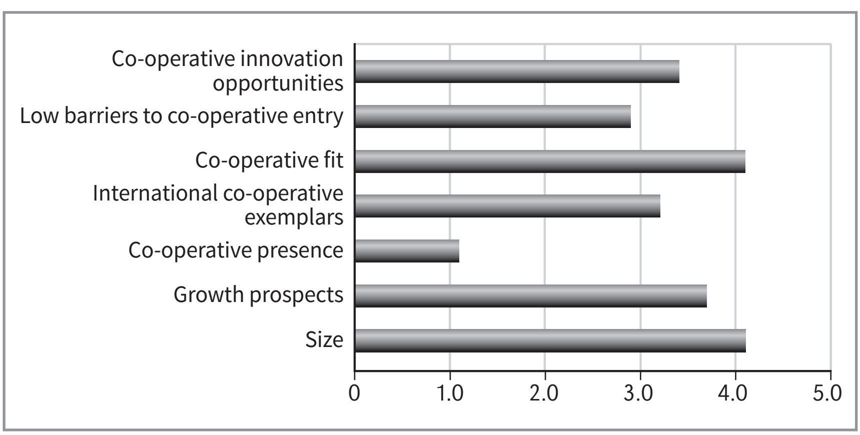
The Royal College of Nursing reports that: "*ownership of an organisation matters because it helps to determine culture, goals, processes and values. The benefits of a mutual model for the nursing workforce could include a more empowered staff, who are involved in decisions that matter to them.*"[29] The recent Ham Review found compelling evidence that: "*NHS organisations with high levels of staff engagement – where staff are strongly committed to their work and involved in decision-making – deliver better quality care. These organisations report lower mortality rates; better patient experience; and lower rates of sickness absence and staff turnover.*" The review found "*emerging evidence that staff-led mutuals deliver higher levels of staff engagement and, as a result, recommends NHS organisations are given greater freedom to become mutuals.*"[30]

The recent review of staff engagement in NHS organisations by Chris Ham of the King's Fund demonstrates that the promise of co-operatives, social enterprises and employee-owned organisations is starting to hit home with influential health policymakers. The report recommends that "*there should be greater freedom for NHS organisations and emerging integrated care providers to become staff-owned and led where leaders and staff have an interest in doing so.*" Successive waves of public-sector spin-outs over several decades have each brought their own flavour, with predominantly charitable-trust models among leisure spin-outs, with housing associations adopting slightly different forms, with the emphasis on social enterprise under the last Government's 'right to request' and now the Coalition's focus on mutuals and employee ownership.

Now the stage is set for the next wave of spin-outs, in healthcare and in other areas, which can learn from history and adopt models that can rise to the challenges we face. Multi-stakeholder enterprises can incorporate both employee and user ownership and accountability, together with the core mission-driven ethos of social enterprise which can lock in core NHS values and assets. Genuine mutuals and co-operatives with this combination of accountability to staff, patients and a public-service ethos are ideally placed to deliver the innovative productivity, patient-led approaches and financial responsibility which we need to secure our health system deep into the 21st century. ■

Conclusion

HEALTH



Co-operation has played an influential role throughout the history of health provision in the UK, whether in leading the way in creating mutual financing structures before the creation of the modern welfare state, in forming models for health professionals to come together in association or the development of new models of service delivery. Overseas, we see extensive GP and consumer co-operatives, although these are often ones that operate in the context of insurance-based healthcare systems. In the UK context of the NHS, the opportunity of co-operative and mutual models lies in institutional change and innovation that can address three of the critical system challenges which, in different ways and to differing degrees, are likely to shape the health sector in future. These are the scope for more personal and patient-led approaches; more responsible financial management; and greater productivity. The co-operative model can help provide innovative answers to the biggest pressures on the system. ■

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1 See **s.coop/aboutnhs**
2 See **s.coop/privatehealthcare**
3 Ibid.
4 See **s.coop/pharmacytrends**
5 See **nhshistory.net/shorthistory.htm**
6 Not least due to the nervousness of co-operatives and mutuals themselves in stepping up to play an even more significant role.
7 United Nations (1997), *Cooperative Enterprise in the Health and Social Care Sector: a global survey*.
8 See 'Power to the People', **respublica.org.uk**
9 Richard Paul Giesen and Caro van Uden (2006), 'After-Hours Care In The United Kingdom, Denmark, And The Netherlands: New Models', *Health Affairs*, 25, no 6: 1733-1737.
10 See *The Guardian*, 3 September 2012, **s.coop/healthcarefuture**
11 See **s.coop/secondarycare**
12 Ed Mayo (2013), *Ten Years After: the democratic promise and potential of membership in NHS Foundation Trusts*, Co-operatives UK
13 The Care Plus Group and Social adVentures are two of these, both particularly active in supporting their peers and both formed as industrial and provident societies. Care Plus Group is a community benefit society with 700 staff and an annual income of £23 million. Its services include home care, community nursing, intermediate care, meals on wheels, employability and other care services. Staff are members of the mutual and a community forum recruits members from service users, carers, volunteers and other local health-community people.
14 **s.coop/nhssocialenterprise**
15 Social Enterprise Coalition (2009), *State of Social Enterprise Survey*.
16 The 10 largest health co-operatives have a turnover of $15 billion. See **s.coop/1v7k6**
17 Akira Kurimoto reports that "*The institutional origin of health co-ops dates back to 1948, when the Consumer Co-operative Law was enacted, although there were some forerunners before WWII. Medical service co-ops were set up in urban areas under the Industrial Co-operative Law, while so-called 'proletarian clinics' were created to cater to the working class who did not have access to normal medical care. These organisations were formed by conscientious doctors who saw the need to serve the unprivileged at that time.*" Akira Kurimoto (2014), 'Access To Health Care Services Through Co-operatives: Japanese Cases Of Koseiren And Health Co-ops', paper presented at Co-operatives' Power of Innovation, Quebec, October 2014.
18 An example is the Charter for Patients' Rights, developed in a participative way by the Health Co-operative Association to ensure that each patient who is confronting disease and illness has the following rights and responsibility: right to be informed of disease, medical care plan and drugs; right to determine a suitable medical care plan; right to patient's privacy; right to learn about their disease, its prevention and treatment; right to receive necessary and optimum medical service at any time; responsibility to participation and co-operation. Source: Akira Kurimoto (2014), op cit.
19 See **s.coop/1v7k8**
20 International Association of Mutual Benefits Societies (2014), Annual Report.
21 See **s.coop/1v7k8**
22 A good example of this can be found in the 2014 Dalton Review of organisation forms,

where social enterprise was added after the commencement of the review, and co-operatives have not been added, despite the review being immediately preceded by another relatively high-profile review – the Ham Review – which had explicitly outlined the case for employee-owned organisations.

23 Co-operatives UK has argued elsewhere for Foundation Trust members to have a greater voice in ownership and governance arrangements to create the opportunity for more pro-active engagement; to develop practices at the grassroots level to reinforce communication between members and governors; to review whether members should be included in the decisions currently under the control of governors; and to take other steps to create a greater sense of community ownership. A reconsideration of the membership in Foundation Trusts, with ownership closer to communities, is one way to get genuine democratic governance into the NHS. Care Minister Norman Lamb has gone even further, suggesting that the scandal in Mid-Staffs hospital could never have happened at a mutual.

24 See, for example, **s.coop/mutualsnextsteps**

25 See **s.coop/peoplesbusiness**

26 See **s.coop/1v7k9**

27 Hilary Cottam (2014), personal correspondence.

28 Ed Mayo (2013), *Ten Years After: the democratic promise and potential of membership in NHS Foundation Trusts*, Co-operatives UK.

29 See **s.coop/1v7ka**

30 See **s.coop/1v7kb**

14
Housing

People-powered housing

Housing, writes John Turner, is best thought of as a verb rather than as a noun. This is not a point about punctuation, with the English-language lobby in favour of reclaiming proper grammar. It is about people. What he meant was that the discussion of housing is best when it has the people that are being housed centre-stage. A friend of Ivan Illich, the 20th century's greatest critic of inhuman scale and modernist thinking, Turner went on to praise the role of informal settlements and co-operative housing worldwide.

In traditional terms, the housing sector includes the planning, construction, sale and/or management of residential dwellings for households. The sector has a wide variety of participants, including Government, local authorities, developers, builders, housing associations, lettings and estate agents and so on. When we talk about it here, we will include residents as core to what we are talking about. After all, looking at the demographics of the UK, it is clear that the gap between the number of people and the number of houses will be one of the great economic and policy tensions of the decade.

A short, recent history of housing in the UK

There are 27.8 million dwellings in the UK of which 64.2 per cent are owner-occupied. The percentage of owner-occupied dwellings rose from 49.9 per cent in 1971 to 65.9 per cent in 1991 and 69.2 per cent in 2001 before falling back slightly in the last decade.[1] A full breakdown of dwelling stock by tenure for 1991, 2001 and 2011 is shown in Table 1 overleaf.

The table shows that in each of the last two decades there was a net addition of approximately two million homes to the UK dwelling stock. However, while in the 1990s additional dwellings were more than accounted for by the growth in owner-occupied accommodation, in the last decade only 15 per cent of the net additional stock is from this form of tenure. Indeed, the think tank Policy Exchange reported that owner-occupation fell in the UK in 2011 for the first time since 1918.[2]

Table 1
UK dwelling stock by tenure (figures in thousands)

Form of Tenure	1991	2001	2011
Owner-occupied	15,525	17,616	17,914
Rented privately	2,011	2,430	4,712
Rented from private registered providers	711	1,637	2,694
Rented from local authority	5,136	3,682	2,230
Other public sector	167	103	63
Total	**23,550**	**25,470**	**27,614**

Department for Communities and Local Government

Home ownership was boosted in the 1980s by the scheme that gave council-housing tenants the right to buy their homes from the local authority. The scheme included the incentive that the sale price of a council house was based on its market valuation but also included a 33 to 50-per-cent discount to reflect the rents paid by tenants and also to encourage take-up. In addition, mortgages involved no down payments and the councils could not prevent the sale process.

Approximately 380,000 council houses were sold to their tenants between 1981 and 1984, and by 1991, more than a million council houses in Britain had been sold.[3] Although the number of council houses purchased by tenants declined during the 1990s and in subsequent years, the effect of the scheme was to reduce the council-housing stock, especially in areas where property prices were high such as London and the South East of England.

Since 2001 the main growth in tenure and dwelling stock has come from privately rented property, which has grown by 93.9 per cent. In 2001, privately rented property accounted for 9.9 per cent of dwelling stock. By 2011, it had risen to 17.1 per cent. Two further, related, trends can be identified from the table. One is the fall in the number of dwellings rented from local authorities and private registered providers – predominantly housing associations – over the last 20 years. These dwellings make up the provision of affordable social housing in the UK and their numbers fell in both the decades covered by the table, from 5.8 million in 1991 to 4.9 million in 2011.

The other change is in ownership of this rental stock, with the decline of local-authority control in favour of private registered providers. In 1991, 21.8 per cent of all dwellings were rented from local authorities, compared with 3 per cent from private registered providers. In 2011 private registered providers were responsible for 9.8 per cent of dwelling stock and local authorities for only 8.1 per cent.

House building fell significantly after the 2008 financial crash, which was partly caused by the banking industry's exposure to mortgage debt from home buying. In the subsequent years of retrenchment in bank lending and recession, not only have potential house-buyers found it hard to obtain a mortgage, but housing developers have also struggled to borrow money to fund the development of new homes. The restrictions on public-sector spending and local-authority budgets introduced by the Coalition Government since 2010 have also contributed, although some funding has been released for limited development of social housing.

In 2012-13 139,350 new homes were completed in the UK.[4] This was a 4.5-per-cent fall on the number of completions in 2011-12 and was only around two-thirds of the number of new households formed in England in the same year.[5] Official projections estimate that the number of households in the UK will grow on average by 272,000 per year between 2008 and 2033.[6]

Table 2
UK dwellings completed in 2012-13

Builder	House completions	Percentage of the total
Private enterprise	109,330	78.5%
Housing association	27,690	20.0%
Local authority	2,330	1.5%
Total	**139,350**	

Department for Communities and Local Government

The challenges for the economy and for society of a continued discrepancy between new home completions and new household formation are the motivation for a number of reports from think tanks and other bodies on housing and the housing market in recent years. The Future Homes Commission is one example of a body calling for major changes in the approach to housing in the UK.

The Future Homes Commission was set up by the Royal Institution of British Architects to consider housing needs in Britain to 2020. In their report 'Building the Homes and Communities Britain Needs', the Commission calls for "*a revolution in the scale, quality and funding of home building*", with 300,000 new homes needed per annum to 2020, requiring the formation of between 500 and 700 new communities every year. The report argues that every British city, town and village will need to make land available for new homes.[7]

A separate blueprint, though one that has a welcome focus on people and how they live and work together and not just the number of homes, is the 2014 prize-winning entry by the co-operative Urbed to the Wolfson Prize, a challenge for the best entry on how to build a new generation of garden cities in the UK.

When houses earn more than people

The cost of housing is often measured by the average price of homes sold.[8] House prices rose exponentially from the mid-1990s to 2008.[9] In January

2008 the Office of National Statistics (ONS) UK house price index stood at 185.5. After the collapse in the housing market later that year, the index fell to 156 during 2009. It matched its previous peak in 2013 and continued to rise. According to the ONS in early 2014, the average UK house price was £254,000. Of course, it is worth adding that the average house price is not the typical house price everywhere you go. There are very wide variations in terms of house prices across the UK.[10]

For many of these years, therefore, the increase in average house prices has been greater than the salary of the average UK citizen. This has a significant and obvious set of social impacts. The growth in salary levels has fallen behind house-price recovery, making it more difficult for first-time buyers to enter the property market.[11] This discrepancy has become more marked in recent years but it is not a new phenomenon. There has been a mismatch between supply and demand in the housing market since the 1980s which has contributed to house prices having grown at three times the rate of incomes in the last 20 years.

Private rents have also risen far more quickly than incomes. Indeed, private landlords have benefited in the last five years from a market where many households have no choice but to rent privately. This is because they cannot afford to buy a property for the first time and they are not eligible for subsidised social housing. Private rental levels rose twice as fast as wages during the decade to 2011.[12]

Value of the industry

Housing is part of the real-estate sector that includes commercial property as well as residential dwellings. The output of the real-estate sector in 2011 was £98 billion, 7.1 per cent of the total gross value added in the UK economy. The wider real-estate sector employed 418,000 people in 2011. Construction is also related to the housing sector. In 2011 construction output was £92 billion and a little over two million people were employed.[13]

The recession that followed the 2008 financial crash had a particularly large impact on house building. Total housing orders fell sharply in 2007 and 2008 and, although they have recovered slightly, they are still around 25 per cent below their 2007 levels. The UK's six largest house builders are Barratt Developments, Bellway, Berkeley Group, Persimmon, Redrow and Taylor Wimpey.[14] In 2012, these six companies had combined revenues of just over £9 billion.

In the social-housing sector, turnover for housing associations stood at £13.8 billion in 2011, a nine-per-cent increase on the previous year.[15] Figures from the Department for Communities and Local Government show that local-authority income from housing in England was £8.84 billion in 2010-11, while its expenditure on housing was £9.4 billion.[16]

In 2012-13, the expenditure on housing benefit in England, Scotland and Wales was £23.9 billion.[17] And there is a long-standing 'affordable housing' push from Government at UK and devolved, national level.[18]

So what does this all mean for a young adult? A survey for IPPR found that 88 per cent of 18-30-year-olds in the UK wanted to own their home in the next 10 years. However, just over half of those same people thought that this was unattainable.[19]

Co-operation in housing

The case for co-operative forms of housing centres on the idea of the value of an equal say in an active community and the way in which this can underpin better outcomes overall for residents. This can be delivered through a wide variety of institutional models that operate at different levels of scale and across both the traditional private and public sector.[20]

Housing co-operatives

Housing co-operatives are formed where groups of people agree collectively to manage the accommodation that they live in. This could comprise a single dwelling, a group of dwellings or a housing estate. It involves taking responsibility for arranging repairs, making decisions about rent and who joins or leaves the co-operative.

In a fully mutual housing co-operative, only the tenants and prospective tenants are allowed to be members. However, other membership models also exist and the Confederation of Co-operative Housing incorporates housing co-operatives, tenant-controlled housing organisations and regional federations of housing co-operatives.

The benefits of the housing-co-operative model are outlined in the report *More Than Markets* by the Human City Institute. They include greater responsiveness to the needs of communities, higher satisfaction ratings and ongoing estate-management improvements. The report also argues that co-operatives provide added value by contributing to more sustainable and cohesive communities. This is because tenants have local control and involvement that leads to greater self-esteem and community contribution.

The roots of the modern housing-co-operative sector in the UK can be traced to the 1960s and early 1970s with the emergence of housing action groups, tenants' associations, neighbourhood/community councils and similar organisations that were local attempts to have a say in how housing and related issues were managed. Housing co-operatives in the UK are associated with affordable housing and the opportunity to have more control over where people live and how they choose to live.

Co-operative and mutual housing makes up a very small part of the UK housing stock, accounting for only 0.6 per cent of homes. This is a far lower percentage than in other countries with similar economic profiles. In other European Union countries, for example, co-operatives account for between 5 and 15 per cent of housing provision.

There are 836 co-operative and mutual organisations responsible for 169,000 homes in the UK. Of these homes, 54 per cent are in co-operative and mutual ownership and 46 per cent are managed by co-operatives and mutual organisations on behalf of others.[21] The Co-operative Economy Report includes turnover figures for a more select number of 347 co-operative housing organisations. The turnover of these co-operatives was £268 million in 2012, which represents less than one per cent of the turnover for the co-operative economy as a whole.[22]

Housing co-operatives can be found across the UK, but more than half of them are in London. London has a major share of the housing stock held by co-operatives. The other major concentrations of co-operative housing are the cities and boroughs of the Midlands and Northern England. England has 90 per cent of housing co-operatives, Scotland has 5 per cent and Wales has 3 per cent.[23]

The development of housing co-operatives in the UK in the last 40 years can be characterised by three distinct phases:

- Government encouragement through the 1974 Housing Act and a decline in the national house-building programme resulted in many housing co-operatives being formed in the UK during the late 1970s and early 1980s.
- The introduction of the 'right to manage' under the 1996 Housing Act led to a growth in tenant management organisations (TMOs) where tenant associations gained the right to take ownership of council-housing assets under stock-transfer agreements with their local authority.
- In the last decade the number of co-operative and mutually managed homes has increased in a significant way with the advent of the community gateway model. This provides options for tenant engagement and empowerment where substantial stock transfer is taking place from a local authority to a housing association. One-third of co-operative and mutual homes are part of the 11 community-gateway schemes that have been established in recent years.

Public-sector support through grants, loans and the provision of training and support infrastructure has been an important feature of the development of co-operative housing. Government policy backed by financial incentives has been a factor in each of the phases of development identified above.[24]

To galvanise some of that support, together with wider action, the Confederation of Co-operative Housing (CCH), which represents housing co-operatives, tenant-controlled housing organisations and regional federations, launched an independent Commission on Co-operative and

Mutual Housing in 2008. The purpose of the Commission was to research the co-operative and mutual housing sector and to draw conclusions about its relevance in the current environment to national housing strategy.

In its report *Bringing Democracy Home*, the Commission identified three features as "*pre-requisite hallmarks that lead to mature co-operative housing sectors*" that had been presented elsewhere – "*bottom-up grassroots development; development of appropriate representation and support frameworks; and various levels of national and local government support*". The report concluded that the development of the UK co-operative housing sector was stunted because these three pre-requisites never came together.[25] The report also pointed out that the UK co-operative housing sector has "*suffered by being polarised into the provision of homes in the low-income social rented housing sector*" and that this was not the case elsewhere. Most UK co-operative housing currently exists as part of the 'social housing' sector.[26]

Ownership housing co-operatives

Ownership housing co-operatives are owned, managed and controlled democratically by their members, who are the tenants. They are usually quite small, but give the greatest amount of control of any of the housing co-operative models. The smallest ownership housing co-operative has just 10 homes and the average size is 57 homes.

Ownership co-operatives own, manage and control their properties, but may also buy services from agencies or other housing associations, or employ their own staff. According to the *More than Markets* report there are 505 ownership housing co-operatives in the UK, of which 313 are registered with a regulator, and 9 out of 10 are in England.[27] Most ownership co-operatives were established in the 1970s and 1980s. Some housing co-operatives developed from the growth in squatting and the shortlife movement.[28]

A strong co-operative advice network was also developed that supported ownership co-operative start-up. CDS Co-operatives is one of the best-known co-operative housing development agencies. It has its roots in the initial wave of co-operative housing.

