Future Forms of British Co-operation

WORKERS' CO-OPERATION - SOME RECENT DEVELOPMENTS

by

DAVID WISE

(Secretary, Co-operative Party)

Since the publication of Bulletin, No. 26*, which dealt with "Workers' Participation In Co-operatives" there have been a number of important developments in the field of government aid to Workers' Co-operatives. On 22nd November, 1976, the Industrial Common Ownership Act received the Royal Assent. At a seminar held at the Co-operative College in April, 1977, Mr. Bob Cryer, MP, the Parliamentary Under-Secretary for Industry, described the Act as representing the beginning of legislative action to help producer co-operatives, particularly with finance. He also suggested that it showed that both government and industry were becoming more aware of the need for improved industrial democracy. He said that the aim should and must be to encourage more sections of industry to move away from existing forms of endeavour which were bedevilled by clashes between the owners of capital and the shop floor and that important lessons were being learned from the worker co-operative experiments set up in recent years to rescue failing enterprises. This knowledge might sensibly be applied in the case of

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*For copies still available, see end of this Bulletin; the Education Department also has available useful Notes on Workers' Co-operatives which can be obtained from Stanford Hall.

small firms where a co-operative or common ownership form of organisation could produce the necessary improvements in the industrial climate. Under the 1976 Industrial Common Ownership Act it would be possible to point to a structure of advice and limited help. The availability of a source of advice was particularly important.

The Act

For co-operators generally the Industrial Common Ownership Act has particular significance since its principal sponsor David Watkins, MP, regards it as "a foundation stone for erecting a CDA". The Act was intended "to further the development of enterprises controlled by people working in them" and makes available, for grants and loans, some £400,000 in total over five years. The Secretary of State for Industry, with the consent of the Treasury, is given authority to "make grants to any relevant body ..... for the purpose of assisting the body to provide advice about the organisation of common ownership enterprises and co-operative enterprises". The Act limits the aggregate amount of the grants made for this purpose to £30,000 each year for a total of five years. The bodies so far recognised as being "relevant" for this purpose are ICOM (Industrial Common Ownership Movement), ICOF (Industrial Common Ownership Finance), SCDC (Scottish Co-operatives Development Committee), and CU (Co-operative Union). The SCDC has recently been offered a grant of £8,000 a year towards providing advisory work and has advertised for a full-time Co-operative Development Officer.

The Act also authorises the Secretary of State to make grants and loans up to a total amount of £250,000 to relevant bodies to make loans to common ownersh p enterprises and co-operative enterprises. The Act lays down that, if an enterprise wishes to qualify for a certificate under the Industrial Common Ownership Act that it is a common ownership enterprise there are only two methods of registration which are acceptable, namely under the Companies Act as a company limited by guarantee without share capital, or under the Industrial and Provident Societies' Act. The Act also lays down certain conditions which must be complied with whichever method of registration is used. It has provided that only persons who are employed by the body or by a subsidiary of it, may be members of it; that, subject to certain exceptions all such persons may be members of the body; and that members have equal voting rights at the meetings of the body. It is further required that should a co-operative or common ownership enterprise be dissolved or wound up then any remaining assets after liabilities are discharged shall not be distributed among members but shall be transferred to another common ownership enterprise or central fund maintained for the benefit of common ownership enterprises. Finally, the Act requires that the enterprise is controlled by a majority of the people working for the body and the people working for any subsidiaries.

In August 1977 regulations governing the terms on which the loans could be made available to co-operatives in manufacturing industry were laid before Parliament. The regulations which are due to come into operation on October 1st set out the terms on which on-lending may be carried out for the next five years. The whole of the loan fund is to be administered by ICOF which is a non-profit making agency administered by trustees including members from the Trade Union and Co-operative Movements and which already operates a small revolving loan system for co-operative enterprises. The main points are that the grant-assisted loans may be made to common ownership and co-operative enterprises which are wholly or mainly engaged in manufacturing industry; and the purpose of the loan should be to assist with fixed and working capital requirements in respect of an identified project which must have a reasonable chance of success. The Secretary of State must give prior approval in the case of any loan above £7,500 but adequate security must be proved to ensure repayment and interest on loans must be not below a minimum rate specified by government. Finally loans cannot be made unless the relevant trade unions have been consulted.

The Job Creation Programme

It is worth recalling other steps taken by government to provide positive assistance to new producer co-operatives. The Job Creation Programme (JCP) was established to provide short-term worthwhile work for people who would otherwise be unemployed. It had as a secondary aim the task of benefiting local communities through the value of the work done. Under the Programme, the Manpower Services Commission provided grants to support projects which were organised and managed by sponsors, who might be any group or organisation in the community. These grants covered the wages costs of projects (up to a maximum figure per week per person). In addition there was a sum available towards equipment, materials, administration, etc. Normally a person might not be employed under JCP for more than twelve months. Area action committees including representatives of local employers and councils vetted applications to ensure that each project provided suitable work for those it was intended to help, involved work which would otherwise not be done, incorporated wherever possible, an element of training and education, made a contribution to the local environment or assisted in the solution of a community problem, and paid the local rate for the job. From October, 1975, a total of £130m was allocated to Job Creation Programme and up to April, 1977, 7,548 projects were approved involving over 74,000 jobs. 1% of JCP funds (£1,300,000) was set aside for workshop projects including common ownership and co-operative projects which were intended to provide permanent jobs and become self-financing. About 60 workshop projects were approved of which eight were co-operative involving about 100 jobs and a total grant of £200,000.

