Executive summary

'Democratic businesses' come in all shapes and sizes: from local community groups to nationwide employee-owned retailers, from football clubs to housing developers. 'Co-operatives' and 'employee-owned businesses' in particular are illustrative of the democratic business model. Indeed, 'democratic businesses' carry a host of unique benefits, ranging from better productivity and employee satisfaction, through benefits for the stability of the local economy, to improved levels of freedom and legitimacy. Their historical importance – as briefly outlined in Chapter One – cannot be doubted, and, although, in many respects, 'democratic businesses' are doing very well, much can still be done to improve their situation and protect them from the problems they face. They remain a relatively small proportion of the broader UK economy, but, hopefully, with the recommendations of this report, their presence can be amplified and the benefits they bring be fully manifested.

Focus of this report and methodology

This report examines in detail the nature, history, advantages, problems and policies regarding democratic business in the UK. It adds to the important work done by other organisations that advocate for democratic businesses in this country, but seeks to offer a new, broader and better-grounded perspective that is agreeable to the centre-right of this country.

This report seeks to answer the following research questions:

1. What are the centre-right arguments for increased levels of democratic business?
2. What are the leading barriers to increased levels of democratic business?
3. How successful have centre-right policies, both historically and internationally, been in increasing the levels of democratic business?
4. What centre-right policies can be introduced to increase the levels of democratic business?

In order to answer these, we employed two research methods, as detailed in Chapter Two. First, we conducted an extensive literature review to examine the theory and history of 'democratic business,' as well as policy surrounding it both in the UK and abroad. Second, we interviewed a range of key stakeholders, thinkers and decision makers, such as MPs, business leaders, government advisers and former civil servants.

The principles and theory behind 'democratic business'

Chapter Three defines and explains the origins and operations of 'democratic businesses,' that is: 'mutuals,' which includes 'co-operatives' and 'employee-owned business,' and 'conventional' business with democratic elements.

The democratisation of a business lies on a continuous scale; businesses can be more or less democratic rather than being 'just' democratic or undemocratic. However, certain business types – namely, mutuals – have ownership structures that mean they are more prone to being more democratic than others.

In this report, mutuals are contrasted with 'conventional' businesses.

Co-operatives

This report uses a strict definition of co-operatives; that employed by the European Cooperative Society (ECS). Here, a co-operative is defined by three characteristics: first, membership of one is voluntary; second, their profits are distributed among their members or reinvested; and third, it is controlled by a democratic process whereby each member is entitled to exactly one vote.

For UK co-operatives, by far the biggest sectors they operate in are retail (£28.4 billion turnover in 2021, though over 78% of this is solely due to the size of the John Lewis Partnership, who are not included under our definition of 'co-operative,' and the Co-Operative Group), finance (23% of the mortgage market and 18% of the savings market, with a market size of around £15 billion, as of 2021) and agriculture (£7.8 billion turnover in 2021), with no other sector boasting a co-operative turnover of more than one billion pounds.

Employee-owned business

The other form of mutual, besides the co-operative, is 'employee-owned business.' Employee-owned companies can encompass any of four dimensions: the proportion of company shares owned by employees, the proportion of employees owning shares, the distribution of ownership amongst employees and the nature and extent of rights associated with ownership.

This can take a variety of forms. The John Lewis Partnership, for example, follows a trust-based model, having established a trust – such a trust is generally known as an employee ownership trust (EOT) – with the aim to benefit the employees of John Lewis. Employees do not own shares in the John Lewis Partnership, but they receive a substantial portion of the profits each year. They also have a substantial role in governance, with elected institutions at store, region, divisional and head office levels.

The alternative to this is for members to own shares in the company individually, with employees benefiting directly from company growth even if the company is not turning a profit.

Some businesses also choose to follow a hybrid model, whereby employees themselves own shares in the company and other shares are also held on the behalf of employees by a trust.

Currently, around 4% of the UK economy is employee owned, and has been at this level since 2014, having increased from 2% in 2012, according to the Employee Ownership Association. As of 2023, the largest employee-owned businesses were: the John Lewis Partnership; the Arup Group engineering consultancy; the Mott MacDonald Group management consultancy; the charitable social enterprise Greenwich; and the insurance broker Howden Group Holdings.

Community business

Democratic elements are also intrinsic to 'community businesses.' The charitable trust Power to Change define them as "businesses … owned by, rooted in, and accountable to their communities". They estimate that there are 11,000 community businesses operating in England as of 2022, with a total income of "just under £1 billion". Community businesses tend to operate a hybrid funding model, with 83% of them in the UK generating an income from trading and 84% of them receiving grant funding. They also employ a large number of volunteers – the average community business in the UK has nine employees but 29 volunteers, 90.5% of whom live locally.

