

Ready for what's next

Why businesses that share power
and wealth are the future

June 2021



Introduction

This short paper offers national and local policymakers optimistic and practical options for addressing the economic and environmental challenges that lie ahead. In doing so it draws on promising new data¹ from the UK's co-operative sector.

Key points

- Co-ops share power and wealth by design. Their mutual purpose and distinctive 'one member one vote' democracy drives inclusion and fairness, enhances wellbeing, reduces inequalities, builds resilience and makes them effective at meeting common needs.
- New evidence shows the co-op model has performed very well during the Covid pandemic, protecting worker wellbeing, meeting community need and enhancing the resilience of households, communities and local economies.
- Co-ops are as ambitious as ever and markedly more ambitious than small businesses generally, but government's business support and enterprise finance schemes do not currently cater to their needs.
- National policymakers should re-allocate resources to start providing business support that caters to the distinct approaches co-ops take to investment, organisational development and business strategy.
- UK government should take legislative and non-legislative action to create a world-class corporate framework for UK co-ops, which is currently very much lacking.
- Local policymakers should establish clear objectives for increasing the number, scale and impact of co-ops in their area and allocate business support resources accordingly.

1 Distributive by design

Co-ops are shared endeavors that distribute power and wealth through day-to-day activity. Their mutual purpose and distinctive 'one member one vote' democracy drives inclusion and fairness. It enhances wellbeing, reduces inequalities, builds resilience and makes co-ops very effective at meeting common needs.

Co-ops are, in the words of celebrated economist Kate Raworth, 'distributive by design'² and therefore critical to creating an economy that engenders widespread wellbeing within safe planetary boundaries.³ Nothing is more important now and for the decades ahead.

The UK is hopefully emerging from the worst of the Covid pandemic. But the year 2020 has shown us just how big a challenge lies ahead, if we are to find that socially just and environmentally safe sweet spot.

This short paper draws on new research into how the UK's co-ops have survived and thrived during the pandemic. The findings strongly reinforce pre-existing data on co-operative resilience. More importantly, we can see how in the most challenging circumstances, co-ops have been great at protecting the wellbeing and livelihoods of workers, meeting communal needs and enhancing the resilience of households, communities and local economies.

This new evidence should be a source of optimism. It gives policymakers new, good options for building back better from Covid; making the most of technological change, tackling poverty and inequality and dealing with the environmental emergency.

² Kate Raworth (2017) *Doughnut Economics*

³ *Ibid*

2 The co-op model and covid

How the co-op model performed during the pandemic

In June 2021, Co-operatives UK published new research⁴ on the state of the co-operative economy and the performance of the co-operative model during the Covid pandemic. Our research included surveying a representative sample of hundreds of co-ops, of all shapes and sizes. Our latest **Co-op Economy report** discusses some of these findings in more detail, while also providing a snapshot of the size and make-up of the UK's £39.7bn co-operative sector. In this paper, we provide headline findings that are most pertinent to national and local policymakers.

Co-ops have proven to be resilient

The latest official data reveals that co-ops in the UK were four times less likely to close down in 2020 than UK businesses generally.⁵

Closure rates for UK co-ops and all UK businesses in 2020



⁴ Co-op Economy 2021

⁵ Our co-op economy data, which uses official data from the FCA Mutuals Register and Companies House, found that 107 co-ops closed in 2020; 1.5% of the pre-2020 total. According to official data 389,965 businesses in the UK closed in 2020; 6.5% of the pre-2020 total.

Meanwhile, the number of co-ops expressing confidence about their future in February–March 2021 had only dropped by 15 percentage points, from 75% pre-pandemic, to 60%. The number of co-ops 'seriously concerned' about their finances in February–March 2021 had only risen by one percentage point (to 6%) compared to their financial position before the pandemic.

These latest findings reinforce research from the UK and around the world which provide remarkably consistent evidence that co-ops tend to be more resilient than other businesses. In the UK, co-op start-ups are almost twice as likely to survive the first five years as new-starts generally.⁶ Resilience is also a quality seen in established co-ops. Most co-ops in the UK are more than 20 years old with 25% over 50 years old.⁷ Research also finds that co-ops are more resilient and better at preserving decent livelihoods in downturns.^{8,9}

Start-up survival rates after five years



⁶ Co-operatives UK (2019) 'Co-operative Business Survival'

⁷ <https://www.uk.coop/resources/open-data>

⁸ Virginie Pérotin (2012) 'The performance of worker co-operatives'

⁹ EURICSE (2015) 'Cooperation in Italy during the crisis years'

Why are co-ops so resilient?