Ever-decreasing grant funding throughout the 1990s led to fewer co-operatives being established.[29] In the last 10 to 15 years, a growing number of housing co-operatives have been set up without the use of public funding. Instead they have used mortgage finance from building societies or other lenders to purchase properties, raising the deposit by issuing loan stock, through fundraising activities or through donations.

Many of the co-operatives set up in this way are shared houses, where tenants have separate rooms, but share facilities. This model is promoted by Radical Routes, a mutual-aid federation of radical social-change activists, basing their activities in housing and worker co-operatives. They run an ethical investment fund to crowd-source loan finance for their member co-operatives. For non-radical small housing co-operatives, there are no other sources of support beyond peer support. Radical Routes has approximately 35 housing-co-operative members.[30]

Self-build co-operatives

Self-build co-operatives are housing organisations where the tenants have been involved in designing and building their own properties. Through the labour that they put in, the members are able to earn a percentage of the ownership of the co-operative – this is known as 'sweat equity'. Members also pay rent for occupying the property. There were 17 self-build co-operatives included in the *Co-operative Economy* report.[31]

In 2012 the Government launched a £30-million investment fund to support self-build projects. The fund was introduced to support new projects that might otherwise find it difficult to raise finance in a lending market that is not geared to self-build. It will provide loans for initial land purchase, planning and development costs that will be repaid once the development is completed and plots are sold.[32]

Tenant management organisations

A tenant management organisation (TMO) is a means by which local-authority or housing-association tenants and leaseholders can collectively take on responsibility for managing the homes that they live in. The vast majority of TMOs have been set up by local-authority tenants. Only eight per cent have been established with housing associations.[33] The resident members of the TMO create an independent legal body and usually elect a tenant-led management committee to run the organisation. The TMO can then enter into a legal management agreement with the landlord, who pays an annual management and maintenance allowance to the management committee.

There are different forms and sizes of TMO. Many are co-operatives, but they can also take the form of not-for-profit companies. Some TMOs manage just a handful of homes while others manage large estates of two or three thousand properties. The small TMOs may rely mainly on voluntary effort but most employ staff. The services managed by TMOs vary with local circumstances but may include day-to-day repairs, allocations and lettings, tenancy management, cleaning and caretaking, and rent collection. In the co-operative TMO model the organisation's board of directors can only comprise residents elected by their fellow tenants. Other forms of TMO, such as estate management boards and community-based housing associations, will include residents and non-residents on the board.

There are 231 TMOs in the UK. Most TMOs were established in the mid-to-late 1990s after regulations were introduced by the Government in 1994 and 1996. The 1996 Housing Act gave local-authority tenants a legal right to establish a TMO together with access to specific funding and support that enabled them to do so.[34] TMOs are overwhelmingly located in deprived urban neighbourhoods and manage social housing. Over 70 per cent of them are in London. There have been relatively few large TMOs established since the mid-1990s boom in numbers. Three-quarters of TMOs manage fewer than 100 properties, but the average size is 450 properties.[35]

Community gateways and community mutuals

A community gateway is a large-scale housing organisation in which community activity is encouraged and supported. They are usually set up in neighbourhoods where the landlord is a housing association working in partnership with the local authority and the local community. Community engagement is facilitated through tenant membership and democratic participation as well as through resources being made available to support community development and other initiatives.

Community-gateway tenants elect representatives to committees and are also represented on the community-gateway board. However, tenants do not own the community gateway and do not control the board of directors. Community-gateway projects may provide a stepping stone towards greater tenant control, but in their basic form they are membership organisations with an aspiration for community improvement rather than housing ownership organisations.

The community gateway model was developed in the early 2000s and has been used as a vehicle to introduce good practice in tenant participation and engagementz on large housing projects that may otherwise have failed to involve the community. As well as acting as a potential stepping stone towards tenant management, the gateway project emphasises community development, engagement and active citizenship as potential outcomes from this approach.

There are eight community-gateway projects, accounting for one-third of dwellings in the co-operative-housing sector – approximately 56,000 homes. The largest single community gateway includes 15,000 homes. Four of the projects are in Wales, where they are called community mutual associations – RCT Homes, Bron Afon, Tai Calon and NPT Homes.

There are other mutual models too. WATMOS Community Homes is a mutual-based housing association based on 11 TMOs in Walsall and Lambeth in London. It acts as the landlord for 2,700 homes. Rochdale Boroughwide Homes is an innovative co-operative model which has recently transferred from council ownership. Its model has some similarities with community gateways, but differs in that it is actually owned jointly by tenants and staff.

Redditch Co-operative Homes is a partnership between Redditch Borough Council, five neighbourhood co-operatives and Accord Housing Association to provide co-operative social housing in Redditch. The neighbourhood co-operatives are run by the tenants, with housing management and maintenance services provided by Redditch Co-operative Homes and Accord. Nearly 300 homes have been developed.

Community land trusts

A community land trust (CLT) is a mechanism for the democratic ownership of land by the local community. CLTs can be established to support developments of various kinds – land, after all, is not only about housing but about whole, living communities. But creating homes for local people is the most common stimulus for getting going in the UK.

The CLT model was developed in the United States. It works by separating development land in the ownership of the CLT from its open market value. The impact of appreciation in land value is therefore removed, enabling long-term affordable local development. CLTs also have a legal asset lock that means that assets can only be sold or used in a manner which benefits the local community. Membership is open to all who live or work in the defined community covered by the CLT. Members elect a board to run the trust on their behalf on a day-to-day basis. The trust takes ownership of the land and borrows money to fund development.

In England and Wales there are 135 rural and 15 urban CLTs.[36] Some successful CLTs have formed partnerships with a housing association to develop and manage their homes. In other cases the trust effectively takes on the role of the housing association. Under the co-operative 'mutual home ownership' CLT model, the residents own shares in the trust and its property portfolio, but rather than paying a market rent, they pay an affordable rent based on a percentage of their income. The monthly payments from residents cover the repayment of loans for the development of the property and the repair, maintenance and management budget.

The CLT model for providing and maintaining affordability relies on having access to land at a cost that is below the market value for residential use. The emphasis CLTs place upon meeting local needs may help persuade local landowners to sell land to a trust to be used for social good rather than open market development. Other options include receiving public land at little or no cost or receiving grant funding to acquire a site.

In rural areas a CLT may be able to purchase a rural-exception site. A rural-exception site is a plot of land on the edge of a defined settlement that has not been allocated for housing development by the local authority. The local authority is obliged to consider proposals to bring forward such sites for social-housing use, although these will invariably be small in scale.

Garden cities

The Government has indicated that there may be a need for large-scale housing projects to contribute towards the number of new homes needed in the UK. In the 2014 Budget Statement, the Chancellor of the Exchequer announced the Government's intention to create a new garden city of 15,000 homes at Ebbsfleet in Kent.[37] Other schemes of 10,000 to 25,000 homes in the South East of England have previously been mentioned by ministers, including the Deputy Prime Minister.

The model of new development most frequently cited by UK Government ministers for housing projects on this scale is that of the garden city. The garden cities in Letchworth, Welwyn and Hampstead are put forward as model examples – highly successful large-scale housing developments that provide the type of housing that people want in a locality that is well managed and protected from over-development.

Government support for the garden-city model is of interest to co-operatives because the vision and values that led to the development of garden cities in the early 20th century are closely aligned to co-operative principles. In particular, they retained ownership of land within the community, meaning that land values created by the settlement would be re-invested for the benefit of the community as a whole.

It is not the co-operative principles that UK Government ministers emphasise when they talk about garden cities. Garden cities are seen as the antithesis of urban sprawl and as an acceptable balance between the need for high-quality development and the desire to retain the 'traditional' country-side. Indeed, a think tank, Policy Exchange, has proposed a free-market approach to garden-city development as a means to boost home ownership that may be closer to what UK Government ministers have in mind.[38]

A new co-operative approach to garden cities was explored at a conference at Letchworth Garden City in 2012 and again in 2014. The conference papers have been developed into a report, *Commons Sense: Co-operative place making and the capturing of land value for 21st-century garden cities*, which argues that co-operatives should come together with civil-society groups to create garden-city settlements in urban areas.[39] A boost to the idea, as mentioned above, came in late 2014, when the architecture practice Urbed was awarded the Wolfson Prize for its distinctive proposals on new garden cities.

Co-operation overseas

There is extensive practice and examples of co-operative housing overseas, from widespread roles in Sweden through to the role of housing co-ops in New York. The three pre-requisites for successful co-operative housing development tend to be:

- grassroots development
- development of appropriate representation and support frameworks
- national and local government support.

CLTs are an emerging model for affordable housing in a number of countries, designed to reduce the long-term costs of housing by taking the underlying land out of the wider speculative prices of the housing market. An example of this is in Vancouver, Canada, with a partnership between the Co-op Housing Federation of British Columbia, Vancity Credit Union and Terra Housing Development. Also in Canada are initiatives to build new housing as infill on existing co-operative housing sites, creating a more intensive overall development, but with a wider range of properties, including smaller units that allow the voluntary transfer of older people who no longer need the large units required for a family.

There are over 200 CLTs in the United States, covering more than 5,000 homes. Some of the largest CLTs have been developed by municipal authorities, for example, in Irvine, California, where the CLT plans to create 5,000 affordable units by 2025, which is half of the new affordable housing provision for the metropolitan area.[40]

While the United States' experience offers some encouragement as to the scalability of CLTs, there may be some important differences in the membership and ownership of American CLTs compared with the UK. In Irvine, for example, the city appointed the initial board and will retain a permanent right to appoint one-third of the land-trust board in order to ensure that the CLT is directly accountable, at least in part, to the city authority. One-third of the seats on the board are reserved for land-trust residents.

Barriers to co-operation

There are a range of constraints that face all forms of housing in the UK, not just those that are co-operative and mutual. These include: severe shortages of supply; a lack of affordability, not least in the context of a decline of council housing; the social and economic impact of speculative investment and land values; the needs of key works in areas of high housing demand; and pressures on suburbia and the environment.

These are issues that are not confined to Britain, even if the culture around home ownership is more unusual. In many ways, the housing challenge reflects a wider crisis of housing over the course of the 20th century, managed through a mix of public and private-market action, with the added pressure of greater environmental constraints than ever before.

But UK policy, with some exceptions such as the expansion of TMOs under the Conservative Government of Mrs Thatcher, the ownership housing co-operative sector under Labour governments in the 1970s and recent Welsh action in favour of community mutuals, has not always assisted co-operation in housing.

We should not typecast co-operative housing as being only for those on low-to-medium income – in some places, such as New York, they cater for the better off. But in many countries overseas, co-operative models have played a strong role in responding to housing need. As such, they match the welfare-state role of UK housing associations, which have a focus on affordable housing but without the democratic element of tenant ownership that co-operatives and mutuals bring.

It may be true to say that housing associations may have crowded out the opportunities for more mutual solutions in the UK. This was not inevitable, by any means. Housing associations were in many cases formed as community-benefit societies, which allow for member democracy – it is just that few chose to give their tenants membership rights. In Scotland, there has long been a closer community orientation among social-housing providers. In England and Wales, despite positive affirmation in research on the quality of tenant-managed housing in the 1990s, the increasing shift in policy towards housing development financed by bank lending, underpinned by the assurance of a regulatory framework and implicit guarantees of housing benefit, worked to disadvantage co-operative models of housing. The growth came in the form of housing associations that became effective developers that benefited from stock transfer, but were left somewhat uncertain as to whether the tenant should have a voice and rights beyond those of a beneficiary.

Institutional capacity, appropriate finance and enabling policy are three factors that have been barriers in the past, but could therefore become more supportive. Alongside this, of course, is the need to see the development of a community with the confidence and capacity to achieve in the UK what has been achieved in other countries through co-operative and mutual solutions.

Innovation potential

1 New co-operative and mutual housing

The UK faces a profound challenge in providing the homes that people need now and in the future. Rising house prices, a growing population and increasing household formation have combined to bring housing to the forefront of thinking for social and political experts. There have been a series of structural shifts in the last 40 years and it is possible that a further change, harnessing co-operation, is required in order to meet housing requirements.

With high levels of empty properties and growing numbers of second homes on the one hand, there are 1.7 million people waiting for social housing and half a million overcrowded households on the other. Radical housing solutions are needed.

Innovation in house construction is one pathway that could make a difference, as house building moves away from Fordist models of production, and this could open up space for a wider set of providers, including self-help and mutual aid. These include using low-cost techniques, low-carbon, energy-saving technologies and responding to changes in planning, such as the compact city and the infrastructure of a digital spine.

Co-operatives can contribute to improvements in the UK housing situation in a number of ways:

- In Wales, the Welsh Government is providing support to a number of new 'pioneer schemes' as part of a commitment to develop 500 co-operative homes. It has also provided funding to enable training and development of community groups through the Wales Co-operative Centre. Community gateways and mutual associations are the largest potential housing co-operatives and so moving these towards co-operative ownership could contribute to growth. Similarly, another contribution could come from encouraging TMOs to deliver best-in-class estate management, to increase democratic resident involvement and to become co-operatives.
- There is potential for policy to be supportive of mutual efforts by current social-housing providers, building a more direct and democratic accountability between landlord and tenant. If so, this could help enable new co-operative solutions to housing needs – extending the experience in social housing, as tenants become more like consumers through the reform of housing benefit, of tenant management organisations, community gateway models and new mutuals such as Rochdale Boroughwide Housing. It could also provide a way to respond to new needs, such as the interest in self-build and co-housing or specialist developments such as student housing and elder-care housing.

2 Garden cities and co-operative place making

Garden-city models offer the largest-scale co-operative solution, but there are question marks over whether the scale of these developments may limit the likelihood of them actually happening. In addition, urban development in rural areas can be highly controversial. The Co-operative Group's proposal to develop an eco-town on land that it owns in Leicestershire was met with strong opposition locally and was dropped in 2009.

Garden cities were pioneered in Letchworth by Ebenezer Howard, whose aim was to provide healthy homes for ordinary working people in leafy and spacious surroundings. Land was commonly owned by the community for the benefit of residents. Howard's plan for Letchworth designed fully integrated public transport, municipally owned energy systems and the nation's first green belt for urban farms to facilitate food security for a city of 33,000.

This model would require planners and politicians, councils and communities to rediscover the radical spirit of garden cities – that land should be owned in common by the community and that garden cities are part of a broader vision for co-operative place making – bringing community agriculture, energy-efficient homes and green-energy projects together with other co-operative enterprises to create low-carbon economies, largely self-sufficient in food and fuel. This vision can be seen in the plans for 3,200 affordable new homes at Owenstown in Lanarkshire, named after co-operative pioneer Robert Owen. The residents of Owenstown will own the land collectively through a co-operative and enjoy state-of-the-art energy-efficient homes with access to an allotment.

Urban developments based upon garden-city principles may be a more realistic option, but even these may prove to be hard to deliver, as they are dependent on many different parties, including Government, local authorities, housing associations and developers.[41] The outcome is more likely to resemble urban CLTs in the United States that lack majority resident control. However, perhaps these urban developments can include a co-operative ownership transfer mechanism for the residents, once the development is complete.

3 Buy to co-operate

It is easy to focus on the field of social housing and new build when talking about housing policy, but what could be more transformative could be the emergence of co-operation as a grassroots response to high-quality housing – taking advantage of the high levels of under-occupied housing. UK policy has tended to support the very problems that the market now faces, with weak enforcement of empty-homes regulations, a permissive approach to the ownership of multiple homes and the lack of recognition of co-operative models in housing-benefit rules.

With the right policy or support framework, it might be possible to encourage a bottom-up movement along the lines of a market for buy to co-operate. Examples would be:

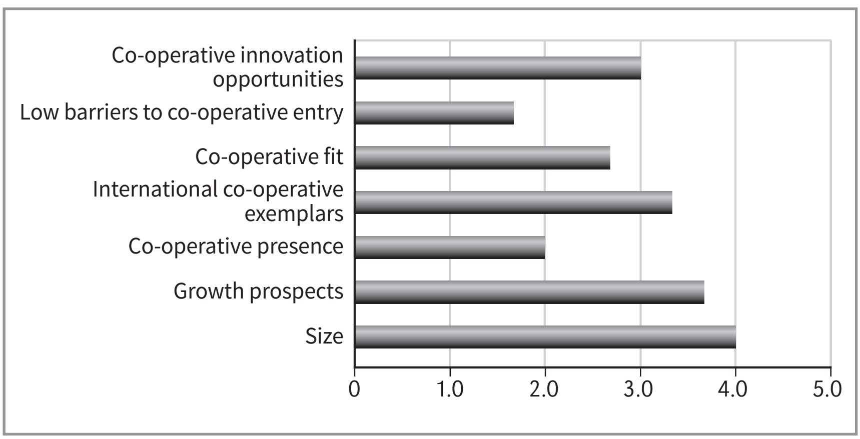
- Tenants willing to come together, possibly with matching assets from other co-operative enterprises, to find property suitable for co-operative housing.
- Owner-occupiers close to retirement who are open to selling their existing property in exchange for becoming members of a housing mutual that can serve and support them as a community over their later years, offering them a capital stake alongside their participation as a resident. This kind of model, including variants emerging among co-housing schemes,

responds to the needs of an ageing population who are asset rich but may require low-level support if they are to stay independent in their homes. Conceivably, this could involve different forms of contribution to the co-operative in exchange for housing, with some contributing time and others money.

- There are many leaseholder companies for small blocks of flats that are established as share companies and often run by ex-professionals who bring private-sector behaviours and a culture of hierarchy. Co-operative principles could be introduced to these organisations and empower all the leaseholders, while providing the social benefits a co-operative brings over those of a private mutual.
- There may be an opportunity for new models of finance for housing co-operatives, reflecting the extent to which this is a barrier.[42]

Conclusion

HOUSING



There is a need for housing, one that will only grow in the UK. That alone makes it an important and dynamic market in terms of meeting people's needs. There are clear niches in which co-operative and mutual models can offer a good fit, not just at the level of housing developments or re-use of current stock, but at the meso level too, with a vision of community-oriented garden cities. But while it is good to remember that housing is for people and to see the potential of co-operative housing that is shaped and guided democratically both by and for people, there is a need for more than simply innovation to move towards a fair and sustainable housing market in the UK. It may be that the structural features of inequalities in housing access and ownership will only change when people call for changes in those structures as citizens and not just as residents. ■

1 Department for Communities and Local Government (2014), *Live Tables on Housing Statistics*, Table 101: Dwelling stock: by tenure, United Kingdom (historical series).
2 Alex Morton (2013), 'Home truths about the housing market', *Daily Telegraph*. Morton is head of housing and planning at Policy Exchange.
3 Department for Communities and Local Government (2014), *Live Tables on Housing Statistics*, Table 678: Social housing sales: annual sales by scheme for England: 1980-81 to 2012-13.
4 Department for Communities and Local Government (2014), *Live Tables on Housing Statistics*, Table 209: House building: permanent dwellings completed, by tenure and country.
5 Department for Communities and Local Government (2013), Housing Statistical Release – Household Interim Projections, 2011 to 2021, England (household projections for Scotland, Northern Ireland and Wales are collected separately).
6 British Social Housing Foundation (2013), *Building New Homes for Rent – Briefing for local authorities*. This figure has been arrived at by aggregating data from the constituent nations of the UK.
7 Royal Institution of British Architects (2012), Future Homes Commission report 'Building the Homes and Communities Britain Needs'. The Commission was led by Sir John Banham.
8 The Office for National Statistics (ONS) produces monthly figures calculated on mortgage completions, as produced in the Council for Mortgage Lenders' regulated mortgage survey.
9 Part way through this period, in 2000, they received an extra boost after the collapse of global stock markets because surplus capital started to flow into housing contributing to the development of financial products that fed the sub-prime mortgage market that collapsed in 2008.
10 With the average house prices in January 2014 standing at £264,000 in England, £166,000 in Wales, £132,000 in Northern Ireland and £183,000 in Scotland. In January 2014, London was the English region with the highest average house price at £458,000. Office for National Statistics (March 2014) House Price Index, January 2014.
11 In addition, before the collapse of the housing market in 2008, mortgages were easy to come by and this extension of debt enabled those on median incomes to buy their own home. House prices have recovered, but the mortgage market operates a more risk-averse approach today, which makes purchasing a home far more difficult.
12 Shelter (2011), *Private Rent Watch Report*.
13 Department for Business Innovation & Skills (2013), Industrial Strategy: UK Sector Analysis.
14 Analysis of company websites undertaken for this report.
15 National Housing Federation website.
16 Department for Communities and Local Government (2013), Local Government Finance Statistical release – Local Authority Revenue Expenditure and Financing: 2013-14 Budget, England.
17 Department for Work & Pensions (2014), Statistical release: Benefit Expenditure by Country.
18 The UK Government is investing £3.3 billion in England to support the development of 165,000 affordable homes between 2015 and 2018. However, this investment includes a grant for development of only £20,000 which is one-third of the grant provided by the previous Government. Housing associations and other providers of social housing will therefore need to raise additional finance in order to build the proposed new homes. In a related measure, the Government's 2013-14 Spending Review established the formula for calculating rises in social-housing rents as Consumer Price Index plus one per cent until 2025. This will provide some assurance of income stability and growth for social-housing providers. The Government's Build to Rent fund is making available up to £1 billion to support development and encourage investment in the privately owned rental market. The Government is also taking measures to support the private housing market through £10 billion in housing guarantees. Supported owner-occupation is being delivered through three schemes: Help to Buy, NewBuy and the reinvigorated Right to Buy. See: Department for Communities and Local Government (January 2014), Press release: 'New affordable homes plan to get Britain building'; Department for Communities and Local Government (July 2013), Policy statement: 'Improving the rented housing sector'; Department for Communities and Local Government (July 2013), News story: '£10 billion housing guarantees open for business'.
19 IPPR (2012), *No Place to Call Home: the social*

impacts of housing undersupply on young people.