Other forms of democratic business

In state-owned businesses, too, the way the government operates the business can be influenced by its political aims, which can involve democratic considerations. This is especially the case in democratically-elected governments, where the management of the business is answerable to the electorate.

Democratic business can also be a feature of 'conventional' businesses, such as by increasing the involvement of their employees in the decision-making process of the company, either through direct consultation or through general meetings where employees can voice their views.

Benefits of democratic business

Chapter Four examines the advantages of democratic business over rival business models. Those include economic advantages: for democratic companies themselves; for individuals involved with democratic businesses; and for the wider economy. They also include ethical advantages: the political legitimacy that they provide in a democracy; freedom; and greater levels of property ownership.

Greater productivity

Employee-owned business see superior productivity to non-employee-owned rivals. According to the Employee Ownership Knowledge Programme, as of 2023, employee-owned businesses are, on average, between 8-12% more productive than non-employee-owned businesses.

For co-operatives also, the evidence is that co-operatives are at least as productive as 'conventional' businesses, and that many 'conventional' businesses would produce more if they became co-operatives; co-operatives, on the other hand, always produce at least as much as they would were they to become 'conventional' businesses.

Improved innovation

Superior levels of innovation in democratic businesses are well-illustrated with the example of employee ownership. Twenty-six percent of workers in companies with high levels of employee ownership made a suggestion at least once a month, compared to only 18% among workers without shares in the company they work for. Similarly, 60% of public service mutual representatives report that "[m]ore innovative services" is a key benefit they had seen as a result of becoming a mutual – public service mutuals being public services where there is a significant degree of staff influence in the way that the business is run. Indeed, a 2023 study by the Employee Ownership Association suggests that employee-owned businesses are over 50% more likely to have increased investment in research and development (R&D) than non-employee-owned businesses.

Greater resilience

Democratic businesses are particularly resilient to economic shocks.

This can be seen through the example of co-operatives, the number of which operating across the UK grew by 1.2% over the course of the COVID-19 pandemic, with almost twice as many co-operatives created (197) as dissolved (107). In contrast, there was a net reduction in the UK's business numbers in the first year of the COVID-19 pandemic, with the number of new businesses down, and the number of company 'deaths' increasing from 344,660 to 389,956 in 2020. Co-operatives were four times less likely to cease trading during 2020, perhaps reflected in the fact that 44% of co-operative representatives surveyed identified the support of committed members as being a clear benefit during the pandemic.

This is not an isolated occurrence for democratic businesses. In the years 1998 to 2001, in the US, the likelihood of not surviving was noticeably lower for companies with more than 5% of stock owned by employees.

Greater employee satisfaction

The evidence shows that workers in democratic businesses are happier with their jobs. Nine percent of workers in companies with high levels of employee ownership reported that they were likely to look for a new job, as compared to 20% of employees firms without any form of broad employee ownership. Similar results have been reported across numerous different studies, with the Ownership Commission noting that "[s]everal studies have found that employee owners have more positive attitudes than their non-owning counterparts".

This is corroborated by studies which examine employees' loyalty or pride in their job. In one study, 58% of workers in companies with high levels of employee ownership reported greater loyalty to the firm, compared to 46% of workers with low employee ownership. One study also asked whether workers were proud to work for an employer: 44% of workers in companies with high levels of employee ownership reported a high level of pride, compared to only 29% of workers in companies with low levels of employee ownership.

Superior customer service

Evidence shows that mutuals provide a superior customer service to non-mutuals. This can be illustrated with the example of mutual banks, which outscore non-mutual banks by 17 percentage points in terms of being more trusted to act in the customers' best interests; by 11 percentage points in terms of being open and honest; by 24 percentage points in terms of being perceived as having higher ethical standards; and, finally, by 16 percentage points in terms of valuing their customers. The same trend holds for mutual insurers and for consumer co-operatives.

Staff retention

Democratic businesses are also better at staff retention. This is particularly true for employee-owned businesses, which retained more of their employees than their rivals between 2005 and 2009 in the UK, with their total employee number having increased by 7.5% per year in this period, as compared with less than 3.9% in non-employee-owned businesses. Indeed, one US firm where employee ownership increased from 22% to 80% discovered that reported intention to leave the company declined dramatically.