- Co-operative purpose, ownership and governance all dictate long-termism.
- In an economic shock it is the members calling the shots, in their collective, long-term interests, not investors demanding layoffs to protect short-term returns.
- Co-ops patiently build-up and reinvest reserves and use members' capital wherever possible, rather than piling on debt to achieve faster growth.
- There is inherent resilience in economic institutions that harness our natural co-operative instincts, which are themselves a powerful evolutionary adaptation that has been critical to human survival for a more than a million years.

As ambitious as ever

Co-ops are as ambitious as ever:

- Of the 68% of co-ops with ambitions to develop/grow before Covid, 73% still have the same ambitions now, while 15% are even more ambitious
- Only 4% of co-ops say Covid has forced them to reduce their ambitions.

Small co-ops are markedly more ambitious than small businesses generally, with 61% of co-ops expressing ambitions to grow/develop in Q1 2021, compared with 53% of small businesses generally.¹⁰

¹⁰ <https://www.fsb.org.uk/static/b2c75005-00fa-4b71-ba55fcc08345aa2d/FSB-Voice-of-Small-Business-Index-Quarter-1-2021.pdf>

Benefits of being part of a co-op during the pandemic

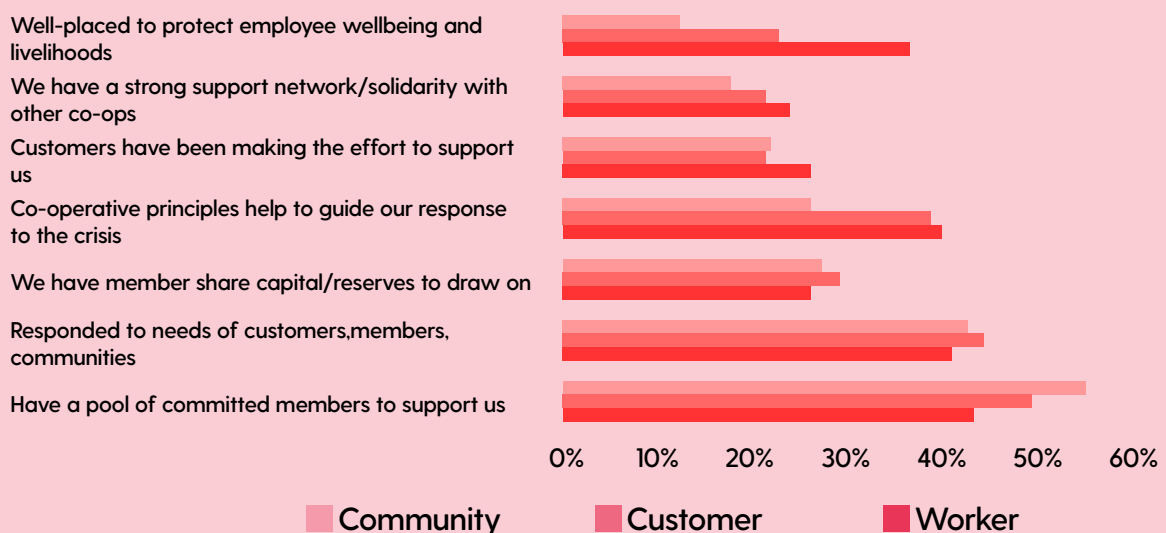
The co-op model has performed well through the challenges of Covid. 92% of surveyed co-ops identify clear benefits of having been a co-op during the pandemic, with this figure rising to 96% among worker and freelancer co-ops.

The most commonly identified benefits of having been a co-op during the pandemic were having the support of committed members (44%) and being able to respond to the needs of members, customers and communities (35%)

True to purpose

Different co-operative models appear to have served their specific purposes very effectively in the pandemic. Worker co-ops were significantly more likely to identify an ability to protect worker wellbeing as key benefit of their model. Consumer and community co-ops were more likely to identify having a pool of committed members and customers, whose needs they could respond to, as a key benefit for their models.

Identified benefits of being a co-op during the pandemic, by co-op type



Our largest consumer co-ops, which have been embedded in their communities for more than a century, were at the heart of many mutual aid efforts during the pandemic. For example, The Midcounties Co-operative mobilised more than 1,000 volunteers and 100 community groups to make over 100,000 home deliveries to support vulnerable members. The co-op also worked to dramatically grow its local supplier base, in order to support local businesses in crisis. Meanwhile, The Co-op will come out of this pandemic paying front-line colleagues the Real Living Wage, while doubling the amount it distributes to local communities.¹¹

The worker co-op model, with its focus on worker empowerment, wellbeing and livelihoods, also performed especially well against the challenges of Covid. During the pandemic, Greencity Wholefoods, a famous worker co-op in Glasgow, told us they found a huge benefit in worker democracy, as everyone shared the difficult decisions.¹² Worker co-ops participating in our latest research highlighted the model's ability to be extra-flexible in adapting to new conditions, managing furlough and sharing roles, all while putting worker wellbeing front and centre.

