

# Supporting co-operative growth locally

November 2021

## 1 Introduction

- 1.1 Any local policymaker who wants to aid the transition to a fairer, greener and more democratic economy, should establish clear policy objectives for increasing the number, scale and impact of co-ops in their area. This short paper is an offer to work in partnership with local leaders who have these objectives.
- 1.2 The paper summarises the rationale for proactively supporting new and existing co-ops. It also suggests measures local leaders can put in place to meet their co-op objectives. Our recommendations are informed by evidence of ‘what works’,<sup>1</sup> by our work supporting new and existing co-ops (see **Annex 2**) and by our ongoing work with local policymakers.
- 1.3 Co-operatives UK’s thinking and practice continues to evolve, as we learn from current activities, and as matters relating to the availability (or otherwise) of public resources at a local level become clearer.

## 2 Why target co-op growth?

- 2.1 Co-ops are democratic businesses/organisations with mutual purpose. By design, they share power and wealth through day-to-day business. They are pivotal to building a fairer, greener, more democratic economy.
- 2.2 The evidence shows that co-ops: reduce inequalities of power, wealth and wellbeing; are great at creating and sustaining good jobs; are more resilient than other businesses; drive up environmental and social standards; and are very productive and/or effective at meeting people’s needs.<sup>2</sup>
- 2.3 In this moment of crisis, co-ops are a great way for people to:
  - build community wealth
  - create great new livelihoods
  - keep viable jobs in their community
  - breathe new life into local high streets, assets and enterprise
  - convert newfound community spirit into transformative social action
- 2.4 We know local leaders are grappling with major economic, environmental and social challenges, resulting from COVID-19, climate emergency and intensifying dysfunctions in our economy. Pivotal co-op models for addressing these challenges are:
  - **worker co-ops** – ideal for groups of entrepreneurial workers looking to protect, rebuild or replace livelihoods, including those threatened or lost as a result of COVID, including worker-led ‘rescues’<sup>3</sup> in the context of business crisis/failure

- **community co-ops** – ideal for democratic community ownership of land, assets and enterprise, often using the community shares financing model, often used as a vehicle for collective action to address pressing social, environmental and economic challenges
- **worker-community hybrids**<sup>4</sup> – combining the worker and community co-op models, ideal for start-ups, buyouts and rescues, especially where the initiative is coming from workers and communities and when more capital is needed
- **co-op trusts**<sup>5</sup> - trusts are used for most employee ‘buyouts’<sup>6</sup> of existing businesses when part of planned ownership succession
- **land and housing co-operatives** - including private rental housing co-operatives, scheme management co-operatives, land trusts and more
- **business-to business co-operatives** – comprised of micro-small businesses that co-operate on inputs and back office, innovation adoption, joint contracting, product development and marketing

2.5 This list is not exhaustive. You can find great case studies, filtered by type of co-op, at: [www.uk.coop/case-studies](http://www.uk.coop/case-studies).

### 3 Why aren't there more co-ops?

- 3.1 The co-op economy in the UK is diverse, well-established and growing. But by international comparisons it is small and growing slowly. In 2020 less than 1 per cent of UK businesses were co-ops.<sup>7</sup> With all that's going for co-ops, why aren't there more of them?
- 3.2 Firstly, co-ops often go against established ways of doing things. And this is compounded by the fact that our business ecosystem makes starting and running a co-op much harder than it should be.
- 3.3 Co-operatives also have distinct approaches to investment, organisation and governance that local business support schemes rarely cater to.
- 3.4 There are ‘market failures’ in awareness, information and support, which prevent workers, communities, entrepreneurs and businesses for understanding, exploring and adopting co-op options, even when there is a fit with their economic and social aspirations.
- 3.5 Based on evidence, the key barriers include:
- a lack of awareness and understanding of co-ops in communities and among entrepreneurs, workers, businesses, and crucially, those who advise them
  - a lack of awareness and understanding of co-ops among policymakers
  - professional advice that pushes people away from co-op options
  - government business support that entrenches these information and support failures

- distinct unmet needs in raising start-up and growth capital that go beyond those experienced by businesses generally

3.6 Crucially, local government (Combined Authorities, Local Authorities, LEPs, Growth Hubs) is well placed to take the lead in addressing these barriers.