Economic stability

Evidence suggests that greater diversity of business models in the economy is advantageous for the stability of that economy. In one study for the World Bank, it was found that a financial system that presents a diversified institutional structure – which includes democratic businesses – will be more efficient in promoting economic growth and reducing poverty. Indeed, in the aftermath of the 2008 global financial crisis, the Centre for European Policy Studies (CEPS) produced two comprehensive studies of diversity in European banking. Both conclude that diversity in banking structures and models, which includes democratic businesses, is highly advantageous.

Economic multiplier

Mutuals also benefit the wider economy through superior economic multiplier – the ratio between an initial cash injection and the resultant increase in economic output. Since they do not spread out their profits to external shareholders, the economic value of mutuals is retained in the business. This value can then be used to enhance value to customers and members, to expand the business or to provide value to the community in which the mutual operates. Consequently, mutuals, and especially mutual banks, result in significant pro-growth impact within regions where they are strong.

Competitiveness

Evidence suggests that, in highly competitive markets, mutuals allow firms to protect themselves against monopolies. This can be clearly illustrated with the example of agricultural mutuals. When multiple farmers form a mutual, their selling power is greater, and, therefore, they are more resilient against monopoly action from suppliers of farming inputs. The same can be said for monopsony power – the ability of large buyers to dictate prices – and the farmers' purchasing power.

Legitimacy

If we take public participation as the condition of legitimacy for a political system, the greater presence of democratic business in the economy is also positive for a political system's legitimacy. If a business has democratic elements that enable its employees or customers or the broader community to influence its employment policy, then public participation in that element of the political system – that is, employment – is broadened, and so with every other element of the political system that the business impacts.

Furthermore, on some theories of legitimacy, what renders a political system legitimate is the equal distribution of power between the system's participants or the ability of the system's participants to consent to the political system. This view on the source of political legitimacy is manifested in democracies through the giving to each adult participant an equal vote. However, voting power is limited in its agency. It is both true that significant power is carried through the ability of businesses to use capital to influence others and that such use of capital often comes without the consent of the one being influenced. If the ownership of businesses in an economy, however, is distributed in a more equitable way throughout said economy, then the actions of those businesses acquire more democratic legitimacy.

Freedom

On any conception of freedom, democratic businesses are greatly conducive to a more free society. One of the greatest barriers to freedom in most societies are the barriers erected by the actions of businesses. Mundane examples include a private business fencing off a parcel of land to hinder a person from entering it, but a more relatable one may include a business increasing the price of an essential product that they provide, hence hindering a person who needs it from buying it.

Democratic forms of business ownership permit for those hindered by the actions of a business to influence those very actions, hence either removing unfreedoms that the business is responsible for or consenting to them.

Property

One of the central tenants of British conservatism – the key form of centre-right politics in the UK – has been the promotion of a 'property-owning democracy' or 'popular capitalism,' where property ownership is broadly distributed throughout the population.

Mutuals allow for the distribution of a vital form of property – capital – throughout the population. As people participate in mutuals in the relevant way – by becoming an employee in an employee-owned company or by becoming a member of a co-operative, and so on – they acquire some level of ownership in the mutual and the capital that comes with it.

It is also important to highlight that democratic businesses can arise as a result of privatisation. This allows for the transfer of property from the hands of the state into private hands – a distributive scheme favoured by those on the economic right.

Problems of democratic business

Chapter Five examines perceived and actual problems with starting and sustaining democratic businesses include: access to capital; lack of a clear legal model; shortage of professional advice; slow decision making; and external takeover pressure.

Access to capital

The main contributing factor to the failure of mutuals boils down to their struggle to secure sufficient capital. While all businesses have difficulties accessing capital – particularly smaller ones – additional difficulty is intrinsic to the nature of mutuals, which stand to lose their mutual status if external investors demand shares in the business in exchange for their investment. This can then result in demutualisation – the loss of mutual status by a mutual business and conversion into a 'conventional' business.

Demutualisations can take place in all mutuals, but the phenomenon has been particularly evident in building societies – co-operative banks owned by their customers. Many of the building societies that were demutualised in the 1990s or early 2000s ceased to exist.

Lack of a clear legal model

Mutuals – and in particular co-operatives – often struggle with the lack of a clear legal model. While the Co-operative and Community Benefit Societies Act 2014 is the primary legal framework for co-operatives, it does not recognise them as a distinct type of enterprise and fails to provide a statutory definition of the co-operative model.