“We’ve all stuck it out for each other, taken extra responsibility and gone the extra mile to carry out tasks on behalf of each other.”

Dulas

¹¹ https://blog.coop.co.uk/2020/09/17/were-supporting-our-communities-through-this-extraordinary-year-and-beyond/?_ga=2.6175923.1494517646.1605715950-1243490281.1603881613

¹² <https://www.uk.coop/resources/revive-and-thrive-why-co-ops-are-pivotal-fairer-stronger-scotland>

3 Co-operative impact

Co-operative impact

While the efficacy and resilience of individual co-ops is impressive, what matters most is the collective impact they could have in the decades ahead, were they to develop and proliferate to their fullest potential. Our latest data reinforces a mountain of evidence suggesting the outcomes from a thriving co-op economy would include:

- The creation or retention of 1 million resilient, empowering, wellbeing-enhancing jobs by 2030¹³
- Lower inequalities in power, wealth, wellbeing and opportunity¹⁴
- A wave of communal action to help shift the dial on the most pressing environmental and social challenges, from net zero to housing¹⁵
- The safeguarding of thousands of jobs that would otherwise be at risk because of failed or suboptimal business succession, or business failure¹⁶
- The revitalisation of high streets, town centres and local economies
- More resilient individuals, households, communities, businesses, local economies and supply chains
- Upward pressure on environmental and social standards in the economy
- Community wealth building¹⁷

¹³ https://www.uk.coop/sites/default/files/2020-10/ea_cuk_csr_2.0_0.pdf

¹⁴ For a useful collation of evidence see: <https://www.uk.coop/resources/we-are-rebuilders-download>

¹⁵ <https://www.uk.coop/resources/employee-and-worker-ownership-recovery-strategy-paper>

¹⁶ <https://www.uk.coop/resources/understanding-maturing-community-shares-market>

¹⁷ <https://cles.org.uk/what-is-community-wealth-building/the-principles-of-community-wealth-building/plural-ownership-of-the-economy/cooperatives/>

4 What ambitious co-ops need to thrive

What ambitious co-ops need to thrive

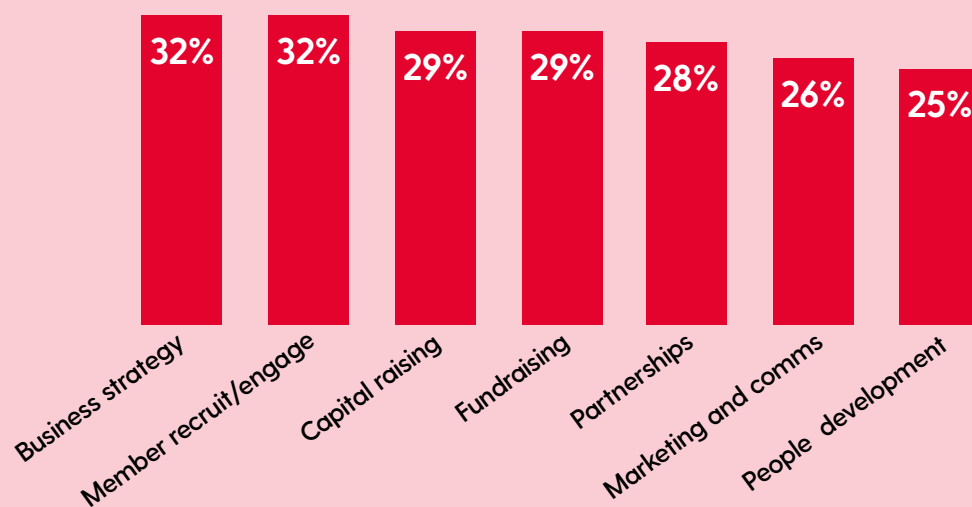
The UK's co-op economy is diverse and well-established but by international comparisons it is small and growing slowly. Why is this?

In spite of our natural instincts, choosing a co-op model means going against established ways of doing things. Co-ops are very much 'the best-kept secret' in communities and among entrepreneurs, businesses and those who advise them. This is compounded by the fact that our business ecosystem makes starting and running a co-op much harder than it should be.

According to our latest research, among those co-ops with ambitions to scale or develop the most commonly identified business support needs are:

- Business strategy
- Organisational development
- Capital raising

Most common business support needs of co-ops with developed ambitions



Unfortunately, co-ops have distinct approaches in these areas that government-funded business support schemes do not currently cater to. Policymakers should be greatly encouraged by the ambition of co-ops, but equally concerned that business support is not playing its part. Unless we put this right nationally and locally, we will squander the clear potential of these co-ops to build the economy we need.