#### 4 Key asks of local leaders

4.1 Local governments (Combined Authorities, Local Authorities, LEPs, Growth Hubs) can play a major role supporting the formation and ongoing development of successful co-ops in their area.

4.2 To do this, they need to proactively address failures and plug gaps in awareness, information and business support. They also need to provide specialist support to aid the conversion of existing businesses into co-ops. And they need to ensure existing co-ops in their area have access to the specialised support they need to survive and thrive

4.3 There are three policy interventions local leaders could put in place from 2021 that would make a significant difference to the lives of workers and communities:

- **Co-op Entrepreneurs Scheme** – A scheme to ensure workers and communities are given the opportunity to understand and explore their co-op options for work, entrepreneurship and collective action, as a matter of course; and to ensure all those who want to adopt a co-op approach have access to specialist business support and finance to help them achieve their aims
- **Co-op Job Recovery Scheme** – A scheme to support workers and businesses to use ‘co-operativisation’ to save viable jobs that would otherwise be lost or put at greater risk by business sale, restructuring, relocation or closure; covering succession in healthy business and businesses in crises; supporting both the ‘rescue’ and ‘buyout’ routes; ideally *but not necessarily* involving the creation of a public holding company to aid the rescue/stabilization of struggling businesses
- **Co-ops Thrive Scheme** – A scheme to ensure local co-ops can access business support that caters to their distinctive approach to: capital raising and investment; decision-making and governance; people and culture; financial management and accounting; innovation adoption and business planning and strategy

4.4 More details for these proposals are given in **Annex 1**.

#### Implementation

4.5 To make a significant impact, local leaders will need to allocate new funding for co-operative development, in ways that complement and augment what we and others bring to the table.

4.6 It is important to stress that local government can leverage existing co-op development programmes and services to help implement these recommendations. In an era of tight fiscal constraints, local leaders should allocate scarce public resources in ways that complement and augment what is already there.

- 4.7 More details of our existing co-op development programmes, and discussion of what actions local leaders could take to complement and augment these, are provided in **Annex 2**.
- 4.8 Furthermore, local co-op networks will contain invaluable knowledge, experience, solidarity and social capital, all of which could be instrumental in making things happen. Crucially, there are professional co-operative development practitioners operating across the UK, who will provide advice and support for a fee.

#### Cost-benefit

- 4.9 We can provide indicative costs for the Co-op Entrepreneurs and Co-op Job Recovery schemes, using the costs for our existing programmes: our new Ownership Hub programme and our 1 year pilot to supports new community businesses in London. We can also use the cost of Co-operative Development Scotland's employee ownership programme. 1 year pilots at a city-regional level could be run successfully for c£100,000 to £500,000 depending on the policy objectives.
- 4.10 Depending on the size and needs of the existing co-op sector locally, a 1 year pilot Co-ops Thrive programme at a city-regional level, leveraging existing programmes and services where possible, could be run successfully for c£10,000.
- 4.11 Based on independent evaluation of government support for co-op business development in Scotland, local governments should expect a **sixfold return on investment** for every £1 spent on specialist co-op development.<sup>8</sup>
- 4.12 The outcomes from a thriving co-op sector would include:
- the creation of hundreds/thousands of decent, wellbeing-enhancing livelihoods
  - the safeguarding of hundreds/thousands of jobs that would otherwise be at risk because of failed or suboptimal succession, or business failure
  - more resilient, more inclusive and more productive local businesses
  - lower inequalities in income, wealth, wellbeing, opportunity and power
  - improved environmental and social standards in local business
  - greater community wealth

## **5 Concluding remarks**

- 5.1 Co-operatives UK is able to work in partnership with any local government (Combined Authorities, Local Authorities, LEPs, Growth Hubs) that sets clear policy objectives to support co-op growth. We can assist with:
- evidence-based policy development
  - programme development
  - leveraging existing co-op development programmes and services
- 5.2 Please contact us via our policy team (details below).