In company law, a company exists for the benefit of its members. But members are often interpreted as shareholders, as with a 'conventional' company. Yet members can mean different things depending on the business model and can indeed refer to employees, consumers or even suppliers. So, the unique membership feature of mutuals, and in particular co-operatives, is not recognised in company law.

Shortage of professional advice and expertise

There endures a shortage of professional advice and expertise for all mutual businesses. First, entrepreneurs do not receive extensive advice on models other than those of 'conventional' business. Second, there is a dearth of people with experience of mutual business models who are adept at operating them.

This is of particular concern when a mutual is looking to expand. Growth necessitates the development of management systems and governance structures. Without support, it becomes very difficult to expand, develop and grow the business. Consequently, mutuals lose further ground against 'conventional' businesses that have the know-how to acquire greater levels of support from government, finance and other stakeholders.

Moreover, leaders of mutuals sometimes lack experience in high-level business leadership, as their motivations and interests instead lie in the social dimension of the mutual. Looking back, a lack of commercial skills and experience was seen as a significant hindrance to mutualisation by 75% of those that managed to complete the mutualisation process according to one study.

Slow decision-making

The democratic nature of decision making in democratic businesses can result in a slower decision-making process. This is inherent to their model; as more parties are more equally involved in the decision-making process, the process takes more time.

This can be observed empirically. McKinsey's research on co-operatives found that they scored lower on coordination and control metrics than 'conventional' firms, meaning that they generally measure business performance less consistently, leading to delayed action in addressing problems and opportunities. Interviews conducted by McKinsey with key leaders in the co-operative model demonstrated that democratic processes naturally slowed down decisions.

External takeover pressure

Sometimes an offer is made by the external company or investor to buy the mutual and take control of it, converting it into a 'conventional' business.

This is not always to the mutual's members' benefit. The members are not always presented with adequate information by company governance when it comes to takeovers. As such, members who vote on decisions may not have access to the full picture if the board is aiming to sell the mutual.

Current and historic policies to support democratic businesses

Chapter Five describes, examines and evaluates policy to promote democratic business, beginning with recent examples from the US and from continental Europe, and then moving on to a more comprehensive overview of recent policy developments in the UK.

Policies globally

The promotion of democratic business has been legislated for across the world. Spain and Italy, for example, have long-standing worker co-operative movements with supporting legislation; in the latter of them, co-operatives employ over 6% of the country's workforce.

The most notable EU legislation on democratic business concerns the principle of disinterested distribution, which relates mostly to co-operatives, rather than employee ownership. The essence of it is that, in the event of a co-operative winding up, assets and reserves in the co-operative can only be transferred to another body pursuing similar aims or other general interest purposes.

Following the principles of disinterested distribution, most EU companies also use indivisible reserves to allow the co-operative sector to flourish. Twenty-three European countries consider indivisible reserves to be important and have a specific provision for them in legislation.

Profit-sharing is another policy exemplified in the EU. In France, profit-sharing schemes are compulsory for firms with at least 50 employees. In 2018, nine million employees in France had access to at least one financial participation scheme, making up over half of private sector employees.

Finally, many European countries also have legislation for the representation of workers on the board of large firms. Commonly, around one-third of the board is allocated to workers. The first European country to mandate this was Germany. Other countries that now have such legislation include the Netherlands, Ireland, Austria, Denmark, Sweden, Poland, France, Greece, Hungary, Finland, the Czech Republic, Slovakia, Slovenia and Portugal.

Of the different forms of democratic business, employee ownership has been most prominently promoted in the US. In 2010, the US saw over 3,000 employee contribution plans that are invested in employer stock as compared to over 11,000 in 2020. The total number of listed companies in the US remained roughly the same within the same period, so growth in the employee-owned sector likely significantly outstripped growth in the economy overall.

The UK

There are three elements to recent UK government policy on democratic ownership: tax subsidies, privatisation and regulatory initiatives.

Tax subsidies

- One example of a tax subsidy initiative to support democratic business comes in the 1980 Finance Act, which introduced the Save As You Earn (SAYE) scheme.

- Under the scheme, a company can offer all of its employees company share options for up to 20% less than the market value share price. Employees who join the scheme can choose a contract period of three or five years to save a monthly amount from post-tax salary of between £5 and £500. At the end of the contract period, the savings are used to buy shares at the option price. If the share price has gone up during that time, the employee gains from that. This gain is taxed as capital rather than income.
- Each employee enjoys an annual exemption from Capital Gains Tax (CGT) of £11,000, which means all share price increases up to this amount are tax free. On the other hand, if the share price has gone below the option price, even with the discount, employees get all their savings back.
- The SAYE scheme continues to be a success. In the tax year 2020-21, the most recent for which data is available, 380,000 employees across 260 companies have been granted options under the SAYE scheme, with a total value of £2.59 billion.