20 At the same time, across these models, as the Confederation of Co-operative Housing sets out in its guide on developing new housing, are an underpinning set of principles which characterise the co-operative and mutual approach.

21 The Commission on Co-operative and Mutual Housing (2009), *Bringing Democracy Home*.

22 Co-operatives UK (2013), *Homegrown: The Co-operative Economy*, Analysis of the data extract.

23 Human City Institute (2013), *More than Markets: Mutual & co-operative housing in the UK*.

24 Support for co-operative housing in England, for example, is available from the Homes and Communities Agency (HCA). HCA capital funding is available to co-operative housing in the same way as it is available to other registered providers for new development projects that deliver social housing. Where co-operatives are formed to buy existing properties, these are not eligible for public-sector funding.

25 Following the report, the CCH proposed establishing the Building Co-operative & Mutual Homes scheme as a new option for financing housing development. The scheme was to be developed in partnership with local authorities and housing associations with a loan fund – anticipated to be about £250 million – to enable development of co-operative and mutual housing. However, the loan fund has not been able to get off the ground.

26 The Commission on Co-operative and Mutual Housing (2009).

27 Human City Institute (2013), *More than Markets: Mutual & co-operative housing in the UK*.

28 This was a radical direct-action movement that contributed directly to the growth in housing co-operatives, particularly in London, but also elsewhere. Importantly, the motivation for those involved was not just about having a say in local issues but taking action – using empty properties for homes for people who needed them while challenging the notion of property ownership. The Squatters Handbook (Advisory Service for Squatters) was a resource developed in the 1980s containing information on establishing housing co-operatives. In the 1980s, the Greater London Council adopted a policy to license squats if they registered as housing co-operatives. In addition, there were generous grant subsidies available from the Government for co-operative housing at the time. Source includes: Nathan Brown, Cooperantics, in correspondence.

29 Organisations can still obtain public funding for developing and/or renovating properties, in some cases, but this will need to be matched by private loans and other funding. Such funding may also bring with it limitations that the public sector imposes that are unacceptable to potential members.

30 Cath Muller, Community Catalysts (2014), personal correspondence.

31 Co-operatives UK (2013), *Homegrown: The Co-operative Economy*.

32 Department for Communities and Local Government (2012), Announcement: 'First self-build projects to benefit from multi-million fund'.

33 Human City Institute (2013), *More than Markets: Mutual & co-operative housing in the UK*.

34 Ibid.

35 Ibid.

36 The legal definition of a Community Land Trust was set out in the Housing and Regeneration Act of 2008. Community Land Trust Network (2013), Presentation: 'CLTs in a rural context', Hannah Fleetwood.

37 George Osborne (2014), 'Ebbsfleet will be first garden city in Britain for 100 years', *Daily Telegraph*.

38 Alex Morton (2011), *Cities for Growth: Solutions to our planning problems*, Policy Exchange.

39 Co-operatives UK (2014), *Commons Sense, Co-operative place making and the capturing of land value for 21st-century garden cities*, edited by Pat Conaty, Co-operatives UK and Martin Large, Stroud Common Wealth.

40 Irvine Community Land Trust website: **irvineclt.org**

41 For any new development, one key issue is land and the access to land at an affordable or discounted rate. The UK housing market, backed by the planning system, makes it difficult to make an economic case for land transfer below market value. However, perhaps if a business case were built on the basis of the new community that would be created and the contribution that it would make, including its economic and social contribution, then public-sector partners could be persuaded to bring land forward for co-operative solutions. Mainstream developers have one goal: shareholder return. But if it resulted in more sustainable and attractive communities, there could be space for co-operative developers

– either owned by groups of housing co-operatives, or as multi-stakeholder co-operatives incorporating workers, customer housing co-operatives and perhaps investors. If this was allied to innovation in construction techniques, the result could be an effective partnership model, attractive to local people and local authorities. Another key issue is location. Good-quality housing is needed throughout the UK, but in London the comparative demand is far greater and the failings of the traditional housing market are clear. London also has a relatively large co-operative housing community that may be able to contribute to new solutions as well economic opportunities that will attract more residents. London appears to be a special case and may require a special focus.

42 Radical Routes has established a secondary co-operative that will own some of the equity in new-start co-operatives – a model that could be relevant to co-operative housing more widely in the UK. Existing housing co-operatives and wider co-operative societies have strong property assets, against which start-up co-operatives with no track record can borrow, thus increasing the chances of their getting a mortgage and significantly lowering the interest rates attached to their borrowing. Linked to this, or separately, an alternative could be mutual-guarantee schemes (or even co-operatives mortgaging their existing owned assets to release development capital) to enable new co-operatives to establish themselves in the early days when it is not profitability but access to capital that dictates success.

15
Criminal justice

Going straight

The idea of co-operation might not spring immediately to mind when thinking about prisons, probation and community justice, but the involvement of co-operatives and mutuals in running these services has quite a history. As the role of the state shrinks, if these important services are not just to be left to private ownership, citizens and communities need new mechanisms whereby they can assume a greater role and responsibility in the criminal-justice system and support the re-integration of ex-offenders into mainstream society.

The criminological case for revisiting co-operative and mutual models is strengthened by contemporary evidence and innovation which suggests that co-operative ideas could play a powerful role in promoting what is termed 'desistance' – the process through which people cease and refrain from offending.[1] Alongside contemporary ideas about co-operatives with multiple constituencies of interest (often referred to as 'multi-stakeholder'), user and staff membership creates the opportunity for a redesigned service-delivery model based on the lines of co-production. Learning from abroad, particularly from the Italian social co-operative sector, also provides evidence of the opportunities for co-operative innovation in criminal justice in the UK.

Tackling re-offending

The UK's current criminal-justice system faces challenging questions about whether it is working effectively, in particular in relation to the repetition of crime and the challenge of reoffending. Offending and reoffending come at a cost to wider society, estimated in England and Wales at around £60 billion, which makes effective prevention an important strategy.[2]

The UK prison population over the past 20 years has risen to over 85,000. And yet a prisoner released from a prison in England and Wales has a one-in-two chance of being reconvicted within a year.[3] Prison has a poor record when it comes to reducing reoffending.[4] Court-ordered community sentences are more effective,[5] but still nearly a quarter of offenders receiving community sentences reoffend within two months of their order starting. [6]

The prison and probation services in England and Wales cost the state close to £3.5 billion per annum. The National Offender Management Service Agency is an executive agency of the Ministry of Justice. The Agency directly manages 117 public prisons, manages the contracts of 14 private prisons, and is responsible for the prisoner population. It commissions and funds services from 21 community rehabilitation companies (formerly 35 probation trusts) which oversee approximately 165,000 offenders serving community sentences.[7] Within the context of a wider sector, relating to crime and security,[8] the focus in this chapter is therefore on whether this money is being spent in the most effective way.

The Coalition Government's response from 2010 to 2015 was to open up probation and prison services in England and Wales to competition and so transform rehabilitation – while the Scottish Government has also looked at options for reorganising services, albeit with far less of a focus on external contracting. The 'transforming rehabilitation' programme in England and Wales aims to change the way offenders are managed in the community to bring down reoffending rates while continuing to protect the public.

The key aspects of the reforms are:

- opening up the market to a diverse range of new rehabilitation providers to get the best out of the public, voluntary and private sectors and giving them the flexibility to do what works
- moving to a payments system based on real reductions in reoffending ('payment by results') rather than on simply processing offenders
- giving orders for statutory supervision and rehabilitation in the community to every offender released from custody, including 50,000 of the most prolific group of offenders (those sentenced to less than 12 months in custody)
- establishing a nationwide 'through the prison gate' resettlement service to give most offenders continuity of support from custody into the community
- establishing a network of resettlement prisons which will seek to ensure that most offenders continue to be supported by the same provider as they move from custody into the community
- creating a new public-sector National Probation Service that will work predominantly with the most high-risk offenders
- forming 21 new community rehabilitation companies (CRCs), the ownership and management of which is to be decided by a competitive tendering process, which will seek to turn round the lives of medium- and low-risk offenders.

Originally, in 9 of the 21 areas, current probation staff were receiving Cabinet Office support to form mutuals which would bid in partnership with the private sector to take over the CRCs in their areas. Most of these mutuals were simply employee-owned but one was aiming to be a 'fully fledged' mutual with staff, service users, victims and the local community sharing ownership and control. However, for a variety of reasons, this 'fully fledged' mutual and some of the employee-owned ones have withdrawn from the tendering process. It is known that a number of parties withdrew because the Ministry of Justice was insisting on terms which they believed made the contracts commercially unworkable. There is no suggestion that there is any flaw or insuperable problem arising from a mutual approach.

The Ministry of Justice's original intention to enable the emergence of a range of new providers, including co-operative and mutual providers, is consistent with the evolving role of co-operative and mutual providers elsewhere in public-service reform. In a number of areas, such as housing, health and social care, there is a strong current desire to move on from a traditional and paternalistic service-delivery model where the service-user is the passive recipient of services from the provider through what can be characterised as an 'us and them' relationship. The 'modern mutual' approach insists that the service is more likely to be effective if the user and provider work together to achieve (co-produce) the desired objective, which they co-own. A binary or even an adversarial user-provider relationship tends not to be the most effective basis for strategic planning, or the optimisation of increasingly stretched public funds. Instead, modern mutuality seeks to incorporate into the ownership and governance structure of the service itself the key constituencies of interest, who are most affected by the service.[9] Through embedding co-ownership and co-production in the design of the organisation itself, it seeks to support a fundamental culture change towards a new model of service delivery.

While the criminal-justice context involves a necessary deprivation of freedom (part of the punishment element) in other respects (correction/reform, rehabilitation) there are some strong parallels with the care system, where a successful collaboration between user and provider is much more likely to reduce long-term costs and increase long-term benefits.

Co-operation in the UK

It is not widely known that the involvement of co-operatives and mutuals in running criminal-justice services has a long history.

An early illustration of this is the prisoner mutual self-help organisations from 18th-century England. These were essentially prisoner friendly societies, which provided mutual support and enforced good order amongst their prisoner members,[10] – democratic prisoner-run prisoner aid societies.[11] Ironically, these were closed down by the liberal prison reformers of the 18th and 19th centuries, including co-operative luminaries such as Robert Owen, on the grounds that the state should run prisons because only the state could guarantee good order, good conditions and more humane punishment in prison.

The 1791 Penitentiary Act "*expressly provided that both officers and convicts should be stimulated by sharing in the profits*" of prison labour.[12] As well as this proposed prison labour co-operative, there are also historical precedents for prisoner co-management of the prison itself as part of their rehabilitation and re-education: prisoners learning to act responsibly by being given responsibility. There are also administrative reasons for prisoner democracy: providing a mechanism within the prison itself for resolving conflict among contending prisoner groups as well as between the prison administration and the prisoners. Democratic prison management has thus been promoted to help normalise prison life, as well as to provide a desistance-supporting intervention process of resocialisation through prisoners taking responsibility for managing their own prison and prison services.

R unning alongside these experiments in democratic prison management was the relentless rise of the state as monopoly provider of prison services, culminating in the full nationalisation of prisons in the 1870s, now regarded by some as a serious mistake because it led to a disconnect between prison and community.[13] But there were still occasional co-operative and mutual alternatives popping up and then disappearing throughout the 19th century and into the 20th.[14]

They continue to appear in contemporary practice. Informal co-operative management arrangements have in fact long been a feature of some UK prisons. Prison councils are currently being promoted by the National Offender Management Service, and democratic therapeutic communities in prisons have successfully converted some prisons into places of therapy and education, made possible by the co-management and co-responsibility of the two constituencies that shape the prison setting: prison staff and inmates.[15] Indeed, without such therapy and education supporting offenders to adjust their future behaviour, it hardly seems reasonable to expect incarceration to reduce reoffending rates and reinforce desistance.

The Royal Society of Arts is piloting this sort of multi-stakeholder approach to the ownership, management and delivery of prison services at HMP Humber in Yorkshire. Although this 'Transitions' Project describes itself as 'A Social Enterprise Approach to Prison and Rehabilitation'[16] it bears all the hallmarks of the multi-stakeholder co-operative and mutual approach, arguing that prison services should be: *"...co-designed and delivered by service users, local employers, local people and civic institutions; all would have a voice in how it is designed and run".* Professor Alison Liebling, Director of the Prisons Research Centre at the Institute of Criminology, University of Cambridge, describes this approach in the Transitions Report as: *"wholly* *consistent with existing practice, but [which] attempts to offer a co-productive form of public-service management that is explicitly and uncompromisingly rehabilitationist".*

Co-operation overseas

Looking beyond the UK, in 1914 Thomas Mott Osborne set up the 'Mutual Welfare League' in Sing Sing Prison, New York State. This was a prisoner membership organisation which managed prison services and provided a 'through the prison gate' resettlement support and job brokerage service to its members.[17] Similarly, in 1928, Alderson Women's Prison in West Virginia set up 'co-operative clubs' in each of the prison's 14 cottages to achieve the same ends[18] while more recently, in 1973, 'the prisoners ran Walpole' and participated fully in their own 'corrections'.[19]

Today, in the 21st century, Brazilian prisons in São Paulo and Rio de Janeiro are run not so much by prison staff as by inmates. In circumstances of severe overcrowding and acute staff shortage, prisoners are recruited or organise themselves, not only to perform clerical and janitorial work, but also to provide for welfare, discipline and security. Such inmate governance is as much a defining feature of Brazilian prison life as are the inhumane living conditions, and in recent years inmate governance has been largely taken over by inmate gangs. "*However, staff-inmate relations remain characterised less by conflict and power as by accommodation and reciprocity*."[20]

But building prisons alone does not help to reduce crime or rehabilitate and improve the lives of prisoners, the majority of whom are often young men and women. Around 80 per cent of the inmates at the Mekelle Prison in Ethiopia are young men and women convicted of petty crimes and serving sentences of up to six years. Through a project developed by the International Labour Organisation,[21] prisoners are provided with education, skills training and opportunities to access finance and engage in economically useful activities. This has resulted in the creation of 31 active co-operatives that run successful businesses providing decent work for prison inmates and released prisoners – 'through the prison gate' co-operative employment.

The example of the Bastøy Island Prison[22] in Norway is also interesting in this context – it is referred to as an island of hope, being largely self-managed and self-provisioned. It acts as an incentive for all those in closed prisons, and the few who abuse the freedom to self-manage on the islands are sent immediately back to a closed prison.

Predictably, where many such initiatives have fallen down in the past is in the eventual abuse of power by the prisoners themselves. In a criminal-justice context, to date there has been no effective structural governance mechanism which has worked in the long term to hold in balance the competing interests of the different relevant groups of people who all have a legitimate interest in the outcomes – prisoners, prison officers and others attending to prisoners' needs, victims, and the families, friends and communities of both offenders and victims.

It is precisely this problem that the modern mutual approach has sought to address in other sectors, by involving a range of different interest groups in ownership and governance. So, for example, in healthcare, the individual and distinct roles of patients, NHS staff, carers and community have all been specifically acknowledged in the statutory design of NHS foundation trusts.[23] In a number of public services, a range of different voices needs to be heard in order to work out what is best for the wider public and community benefit and to resolve issues for the organisation, and this multi-constituency approach can fundamentally change the way a service operates.

It is in the Italian social co-operatives that this approach is seen most clearly. Variously called the 'social co-operative', 'multi-stakeholder co-operative' or 'public service mutual', this model originated in Italy in the 1970s as a totally new version of extended mutual co-operation. It is characterised by a model of ownership and governance based on different constituencies of interest, a model in which the representatives of the various constituencies all have a say in decisions and a role in the governance structure.

Thus, for example, a prisoner-led co-operative runs a micro-brewery in Saluzzo Prison[24], producing high-quality craft beers which are exported across Europe and the United States. The same co-operative also operates in Turin Prison, processing, roasting and packaging coffee and cocoa for the Pausa Café ('Coffee Break') chain of co-operative café bars. Prisoners join the co-operative by paying a small fee. Membership then guarantees them paid employment during their time in prison as well as in the cafés after their release. They also receive resettlement support and, as members of the co-operative, they share in the profits and decision-making of the business as a whole. The cafés provide a means by which the community can support the re-integration of former offenders, effectively recognising that re-integration is a two-way process and involves both parties.

Social co-operatives like Pausa are a fast-developing feature of the Italian criminal-justice system and are increasingly found throughout the EU and in many other countries as well. Some are entirely prisoner and ex-prisoner owned and managed, while others include criminal-justice and social-work staff in their membership to provide additional rehabilitation and resettlement support services. Some work particularly with prisoners with drug and alcohol problems, while others work with all categories of offender. Some operate both in prisons and in the community offering 'through the prison gate' employment and mutual support, while others provide day-release employment and a guarantee of continued employment on release.

There is an active programme of through-the-prison-gate social co-operative development through co-operative development bodies or co-operative 'accelerators' such as Acceleratore Di Impresa Ristretta (AIR)[25] in Milan, funded by the local authority and the wider social co-operative federations.

Social co-operatives like these share some features with what we would call in the UK 'social firms', Work Integration Social Enterprises (WISEs) or 'social enterprises'. But what social co-operatives have that most social enterprises, social firms or WISEs do not have, is democratic member control, and a permanent audible voice for those most affected by the service. Social co-operatives are democratic organisations controlled by their members with equal voting rights. Prisoners co-own and co-control the co-operative together with the other stakeholder members – ex-prisoners, victims, community members and criminal-justice and social-work professionals.

Barriers to co-operation

There is no reason in principle why co-operative initiatives in criminal-justice services should be any less effective in the UK than in other jurisdictions. Indeed, with the UK's current high reoffending rates, it might be expected that such initiatives might have an even more significant impact. But because the co-operative model would need the institutional space to make reciprocity work, there are significant barriers to their development in the UK, which are likely to be cultural and institutional. With a generally populist press on approaches to crime, and a historical tendency amongst politicians towards a more authoritarian approach to criminal justice, it is not straightforward to develop an approach that puts more emphasis on rehabilitation than punishment. Even in times of austerity and where criminologists support the concept, clear and cogent evidence is needed to show that the approach is more effective than alternatives.

The adoption of such an approach would also amount to a radical policy change, as well as involving a long-term and fundamental culture change in the approach to service delivery. This suggests that if the concept is to move forwards in the UK, or at a devolved level, there will be a need for a pilot approach as the most effective way to progress the concept.

Desistance and co-operative innovation

There are two powerful innovations which co-operation can contribute to criminal-justice services and rehabilitation. The first of these is to be found in the mechanisms created by multi-constituency organisational models which are capable of transforming relations between the key constituencies of interest, including between prisoners themselves, both during custody and afterwards.