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## Annex 1: More details on our policy proposals

<p><b>Co-op Entrepreneurs Scheme</b></p>	<p>A scheme to ensure workers and communities are given the opportunity to understand and explore their co-op options for work, entrepreneurship and local action, as a matter of course; and ensure all those who want to adopt a co-op approach have access to specialist business support and finance to help them achieve their aims.</p> <p>The scheme will require three pathways:</p> <ul style="list-style-type: none"> <li>• worker co-op pathway</li> <li>• community co-op pathway</li> <li>• hybrid co-op pathway</li> </ul>	<p><b>Worker co-op pathway</b></p> <p>There are key groups of workers who could benefit from exploring and in some cases adopting co-operative entrepreneurship:</p> <ul style="list-style-type: none"> <li>• groups of workers who have lost their jobs, or seen livelihoods impacted, as a result of C19 and/or business closures</li> <li>• workers in low paid, insecure employment who might benefit from working co-operatively and ‘being their own boss’</li> <li>• entrepreneurs looking for a more ethical/responsible/fair/purposeful/collaborative way of doing business</li> <li>• self-employed workers who could benefit from working co-operatively with others</li> </ul> <p>The worker co-op pathway requires a blended package of:</p> <ul style="list-style-type: none"> <li>• awareness raising and outreach, working with local authority business and community teams, unions, professional associations, community organizations, shared workspaces, business networks and Job Centres</li> <li>• exploration and pre-start facilitation</li> <li>• specialized co-operative business support</li> <li>• help to access/raise ‘co-op friendly’ start-up finance, including community shares, external equity, patient loans and co-op bonds</li> </ul> <p><b>Community co-op pathway</b></p> <p>Local communities aspiring to take collective action could benefit from exploring and in some cases adopting co-op options, especially when related to:</p> <ul style="list-style-type: none"> <li>• saving local assets or enterprise under threat</li> <li>• high street / town centre renewal</li> <li>• saving/developing community infrastructure (community hubs etc)</li> </ul>
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<p><b>Co-op Job Recovery Scheme</b></p>	<p>A scheme to support workers and businesses to use 'co-operativisation' to save viable jobs that would otherwise have been lost or put at greater risk by business sale, closure, restructuring or relocation.</p> <p>The scheme will need to support two pathways:</p> <ul style="list-style-type: none"> <li>• Worker-led rescues</li> <li>• Worker buyouts</li> </ul>	<p><b>Worker-led rescue pathway</b></p> <p>Rescues involve workers forming a 'new co' worker co-op to acquire of some or all of the firm's productive assets, as part of the closure, restructuring, relocation or insolvency process. The successful co-operativisation of businesses in crisis in Italy and Spain often use the rescue route, not the buyout route.</p> <p>Specialised financial support is also absolutely critical to successful co-operativisation of businesses in crisis.</p> <p>The worker rescue pathway requires:</p> <ul style="list-style-type: none"> <li>• Early engagement with workers, unions and owner</li> <li>• Feasibility study</li> <li>• Facilitation of negotiation between workers and owner</li> <li>• Specialist business support for the creation of a 'new co' co-op</li> <li>• Patient finance to help workers capitalise the 'new co' co-op and acquire assets, perhaps involving a Community Share offer</li> </ul>

- 'After care' to help the 'new co' co-op to stabilise and thrive

### **Worker buyout pathway**

Buyouts involve the workforce acquiring a controlling stake in the existing business, usually using an employee ownership trust. A 'co-op trust' can be created to provide genuine democratic, co-operative governance.

Buyouts have proven very successful as part of the planned succession of healthy businesses but are far from proven as a solution for businesses in crises.

On occasion buyouts may be the appropriate option when the business is in some degree of crisis, but only when specialised financial support is available to help fund the acquisition and capitalise the business afterwards.

The worker buyout pathway requires:

- Early engagement with owner
- Workforce and union engagement
- Feasibility study
- Facilitation of negotiation between workers and owner
- Specialist advice and legal services
- 'After care' to help develop a co-operative workplace culture and governance model

### **Public holding company**

A public holding company that acquires ownership stakes in struggling but potentially viable local businesses, with a view to possible divestment to worker ownership, would be a powerful enabler. The outcome could be divestment of a going concern to workers (in part or whole) or divestment of productive assets to a new co-op, or co-ops. The holding company could focus on local businesses that would likely have been viable but for C19. Most importantly acquisition by the holding company could provide *time* to:

- stabilise financial position
- assess feasibility of various divestment options including to worker ownership