Privatisation

- Privatisations of NHS Primary Care Trusts into public service mutuals were introduced by the Blair Government in 2008. The Trusts were given the 'Right to Request' to spin out of the NHS and form a public service mutual to deliver community health services instead. The Government then continued to support said spin-outs with waves of funding.
- The Conservative-Liberal Democrat Coalition Government has continued this policy with its 'Right to Provide' policy for NHS trusts and adult social care providers. The Coalition Government was also keen to extend the mutual model to children's social care, youth services, libraries and the fire and probation services.
- The result of those policies was a success. In 2010, there were nine public service mutuals. The biggest growth spurt came in 2011, when almost 50 public service mutuals formed. By 2013, there

were almost 60 public service mutuals functioning and, as of April 2019, there were 129 of them. The sector continues to grow faster than the remaining economy, having grown by over 9% in the two years between 2018 and 2019.

Regulatory initiatives

- A recent new regulatory initiative to support democratic business came in June 2023, when the Co-operatives, Mutuals and Friendly Societies Act 2023 – a Private Member's Bill sponsored by Sir Mark Hendrick MP of the Labour Party – received royal assent.
- The Act grants HM Treasury the power to make regulations to allow co-operatives, mutuals and friendly societies to opt to restrict what would happen if they were to close down, following the principle of disinterested distribution. Once this restriction is agreed on, it cannot be revoked.

New policies

We offer ten original and realistic centre-right policies for increasing the presence of democratic business in the UK economy.

When formulating policy, we applied three key principles.

- **Fiscal realism.** The UK public, currently, faces a record high level of tax burden as well as vast levels of government debt. Substantially adding to either government debt or the need for the government to raise revenue through further taxes would be irresponsible. Hence, this report's policy suggestions should only demand minimal, if any at all, further spending commitments from the government.
- **Incentivising, not mandating.** Democratic business carries with it a plethora of benefits, but it may not be right for every business or entrepreneur. Given the benefits of democratic business, businesses should be incentivised to democratise, but they should not be forced to do so. Hence, where possible, this report's policy suggestions avoid mandating that businesses behave in any particular way, but rather

merely seeks to incentivise behaviours that are helpful both for the businesses themselves and for the broader economy and society.

- **Importance of communities.** This report assumes that having more closely-knit communities is something intrinsically good, and that local communities are, all other things being equal, better stewards of their local area than individuals who are disconnected from that same area. In this, we echo the vision of strong communities and levelling up local areas that many of our interviewees shared with us. Hence, where possible, this report's suggestions seek to promote the interests of local communities and of said communities' democratic control over their local areas.

Policies to support mutuals

Recommendation one: Introduce a statutory definition of a co-operative in UK law, which is in line with the principles outlined by the Rochdale Society of Equitable Pioneers.

The UK lacks a clear legal framework for mutual businesses. Particularly, for co-operatives, the Co-operative and Community Benefit Societies Act 2014 does not recognise them as a distinct type of enterprise and fails to provide a statutory definition for them. Under the Co-operative and Community Societies Act 2014, a company is regarded as a co-operative simply if the Financial Conduct Authority (FCA) is satisfied that it is one and has at least three members.

While the FCA might use International Co-operative Alliance principles to satisfy its conditions, the lack of a clear legal definition and discretion given to the FCA creates a lack of certainty for co-operatives and makes it hard to implement specific tax and administrative regulations for co-operatives.

In Europe, co-operatives are often a legal form of company which is distinguished from 'conventional' business by emphasising both economic and social differences. In Italy, which has one of the most advanced pieces of co-operative legislation in the world, co-operatives are defined as those "with voluntary and open membership" and "[satisfying] a common interest of [their] members by making contracts/transactions with them," fitting the principles set in the foundations of the Rochdale Society – the original co-operative.

The UK Government should follow suit and provide a statutory definition for a co-operative. This should follow Rochdale Society principles of voluntary and open membership, democratic member control and distribution of surplus among members.

Recommendation two: Establish a tax-incentivised 'indivisible reserves' scheme to promote mutual business stability and investment.

There is a specific provision in legislation for 'indivisible reserves' in 23 different European countries – a reserve that cannot be accessed by members of mutuals for personal distribution. This legislation has generally been very successful. 'Indivisible reserves' guarantee the long-term stability of mutuals and the security of the funds invested into them by the members of said mutuals – a key concern especially for mutuals owned by lower-income members.