Traditional co-operative and mutual organisations have emerged, generally, through the impetus of a single constituency, generally customers, workers or producers, embarking on a self-help initiative based on their shared needs. While there are some examples of multi-constituency models from the mid-19th century onwards (co-partnership societies, for example), the single constituency model has been dominant. However, in more recent decades there has been growing interest in models specifically aimed at introducing more than one constituency. This has been most obvious in areas involving personal care, such as the Italian social co-operatives and NHS foundation trusts already referred to.

The involvement of more than one constituency, where successfully done, has the effect of building into the very organisational design the basic requirement for co-operation or collaboration between those constituencies. The governance must be carefully designed, because it has to provide a mechanism – a mechanism which the different constituencies of members have signed up to by choosing to participate – for resolving tensions between those constituencies. But that is the whole point: tensions constantly arise in running a business or service, where there is some conflict between the interests of one group and those of another. In the traditional investor-owned model, investors are in control, and all other constituencies are excluded from any formal constitutional role in making such decisions.

In the multi-constituency model, the various constituencies of interest are brought together within the governance, so that the organisation itself becomes the mechanism for mediating the tensions between them, rather than excluding one or more of them to fight for their rights from outside the organisation – via the media, single-interest groups etc. In the context of personal care, clearly the reason for adopting a multi-constituency approach is to ensure that those for whom the service exists, namely patients or service-users, have a permanent and audible voice within the organisation. This has tended in the past not to be the case, for a range of understandable reasons based generally around the vulnerability and powerlessness of such individuals against the knowledge, expertise and incomparably greater power of those in the position of carers or managers of care.

The multi-constituency approach therefore poses a number of challenges – to traditional governance and decision-making, to models of service delivery, to the very human relationships at the heart of such services. But it is these challenges which are fundamental to the innovative power of the multi-constituency approach, because they are needed to promote institutional, cultural and social change throughout public-service delivery which is currently predicated upon a consumer-style, 'done-to' approach that is economically unsustainable.

In the current context, the relevant constituencies of interest clearly include prisoners and ex-offenders, prison and probation staff, victims, family and friends, and community. The relative importance and appropriate influence of each of these clearly needs to be carefully considered in each different situation, particularly in the interests of security and public safety. In principle, however, these are all voices which should be heard in making strategic decisions about and shaping criminal-justice services, and these are all constituencies which should play a part in monitoring and holding to account those who exercise executive power over the everyday delivery of such services.

But there is arguably an even more powerful innovative contribution which co-operation can make in this field, namely the role which participation through membership of a co-operative or mutual organisation can play in supporting desistance and rehabilitation. Not only does the multi-constituency approach provide support to a wholly new approach to management and service delivery, it also becomes even more important in the particular case of rehabilitation services for prisoners because of the ways in which co-operatives and mutuals can generate the social capital that research suggests supports the reduction of reoffending or 'desistance'.[26]

At the heart of the concept of co-operation is participation by individuals in a common endeavour, through membership of an association. In the context of supporting desistance, that very participation is itself an ingredient of the therapeutic process: being a member of a bespoke 'society' for individuals aimed at promoting desistance (a more tolerant 'society' which acknowledges that its members may relapse from time to time) aims to be a step along the pathway towards and preparation for a more successful membership of society itself.

Desistance research has consistently emphasised the significance of not only the acquisition of capacities to govern and control the direction of one's life but also the opportunities to exercise those capacities. Involvement in 'generative activities' (that contribute to the wellbeing of others), such as mentoring, volunteering, or employment, can support the development or internalisation of an alternative identity or shifts in one's sense of self.[27] Engagement in generative activities has also been shown to ameliorate the effects of a stigmatised identity, re-establish a sense of self-worth and, importantly, a sense of citizenship.[28] This suggests that the process of desistance from crime is not solely a within-individual phenomenon but is also dependent on interactions between the individual and their relationships, their immediate environment, community and the social structure. As such, supporting the development of social capital, fostering connections between people and restoring relationships are key components in supporting desistance.

The multi-constituency model has another vitally important feature. Promoting desistance is, crucially, not just something for offenders and probation staff. Society itself has a role to play in receiving back individuals, and needs to engage in the process for it to be completed. The tendency for modern society physically to remove criminality from its midst and put it out of sight masks a deeper societal reluctance to face up to failure, and to enter into vulnerability by contemplating forgiveness. There is a contemporary cultural need for society to be drawn into the process of rehabilitation. The Pausa café in the community is an ingenious way of inviting individuals to take a small step in that process.

"*These are the very processes, practices and outcomes that mutual and social co-operative structures can support … The emphasis on the centrality of reciprocal relationships and mutuality in supporting resettlement is the distinct contribution that co-operatives and mutuals have to offer to current approaches to supporting desistance and contributing to penal and public-sector reform.*"[29]

Innovation opportunities

1 Employment and resettlement social co-operatives

The first opportunity is to replicate the social co-operative model of through-the-prison-gate employment and resettlement support and the second to establish the 'new mutual' model seen in other public services for the management of prisons and community rehabilitation services. Specific innovations in this context might include:

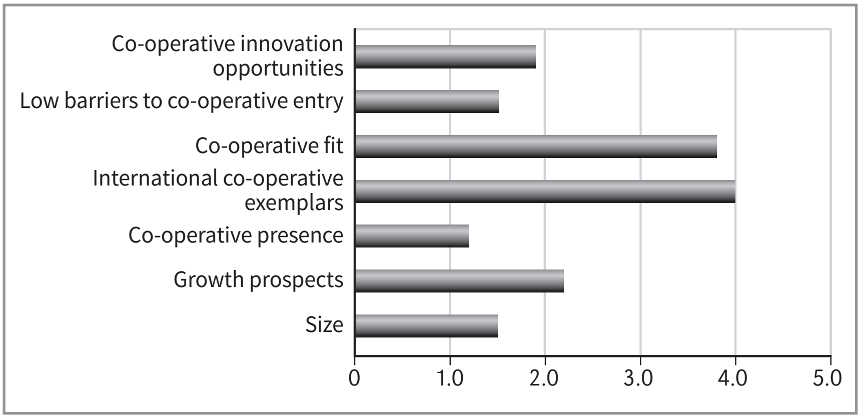
- mutual employment agencies, co-owned by ex-offender user workers and providing access to employment on more favourable terms than most agencies are currently able to offer
- mutual prison industries developed by co-operative development bodies, replicating the AIR model from Milan
- supporting offenders and ex-offenders to be collaborative entrepreneurs with a co-operative variant of the New Enterprise Allowance.

2 Community payback mutuals

A further innovation could again build on learning from Italy. The Italian social co-operatives also make placements available for offenders subject to community penalties. In the UK context this opens up possibilities of widening the scope of community payback to include unpaid work in a co-operative where the monetary value of the unpaid work is paid direct to victims as reparation for the offender's crime (or to victims' charities or even as a contribution to the costs of resettlement and rehabilitation). On successful completion of the community payback, paid employment in the co-operative would then be made available, together with support for entering mainstream employment, thus providing a rehabilitative role for community payback as well as a reparative role and adding value to the punitive role as a 'fine on time'. When additionally used in conjunction with restorative justice, such a use of community payback could provide the 'toughened-up' community sentences long sought by successive governments.

Conclusion

CRIMINAL JUSTICE



If a core goal of the criminal-justice system is to encourage offenders to desist from criminal activity, then co-operative models are perfectly aligned, as they harness precisely the component factors that research suggests are core to reducing reoffending. At the same time, while there are good models overseas to draw upon, there will be a need to prove what is possible before thinking more widely. There are two clear initial opportunities for a distinctive co-operative contribution to the Transforming Rehabilitation agenda in England and Wales that could in turn provide the pilot evidence and demonstration effect for a wider system change based on the potential power of reciprocity in the criminal-justice sector. ■

1 Fergus McNeill and Bill Whyte (2007), Reducing Reoffending: Social Work and Community Justice in Scotland, Willan.

2 Data, with figures rounded, are from Home Office (2000), *The economic and social costs of crime*, Research Study 217, **s.coop/costsofcrime** and Home Office (2005), *The economic and social costs of crime against individuals and households 2003/04*, online report 30/05, **http://s.coop/crimecosts**. The Taxpayers' Alliance has published an analysis of recorded crime, recognising that not all crimes are reported, with an estimated cost of nearly £15 billion in England, Wales and Northern Ireland. Matthew Sinclair and Corin Taylor (2008), *The Cost of Crime*, Taxpayers Alliance.

3 Benedict Rickey (2012) blog, New Philanthropy Capital, **s.coop/settingdatafree**

4 46.9 per cent of adults are reconvicted within one year of being released. For those serving sentences of less than 12 months this increases to 58.5 per cent – an increase of 4.3 percentage points on 2000. For those who have served more than 11 previous custodial sentences, the rate of reoffending rises to 68.9 per cent. Table 18a, 19a and 7a, Ministry of Justice (2013), *Proven reoffending quarterly*, October 2010-September 2011, London.

5 Court-ordered community sentences are more

effective (by nearly seven percentage points) at reducing one-year proven reoffending rates than custodial sentences of less than 12 months for similar offenders. Offenders discharged from immediate custodial sentences also committed more reoffences than matched offenders given a community sentence. Ministry of Justice (2013) *2013 Compendium of reoffending statistics and analysis*, London.

6 For 2010, almost a third of matched offenders released from custody (31.4 per cent) had reoffended within two months of their release. In comparison, less than a quarter (23.7 per cent) of matched offenders receiving a community sentence had reoffended within two months of their order starting; a difference of 7.7 percentage points. Ministry of Justice, op cit.

7 **s.coop/1v7k2**

8 In this context, there is a very significant security market in the UK. Although it is a diverse sector with a wide range of customers, when taken together, the UK security market is estimated to have a turnover of around £6 billion, employing 600,000 people. Over 2,000 companies, for example, specialise in the design, manufacture and supply of security equipment. Sector data compiled by **manesis.co.uk/sectors.aspx** Worldwide, taking into account both private and public-sector contracts, and in the context of crime, inequality and insecurity, it is all considered to be a growth sector. Goldman Sachs estimates the global market to be worth $140-180 billion and that it will rise to $250 billion by 2018. See: Defence Industries Council (2010), 'Memorandum to House of Commons Defence Select Committee in relation to The Strategic Defence and Security Review'.

9 Cliff Mills (2010), *Public Services: Made Mutual*, Mutuo, **s.coop/mutualservices** and Cliff Mills and Gareth Swarbrick (2011), *Social Housing: Made Mutual*, Mutuo, **s.coop/socialhousing**

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11 Margaret De Lacy (1986), *Prison Reform in Lancashire, 1700-1850: A Study in Local Administration*, Manchester University Press.

12 Sydney Webb and Beatrice Webb (1922), *English Prisons Under Local Government*, Longmans.

13 Peter Wright (2012), 'Rethinking Prisons and the Community', *The Prison Service Journal*, November 2012.

14 See, for example, John Barry (1958), *Alexander Maconochie of Norfolk Island*, Oxford University Press.

15 Michael Parker, ed, (2007), *Dynamic Security: The Democratic Therapeutic Community in Prison*, Jessica Kingsley.

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19 Jamie Bissonette (2008), *When The Prisoners Ran Walpole*, South End Press.

20 Sacha Darke (2013), 'Inmate Governance in Brazilian Prisons', *The Howard Journal*, Vol 52 (3), pp 272-284.

21 **s.coop/pardev**

22 **http://bastoyfengsel.no/English/**

23 Originally set out in the Health and Social Care (Community Health and Standards) Act 2003, now contained in the National Health Service Act 2006 (and as subsequently amended).

24 **s.coop/pausacafe**

25 **acceleratoreimpresaristretta.it**

26 Beth Weaver and Dave Nicholson (2012), 'Co-producing Change: Resettlement as a Mutual Enterprise', *The Prison Service Journal*, 204, pp 9-17.

27 See: Uggen, Manza and Behrens (2004), 'Less than the Average Citizen: stigma, role transition and the civic reintegration of convicted felons' in Maruna and Immarigeon (eds) (2004), *After Crime and Punishment: Pathways to Offender Reintegration*; Shadd Maruna (2001), *Making Good: How Ex-Convicts Reform and Rebuild their Lives*, American Psychological Association; Beth Weaver (2012), 'The Relational Context of Desistance: Some Implications and Opportunities for Social Policy', *Social Policy and Administration* 46 (4).

28 Shadd Maruna and Thomas LeBel (2009), 'Strengths-based Approaches to Reentry: extra mileage toward reintegration and destigmatization', *Japanese Journal of Sociological Criminology* 34, pp 58-80.

29 Beth Weaver and Dave Nicholson (2012), 'Co-producing Change: Resettlement as a Mutual Enterprise', *The Prison Service Journal*, 204, p15.

16 Transport

Social goods, social costs

Travel is associated with freedom, with finding the open road, but how we travel tends to be social rather than individual. Even if you find the open road, you are using an infrastructure which is a social good. Even in a private-sector mode of transport, such as rail or freight, you are part of a network which is sustained through collective action. The transport sector in the UK has been described as the lifeblood of our economy. In 2006 Sir Rod Eddington, former chief executive of British Airways, pointed out that the value to the UK in economic growth and social inclusion is measurable and significant. The Campaign for Better Transport (CBT) has produced a wealth of research which shows that limited accessibility to employment, shops and services causes significant problems for those on low incomes.

The costs of travel, too, may be socialised, in the form of environmental externalities and limits to what the planet can absorb in our pursuit of human freedom. Transport is one of the key contributors to the overall carbon emissions within the UK, and has a particular responsibility for carbon reduction. It seems natural, therefore, to look at co-operative models of transport – a model of social business that sits between the traditional approaches of state administration or investor-led private enterprise.

Transport in the UK

While transport is an everyday activity, it can be argued that transport is also a politicised sector. Issues such as road building, high-speed rail, road tolling and airport development stir strong opinions within the UK and within affected communities. For example, the former Prime Minister Tony Blair referred to the fact that the issue which cropped up most in his post bag was bus provision.

Like other sectors such as energy and utilities, there is a delicate balance and sometimes confusing intersect between politics and private business within transport in the UK. This is despite having a system viewed by many from Europe and beyond as one of the more liberalised transport markets. Decision-making within transport happens at nearly all levels of politics: for example, local road maintenance by councils, bus provision by unitary authorities, rail and light rail by devolved parliaments and strategic road investment and aviation within the Westminster Parliament purview. This delicate balance between the private and public sector within transport comes from a variety of factors including: historic sectoral structure; the recognised social good of quality transport links; and the need for subsidy and investment from public funds.

In the UK there was traditionally a modal view of transport and, to a degree, of transport planning. More recently, however, the linkages and interdependencies between the different modes have meant that 'networks' are now more commonly referred to. Indeed, the old individual modal directorates within the Department for Transport have now been replaced by local, regional, national and international network directorates. Even so, for simplicity, this chapter will in turn define and analyse the different modes of transport in the UK.

Analysis of transport modes and industry structures

The transport modes in the UK are: road, rail, bus, aviation and shipping. Each of these modes contains a range of facets of transport, such as road freight, taxis, light rail, community transport, passenger ferries and freight. Below, we will briefly outline the legislative framework and industry structure for these.

The chapter will then outline the areas of the transport sector where co-operative business models and values and principles are currently in operation within the UK. Finally the chapter will look at areas of the sector to which co-operative business would be able to give something new and important.

Rail

For simplicity, rail can be separated into four main areas: infrastructure management; freight services; passenger services; and rolling-stock production/ownership.

Infrastructure management

Network Rail manages the UK's rail infrastructure, which contains 10,261 route miles, with extensive connected land, bridges and viaducts, signalling, tunnels, level crossings and 17 mainline station facilities. Network Rail is a company limited by guarantee and is in effect publicly owned, albeit at arm's length. Network Rail is professionally managed and is governed by the Network Rail board and endorsed by the Public Appointments board.

There is also a membership body within the governance, with members emerging through self-nomination and being selected by the organisation. In recent times this governance structure has been criticised and investigated by a range of organisations. Reports from the regulator (the Office of Rail Regulation), PricewaterhouseCoopers and the Co-operative Party have all sought to close an apparent accountability and efficiency gap within the organisation. This lack of accountability has been highlighted by the excessive bonuses being paid to senior executives.

Network Rail is a heavily indebted organisation and its £35-billion debt is now back on the Government's balance sheet, though the organisation does benefit from borrowing powers. Through the High Level Output Statement, Network Rail benefits from a large amount of direct investment from central government that is thought to equate to £5-7 billion per year. The investment is spent on a wide range of activities, such as rail maintenance, electrification, station upgrades and trackside maintenance.

Rail freight services

Rail freight services transport an estimated 43.5 million tonnes of goods per year. Around 30 per cent of the traffic carried on the British rail network is accounted for by freight trains. Rail freight has the ability to 'green' our economy and communities, given that each container train can move as much freight as 50 lorries.

Aside from Direct Rail Services (DRS), which transports nuclear waste, the UK freight network is a wholly private industry and benefits from only a very small amount of Government subsidy. There are a relatively small number of companies that compete for traffic from ports to carry a wide range of freight including white goods, cars, food and coal. The largest of these companies is DB Shenker, a company owned by the German Government. Other significant companies include GB Railfreight, Stobbarts and Freightliner. These companies make relatively low profits as their overheads are large and competition with other freight modes such as road haulage is fierce. Decisions on large amounts of freight movements can come down to very small margins. Although the tonnage moved on the rail network is large, it represents a small percentage of the overall tonnage transported. The industry struggles to overcome its inherent challenges, such as a lack of effective rail infrastructure around key ports, limited capacity on the overall rail network and a relatively small number of strategic rail freight interchanges.

Passenger rail services

Passenger services are experiencing a level of growth which has not been seen for 80 years. There are now 25,000 services per day on the network.

There are 24 franchises on the network, which are owned by six or seven parent companies. The franchisees are made up of private-transport groups such as First Group or GoAhead Group and foreign public-sector operators such as DeutscheBahn or Abelio (a company of NS, the Dutch state operator). These operators have had the opportunity to compete for and run rail services in the UK since the enactment of the 1993 Railways Act.

The industry is now in effectively its third round of franchising – a typical length of rail franchise is between five and seven years. However, there are much longer franchises, for example the 25-year concession on MerseyRail or the 20-year franchise currently held by Chiltern Railways. East Coast Trains is currently directly operated by the Department for Transport. This franchise is in the public sector as a result of two separate private-sector operators reneging on their contractual commitments, leaving the Government as the 'operator of last resort'. Since a bungled attempt to run a franchise competition on the West Coast Mainline culminated in pay-outs of £40 million in compensation to the bidders, the Department for Transport has not re-let any rail franchises. However, a small number of franchise bidding processes are under way. The franchising system attracts significant subsidy from the taxpayer, up to £1.5 billion per year. Some individual franchises pay a premium back to the Department, while others are a mix of premium and subsidy or are subsidy-only; a complicated system of cross-subsidisation between franchises underpins the passenger rail industry.

There are also a relatively small number of light-rail systems around the UK, services which are often privately operated and locally managed. Light-rail development was a policy aspiration of the previous Labour Government, but scheme development and implementation has proved to be a complicated, lengthy and expensive process – often to the point of the scheme being cancelled.

Potential high-speed rail development is now very much the talking point within rail. A hybrid Bill is now moving through its Parliamentary passage, which would see the development of an ambitious North-South high-speed rail line. The UK does currently have a small amount of high-speed rail, which runs from London to the Channel Tunnel and is used for Eurostar – the construction of this short line produced some of the most expensive miles of rail track anywhere in the world.

The Government has retained the regulation of most peak-time rail fares. This regulation limits the average level of price inflation on an annual basis. However, the Government does not regulate off-peak fare prices. Passengers currently pay roughly 35 per cent of the 'real' cost of journeys, with the Government effectively subsidising the rest of the cost. It has been the tacit policy of successive governments to ensure that passengers shoulder more of the costs of the industry and reduce the amount of Government spending.

Rolling-stock ownership

Perhaps the most capital-intensive area of the rail industry is the ownership and leasing of rolling stock. The Department for Transport, or large regional transport bodies such as Transport for London, are able to lease the rolling stock in order for private operators to use it in the delivery of franchises or management contracts. Private-sector operators rarely take financial risk on the rolling stock; in theory, this is as a result of the relatively short life of their contracts to deliver the service. The public-sector organisations also do not and cannot buy the trains outright. Banks and financial institutions therefore either set up what are known as arm's length rolling stock companies (ROSCOs) or develop in-house rolling-stock providers. The banks take the financial risk of buying the stock and lease out the trains to the contracting authorities, which in turn provide them to the train-operating company. There is great capital leakage through this process, and many in the industry see one of the ways to cut down the barriers to entry and reduce inefficiencies as being to create a new system of rolling-stock procurement.