Co-operative and other workshop projects were treated somewhat differently from ordinary JCP projects in that they would not normally receive support unless they were likely to become self-financing within twelve months, that they submitted trading accounts at three-monthly intervals and that their applications were vetted by special sub-committee of the Manpower Services Commission. It is believed that most applications for support under JCP from workshop projects, including co-operatives, were not favourably received, and of those that were most subsequently failed.

Other Forms of Assistance

Other assistance available to co-operatives from government is, like assistance under JCP, concerned with creating employment or making British industry more efficient. Only money provided under the Industrial Common Ownership Act has as a principal concern the nature of the enterprise being helped. The approach of government is to apply to applications for assistance from workers' co-operatives the same basic criteria as to other applications: that is, whether they are likely to be viable after the proposed assistance, and whether the amount of assistance proposed is justified by the economic and social benefits expected. When social costs and benefits are considered it is likely that proposals for assistance will receive the benefit of the doubt as to the prospects of viability, where the social cost of withholding assistance is particularly high - for instance in areas of persistent high unemployment and where the creation of new employment is especially difficult.

There are many schemes under which co-operatives can get assistance. Some of them have been taken up, others have been neglected possibly because prospective applicants have been unaware of them.

Under the Industry Acts 1972 and 1975, investment finance has been available in the form of regional development grants and selective financial assistance. Support from the National Enterprise Board and also from the Scottish and Welsh Development Agencies, and the Highlands and Islands Development Board has also been available.

Regional development grants have been available towards capital expenditure on new buildings or work, plant and machinery but only in those areas which qualify for assistance. The areas with highest unemployment (special development areas) have qualified for a higher grant than development areas or intermediate areas. These grants are only for manfacturing industry and related activities. Selective financial assistance has also been available both in and outside the designated areas. The assistance has taken the form of loans at concessionary rates of interest or interest relief grants for manufacturing and extractive industry undertaking viable projects and creating additional employment. Assistance is also available for the modernisation and rationalisation of specific industries including machine tools and clothing.

There are also grants under special schemes for nine industrial sectors including clothing, wool textiles, electronic components and printing machinery. This aid takes the form of special grants for investment, interest relief grants for rationalisation or re-structuring and special grants for small and medium sized companies of up to 50% for the employment of consultants.

There is a selective investment scheme for new investment projects in manufacturing and as stated above there is special assistance to individual companies in the national interest. This sort of assistance is provided where the collapse of a company would mean the loss of important manufacturing capacity, or serious implications for employment or the balance of payments, or where a new project is likely to benefit the economy.

Finally, the National Enterprise Board is able to provide finance for industrial development especially the expansion and modernisation of production facilities, for industrial re-structuring (where re-organisation seems likely to promote industrial efficiency and profitability), and for joint ventures with private sector companies.

Finance for this purpose is normally on the basis of equity or medium long term loans at competitive, though not subsidised, rates of interest.

Applications from co-operatives for any of these aids are considered in the same way as applications for other enterprises.

Government agencies such as the Scottish and Welsh Development Agencies and the Highlands and Islands Development Board also give help to any venture that is concerned with promoting employment. These bodies give advice on business management, marketing and promotion, production engineering and the acquisition or modification of premises, in addition there is often a range of teaching services on particular crafts. Local authorities also have an interest in promoting employment and in a number of cases there has been a deliberate policy to encourage the development of co-operatives.

Future Prospects for Workers' Co-operatives

So the great interest in workers' co-operatives at the present time has been matched by an availability of help from government. How much of this interest is due solely to a desire to retain jobs is difficult to quantify. It is certainly true that most industrial enterprises recently formed as co-operatives either have been formed by employees threatened with redundancy or are the direct result of the job creation programme. There is considerable danger when investments are made on the basis of providing employment rather than on providing goods or services for which there is a need, and it would be unfortunate for them - and damaging to the repute of producer co-operation generally - if such co-ops were to be established only out of economic adversity.

It is here that perhaps the role of the Industrial Common Ownership Act and its hoped-for successor the CDA can provide at least the possibility of an answer. It must surely be the task of some central body - aided by government and by all sections of the wider Co-operative Movement - to consider in what areas there is a need for co-operative development in the interest not only of the prospective co-operative members but also of the community, to obtain initial feasibility reports, to back-up proposed developments and to recommend to government whether or not to encourage such developments and how they might be financed.