The UK Government should establish an 'indivisible reserves' scheme of its own. Under it, mutuals – that is, co-operatives as defined under our recommendation above, and companies where at least 50% of the company is owned either by at least 50% of its employees or by an EOT on behalf of at least 50% of the company's employees – should be able to claim Corporation Tax back on any profits they put into the newly-established 'indivisible reserves' scheme, up to 20% of the total sum the mutual has to pay Corporation Tax on. Money put in the scheme then cannot be accessed by members of the mutual for personal distribution, but must be reinvested, retained as savings or, as a last resort, used to cover losses.

To ensure that indivisible reserves are only used to cover losses as a last resort, rather than as a routine mechanism for avoiding losses – which could result in perverse incentives whereby a mutual is not sufficiently disincentivised to avoid loss-making behaviour – a mutual would be permitted to use the savings they put into indivisible reserves to cover losses if and only if all other resources and reserves have been applied to the loss.

The indivisible reserves scheme would be administered by HM Revenue & Customs (HMRC), but the money would never be held by them. The mutual would merely declare to HMRC that it is putting a given amount of profits into the scheme so as to not be charged Corporation Tax on it and then provide proof that said money was reinvested or retained as savings. Once money is put into the scheme, it would be non-withdrawable except for reinvestment or to cover losses, as explained above.

Recommendation three: Ensure that a minimum of 28% of the assets of a co-operative are maintained under co-operative control in the event of the co-operative winding up.

'Disinterested distribution' is another legislation that is common across continental Europe. It guarantees that the assets of a co-operative, in the event of demutualisation, are not also demutualised, but are retained in the co-operative economy, preventing external takeover pressure from diminishing the role that co-operatives play in the broader economy.

As of the passage of the 2023 Co-operatives, Mutuals and Friendly Societies Act, HM Treasury has the power to make regulations to allow co-operatives, mutuals and friendly societies to opt to restrict what would happen if they were to close down, following the principle of disinterested distribution. However, as of January 2024, this power has not been exercised by HM Treasury. Furthermore, even should the Treasury exercise said power, disinterested distribution would remain optional for UK co-operatives.

The UK should again follow the example of continental Europe and introduce a mandatory disinterested distribution framework. To add to existing legislation, in the event of a co-operative winding up, the value of any assets of the wound-up co-operative that are transferred to a non-co-operative or distributed to the co-operative's members should be taxed at 28%, which is currently the maximum Capital Gains Tax rate. This transferred money should then be distributed into the 'indivisible reserves' schemes of different, nominated co-operatives or co-operative.

Recommendation four: Amend the Levelling Up Fund *Assessment Framework for assessing, scoring and shortlisting bids* to include a positive consideration for bids made by local authorities that, as a part of their bid or otherwise, privatise municipal services into public service mutuals.

In the UK, there remain thousands of social care providers and libraries owned and operated by local authorities. Local authority-owned municipal services, such as social care providers and public libraries, should be encouraged to spin out as public service mutuals. Public service mutuals tend to perform better than their non-mutual counterparts in respect of key metrics such as productivity and the quality of customer service. Productivity in particular is poor in the UK public sector and is in dire need of improvement.

In order to incentivise the mutualisation of public services, plans to privatise local authority-owned municipal services into public services mutuals should be made a positive consideration in the assessment of local authority bids for the Levelling Up Fund.

Currently, the Department for Levelling Up, Housing and Communities (DLUHC) assesses bids for the Levelling Up Fund according to four criteria: index of priority places, strategic fit, economic case and deliverability. Each of these criteria is judged according to a number of further sub-criteria, for a total of up to 16 sub-criteria that are considered. All the criteria and sub-criteria are weighted equally, except for the sub-criteria that go into assessing the 'index of priority places' criterion – there, "need for economic recovery and growth" is prioritised above the other sub-criteria assessed. Our suggestion here is that the 'strategic fit' criterion, which is currently judged according to four sub-criteria, should instead be judged according to five sub-criteria, with plans to privatise local authority-owned municipal services into public services mutuals being introduced as a new sub-criterion.

Policies to support the democratisation of 'conventional' business

Recommendation five: Introduce the right for employees to access recorded information held by one's employer.

One of the key benefits of democratic business – improved transparency and the consequent lessened risk of moral hazard on the part of managers – can be extended across the broader economy by providing all employees with powers analogous to those provided by the 2000 Freedom of Information Act to members of the public. Currently, the 2000 Freedom of Information Act only makes provisions for the disclosure of information held by public authorities or by persons providing services for them, and not for the disclosure of information held by any private institutions.