Bus, taxi and community transport

Bus services are the most used mode of public transport in the UK; they are often the critical link for people and communities. Outside London, local bus services were deregulated on 26 October 1986, introducing on-the-road competition; widespread privatisation of public-sector bus operations took place from 1986. Most services are now provided on a purely commercial basis, with public support for transport restricted to unprofitable but socially necessary services, the operation of which is generally put out to tender. However, this is currently seen as a relatively unregulated market.

Within London, responsibility for London (Regional) Transport transferred from the former Greater London Council to the Secretary of State for Transport in 1984. In 1985, a separate operating subsidiary, London Buses Ltd, was established. Progressive tendering of local bus services in London was introduced in July 1985 and the former operating divisions of London Buses Ltd were privatised by the end of 1994. From July 2000, Transport for London (TfL) was established as a successor body to London Transport, with strategic control of local buses through the Greater London Authority under an elected Mayor of London. Nearly all local bus services are operated by the private sector under contract to TfL. Bus routes, once awarded to a contractor after a tendering process, are then protected from on-the-road competition.

There are a vast number of bus companies operating around the UK. However, a relatively small number of large transport groups hold a dominant market share of bus services, including First Group, Stagecoach and Arriva. Although not as subsidy-heavy as rail, operators are subsidised from two sources: local authorities trying to ensure that companies will continue to operate some of the less profitable routes; and the Bus Service Operators Grant, which is paid by the Department for Transport and is aimed at offsetting some of the fuel duties paid.

The mix of easily identifiable profit-making and loss-making routes and networks, a lack of regulation, relatively powerless tendering authorities and an oligopoly of suppliers leads to the feeling that the large operators have an unfair advantage over authorities and communities.

Community transport covers a wide range of transport services which are often delivered by: a not-for-profit charity; a voluntary or community group; a social enterprise; or a local authority. Community transport often provides critical links for vulnerable and isolated communities.

The provision of taxi services in the UK is a regulated industry covered by both the Hackney and Stage Carriage Acts. They are also managed and regulated at a local-authority level. Taxis can be in the tightly regulated black cab taxi sector, which is covered by the Hackney Carriage Act, or in the minicab market which is seen to be less regulated. Taxi firms vary greatly in size and market share and can be mutually owned and operated.

Road transport and network

The total road length in Great Britain in 2012 was estimated to be 245,400 miles, an increase of 2,000 miles (0.8 per cent) over 10 years. The overwhelming majority of journeys in the UK are made by road transport. The maintenance of the national road network is the responsibility of the Highways Agency, with responsibility for local and trunk roads trusted to local authorities.

Motorists are expected to pay for the upkeep of the roads either through taxation such as council tax, road tax and fuel duty or by road tolling. There is a road user charging scheme in operation which applies to foreign lorries and there are a small number of road tolls, such as the M6 Toll, or tunnel and bridge charges.

Road freight is the dominant form of freight transport within the UK. It is the quickest, simplest and therefore often cheapest way of moving goods. It is a privatised sector which often operates on relatively small margins. There is regulation of the safety of this industry through organisations such as Vehicle Operator and Services Agency.

Aviation

At one stage airports were largely publicly owned and national flag-carrying airlines were public entities, as is still often the case in other countries. However, today in the UK, aviation is a largely privatised industry that is responsible for the movement of more than 200 million passengers and two million tonnes of freight each year. The 60 UK airports are largely privately owned, with the biggest group of airports collectively owned by Heathrow Airport Holdings, formerly BAA plc. Heathrow Airport Holdings has come under pressure to sell particular airports as it can be seen that it has a monopolistic position in the market and indeed it has recently announced the sale of one of its Scottish airports. There are other groups which own airports, for example Peel Holdings, which owns Liverpool John Lennon Airport and Robin Hood Airport near Doncaster. There are exceptions to the private ownership model: Cardiff Airport, for example, is owned by the Welsh Assembly Government.

Manchester Airports Group is a private company that until recently was solely owned by the public sector in the form of Manchester City Council and the nine other local authorities that comprise Greater Manchester. As well as Manchester Airport, the Group owns East Midlands Airport and in 2013 purchased London Stansted Airport for £1.5 billion. To raise funds for the purchase of Stansted and to provide extra capital for future investment and takeovers the rules on shareholding were changed in 2012 to allow external, private investors to purchase stakes in the Group. Industry Funds Management now own 35.5 per cent of the Group, the same stake as is held by Manchester City Council, with the remaining local authorities owning 29 per cent.

The airports compete and bid to attract airlines to fill particular slots. These slots, both times and destinations, clearly play a vital role in the success of the airport.

The airlines are private companies which buy, run and maintain the aircraft. This is unlike railway transport in that the procurement and financial risk attached to buying the planes belongs to the companies alone and not to the Department of Transport or the taxpayer.

Airspace is controlled by the National Air Traffic Service (NATS). NATS was a wholly public body which has since entered into a public/private partnership which is regulated by the Civil Aviation Authority (CAA). NATS is the organisation which manages the routes and everyday plane movements. The CAA is the statutory corporation which oversees and regulates all aspects of civil aviation and controls airspace management in the UK. Airport operation and safety standards across the industry are regulated by the European Aviation Safety Agency (EASA).

Ports and shipping

Ports are of critical strategic importance to the UK and are the entry-point for the overwhelming majority of the goods we buy and the waste we ship. Individual ports cater for differing industries and types of vessel: Bristol's overwhelming trade is in cars, for example, while Southampton and Liverpool focus on container traffic. There are hundreds of ports and harbours around the country, which are either privately owned or a trust port.

There are a number of large parent companies which own ports, such as: Association of British Ports (ABP), Peel Ports or Forth Ports. Port ownership and operations is a lucrative business: ABP owns 21 ports and manages roughly 25 per cent of UK seaborne trade while Forth Ports owns and operates seven ports and in 2010 had a turnover of £181.9 million. Other owner/operators have single ports or have recently entered the market, such as Dubai Ports, which has recently opened the UK's first deep sea port at London Gateway in Thurrock.

In addition to the private ports, there are over 100 trust ports around the UK, including Belfast and Dover. These ports are publicly owned but privately managed. They have not been wholly privatised for a range of reasons but some of the trust ports may not be large or profitable enough for the larger operators.

The infrastructure around these ports is important to the overall health of the UK transport network. In particular, the road and rail links serving ports can stimulate or block economic growth and efficiency. The ports do not own the infrastructure but they do have a vested interest in its improvement, since clearly the easier it is to get goods and people through a port, the more likely it is that a company will choose to use it. The ports rarely pay for infrastructural improvement without significant time and angst but it does happen: Dubai Ports has, for example, contributed to road improvements on the A13 and a junction on the M25. However, these infrastructural improvements often rely on Government money – a recent example of this is Network Rail paying some £50 million to upgrade a freight line into the Port of Southampton.

Turning to the shipping companies, given the nature of global freight flows and the need for scale within the shipping industry, there is an oligopoly of very large shipping firms such as Maersk, Williams and Wilhelmsen. These firms can operate on a scale to ensure efficient business through contract development and retention as well as to maintain advantageous relationships with the port owners or operators. They often have a long history within shipping and have a family base to their ownership. Shipping and ports operate in an often cut-throat way where decisions are taken on the basis of fractions of financial advantage.

Key trends

The above sections sought to outline the various modes of transport in the UK, detailing how they are organised and constituted. The subsequent sections will look at: social attitudes to these modes of transport; legislative trends; and campaigns and political proposals affecting the sector.

Social attitudes

Transport often stirs strong emotions within sections of society and communities. Although the general principles of transport provision are generally accepted, there have been a number of important examples of protest and examples which help reveal some of the current social attitudes towards transport.

There are a number of demonstrable trends within transport which happen as a result of changing social attitudes. For example, an increased concern surrounding transport emissions has created demand for greener fuel to be used in road transport and has pushed sectors such as aviation to innovate in the areas of fuel and construction technology to ensure that they are, and are perceived to be, more environmentally responsible. The social importance of transport can also be seen in public acceptance of the cost of concessionary transport for pensioners.

Some of the most iconic and well-known transport campaign activities have come in relation to road transport. At the height of the last Labour Government's popularity, members of the road-haulage industry came close to bringing the country to a standstill. The support for this protest was based on the perceived unfairness of increases in fuel duty. This campaign's popularity has meant that politicians of all hues have been cautious about increasing duties on fuel. Early environmental anti-road protests such as that against the Newbury Bypass revealed a new determination to protect the natural environment from the effects of new transport infrastructure. This concern for the protection of the natural environment in relation to new transport infrastructure development has also been prevalent within the recent high-profile protests against the proposed development of high-speed rail.

Alongside this desire to protect the natural environment is a more immediate concern within the communities affected, often described as 'nimbyism' (from the phrase 'not in my back yard'). This mix of environmentalism and nimbyism has defined another recent social schism, that over airport development. Many believe that there is a need for airport development in the South East of England to ensure the country remains globally competitive and to meet increases in passenger demand – while many, especially those living around the airports, do not accept much, if any, of this analysis.

The UK's attitude towards transport is not just shaped by national infrastructure requirements and development but also by very local concerns. Local politicians are often pictured next to newly filled potholes, new cycle infrastructure and local buses for good reason. These are things which communities (their electorate) care about and campaign on. Thousands of local transport campaign groups press for local transport changes or improvements around the country.

As the fuel protesters demonstrated, another strand of social attitudes to transport is concern about 'value for money'. There are often only two sources of financing for transport in the UK, users of the service and the taxpayer, so that value for money becomes a very important issue for the general public. The annual outcry from rail passenger groups at increases in rail ticket prices when rail-company profits appear to be growing shows there is a keen sense that transport services should deliver value for money.

Legislative trends

In recent years there has been relatively little legislative upheaval in transport. The significant privatisation legislation for both rail and bus happened in the late 1980s and early 1990s. However, there has been a general push towards devolution of powers and responsibilities in transport planning and delivery which has not necessarily required primary legislation. Indeed, the Coalition Government did not present a general transport Bill in the 2010-15 Parliament – the only piece of significant transport legislation has been the introduction of the Hybrid High Speed Rail Bill. This Bill will lay the legislative foundations for what could possibly be the most expensive piece of transport spending for a generation, installing a high-speed rail connection between London and Birmingham, Manchester and Leeds.

In terms of rail, possibly the most significant piece of legislation in recent decades was the Railways Act 1993, which created the foundations of the franchising system under which passenger rail operates today. There has been successive packages of rail directives from Brussels – the fourth rail package is currently making its way through the European institutions. These packages do contain significant changes in operating practices for the railways but they encourage liberalisation of the market, something that the UK has already embraced more than its European partners.

Other legislative and regulatory trends in rail surround devolution of responsibility for local rail services. The most obvious example of this devolution is the responsibility that TfL and the London Mayor have been granted in recent years. The TfL network holds responsibility for London Underground as well as for the overground rail network and bus services in the capital. As previously highlighted, there are now a wide range of examples of this devolution of rail responsibility, such as the ScotRail service which is now managed and let by the Scottish Parliament – indeed the rail-service subsidy is the largest single expenditure the Scottish Government makes. Other devolved services include the Mersey Electrics Concession (managed by Merseyrail) and Arriva Trains Wales, which is largely managed by the Welsh Assembly Government.

Legislative trends within bus services have sought to rebalance the deregulation of services which came about in the late 1980s. The Local Transport Act 2008 started to define new types of bus-service contracts called 'quality contracts' and 'quality partnerships'. This type of contract sought to give local authorities more security and certainty of service levels.

Current public policy campaigns and political offers

Looking first at the current political offers within transport, it could be argued that, despite the fact that transport is increasing in importance for the public, there is not a vast difference in the transport offer of the current political parties. Indeed, there are some aspects of transport policy which very rarely receive any attention from the political parties at all. Shipping and maritime policy rarely hits the headlines and there is often little advantage for political parties in developing radical positions as ultimately national governments' attitudes do little to affect global trading patterns. There are also a number of aspects of transport policy on which all three main parties fervently agree. For example, all three main Westminster parties have spoken about the need to develop low-carbon cars and to improve road infrastructure. All three parties would also agree on the need to develop rail freight transport, developing regional transport and ensuring a fair deal for the motorist.

Probably the most significant transport decision the Coalition Government stuck to in its period of office up to 2015 was its commitment to develop high-speed rail as an economic driver and capacity relief scheme. There was, in contrast, little by the way of policy offer within the bus sector. Both political parties within the Coalition were tested in terms of airport development. This has been a sensitive subject for the Conservative Party and those Members of Parliament whose constituencies border airports in the South East. The difficulty for politicians in balancing environmental and economic concerns has been taken away slightly by an all-party commitment to stick with the recommendations of the Commission led by Howard Davies, which will report after the 2015 general election.

The transport sector inspires many campaigning groups. For example the trade unions, under the banner of Action for Rail, have conducted a high-profile campaign for the renationalisation of the railways aimed at the Labour Party and beyond. It is likely that other centre-left organisations will campaign on the socialisation of the railways in the run-up to the 2015 general election.

There is a huge range of other campaigning bodies, some of which are household names. For example, the AA and RAC, which both campaign on behalf of motorists, are often cited as powerful lobbying groups within transport. There are also organisations such as the Campaign for Better Transport, SusTrans and Living Streets – the most established campaigning groups for the development of public and local transport solutions.

Co-operative presence

The current level of co-operative and mutual endeavour within the transport sector is relatively limited. The sector has been traditionally split between the public and private sectors. Equally, with the possible exception of taxi and 'pedicab' co-operatives, there is not a huge tradition and prevalence of co-operative transport internationally. This is despite the fact that there are no inherent business or cultural barriers to the delivery of transport along co-operative lines.

This is not to say that there are not examples of both past and present co-operative and mutual transport in the UK, particularly in road transport. Indeed, one of the largest co-operative and mutual organisations in the UK is the taxi co-operative, Owner-Drivers Radio Taxi Services Limited, which has a turnover of £28.3 million. Almost half of the 48 transport-sector co-operatives in the *Co-operative Economy 2013* report are taxi agencies. Of the remainder, eight are car-sharing clubs and seven are marine pilotage operations.

The thinking behind car-sharing clubs is intrinsically co-operative and therefore it is no surprise that these operations fit the co-operative business model well. Those that have developed so far are mainly small ventures located in and around London. A more established car club is Co-Cars in the South West which combines car pooling with car hire.

Community transport plays a critical role in social inclusion around the country. There are numerous charities and social enterprises, as well as mutuals and co-operatives operating community transport services – although these do not feature in the *Co-operative Economy 2013* report. There are also examples of Co-operative retail societies becoming involved with the delivery of this form of transport. One example is the two-year partnership between Halesworth Area Community Transport and Anglia Co-operative. This agreement sees the retail society providing funding for a particular bus route and helping to develop the marketing offer of the community transport organisation. A small number of the community transport mutuals have gained some scale – both Ealing and Hackney Community Transport, for example, have developed so as to provide a range of services. While Ealing has transferred its ownership away from co-operation, Hackney Community Transport, which now operates services on some Transport for London routes, maintains its ethos and common ownership. There have been examples of larger-scale bus companies which were run as mutuals – Preston Bus was an example of this until it was eventually sold to Stagecoach in the 2000s.

Worker-owned bicycle co-operatives are another form of co-operative venture alive and well within the UK. Some of these are large-scale operations such as Edinburgh Bicycle Co-operative, which had a turnover of £11.6 million in 2012 and has now expanded to give it a presence in other cities. Birmingham Bike Foundry, meanwhile, is a co-operative offering workshop repairs, wheel building and a tool club.

There are over 60 community rail partnerships in the UK – these railway lines are owned, maintained and operated by local communities and local community groups. They are almost exclusively not for profit and are either constituted as community interest companies or community benefit societies. In recent years there has been a renaissance within community rail that can play an important role in keeping socially valuable lines running despite being seen as commercially unattractive. The community rail partnerships can be seen to have co-operative values very much at the heart of their operation, with members coming from local communities to join together in order to own and deliver services. It is likely that this form of operation will increase as recent competitions for franchises have made much greater play of developing community involvement and have included plans to turn a range of lines that were once part of the main franchise into community rail partnerships.

Go-op is an aspirant co-operative rail provider that is seeking to make use of the 'open access' regulations to develop an ultra-light rail service in the South of England and the Midlands. It is trying to obtain an open-access licence to operate services on routes that are currently not served by developing a business case that demonstrates viability and profitability. Go-op faces a stiff challenge to surmount the barriers to entry which currently exist within the rail market, such as buying the rolling stock, paying Network Rail's 'open access track fees' and so on. Despite considerable effort, the co-operative is still unable to confirm access to any of the potential routes under consideration. The Go-op experience also highlights the importance of technical expertise in the transport sector. In its previous guise as Go! Co-operative, the company purchased a lightweight railcar intended for a pilot service on the Mid Hants Link. However, the rolling stock purchased by the co-operative proved to be technically incompatible with the track on this line, leading to the pilot being suspended.

Co-operation overseas

Car sharing has proven to be an innovative development in the transport field. The use of co-operative models for the sharing of vehicles was pioneered in Vancouver and the model has grown across Canada and beyond. Modo is a not-for-profit car sharing co-operative incorporated in 1997 and is an acknowledged leader in this field in Canada. Today, Modo has nearly 10,000 members with a variety of vehicles at over 300 locations in Metro Vancouver. Modo also aims to foster car sharing and to raise awareness about the benefits of sharing cars over individual ownership; the logistical systems it has developed are offered free of charge to new car-sharing systems.[1]

A key element of car sharing's success in Vancouver came from the early support for the model of existing co-operatives such as Co-operators Insurance and Vancity, as well as from the support provided by the City of Vancouver on such issues as free designated on-street parking and the use of Modo cars for the City's car fleet. Other support included reducing car-parking requirements for new condominium projects if the developer made car sharing available to condo owners. This increased the use and profile of the car co-operative while dramatically reducing construction costs for the developer.

This is a very different model from Uber, the investor-owned platform which describes itself as a 'ridesharing service', that we considered in Chapter 3. In Modo, what is shared is not just the transport, but a set of rights and a voice in how the service operates.

There are also a small number of successful examples of co-operative rail systems being used in Canada and New Zealand. The Southern Rails Cooperative is a short-line railway company operating in South West Saskatchewan, Canada. Southern Rails was the first railway co-operative to operate in Canada and the first modern common-carrier short-line railway in the country. The railway was formed in 1989 when a group of 150 farmers formed the co-operative in response to the proposed closure of the existing rail service. The co-operative operates two short-line railways with over 70 kilometres of track in total.[2]

Barriers to co-operation

Transport is seen as an industry which has high barriers to entry for new competitors, organisations and structures, such as:

- High costs of procurement and/or lease of vehicle and rolling stock
- Relatively few public-sector contracts and usually long times between the tendering competitions
- The specialist knowledge and track record required to become a service deliverer
- The lack of culture within the sector of new structures and ownership patterns
- A fiercely public or fiercely private-sector industry structure

- A capital-intensive and risk-heavy business model
- Established operators with a long track record of delivery and market dominance.

Innovation opportunities

1 Co-operative rail and rail infrastructure management

Railways are seen as a social good. This is a privatised industry with a large amount of Government interference, an infrastructure which is publicly owned and the debt for which is part of the Public Sector Borrowing Requirement. There is always a lively debate in public policy circles and beyond about the merits of publicly or privately operated rail. This debate stirs vast amounts of passion and equal amounts of statistics.

Network Rail is a heavily indebted company limited by guarantee – the guarantor of the organisation is the UK Government. The infrastructure manager operated as Railtrack from 1994 to 2002, a private company created as part of the Government's privatisation of British Rail. However, the company proved itself to be unable to stand alone as a private entity and, after experiencing major financial difficulties, most of its operations were transferred to Network Rail, effectively bringing them back under state control. Network Rail is a large employer and significant contractor, with responsibility for a large budget drawn from public funds. One criticism of this not-for-profit company is its lack of accountability, in particular to the people who fund and use the service. Critics point to the relatively large financial remuneration which is paid to its board members as an example of the problems that this lack of accountability can create. The lack of local accountability is also viewed as resulting in decisions that favour the industry rather than the customer as well as being a contributing factor to inefficiency in the organisation, which some see as an ongoing problem. The three main political parties in Westminster have shown some interest in a future review of the way in which Network Rail operates. Since 2009, the Co-operative Party has championed a mutual governance model for Network Rail.