		<ul style="list-style-type: none"> <li>• engage workforce and other stakeholders</li> <li>• provide advice and support</li> <li>• arrange finance to aid a buyout or rescue</li> </ul>
<p><b>Co-ops Thrive Scheme</b></p>	<p>A scheme to ensure local co-ops can access to business support that caters to them.</p>	<p>Growing co-ops have distinct and often unmet support needs in the following areas:</p> <ul style="list-style-type: none"> <li>• access to finance – co-ops have distinct needs in relation to equity raising and those that operate complex social business models often need specialised debt finance as well</li> <li>• decision-making and governance – co-ops have decision-making and governance arrangements that are different from shareholder owned/controlled, only-for-profit businesses</li> <li>• people and culture – successful co-ops tend to have a strong ‘co-operative culture’ and an approach to HR that is distinct from most other business types</li> <li>• corporate law – co-ops need very specialised advice and services</li> <li>• financial management and accounting – co-ops can have distinct capital structures and often have to manage and account for things in ways that are quite different from shareholder owned/controlled, only-for-profit businesses</li> <li>• reporting and impact – co-ops have purposes beyond profit, which require approaches to tracking and reporting on performance and impact that are different from most shareholder owned/controlled, only-for-profit businesses, but also crucially often different from non-co-operative social enterprise and charities</li> <li>• business planning and strategy – co-operative and other social business models often operate slightly differently from only-for-profit business models and so sometimes require specialist advice and support</li> <li>• innovation adoption – depending on the purpose of a co-op, it may require an approach to innovation adoption that is different from shareholder owned/controlled, only-for-profit businesses</li> </ul>

## Annex 2: Our existing co-op development programmes and how to leverage them

Co-operatives UK oversees the delivery of development programmes that can be leveraged to boost co-op development in locally. These are:

- **The Ownership Hub** – works in places in formal partnership with combined authorities (etc), to support a step change in the creation of new worker co-ops and the conversion of existing business to employee ownership, with South Yorkshire Combined Authority our first local partner. We have ambitions to add further partner places to this programme and our Ownership Hub manager is eager to hear from combined authorities and local authorities who might be interested in joining the programme. [Find out more and contact the Ownership Hub here.](#)
- **The Hive** – offers up to 10 days bespoke business support, mentoring and training for start-up co-ops, provided by expert co-op development practitioners, plus access to a ground-breaking new digital incorporation tool. [Find out more and contact The Hive here.](#)
- **Community Shares Booster** – supports community businesses raising money through community shares with development grants and match investment. [Find out more here.](#)
- **Unfound** - supports UK-based platform co-ops to start-up, grow and flourish. [Find out more here.](#)
- **Advice Services** - Co-operatives UK members get free and discounted access to our highly rated advice services, which cover legal, HR, culture, governance, finance, marketing and membership strategy. [Find out more here.](#)

With firm policy direction and appropriate resource allocation, local government could:

- become an Ownership Hub partner
- commission the services of specialists who can advise on and help facilitate worker rescues and buyouts
- repurpose some existing enterprise finance support, so that the distinct and often unmet financing needs of co-ops (and worker co-ops in particular) are met
- pay for additional days of Hive support for groups who could benefit from extra help, especially in the more exploratory and formative phases
- commission targeted awareness raising, outreach and information programmes to help workers and communities come together and explore their co-op options for work, business, and collective action, working with unions, community organisations, civil society and business networks
- establish diagnostic and referral processes, whereby business advisors, economic development officers and community development workers can help people explore their co-op options and refer potential co-ops to our specialist support

- commission training to enable business advisors, economic development officers and community development workers to do the above

## Notes and references

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- <sup>1</sup> For example on local support for worker ownership see, here: <https://www.uk.coop/resources/employee-and-worker-ownership-recovery-strategy-paper>
- <sup>2</sup> For a useful collation of evidence see <https://www.uk.coop/resources/we-are-rebuilders-download>
- <sup>3</sup> wherein workers form a 'new co' co-op with the specific intention of negotiating acquisition of some or all of the firm's productive assets, as part of the closure, relocation or insolvency process
- <sup>4</sup> For example Equal Care Co-op, Kitty's Launderette and Signalise Co-op
- <sup>5</sup> For more in the new development of democratic, co-operative employee ownership trusts, see here: <https://www.uk.coop/blog/policy-blog-20-new-hope>
- <sup>6</sup> wherein the workers acquire a controlling stake in the existing business
- <sup>7</sup> <https://www.uk.coop/resources/co-op-economy-report>
- <sup>8</sup> <http://www.evaluationsonline.org.uk/evaluations/Documents.do?action=download&id=766&ui=browse>