The Government should also introduce the right for employees to access recorded information held by one's private employer. Exemptions would apply if the information were needed for any one of: the prevention, detection or investigation of a breach of company law; internal security; the assessment or collection of company taxes; employee appointments and contracts. The request for access could also be refused on grounds analogous to those in the 2000 Freedom of Information Act: if employee interest in non-disclosure outweighs the employee interest in disclosure, or if it is likely to cause distress or irritation without good reason.

Recommendation six: Introduce the right for employees of companies numbering over 2,000 employees to request a binding referendum on employee representation on boards.

Employee representation on boards is mandated across a large number of European countries, including Germany, the Netherlands, Ireland, Austria and France. Evidence explored throughout this report demonstrates that this has a positive effect on employee productivity and job satisfaction.

In order to incentivise employee representation on boards, the UK Government should grant employees in companies that number more than 2,000 employees a right to request a referendum on employee representation on the company's board.

Should a petition to host such a referendum be signed by at least 5% of the company's employees, the company would be legally required to either (i) host a referendum among all of the company's employees on whether the employees of the company should have the right to elect one of the company's board members, or (ii) give the employees of the company the right to elect one of the company's board members.

Once such a referendum is held, the company would not need to host another one for the next four years, so as to prevent repeat petitions mandating an unreasonably high number of referenda.

If a supermajority of 66.6% of those who vote in the referendum votes in favour of the employees of the company having the right to elect one of the company's board members, the company should be legally required to grant its employees said right. Even if a supermajority is not achieved, but a large proportion of employees show their support for the measure nonetheless, a company may opt to grant its employees the right to elect one of the company's board members nevertheless, voluntarily.

Recommendation seven: Strengthen the 'Community Right to Bid' to include a broader range of assets, preferential treatment for the bid for the seller of the asset and Stamp Duty exemption for the purchaser of the asset.

Currently, under the Community Right to Bid – a right that enables community interest groups to bid for assets of community value – can be nominated to the local authority by parish councils or by groups with a connection with the community. Following receipt of the nomination, the local authority then has eight weeks to make a judgement on whether the asset should be listed as an asset of community value, according to a set of criteria published by the DLUHC. Assets remain on the list for five years, unless they are sold within that time.

If the nomination is accepted, local groups will be given six months to come up with a bid for the asset if and when it is sold – the moratorium period. Should the bid be successful, the asset comes under the control of a relevant Community Land Trust – a membership organisation that manages assets to provide a benefit to the local community. There is no compulsion on the owner to sell it, and when they sell the asset they may sell to whomsoever they choose.

The current Right to Bid effectively gives communities no extra power to do what they could not have done anyway, if not for the fact that the bids can be sponsored by the meagre Community Ownership Fund, besides that they have more time to organise their bid as a result of the aforementioned moratorium period. Applicants may apply to the Community Ownership Fund for a maximum of 50% of the capital funding that they seek for a project.

Moreover, the current criteria for the nomination of 'assets of community value' is narrow. The asset must be a parcel of land or a building. Housing, the contents of a building and business assets are not eligible. Consequently, the Right to Bid has only been exercised 11 times in the four years since its inception under the 2011 Localism Act.

Government should strengthen the Right to Bid and allow it to cover a broader range of assets. Local businesses, such as local newspapers, shops, restaurants, cafes, clubs and bowling alleys should be eligible for nomination, with their relevant business assets included. Similarly, private rental housing should also be eligible for nomination.

Moreover, the Government should mandate preferential treatment for bids made through the 'Community Right to Bid.' As aforementioned, currently, when the owner of an asset of community value sells the asset, they may sell to whomsoever they choose. The Government should mandate that a bid made through the 'Community Right to Bid' cannot be refused in favour of any bid of equal or lower value.

Finally, in order to incentivise the owner of an 'asset of community value' to sell it to the local community and prevent it from being lost to them, government should exempt the purchase of the asset to the local community from Stamp Duty. A reduction in Stamp Duty allows the buyer to bid higher for their purchase than they would otherwise. As such, exempting the purchase of assets of community value to local communities from Stamp Duty would increase the purchasing power available to local communities when bidding for said assets.

Recommendation eight: Create a non-departmental public body for the accreditation and promotion of democratic business.