Mutualisation of Network Rail is viewed by the Co-operative Party as a way to improve accountability, efficiency and public trust in rail infrastructure management in the UK. A new governance model would be adopted that would install democratic structures that would allow passengers and employees to be elected to a scrutiny board along with other rail-industry stakeholders. This board would have powers to set the strategic direction of the organisation and would provide much-needed scrutiny over matters such as remuneration. The Co-operative Party believes that the case for a mutual governance model at Network Rail is compelling. Interestingly, it also believes that moving to a mutual model would not require primary legislation.

2 Train-operating co-operatives

Many people working in transport policy and beyond are looking for alternative models for train-operating companies. Co-operative and mutuals may well be able to provide the answer. To look at this opportunity it is necessary first to outline the ways in which mutual train-operating companies could obtain the right to run services. There are potentially a number of ways for this to happen. First, an existing sector operator might 'hand the keys' of a franchise back to the operator of last resort, the Department for Transport. This happened most recently with the East Coast Mainline service. In this case the Department created a directly operated rail service vehicle called East Coast Trains, which has managed the franchise as an extension of the Department for Transport for the past five years. It could be argued that the service has effectively been nationalised and has operated successfully as a public-sector entity. There may therefore be a case for further nationalisation or alternative ownership structures that embrace co-operative principles as an alternative to private-sector solutions in the future. These principles could lead to an innovative mixed-stakeholder model, including employees, affected communities and, critically, passengers.

The introduction of co-operative and mutual railway operations could potentially take place as an alternative to the future retendering of franchises. The Co-operative Party's initial review of the legal evidence in this regard, particularly in relation to European competition law, is inconclusive. However, it may be possible to remove the practical barriers to a new public-sector rail co-operative or mutual being created that could take over rail franchises at the end of current agreements, rather than retender. A new mutual could be put in place which would embrace employee and passenger democratic models, possibly similar to those of current retail societies or building societies. It is worth noting that these rail mutuals would not suffer as a result of no prior experience of rail delivery, as when current franchises changed hands all but the top management would stay exactly the same and the staff would simply change uniforms. The Co-operative Party has, along with the train drivers' union ASLEF, commissioned two significant reports by rail-policy expert Professor Paul Salveson which have looked in detail at possible models and at the benefits of a mutual approach to passenger rail in Wales and Scotland.[3]

During the last 20 years of rail privatisation, a relatively small number of operators have bid for, let alone actually won franchises. In order to encourage competition, the Department for Transport has wanted five or six main operators in the market for franchise services. This has effectively created an oligopoly that has deterred other operators which have periodically sought to get involved in the UK market. In addition, the Government has historically given great weight to industry experience when awarding rail franchise contracts. It is therefore unlikely that a new co-operative or mutual could successfully bid for and win a rail franchise opportunity through an open tender competition. An alternative could be for a new co-operative or mutual to partner with an existing private-company operator to win a franchise. This could act as a means for the new venture to gain experience and credibility in rail operations before bidding alone for future opportunities.

There are other significant barriers to entry within the rail industry – for example, the average cost of a franchise bid for a single contract can be £4-7 million. Indeed, following the high-profile collapse of the last West Coast franchise bid, referred to earlier, each bidder was given £10 million compensation for their bidding costs. It would be difficult for a new co-operative to find this kind of capital just to be in the competition. On top of this, there are fairly infrequent competitions and an industry rule of thumb would be that a company wins one in three competitions. Therefore a co-operative could have to find the costs of three bids over four or five years before even achieving a contract award. This is not to say that a bid is impossible, but it would need the right level of support and possibly some reform to the franchising regulations to provide a more level playing field for new market entrants. A final barrier to entry is what is known as the 'performance bond', or the amount of money that is ring-fenced at the start of a rail franchise. This bond is not redeemable if the operator falls short of its contractual commitments and ceases to operate the service. These bonds can cost as much as £40 million and this introduces another capital requirement that a new operator, co-operative or otherwise, would need to find to be in contention for franchise opportunities.

However, more recent franchise contractual requirements have placed much greater emphasis on social benefit, passenger and employee say and involvement, so perhaps a more encouraging policy environment is on the way. As previously mentioned, Go-op is attempting to become England's first open-access operator, which may be another route into the rail industry for co-operative business models. Its experience in attempting to overcome some of the barriers to entry and to meet the requirements of Network Rail, if shared, could prove useful to others that try to follow in its footsteps. Perhaps the most straightforward way of bringing about co-operative involvement within passenger rail could be through joint ventures between existing rail operators and co-operative societies – or alternatively private firms themselves forming new co-operatives.

The widespread criticism that the rail industry regularly receives would suggest a form of failure and possibly market failure, suggesting that there is scope for co-operative and mutual values and principles to play a part, even if co-operative business models do not actually deliver the services. In the same way that supporter trusts provide inspiration for true supporter voices to be heard within sporting clubs, there may be a case for organisations that give the passengers a voice on the boards of rail companies and for collective voices being developed within regional services. As the industry seeks to bolster its own reputation for delivering what is a social good and in a largely subsidised environment, the development of operator-passenger relationships of this type could be a future trend.

3 Co-operative road tolling schemes

There is currently one major road toll on the UK road network: the M6 toll is privately operated by Macquarie, an Australian pension fund. There are other road infrastructure tolls, such as the Mersey Tunnels and the Forth Road Bridge, that are operated and maintained by local government or by devolved parliaments.

It appears to be clear within transport policy that there will be a need to introduce road tolling in some guise and at some stage, in order to reduce transport emissions and to pay for road upgrades and infrastructure development. Road tolling was a policy area which the last Labour Government moved towards but then rowed back from in the face of stiff opposition. The Coalition Government has hinted that road tolling is on the way and will be focused on trunk roads rather than motorways. There have been plans for new trunk-road development to be paid for through tolling. The recent introduction of the lorry road user charge is further evidence of the Department for Transport's belief in the need for further charges for use of the road network. A further recent development which indicates that tolling could raise its head again is the devolving of the Highways Agency into a more Network Rail-style arms-length organisation. This more independent organisation may be better placed politically to deliver measures and policies which have, until now, been regarded as politically toxic.

As stated above, current Departmental thinking is that new road-tolling schemes should be centred on local trunk roads – for example, bypasses around major conurbations. The likelihood is, therefore, that local traffic will be the main user of the toll and that local communities will be the ones paying the environmental price for the road development. In this event, the case for a local benefit beyond the road infrastructure itself would be strong and co-operative or mutual solutions might be appropriate.

The level of tolls is often a highly controversial matter and has led to campaigns such as the 'Anti Forth Road Bridge Toll Party' or the regular scandals and political fallout in Merseyside over the level of the tunnel toll. For many, the use of these roads and routes will be an economic and social necessity and so, if there is a charge, they will have to pay it, no matter what. This demand inelasticity can be an attractive proposition for private-sector operators with fiduciary duties to shareholders. A road toll is also an attractive piece of infrastructure for companies and funds to own, as it provides a ready source of cashflow each and every day. Hence the Coalition Government is confident of private-sector involvement in this development. There is no good reason why, with more creative Departmental thinking, professionally managed, locally owned trusts could not be the operators of such infrastructure. These trusts would ensure accountability of pricing and reduced profit leakage (which can undermine the ability to pay back the debts of construction). They would also ensure a much more local and focused organisation in terms of its interaction with affected communities and its social responsibilities. It should not be lost sight of that this is not a sector which requires the Government to 'buy back' the infrastructure or contracts and that there is no imperative or legal judgment which requires these schemes to be delivered by private investors such as Macquarie. Indeed, the co-operative model may offer a locally palatable and politically more deliverable method of infrastructure enhancement and modal shift.

4 A mutual Highways Agency

As has been highlighted previously in this chapter, the Highways Agency, which was once an arm of the Department of Transport, is being turned more into an arms-length company limited by guarantee, in the same vein as Network Rail. This is a very recent development and it is too early to know how the company will act and operate. However, given that the stated inspiration is Network Rail, an organisation which has been challenged for a lack of accountability and efficiency, it could well be the case that a mutual model for the Highways Agency could allow motorists a more direct say over the road network's maintenance and development.

5 Trust ports

The importance and influence of ports and shipping are often overlooked within transport-policy development and by the public at large. The overwhelming majority of the goods we buy have been shipped to the UK and moved through our ports and their associated infrastructure. Shipping and ports have often been a purely privatised sector and the liberalisation agenda of the Thatcher Government further enhanced this through port privatisation and the repeal of legislation such as the Dock Labour Scheme. Despite this, ports and their business often define an area, town or region. They are often major employers, whether directly or not, and they can generate a strong feeling of local interest and a sense of ownership.

There are over 100 ports that have not been fully privatised, which are collectively known as trust ports. They include the smaller ports such as

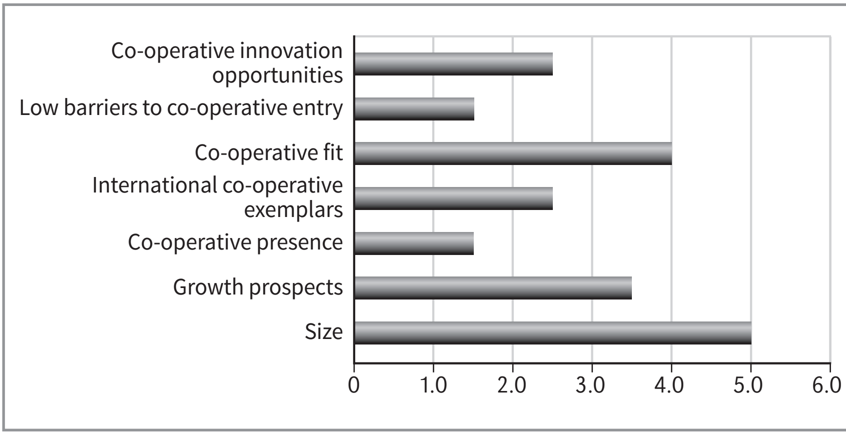
Cowes, Dartmouth or Tynemouth as well as some of the more established and large ports such as Port of Tyne, Dover, London and Belfast. The trust ports are, as their name indicates, still publicly owned infrastructure which are operated by trusts. Trustees are appointed by officials within the Department of Transport and are not accountable locally. This curious, quasi-private status has often come under review and many within the industry believe they should be fully privatised in order for efficiencies to be gained to ensure that there is fair and open competition with other privatised ventures. Periodically, the Government looks towards 'modernising' trust-port structure and ownership. Given the current focus on deficit reduction, and the sale of public assets such as the Royal Mail, the Tote or the public stake in Eurostar, it is little wonder that the spotlight has also fallen on the trust ports. The sale of the Port of Dover, for example, would be an attractive proposition for many.

It is against this backdrop that there is a renewed interest in community accountability and even ownership within some of the trust ports. Whatever the motivation, this interest creates opportunities for co-operative and mutual development in the area. One example is the widely reported proposal for a 'People's Port of Dover', a campaign which has been backed by the (Conservative) local Member of Parliament, Charlie Elphicke. The kernel of the idea in terms of community engagement and even ownership, however, is not unique to Dover. The Port of Tyne has begun to look much more progressively at these models and Belfast is equally seeking to boost its own accountability and engagement. These trends give some encouragement that co-operative and mutual models may provide important inputs into the future of the UK's trust ports. Local ownership would have the potential to become an important local driver of economic development. In some ways this would be the logical extension of the original idea of the trust ports, but rather than unelected quangos having the monopoly on the operation of these important community assets it would be the people and communities who would share the responsibility and benefits.

The example of the People's Port of Dover shows that there is an appetite for the idea and an understanding of the need to connect ports to their communities. It also demonstrates, however, the high financial barriers to entry. This might mean changing government policy in terms of legislating for a new governance model to be brought forward for the ports, for example, with the ownership remaining public but with mutual models being layered on top. Either that or capital-raising avenues such as regional banks will need to be further developed in order to match the capital to be raised through co-operative-style community share offers.

Conclusion

TRANSPORT



Transport is a sector that does not currently benefit from large-scale co-operative and mutual enterprise service delivery. But we should not take it for granted that this will always remain the case. There are barriers that could prevent proliferation of co-operative transport models, but there are also opportunities across almost every mode of transport. This reflects the fact that many transport systems operate, if not on a monopoly basis, then on a network basis, and the quality and integrity of the incumbent provider is what matters in terms of outcomes. Co-operative and mutual models have succeeded elsewhere in utilities, from Welsh Water to US rural electricity co-operatives, so a dose of co-operation could be the innovation that UK transport systems now most need. ■

1 Modo (2013), **modo.coop**
2 John Restakis (2014) personal correspondence
3 See **s.coop/welshrail** and **s.coop/scotrail**

17
Taking stock, looking forward

A daily economy

This book breaks down the landscape of the British economy into contours that we can recognise. The great national aggregates of GDP, employment, the rate of inflation and the balance of trade are the data of those who control the macro-economic levers in London. They obscure the specific character of the economy of our daily lives – the shops, the buses, the farms and the streets of a city. The chapters here come down to a human level, and describe the hidden structures and forces that are shaping the economy as we experience it. In doing so they allow us to think how things could be done differently and map some of the promising paths opening up for co-operators to follow.

What we learn

Three features of these sectors stand out when the chapters are read together. First, it is striking how many of them in Britain are dominated by a few large firms. In energy it is the big six, in banking the big five, as it is in housebuilding. We learn that the 24 passenger rail franchises are in fact owned by six or seven parent corporations. The top four supermarkets account for three-quarters of grocery sales. We would find a similar picture in other sectors touched on in this report – the oil companies, the press, book publishers or pharmaceuticals. Economists refer to this as oligopoly. It appears as an inherent tendency of market competition. In Britain it has been naturalised as an inescapable way of life.

Here is the bind. We depend on these companies yet they abuse their position. The banks are the prime example of this, not just for the calamities of 2008, but for the successive scandals of mis-selling and market manipulation. The oil companies and the electricity majors have been intensifying the problems of climate change, not resolving them. In the press it has been the scandal of phone tapping. British housebuilders have produced smaller houses, at poorer quality and at higher prices than those in Holland and Germany principally because the money in the UK is to be made in land.[1] All these companies have contributed in their own way to tax avoidance and the growing inequality that, as Thomas Piketty records, is approaching levels last seen in the early 20th century.[2] There is a consistent pressure driving a wedge between public and private interests.

The second striking fact is that in many of the sectors the traditional role of the state in counteracting this divergence has been eroded. In some of the sectors the wedge has deepened as a result of the privatisation of public assets. The social-care chapter, for example, shows how privatisation has reached the point where the sector is now dominated by private providers – many of them owned by private-equity companies – that have cut pay and the quality of service in order to generate their returns. In education we see the emergence of large quasi-corporate chains of academy schools. Public land is being returned to the speculative private market in spite of the need for social housing. Nearly two million council houses have been sold in the past 30 years, and there has been a long-term shift to private renting. Now healthcare is being opened up to a private market. The chapters give a picture of a state that, far from counteracting the wedge between the public and the private interest, appears bent on expanding it.

Third, the chapters report on the significance of new technology in shaping the future of these sectors. In many of them a battle has already been joined between the use of information technology by the old majors to strengthen their position and new entrants with disruptive online alternatives. In banking there has been an upsurge of online banking innovation – so-called Banking 3.0 – whose upstart companies threaten the foundations of the old banking models, as they are already doing in Africa and the Far East.[3] In retailing, Amazon is surging into one sector after another, leaving traditional retailers struggling to catch up. The education chapter mentions the Khan Academy and Massive On Line Open Courses (MOOCs), which have the capacity to transform school and university education respectively. There are similar trends appearing in healthcare, in food production, and above all in energy, where the relevant chapter records how renewable-energy technology provides the scope for each village and even each house to become its own power station. Just as iTunes has changed the record industry, so these innovations are threatening the foundations on which the old oligopolies have been built.

There is a common pattern. The innovations open up spaces for distributed production – where a multitude of small producers are connected through common platforms, grids and protocols. Apple is a new giant, but it has provided the platform for more than a million apps. Coursera, the first MOOC, founded two years ago, now has 10 million worldwide students receiving 839 free courses supplied by 114 institutions. The renewable-energy co-operatives in Germany are now pressing for smart grids to support their local systems. Solar technology is set to be even more distributed. The forecasts are that it will be so cheap by 2030 that, like the computer, we will find it on every home and building.[4]

The picture that emerges from the chapters of this book is of a private economy that is out of sync with the major issues of our day and in many cases is making them worse. Climate change, the relentless growth of hazardous materials, pollution and waste, of chronic disease and obesity, of inequality, and, most starkly, the wider uncoupling of wellbeing and growth – all of these described as time bombs – are intensifying rather than being defused.

To put it mildly, this is not an economic system at ease with itself. And the state, faced with mobile capital and an eroding tax base, appears paralysed, insisting on seeing the problems of ever-increasing corporate economic and political power through the prism of 19th-century free-trade market liberalism. It has all the marks of a Shakespearean economic tragedy, with the principal characters unable to escape from their tragic flaw.

Waves of co-operation

Where does this leave the movement for co-operation? This is the question that runs like a continuous thread through the book. Faced on the one hand with large, often global corporations, how can small co-operative Davids hope to hold their own against the Goliaths that command the main spaces in the economy? On the other hand there are the social and environmental 'time bombs' – the intractable issues, and the ever-more-evident wedge between the public interest and the private giants on the path. It is this space – the space of the wedge – that co-operation in its very purpose and ethic is designed to close.

The Hungarian economic historian Karl Polanyi, analysing previous periods of what he called market utopianism – when governments legislated about land, labour and money as if they were no different from bread and potatoes – said that the crises that followed their new policies would trigger a counter movement, a political response demanding an alternative. For Polanyi, what was demanded was a democratic and interventionist state. Writing in 1943, he saw the Chartists in the 1830s making such demands, just as he witnessed demands for state management of the economy and then the welfare state in the 1930s and 1940s.

What is fascinating is that these moments of economic and social crisis were also ones for the growth of co-operatives. They were the economic parallel of the democratic political initiatives. The Rochdale Pioneers came out of such a counter-movement in the 1830s. There was a surge of co-operation in the 1880s and 1890s in Europe and the US in the wake of the long depression, and of rural electricity co-operatives in the US in the depression of the 1930s. Standing back, we can see that, just as there have been long waves of economic prosperity and crisis, so there have been long waves of co-operation.

The chapters here, each from their own vantage point, hint that now may be a time for the emergence of a new wave of co-operation. The multiple crises of the mainstream economy are unresolved. There are demands for alternatives. The question is how the co-operative movement, representing a new moral economy, can develop its networks so that it is able to grow within the hostile world of the private market.

To answer this question requires two things. First, a close study of the potential economies of co-operation and how successful systems of co-operation have realised such economies. Second, how the potential for distributed production and collaborative consumption opened up by information technology can be used to the advantage of co-operative growth. This book explores both of these and lays the ground for developing a programme for co-operative innovation.

Viral co-operation

When the history of co-operation in 21st-century Britain comes to be written, the remarkable growth of co-operative schools over the past six years reported in the education chapter of this book may have the same inspirational place as that of the Rochdale Pioneers in the mid-19th century.

There is the same sense of wildfire growth in them both, of a model that is at the same time visionary and practical, one that is tangibly of the moment. The co-operative movement has from the first highlighted the importance of education. It is the fifth of the seven co-operative principles. The new co-operative schools in England have taken all seven principles and embodied them within the educational process itself. In 1844 the necessities were bread, butter and porridge. Today's necessities in the information age are the values, the capacities of thought and creativity, which are the bread and butter of a school.

The first co-operative school at Reddish Vale – significantly in Greater Manchester, like Rochdale – had no idea that it would be the spark that led to a wildfire. Those who started it did not have a sector strategy, any more than did the first 28 pioneers in Rochdale. What they had were strong values, and a model of how a self-governing school could work. They had a keen sense of unfolding the future. At each stage, Reddish Vale and the many schools that followed moved forward along the paths of possibility, establishing new initiatives, as they were needed. Some were within the school and their communities, some with other co-operative schools.[5]

Where might this remarkable contemporary story of co-operation lead? There will certainly be more schools. The education chapter points to the opportunities for the extension into other spheres of education, particularly for further education colleges (some of which are already partnering with their local co-operative schools). But the possibilities go wider. Education is only one of many relational services. In a relational service, the quality of the service depends critically on the relation between the frontline staff (the teacher in the case of a school) and the user (the pupil). It is also shaped by the communities in which each are involved (the home and its communities, other users, and the service professions). Multi-stakeholder co-operatives are proving to be a remarkably effective model of governance for services of this kind.