What the co-op sector is doing for itself

True to our self-help ethos, we in the co-op sector are working hard to address these barriers where we can:

- The Ownership Hub is a new partnership between Co-operatives UK, the Employee Ownership Association and local government, aimed at dramatically increasing the number of worker co-ops and employee owned businesses. In June 2021 Sheffield City Region was announced as our first partner 'place'.
- The Hive is our national co-op development programme in partnership with The Co-operative Bank, providing expert help for new co-ops. We are just about to launch UK's first digital incorporation tool specifically for co-ops.
- UnFound, our platform co-op accelerator programme is currently providing intensive expert support to six promising new platform co-ops, in partnership with The Co-operative Bank and Stir to Action.

These initiatives will all have a positive impact. But there is a limit to what we can achieved without proactive action from national and local policymakers.

5: Recommendations

Recommendations for national policy makers

Based on our latest research and other evidence of co-operative potential, we make the following recommendations to national policymakers:

Business support that caters to co-operative ambitions

- At a minimum, the co-op sector should benefit from spending on business support in proportion to its size, with at least 1% of funds nationally¹⁸ used to cater for co-ops in key areas: raising finance, business strategy and organisational development. This would result in millions of pounds of new funding for co-op business support that currently goes elsewhere.
- At a minimum, 1% of finance deployed by the British Business Bank, the Scottish National Investment Bank and the Development Bank of Wales, should be specifically structured to cater to the distinct capital raising requirements of new and existing co-ops. This would result in millions of pounds driving investment in co-ops that currently goes elsewhere.
- The UK government should ensure it does not exclude co-operative and community benefit societies from its new Help to Grow Digital scheme.¹⁹
- The Department for Work and Pensions should pilot a programme to help out-of-work claimants create new livelihoods through co-operative entrepreneurship.
- UK and devolved governments should provide local policymakers with the permissions, incentives and resources they need to support new and existing co-ops in their areas.

¹⁸ Co-ops in the UK account for about 1 per cent of combined turnover of UK businesses.

¹⁹ We are very concerned by information on gov.uk suggesting that eligibility for this scheme will be restricted to limited companies.

A world-class corporate framework

- The UK government should act on the 2019 recommendation of the Financial Conduct Authority²⁰ and undertake a review of co-operative and community benefit society law, with a view to bringing forward reforming primary legislation for the first time since 1954.²¹
- The UK government should act on its 2018 commitments²² and take firm action to address a growing number of administrative dysfunctions that create costly burdens for co-operative and community benefit societies, including in HMRC, Government Digital Service, Grants Management Function, the Pension Protection Fund and Companies House.²³

A world-class tax framework

- The UK government should work with the co-operative sector and wider social economy to design an effective long-term replacement, or replacements, for Social Investment Tax Relief, to help co-ops and other social enterprise raise finance, invest and reach their potential.

Doing the above will put the UK on a par with other countries that have larger, stronger and more impactful co-operative economies. There is compelling evidence that allocating public resources for co-op development makes a significant difference and is excellent value for money.²⁴

²⁰ In its *Alternatives to High-cost Credit Report*, July 2019, the FCA said: "HM Treasury should consider if there is value in a review of credit union and society legislation."

²¹ The *Co-operative and Community Benefit Societies Act 2014* and *Industrial and Provident Societies Act 1965* consolidated and so could not make material changes. All primary legislation making material changes in recent decades has been in the form of Private Members Bills.

²² In June 2018, UK government committed to engaging with societies on 'non-legislative' improvements to their registration and regulation (while "keeping under review the possibility of legislative options in future"). In August 2018, in the *Civil Society Strategy*, government also committed to creating a regular forum for social enterprises to coordinate relations with government. Neither commitment has been met to date.

²³ It regularly takes more than four months for HMRC to provide a Unique Tax Reference to newly registered societies, which can have debilitating knock-on consequences for these start-ups. Businesses that convert from a company into a society are also hit with thousands of pounds of costs as the Companies Register does not distinguish between businesses that convert and those that close down.

²⁴ Scotland leads the UK in co-operative new-starts and employee buyouts, because Scottish Government has funded the specialist support required.

Recommendations for local policy makers

Policymakers in city regions, local enterprise partnerships and councils should establish clear policy objectives for increasing the number, scale and impact of co-ops in their area and then allocate business support resources accordingly.

Local policymakers should resource schemes to:

- Promote and support co-operative entrepreneurship
- Support the conversion of private business into co-operatives as part of planned succession and community and worker-led rescues
- Ensure existing co-ops in their area have access to business support that caters to their needs and ambitions

Find out more about how to support co-ops in your area, including by leveraging Co-operatives UK's programmes >>

6 Contact us

Please get in touch

We are eager to speak to national and local policymakers who want to discuss any points raised in this paper. Please get in touch:

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Find out more about co-ops and our work at **www.uk.coop** >>

Thousands of businesses, one network

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

Contact us

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