As the branding of mutuals is often adopted by 'conventional' businesses, for example by talking about 'members' rather than 'customers,' it is crucial that democratic businesses are championed and distinguished apart from their non-democratic rivals.

To achieve that, government should set up a non-departmental public body (NDPB) for democratic business. Besides acting as a champion of democratic business, liaising between democratic business and the government and promoting the brand of democratic business, the NDPB would introduce and manage an accreditation scheme for democratic businesses.

Under the scheme, democratic businesses would be able to display, on their premises and online, an accreditation promoting the fact that a business is democratic, analogous to the Food Hygiene Rating Scheme. The accreditation would also have different layers, discriminating between non-democratic business, 'conventional' democratic business, mutuals and co-operatives. This would help to distinguish between mutuals embracing a genuine mutual culture and 'conventional' businesses that merely adopt mutual branding. The NDPB for democratic business would be tasked with ensuring that the accreditations are awarded fairly and on the basis of reasonable evidence.

Policies to support democratic business generally

Recommendation nine: Introduce the right and provide finance for a minimum number of employees of a limited by shares company to give a counter-offer for the purchase of the company's controlling stake whenever a takeover bid is made.

Companies limited by shares are companies that have shares and shareholders; those shares can often be traded between different potential shareholders. A company limited by shares is controlled by a consortium of shareholders who, usually, altogether control over 50% of the company's shares. In some cases, a controlling interest in a company limited by shares – a bundle of shares with enough voting power attached to them to prevail in any shareholders' motion – is traded, and so grant its owner control over the company.

The Government should grant the employees of any company limited by shares with over a minimum number of employees the right to present a counter-offer on any purchase or sale of a controlling interest in the company they are employed by. A minimum number of employees should be able to participate in said counter-offer, and they should be able to claim a loan from the government at RPI + 3% for up to 50% of the value of the controlling interest being sold.

Moreover, to finance the bid, the employees participating in the counter-offer should be able to access up to three years' worth of their pension contributions from their pension pot. Furthermore, to give them the time to organise the bid, at least 20% of the company's employees should be able to request a six-week moratorium period during which the sale of the controlling interest cannot be finalised. The shares acquired by the employees as a result of a successful counter-offer would be then unsellable for at least two years following sale, so as to prevent using this as a tool for extorting the original bidder for the controlling stake.

Recommendation ten: Reform the Community Ownership Fund and the Community Housing Fund to support a broader range of community projects.

Currently, the Community Ownership Fund only supports the takeover of already-existing assets of community value which are at risk of being lost to the community, as in connection to the 'Community Right to Bid.' This leaves other community initiatives needing of funding. As community initiatives generally require funding from specific individuals, but are then ran for the benefit of the entire community – as opposed to just the people who fund them – they often rely on donations, which limits how often they come into existence.

To rectify this, it should also be possible to apply for money from the Community Ownership Fund to support other community projects: the development of community housing, community power generation and the work of community co-operatives. Especially the first two of those require significant levels of initial investment, to procure either residential property or energy infrastructure, respectively. With funding provided, however, they are able to provide affordable housing and energy to the local community in a way that avoids concerns regarding community consent that often surround the development of new housing or energy infrastructure.

Worth noting is that, currently, housing initiatives are not supported by the Community Ownership Fund at all, presumably because of the prior existence of the Community Housing Fund, the funding for which had run out in April 2020. This leaves CLTs with very limited options for government support. Assuming that the Community Housing Fund will not be restarted, instead, the two funds should be merged and housing initiatives included in the Community Ownership Fund.

Given the greater level of competition for funding from the Community Ownership Fund that this change would introduce, it is also desirable that, if fiscally responsible, the amount of money in the Community Ownership Fund is increased.

Conclusion

There are many reasons why this Conservative Government in particular should be interested in democratic businesses. A 'property-owning democracy' – the dream of many on the centre-right – comes into its own through democratic businesses, as people acquire greater control over and a stake in the economy they live in. Democratic businesses are also often grounded in their local community, exemplifying 'levelling up' at the most micro level. They are the middle ground between the ruthless individualism of right-wing laissez-faire libertarianism and the centrally-mandated collectivism of left-wing economic policy.

The recommendations made in this report are not exhaustive of all the useful policy options available to the UK Government, but they seek to maximise the advantages of democratic business while alleviating their difficulties to at least a reasonable degree. They are also fiscally responsible and conservative; we sought not to mandate or force anybody into endorsing democratic business, and especially not at the cost of taxpayer money, but rather to suggest innovative and well-evidenced incentives that would make it easier for the UK economy to become more democratic.