Social care is a case in point. Health, particularly wellbeing and the care needed for those with chronic disease, is another. In both these chapters the authors record cases of viral growth. The social-care chapter describes the remarkable story of social co-operatives in Italy. From a few hundred in 1990, their numbers have grown to 14,000 today. Many of them, like the English schools, are multi-stakeholder co-operatives. They involve the carers, the families of those being cared for, volunteers and funders. Cities like Bologna now have 80 per cent of their care services organised through co-operatives of this kind.

The health chapter tells a parallel story of health co-operatives in Japan. There are now 120 health co-operatives in Japan, running 81 hospitals and 350 health centres. They are rooted in a network of 26,000 small local groups that promote healthcare and healthy living. Many of them have developed as offshoots of food co-operatives that sprung up in the late 1960s and 1970s in response to a succession of food scandals and sought to re-establish food as a relational service linking consumers back to local organic producers.

These remarkable food co-operatives first came to international notice through fair trade. The Green Co-op in Japan had fostered a project for displaced sugar workers on the island of Negros in the Philippines. The former sugar workers formed a co-operative to grow bananas which they would ship to the Green Co-op's 300,000 members. The producers visited the local Green Co-op chapters to raise finance and, once the trade was established, delegations from the Green Co-op chapters paid return visits to stay with producers. It was called 'people to people trade' rather than fair trade, a reminder that fair trade arose out of projects to re-introduce direct relationships between the small farmer co-operatives in the South and consumers in the North. The Japanese and the Italians, with their large consumer co-operative networks independent of supermarkets, have been most successful in maintaining these links.

Food and fair trade are cases where co-operatives are demonstrating relational alternatives to mass commodity industries. There are others cited in these chapters. In finance it is the local co-operative banks that spread so rapidly in continental Europe and Canada in the second half of the 19th century that still comprise a major part of retail banking in many countries. The energy chapter describes a similar expansion of renewable energy co-operatives in Denmark and Germany over the past 25 years, with 750 being created in Germany in the past five years. The relevant chapters record similar bursts of co-operation in insurance and in German and Spanish professional football.

The strategic point is that all these are growth sectors. Relational services like health and education are taking an ever-greater proportion of GDP in the post-industrial countries. There is a rising demand for a return to relational services – from banking to tourism.

The overseas examples of co-operative growth, like that of the English schools, reflect these trends and show that co-operatives, and in particular multi-stakeholder co-operatives, have a structure and culture particularly suited to relational services. In each case they have become major players in their respective sectors. They are evidence that co-operative systems work, and that co-operatives as a form of enterprise are not confined to the margins but provide an alternative human-centred model for much of the economy.

That said, the examples of viral growth have been specific to certain countries and regions. The social co-operatives have taken root primarily in Italy and Canada. Community banking has been strongest on the continent and is now growing rapidly in the US. By far the largest consumer-farmer food co-operatives are in East Asia. The challenge posed by the studies in this book is whether these successful co-operative systems can be replicated in this country. Although the conditions in which they are flourishing are different, are there some lessons we can draw that would contribute to co-operative growth in Britain? The chapters suggest some initial answers.

Creative instruction

The first thing to note is that many of the cases were the result of social movements usually sparked by some crisis or threat. Some were movements of those marginalised by the market – small farmers or tradespeople, ill-housed tenants, those without access to equitable finance. They have been part of Polanyi's counter-movement. Others are modern movements that question the trajectory of growth and its impact on wellbeing and the environment.

Second, these co-operatives have grown organically. The idea and the methods of one successful initiative inspire others. There is a distinctive 'co-operative multiplier'. In some cases the multiplier remains informal. But there are many ways in which it can be actively promoted. In Italy, each new social co-operative is helped to its feet by an existing co-operative, but on the understanding that, once it is up and running, it will become the foster parent of a new co-operative. As described in the opening chapter, they refer to this as the 'strawberry patch' principle.

Third, as the numbers multiply the system grows in complexity. The cells remain distinct, but they increasingly collaborate. Many establish intermediary support organisations – the Italians refer to them as consortia – to provide market intelligence, or finance, or shared standards, or political advocacy. For the retail societies and village shops, the collaboration is for purchasing. For the milk producer co-operatives of Parma, it is for the branding and quality control of their Parmesan cheese. In all cases the intermediary or second level co-operatives are controlled by the first level. The result is an inversion of the customary pyramid.

Fourth, these co-operative networks have found a way of achieving sufficient economies of scale and specialisation through such networks of collaboration without undermining the quality of relationships that lie at the heart of the co-operative advantage. This balance is critical. The strength of the goliaths of the mainstream is based on economies of scale, of scope and specialisation. Co-operative collaboration can limit their advantage but cannot hope to match it. Where co-operatives have the edge is in realising to the full the 'economies of co-operation' and these depend critically on maintaining the quality of the relationships as experienced by all those involved.

There is a continuing tension between the two forces. Co-operative history has many cases where the drive for scale and the shift in balance from the local co-operatives to the central service providers has led to the weakening of the economies of co-operation and the re-absorption of co-operative enterprises into the mainstream commercial economy. Some have characterised this in terms of an S curve, where a period of rapid co-operative growth comes to a point where the core relationships are lost and degeneration sets in.[6]

The successful ones have resisted re-absorption. Each of the cases cited in this book have fascinating histories of how they mixed and matched so that they held their own in the market while maintaining their central ethic and sets of relationships. When their size threatens to create too great a distance from the ordinary members, they split up their organisations rather than consolidate them, or work to reach a consensus of every branch and level. The Desjardins bank in Quebec took 10 years to negotiate a consensus balance between the primary, the secondary and in their case the tertiary levels in order to maintain their relational core in the face of liberalised financial markets.[7]

What they have taught us is that co-operatives have to give as much priority to expanding their economies of co-operation as to driving down their costs through scale and specialisation. The care of members, the nurturing of relationships and a deepening of a shared co-operative ethic are not supplementary but the precondition for successful co-operation.

Co-operative sector strategies

Any sector strategy needs to keep the above lessons in mind as it assesses the possibilities for co-operative expansion. As the introduction to this book points out, the purpose of a sector strategy is for those actively involved in the sector to understand its structures and the contending currents shaping its future in order to inform its own choices and plans. It provides a map for the traveller.

One element of a co-operative strategy will be similar to that of any cluster of small and medium firms (SMEs) – how to find spaces where they can compete against the large firms. Thirty years ago it was still thought that competitiveness depended on scale. That remains the case in mass commodity and service industries. But in the post-Fordist era mass markets have fragmented and new sources of competitiveness have opened up. Design, innovation, specialisation, speed of response, service quality have all underpinned the growth of SMEs in this period. So too has the growing significance of ethical and sustainable production.

Most co-operatives sail in these seas. Their position is much like that of other SMEs. They need their distinctiveness and quality. They also need to collaborate with others to provide some services that would be available to a large firm internally. Many of these are to do with information – market research, technical intelligence, sales representation and branding. In Italy and Spain the consortia to provide these services comprise co-operatives and small family firms – and on the evidence of this book such a model of firm-firm co-operation is of ever-growing importance today.

In some of the chapters – such as that on the creative industries – the co-operation may be between individual producers, members of the so-called precariat. In others, such as tourism and agriculture, it is collaboration Italian-style. The agricultural chapter gives the example of Welsh co-operatives. The traditional farmer purchasing co-operatives have been declining in the face of large-scale private competition. But there are growing numbers of small farm-farm producer co-operatives that have been flourishing with their own specialist products, their joint processing and branding.

The message is that co-operation by itself is not enough. Co-operatives on their own or in sectoral collaboration need their specialisations, and their capacities for design and innovation, to succeed in the new competition. This is the material dimension of strategy. It has to run in tandem with the relational strategy. For co-operatives the two are intertwined.

Economies of co-operation

The argument running through this book is that co-operatives have an added edge in the material field as a result of distinct 'economies of co-operation'. These economies are at the core of the economics of co-operation. They stand in contrast to (and often in tension with) economies of scale. They are discussed in terms of the 'co-operative advantage'. But whereas economies of scale are delivered by machines and the systems surrounding them, economies of co-operation depend on people and relationships.

Motivation is one of these economies. Long-term commitment to the co-operative is another – particularly significant in the case of workers with key skills. But in an information age it is the nature of 'co-operative intelligence' that has the most far-reaching significance. A collaborative culture encourages the generation and sharing of ideas within co-operatives. It is one of the features of successful workers' co-operatives such as Suma or the scientific instruments co-operatives in Wales. But it also applies to the sharing between co-operatives, which gives them a marked potential advantage over private firms, concerned as they are with their patents and confidentiality clauses.

The open-source movement has taken the principle furthest. Two-thirds of the world's software is now based on programmes developed by co-operators, working voluntarily, and giving away what they have collectively produced. They are not formal co-operatives because they don't need formal enterprise structures. But they provide a paradigm for the principle of co-operative working in the information age.

The parallel developments of crowd sourcing, crowd searching, crowd funding and citizen science highlight the advantage co-operatives have in accessing the collective intelligence of their members and of others inspired by the work of the co-operative and sharing its values. The core idea of openness – of sharing information between collaborators who do not abuse that sharing – is the driving idea of the new peer-to-peer movement and feeds into the idea of open co-operation.[8]

It means that eco-housing co-operatives share their development knowledge with new projects. The same has happened with mini-hydro schemes, with organic farmers and among farmers' markets. In state-funded services it points towards the establishment of public-social partnerships with open accounting and the joint sharing of knowledge for service improvements. Co-operation allows private knowledge to become social.

It also generates trust. The link between information and trust is at the heart of the success of local co-operative banks. The banks are rooted in their localities. Their managers may have been at school with the customers and local businesses. They know each other in ways that the statistical assessments on which large banks depend cannot hope to match. As a result, co-operative banks have consistently had higher loan rates to small and medium businesses, lower default rates and greater resilience in periods of economic crisis.

What distinguishes co-operative-sector strategies, then, is that they are concerned both with material and relational strategies and with how to maximise the collective 'economies of co-operation' among co-operatives. That will also influence the sectors and the spaces in each sector where the co-operative advantage will count for most. The knowledge sectors stand out, as do relational and environmental services. Then there are those sectors, like housing, that have been badly affected by land speculation and where co-operative ownership of the freehold not only secures affordable land but also the future of valued facilities and shares any gains among members and their communities. All these are sectors where there is that growing gap between the public and the private interest which co-operatives are in a position to bridge.

There is one other economic trend where the moral economy of co-operation gives it a potential advantage. In a growing number of sectors users/consumers are playing a substantial part in the production of a service. They have become 'producers'. For example, 98 per cent of the care of people with diabetes is provided by themselves and their family and friends rather than the NHS. In some measure this is the case with much chronic disease, of care services more generally, of much education, transport, leisure, personal finance as well as today's environmental management of the home.

Modern producers require skills, some tools, but above all they require support. A new support economy is emerging that provides advice, information and help in assembling a customised package of services. The processes re-integrate what are otherwise siloed services around the needs of the user. The support has to be independent, with no other interest than that of the user, for it is a relationship that depends centrally on trust.

While there are some private firms and social enterprises that are seeking to provide such services, it is consumer and multi-stakeholder co-operatives that have the principles of member needs and trust encrypted in their structures and guiding principles.[9] In some services it is individual packages of support that are required. In others it is packages for members that might not otherwise be available.[10]

The co-operative economy has certain hubs that are well placed to play this role of advice and assembly. The retail societies are one, co-operative GPs' surgeries another. Some of the co-operative schools are beginning to perform this function.[11] This is a field of ever-expanding opportunities as public services are aware that they are constricted by their silos, and the private market and much of the charity sector is experienced as such. Along with other economies of co-operation, these particular opportunities should be on the strategic agenda.

Co-operative innovation

The importance of innovation for the future of co-operation has been a principal theme of this book. It is a further dimension of a co-operative sector strategy. One of the features of successful co-operative economies is that they have institutionalised the capacity to innovate. The Mondragon group of co-operatives has its own research and development laboratories to support innovation in its member co-operatives. The light industries in Emilia Romagna have established consortia that scour the world for the latest technology on behalf of their members. A visitor to the small furniture workshops of Emilia Romagna will find the latest equipment for producing specialised parts or processes. The ceramic co-operatives of Imola have become European leaders on the back of their innovations in the design, the machinery and the quality of their tiles.

There are examples of 'hard innovation' in products, services, processes and the formal codes (as against the tacit knowledge) governing those processes. All sectors need to consider how to promote and share such innovations as part of their material strategy. There is no single technological path. Co-operatives may develop a distinct one. The retail chapter gives the example of Mydex, the company that designs software so that consumers control their own data – a small-data response to the rise of big data. There are similar initiatives in developing patients' control of their own data in health. The chapter on insurance gives an example of mutual policies linked to the miles driven by members and the quality of their driving while preserving their data privacy. There are human-centred paths of innovation that are particularly appropriate to co-operatives.[12]

Material innovations such as these are, however, only one of the varieties of innovation described in this book. There are other 'soft' ones. One that recurs in all the chapters is relational innovation – the adoption of a co-operative culture and a structure that reflects that culture. This is the kind of innovation that generates the economies of co-operation. Co-operative schools exemplify the liberation of energy that comes from such a change. The criminal-justice proposals carry a similar promise. Supporter-owned sports clubs, co-operative wind turbines, village pubs and shops are all examples where the major innovation is a change in the ownership and governance of an enterprise, and the change in culture that goes with it.

A second kind of organisational innovation is that which is at the core of the 'enterprise systems' developed by the viral co-operative networks described earlier. It transforms the 20th-century model of the corporate pyramid, which was itself a major organisational innovation. The pyramid model was based on the principle of compartmentalisation, that management, like work, could be broken down into separate self-contained parts. Each part could operate according to rules established from above and co-ordinated by those at the top. It was a model suitable for mass production, and was developed first for private corporations and then for the state.

Yet it is a model that is quite unsuited to the complexity of modern production. Now the demand is to increase the autonomy of the front line, and break down the silos that have traditionally divided them. If Fordism was about compartmentalisation and centralisation, post-Fordism is about re-integration and decentralisation. The silo walls are being dismantled.

The employee-owned business Ove Arup, described in the energy chapter, organises its 10,000 worker owners on the basis of projects not organograms. The same happens in IBM, or in film production. Teams are now taking the place of divisions. And organisations are becoming open, involving their workers, their suppliers and their customers in the development of strategy and the generation of new ideas. Firms that have developed these new ways of working have been outcompeting those still bound to the 20th-century pyramids.[13] It has been one of the primary innovations of the past 40 years.[14]

The successful co-operative systems described in this book have been pioneers of this new latticed model. They combine autonomy of the parts with integration of the whole. Their threads of connection are lateral. Common service consortia are controlled by their members. Information is open and shared. The critical binding is one of a shared ethic.[15]

The community food and retail chapters both describe one of the most remarkable examples, the Japanese Seikatsu co-operative with 350,000 members. Its basic cell is the *han* of 6-10 households, organised into 19 districts which, although they are independent, collaborate in the sharing of knowledge and political advocacy nationally.[16]

The result is an enterprise system of great complexity. The autonomy of the parts means that each has been able to control its own operations and its direction of development (including what new products to develop, who should produce them and how quality is controlled and improved). It has also meant that they have been able to use their resources as springboards into other services. Seikatsu means 'life' and the co-operative, like other similar networks in the country, has diversified into those fields which their members see as necessary for a good life.

Organisations of this kind are not blueprints that can be simply transferred and copied. They face continuous changes in technologies, in the wider society, and in the needs of their members to which they must always be ready to respond. They are in this sense open systems, and how to develop them needs to be part of the relational strategies in any sector.

The spread of the internet is introducing further changes in open organisational models. The chapters in this book give many examples where web-based technology is opening up new ways for consumers to combine.

There are the peer-to-peer sharing sites that have mushroomed over the past few years. There is the case of collaborative purchasing of insurance, and of crowdfunding future services in advance. These examples point to the potential for new types of co-operative-enterprise systems in which the co-operative is responsible for a platform that promotes informal collaboration.

Finally, there is innovation in how complexes of production are organised – so-called 'productive systems'. The chapters on community food and renewable energy both sketch the outlines of such a transformation. Community food has developed as a counter-movement to industrialised food. It emphasises the centrality of healthy and nutritious food (and how it is produced and shared) to health and wellbeing. It has promoted local and organic production, connected directly to consumers through box schemes and farmers' markets. In the more developed systems, it has led to co-operative processing industries, 'closed loop' composting, distributed technologies and community food preparation and eating. In parts of Japan this system has outcompeted conventional supermarkets and intensive farming.

Similarly, the emerging system of distributed renewable-energy plants has led to the development of technology for energy storage and smart grids, and for new methods of reducing the need for energy in the home, in transport and in industry. This is a quite different model to that of capital- and carbon-intensive, centralised electricity systems that developed in the 20th century. As with community food, co-operative and local ownership is a central feature of the new renewable-energy system. It confronts the giants on the path of all such transitions – from technology and finance, to the large corporations and regulatory regimes of the old systems.

What emerges from this discussion is that co-operative innovation is many sided: from the generation of new co-operatives with the cultures that encourage 'economies of co-operation' to the establishment of the outlines of new systems of production. The soft relational streams run alongside the material ones, each with a distinctive character in co-operatives. In each case the strategies for innovation are often best pursued by co-operatives in collaboration as part of a wider sector strategy. The sixth principle, of co-operation between co-operatives, is the guiding one for an innovation-driven co-operative sector strategy.

Next steps

This book is the launch of such a process. The chapters provide a first sketch for those engaged in the sector to develop. The process should be open and involve those researchers with knowledge of the sector, as well as co-operative practitioners from overseas.[17] The value of this book goes further. Because it looks at the 15 sectors together, it identifies the opportunities for cross-sectoral collaboration. It moves beyond the sectoral boundaries to connect the threads of a wider co-operative system.

For the kind of growth we have witnessed in co-operative schools, much will depend on changes in the policy envelope within which each sector is operating. The changes in policy are the subject of a separate chapter. What is clear is that national policy and the regulatory system in every sector – whether it be agriculture, energy, planning, housing, health or banking – can be more or less friendly to co-operative development. To date it has largely been less. Trentino and the other co-operative regions in Italy, described in the opening chapter with their 'co-operative effect', show what can happen if it is more.

We turn next to this framework of policy that can harness the contribution of co-operative innovation. Policymakers, however, want to know that co-operative systems work. This book is the first systematic collection of the evidence that it does.[18] ■

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1 See David Rudlin and Nicholas Falk (2014), 'Uxcester Garden City', the winning submission for the Wolfson economic prize for the design of new garden cities.

2 Thomas Piketty (2014), *Capital in the Twenty-First Century*, Belknap, Cambridge, Mass.

3 See Chris Skinner (2014), *Digital Bank*, Marshall Cavendish.

4 Jeremy Rifkin (2014), *The Zero Marginal Cost Society*, Palgrave McMillan.

5 It took nearly 20 years for the early retail societies to establish the Co-operative Wholesale Society (CWS) in 1863 to purchase collaboratively. The first 15 co-operative schools set up their equivalent of CWS – the Schools Co-operative Society or SCS – in three. Like the CWS, the SCS is a source of advice and support and acts as a 'lifeboat' for any member in difficulty.

6 Michael Cook and Molly Burress (2009), *A Co-operative Life Cycle*, The University of Missouri, Columbia.

7 See Claudia Sanchez Bajo and Bruno Roelants (2011), *Capital and the Debt Trap*, Palgrave McMillan.

8 For the extent and richness of the new peer to peer economy see the website of the P2P Foundation **p2pfoundation.net**

9 One innovative firm that has developed this approach successfully is the concierge management service Ten UK. It sees itself as a trust-based knowledge-management business on behalf of its 350,000 clients. The single-parent charity Gingerbread has a similar approach for those it supports, as does Manchester's Big Life consortium of three charities and seven businesses that have brought together a package of services to support vulnerable people in the North of England. All these contain valuable lessons for the co-operative movements.

10 The Lincoln Co-operative Society acts in this way to sustain a thriving local economy, ensuring the survival of some threatened services (such as a valued bakery, local libraries and post offices or the town's football team), and developing others (like a grief council co-operative, or new housing, a science innovation park and a laboratory in co-operation with Lincoln University's School of Pharmacy).

11 In Latin America, the peasant co-operatives have become the hubs.

12 These examples bring out the point that material innovations are not solely technical. They embody and shape relationships in both production and use. There is a strong current of work on human-centred technology which looks at skilled work as life to be enhanced by tools and machines rather than replaced by them. The City University runs a Masters course in human-centred systems, much of it now concerned with human-centred computing. For a recent introduction to the literature and applications to the practice of

technological innovation, see Adrian Smith (2014), 'Technology Networks for Socially Useful Production', *Journal of Peer Production*, issue 5, October 2014, **s.coop/technetworks.** An influential early text was Mike Cooley (1987), *Architect or Bee*, Hogarth Press. The social perspective of technology has a close fit with the idea of co-operative innovation.

13 For a detailed comparison of the two, see Ted Piepenbrock (2009), Toward A Theory of the Evolution of Business Ecosystems, **s.coop/businessecosystems**

14 The change in organisational and management thinking between the 1960s and the 1990s is the subject of a major study by Luc Boltanski and Eve Chiapello (2005), *The New Spirit of Capitalism*, Verso.

15 Michael Best (1990), *The New Competition*, Polity Press, chapters 8 & 9, is still one of the most perceptive descriptions of the networks in the Italian district. He also draws parallels between them and the organisational innovations of 'Toytotaism' in Japan.

16 On Seikatsu and the Japanese livelihood co-operatives, see John Restakis (2010) *Humanising the Economy*, New Society, chapter 6 and the earlier book by Katsumi Yokota (1991), *Among Others*, Seikatsu Club.

17 A valuable model is that of Euricse, the co-operative think tank based in Trento in Northern Italy, which undertakes background research, and also meets regularly with the main co-operative sectors in Trentino (notably the agricultural co-operatives and the 45 co-operative banks) to discuss future directions and collaborative activity. An engaged co-operative think tank of that kind is an urgent requirement in this country to support the co-operative growth that the current economic situation calls for.

18 The work then needs to be expanded. The study of the successful co-operative systems and what we learn from them needs to be synthesised. What the Nobel Prize winner Elinor Ostrom and her team have done for the use and governance of common resources, needs to be done for co-operatives. From the thousands of in-depth studies, she identified eight key features of the successful self-governing of the commons. There is a similarly rich volume of studies of co-operatives. The task is to distil similar principles of success, which can underpin a strategy for co-operative expansion.

18
Co-operation policy

An economy for the common good

The UK has a remarkable track record of social innovation and action in the economy, but one that rarely touches on mainstream economic policy. As a result, co-operatives and social enterprises, social investment and fair trade are all treated as solutions for when things go wrong, rather than as the way to get them right.

From time to time, one part of this becomes a fad. It was social enterprises, then co-operatives, now employee ownership. And while the sun shines, we see partial gains – not least the landmark new Co-operatives Act which came onto the statute books in 2014, the result of a promise by the Prime Minister at the start of the United Nations International Year of Co-operatives in 2012. Even so, democratic and community models of enterprise remain a footnote within a wildly distorted contract, in which financial incentives and returns are assumed to explain and sustain economic activity.

Our intention in this book has been to explore the extent to which innovation can be a force for change (after all, arguably all social change is innovation of one form or another). We have wanted to paint a picture of what we believe the whole economy could be – an economy for the common good.[1] But it is a study that has been built from the bottom up, situated inside the real world of people, markets and capital. In so far as this book is about innovation in co-operative enterprise, it describes what people can do for themselves. It is for open-minded innovators and entrepreneurs to seize these opportunities out there in the real economy. But this social economy exists as part of a complex weave of cultural and political realities. Any recommendations we make for how these innovations could be realised must be aimed not just at entrepreneurs and enterprises, but also at relevant sectoral actors and the state. In other words, these innovations need the support of a co-operative political economy.

Political economy in this context refers to how governments pull the available policy levers to initiate, enable or otherwise encourage the innovations we have identified. It also refers to the possible role other strategic players, including pressure groups and trade bodies, can play in doing the same.

The state has an important role to play in encouraging mutuality and co-operation in our economy. While we do not want a return to microeconomic management, we do believe the state needs to set the conditions for co-operative innovation. In law, regulation, institutional arrangement, tax and public spending, our political economy should be better disposed towards mutuality. This chapter explores the following areas of public policy that are critical to achieving this:

- Responsive legal frameworks
- Well-calibrated regulation
- Targeted tax
- Smart interventions
- Education, advice and information
- Public-service innovations.

Responsive legal frameworks

One of the most obvious ways in which the state can positively influence the economy is through maintenance of the legal and regulatory frameworks within which businesses operate. On the legislative front, this can be as basic as ensuring that the laws of incorporation, such as the Companies Act or the Co-operative and Community Benefit Societies Act, are fit for purpose. The power to legislate for specific sectors, such as financial services and housing, provides another set of policy levers. Meanwhile, the state undertakes to regulate economic activity across sectors – for example to promote competition and protect the rights of consumers. And regulation also governs conduct within specific sectors such as energy and agriculture. Taken together, these legislative and regulatory policy levers 'set the rules of the game' for legitimate economic activity and can be calibrated to enable and encourage our co-operative innovations.

Aside from any particular reforms, it is important to embed an overarching principle that the legal frameworks for co-operatives and mutuals need to be adapted over time so that they allow beneficial innovations. This requires government to be as responsive to these legislative needs as it is to those of privately owned companies. In practical terms, maintenance of a level playing field includes creating one department in Government with adequate responsibility and resource to serve as a centre of excellence in championing all business forms. Another vital tool in this regard would be the introduction of a new business impact test to systematically ensure all legal forms are considered in legislation and regulation affecting business.

We now move on to a specific reform of the legal framework that will strengthen the collaborative dynamism of the co-operative model. One central theme running across all innovations in this book is the way in which co-operatives and mutuals allow people to effectively pool resources to meet their common needs. In many co-operatives, members perpetuate this pooling of resources by reinvesting significant portions of their profits into a common pot to finance greater productivity, sometimes called 'indivisible reserves'. Reform of co-operative legislation could better lock in this internal reinvestment. Such reinvestment locks are prominent in the legal frameworks of countries with strong high-impact co-operatives. For innovations such as public-social partnership, employee-owned care and community-owned culture, a reinvestment lock will be particularly vital because it will greatly enhance long-term collective investment and growth, while providing everyone involved with crucial reassurance that the capital in their co-operative will not be reappropriated for private gain. We therefore recommend introducing an optional asset lock for co-operative societies so as to provide a statutory underpinning for indivisible reserves.

Looking ahead, we envisage that the laws governing co-operative and mutual capital may need to change to accommodate potential innovation. All co-operatives can learn lessons from the revitalisation of member economic participation seen by community co-operatives in recent years through the advent of community shares. This building up of practical contemporary experience in putting share capital to use can inform good practice for all co-operatives, especially those that are consumer and employee owned. Meanwhile, the advent of crowdfunding and social-investment markets opens up new possibilities for co-operatives to raise finance from new individual and institutional investors. Looking at international examples, it is entirely possible that innovations like new co-operative and mutual housing, consumer-owned tourism platforms and social co-operatives, will require new forms of share capital attractive to member and non-member investors. Government will need to ensure legal frameworks support appropriate innovations in co-operative capital.

Well-calibrated regulation

Getting regulation right presents some major challenges for government. Enterprise needs the freedom to operate, innovate and thrive; without this resulting in human, environmental, or systemic harms. At the same time, the sheer complexity of modern economic activity tends to result in a vast and arcane web of regulation that often has unintended consequences for different economic actors. This is especially the case for co-operatives, which too often fall outside the 'mainstream' focus of policymakers. This impact of the regulatory system requires constant management. Co-operatives, mutuals and social enterprises are also subject to additional regulation designed to uphold their fundamental principles. The test here is to ensure that regulation is not too dogmatic, and balances sometimes competing interpretations of how these principles can translate into practice.

The greater the innovation in different sectors, the more people will come up against unexpected barriers in a regulatory system that holds the line, with a 'better the devil you know' mindset propping up the status quo. Our innovations will fashion powerful new economic linkages that will strengthen local economies, address market failure, shorten supply chains, and challenge the dominance of entrenched interests. In responding to such innovations, regulation across our economy should promote collaboration as much as competition, and recognise common wealth creation and social value.

Taking one of our innovations as an example, community-energy co-operatives are eager to supply their members with the green energy they generate. Yet regulation currently prevents communities from supplying themselves, instead compelling them to sell the electricity they generate to entrenched energy companies for distribution via the National Grid. A local-licence regime in the energy market is needed to allow communities to directly supply themselves with the energy they generate. Elsewhere, regulation of financial mutuals since the 2007-09 crisis has not always been proportionate to their lower-risk member-focused operations. Regulation of financial mutuals should not prevent their development or get in the way of the innovations we have identified. As a final example, communities often find themselves thwarted in their efforts by the very planning systems that are supposed to serve them. For community-led innovations in areas like heritage infrastructure and housing to be more prevalent, planning frameworks will need to reflect crucial differences in common wealth and local economic outcomes by attaching material weight to community ownership.

While there is a need for caution in the interests of public protection, we require a general shift in regulatory presumption. We do not blame the regulators when the legislative framework constrains their actions – after all, they must adhere to the rule of law. But no legislative framework precludes multi-agency co-ordination. And where there is room to manoeuvre within the law in a way that enables essential economic and social innovation, we think regulators should have a duty to act. We recommend setting high-level multi-sector principles for regulation, conferring a duty to enable these types of co-operative innovation.

Finally, innovations in sectors like transport and social care are likely to require foresight and flexibility in interpreting the fundamental principles of co-operation. We envisage that it will be particularly essential for regulators to work with the sector in developing codes of practice for capital investment and new models of governance. But there is also a big role for sectoral organisations to play here in encouraging innovative thinking and action.

Targeted tax

Tax is one of the most obvious, direct and impactful economic policy levers available to government. Because of this, those seeking to influence policymakers regularly recommend tax reliefs or rises as a way of stimulating or discouraging economic behaviours. Given the very real monetary costs to either the Exchequer or the economy, such recommendations should never be made lightly.

That said, many of the innovations identified in this book would benefit significantly from a small number of precisely targeted tax measures aimed at supporting people to pool resources and participate financially in co-operatives. We believe that a particularly strong case can be made for supporting innovations that allow people to meet their needs without further recourse to the state. Particular examples of these include those identified in social care, consortia for the precariat, and community-owned culture.

In defining principles for targeting these tax measures we recommend:

- Incentivising engaged long-term investment in innovation
- Plugging funding gaps specific to co-operatives
- Supporting innovations that proactively prevent further demands on state resources.

As demonstrated throughout this book, the pooling of people's financial resources in a co-operative represents a powerful component of mutual self-help. Co-operative shareholding allows more people to directly participate in and benefit from commerce. The special nature of co-operative shares rewards long-term investment over short-term speculation, and they form part of a healthy finance mix for co-operatives. Member capital should be viewed as a unique form of patient, engaged investment which could contribute to most if not all of our innovations. For this reason we believe that as part of a co-operative political economy, government should explore ways of operating a Co-operative Equity Incentive Scheme.

Co-operatives are limited in their ability to raise working capital from outside investors yet at the same time they deliver significant social returns. The reinvestment locks already discussed would act as a longer-term alternative to outside capitalisation. The tax systems of some countries recognise far better than ours this patient internal reinvestment. In the UK, measures like the Enterprise Investment Scheme are targeted at outside investors and as a result address a funding gap for private new starts selling equity, but not for new co-operatives. As a result, we see a significant imbalance in our tax system that not only limits the potential growth of ethical, sustainable business, but also rewards external investors over long-term insider stakeholders. Government should provide equal treatment in the tax system for the patient, long-term approach to investment found in co-operatives by introducing a small tax relief on profits reinvested by asset-locked co-operatives.

Smart interventions

The state is uniquely placed to make targeted microeconomic interventions. These tend to be on a scale, moving from a modest co-ordination role, through funding specific programmes and innovations, to mobilisation of significant resources to drive specific activity. Other macro- and microeconomic interventions in the form of legislation, regulation, taxation and public spending are discussed elsewhere in this chapter.

Government could play a co-ordinating role in developing most, if not all, of our innovation opportunities. However, there are a number of areas where a modest approach would be particularly effective. For instance, central government could lead a programme that brings together regulators, local government and key sectoral bodies to help develop innovations in community finance or mutual-guarantee co-operatives. The programme would be tasked with identifying any legislative or regulatory changes required, scoping feasibility and providing some support for pilots. We see a similar role for government in bringing together agricultural co-operatives, research institutes and the food industry. This programme would support independent farmers to be sustainable and viable through the adoption of innovations in technology, technique and commercial practice.

Going a step further, we see a role for government in providing more comprehensive financial and non-financial support to innovation pilots. For example, government could co-ordinate a pooling of resources from the Department for Work and Pensions, local authorities, enterprise agencies (Local Enterprise Partnerships – LEPs – in England, Invest Northern Ireland, Welsh Assembly Government, Scottish Enterprise, and Highlands and Islands Enterprise) and the co-operative and social economy to pilot innovations described earlier in the book, such as co-operative consortia for the emerging 'precariat'. This model would allow the self-employed and micro enterprises to share input costs, provide mutual legal cover, and potentially to offer 'mutual guarantees' to financiers as well. In a similar vein, some resources from the Department for Culture, Media and Sport, local authorities, LEPs and local businesses could be pooled to establish more destination-marketing co-operatives and innovations in community-owned culture and heritage. Here again we recommend setting clear principles for allocating these resources, with the objective being to build up the mutual resilience of people-oriented businesses and institutions, so as to reduce further demands on the public purse. As a final example, national and local governments could help pool the resources of education and welfare authorities, the social economy, and communities, to establish Early Years co-operatives. The programme will need to address legal and regulatory barriers, and link in to other programmes in areas such as community finance and employment support.

The innovations that we see as being supported by major intervention include garden cities, mutually owned infrastructure and the development of local banking. Here our priority will be to ensure these programmes tap into the added value of mutuality and economic co-operation. For example, economic planning for garden cities must give a central role to community-owned enterprises running key amenities and infrastructure. Meanwhile, if the Government decides to establish state-owned or state-mandated local banking institutions, thought should be given to how these could be mutually owned by local people. And such a programme should also support the development of other bottom-up approaches to co-operative and mutual banking.

Education advice and information

The role of the modern state in providing and overseeing education offers government another vital lever in political economy. Meanwhile, as the state remains a major source of information and advice on economic matters, governments have numerous ways to influence economic behaviour. This area of co-operative political economy aims at equipping people to seize the innovation opportunities we have identified.

Government will need to do more to make sure more young people know about the co-operative option. Currently, public understanding of co-operatives is too low. Government should use its influence over educational curricula and oversight of official advisory services to make more people aware of co-operatives. For example, business-studies curricula should cover the full diversity of business forms. Meanwhile, the National Careers Service should take account of how co-operative models provide opportunities for different students, and should offer advice accordingly. Lastly, students on vocational and creative courses should be given advice about the benefits of co-operating with others in self-employed and micro-enterprise consortia.

Beyond education, the advice and support provided by or on behalf of government agencies to the precariat have to start promoting models of mutual self-help like the co-operative consortium. This work will of course need to link into wider programmes piloting innovation in welfare and labour-market support. Official advice to entrepreneurs needs to promote many of the innovation opportunities identified in this book, particularly those in retail, the creative industries, tourism and community food. To be of real use, this will require those who formulate and deliver advice to better understand the co-operative option. Particular efforts should be made to promote these co-operative innovations to enterprise agencies, such as LEPs in England.

On a separate but related trajectory, innovations like co-operative schools also require stronger support from Central Government. At the time of writing, the Department for Education is instead driving the adoption of the academy model in England, which arguably limits the scope for collaboration and democratic accountability for key stakeholders. A greater degree of mutuality in the delivery of public and private education requires explicit, tangible Government support. To return briefly to the subject of legal frameworks, a change in the law could underpin this mutuality by allowing educational institutions to incorporate as community-benefit societies.

Public-service innovations

In carrying out its myriad public functions, the state as a whole is the single most significant actor in our economy. The manner in which its many organs procure and provide goods and services has a significant impact not only on specific markets and sectors, but also on the nature of our economy as a whole.

Through the procurement of general goods and services, the Government can set standards for private contractors that encourage socially responsible behaviours in areas like corporate taxes, wages and environmental standards. There are already good examples of Government policy that could provide commercial opportunities in the areas of innovation we have identified. The Social Value Act enshrines in law a requirement for public procurers to consider how their decisions could improve the economic, social and environmental wellbeing of their locale. If properly adhered to, this legislation should offer opportunities to co-operatives innovating in areas such as sustainable tourism, social care or educational support services. Meanwhile, the commitment to local food procurement in the public sector from 2017 could provide ample opportunities for local food co-operatives, which are often in the forefront of localising supply chains.

When it comes to public-service delivery we need to turn the tables so that, instead of asking what policy levers Government can pull to enable or encourage innovations, we ask how our innovations offer an opportunity for Government to deliver services better.

We need more mutuality in outsourcing and public-service spin-outs. Outsourcing service delivery may lower departmental costs in the short term, but on its own it will not bring about the radical transformation in people's relationship with public services required to balance the books. Public-service reform needs to unlock the economic and social capital contained in mutuality and co-production, and shift from reaction to prevention wherever possible. The innovations identified in the social-care sector, such as integrated health and social care co-operatives, offer Government particular opportunities. To adopt these models as a means of delivering services, Government will need to refine the legal and procedural frameworks through which public-sector workers in the NHS and local government 'spin out' to create social enterprises, thereby encouraging the creation of multi-stakeholder social co-operatives. Central Government could also champion 'in sourcing' by local authorities as an incubatory step in creating social co-operatives out of public services.

To be successful, our social-care innovations need strategic support through service commissioning. The responsibility of the state to spend taxpayers' money in a way that delivers broad social goods has been enshrined in the Social Value Act. Meanwhile, new EU directives allow public commissioners to be more deliberate in awarding contracts to co-operatives and mutuals. For this framework to result in real results, political leadership nationally and locally is required to push commissioning decisions in the desired direction. Guidance for public commissioners on securing social value should emphasise the added value of mutuality and co-production. As part of a different approach to securing social value, Government at all levels across the UK could pilot forms of 'public-social partnership' in which contracting authorities build long-term nurturing relationships with accountable human-scale social co-operatives.

Towards an economy for the common good

To be considered a political economy, there has to be a discernible overarching framework – a fundamental set of principles or themes running throughout. We believe there is just such coherence. A co-operative policy is one that, across all six policy levers: enables innovation, supports people to pool resources, sustains common wealth creation, and builds mutual resilience between economic actors.

At its heart, this agenda is part of a wider proposal that the ethical foundations of our world require not only political democracy but also economic democracy: that the purpose of economies is to serve the common good and the values of social justice, environmental stewardship, and the dignity, worth and free development of the person.

The philosophy that could underlie such an economy has been suggested in a concise form by John Restakis,[2] which is adapted here in the form of six propositions. These are that:

- The widening of voice, wealth and ownership should be a fundamental aim of economic policy
- Corporations are not persons and are therefore subject to appropriate regulation and social control

- The social and environmental costs of enterprise or economic activity should be borne by those who create them
- The public interest is not absolute; it serves personal liberty and the pursuit of happiness
- Personal liberty is not absolute; it entails social responsibility
- The foundation of an economy for the common good is co-operation and not just competition. ■

1 The idea of an economy for the common good is one that has many roots, including concepts of a co-operative commonwealth. At an international level, this owes much over the last two years to the work of Christian Felber, whose book on the theme is due for publication in English in 2015. See for example **www.yosoytu.com** The work of the New Economics Foundation, and associated writers such as Hazel Henderson, James Robertson and Tim Jackson, has been of huge influence since it started in 1984, in particular where this links to work on wellbeing and to the shift to sustainability (the 'great transition' or 'de-growth'). See **www.neweconomics.org.uk** The classic statement of economics for the common good was Herman Daly and John Cobb (1989) *For the Common Good: Redirecting the Economy Toward Community, the Environment, and a Sustainable Future*. The idea of redefining wealth, including around the common good, is set out in a blog by Ed Mayo on **s.coop/1tsq2**

2 John Restakis (2014), personal correspondence.

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'Ed Mayo has played a leading role in almost every environmental and ethical business initiative over the last two decades.'

Lucy Siegle, The Observer

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