

Briefing for Westminster Hall Debate

Extending opportunity, wealth and freedom through co-operatives

December 2021

1 Introduction

- 1.1 This briefing is intended to help Members of Parliament prepare for the Westminster Hall Debate on the '*Contribution of co-operatives and mutuals to the economy and public life*' (14 December 2021, 9.30 am).
- 1.2 It offers an account of how co-operatives can be harnessed as tools to extend opportunity, wealth, liberty, pride and aspiration more fairly in the UK, geographically and socially.
- 1.3 The briefing also sets out how the co-operative model could be a powerful tool for funding and implementing the UK's new Net Zero Strategy.
- 1.4 It also sets out some priority policy recommendations for the Westminster Government.

2 Overview UK co-operative economy

- 2.1 The UK's co-operative economy is diverse, resilient and growing. There are now more than 7,000 independent co-operative businesses in the UK, with a combined annual turnover of almost £40 billion and more than 250,000 employees.¹ They trade in sectors as diverse as agriculture, renewable energy, retrofitting, creative industries, manufacturing, distribution, wholesale, retail and finance.
- 2.2 In 2020 the co-operative economy grew by £1.1 billion in turnover and twice as many co-operatives were created as dissolved.²
- 2.3 Most co-operatives in the UK are consumer owned but in recent years we have seen marked growth in community ownership and worker and freelancer co-operatives. Many of the UK's largest co-operatives are comprised of other businesses (e.g. farmers' co-operatives).

International comparisons

- 2.4 By international comparisons the UK co-operative economy is small and growing slowly.
- 2.5 Less than 1 % of businesses in the UK are co-operatives. Germany's co-operative economy is four times bigger than the UK's, while France's is six times larger.³ In some highly developed countries the co-operative economy comprises a significant proportion of GDP: New Zealand (20%), Netherlands (18%), France (18%) and Finland (14%).⁴
- 2.6 The UK's co-operative start-up rate is also comparatively low. In recent years South Koreans have created 12 times more co-operatives per head of population than we in the UK have.⁵
- 2.7 Given the economic, social and environmental contributions of co-operatives (set out in **parts 3 to 7** below) the model is under-utilised and something of a 'best-kept-secret' in the UK.

3 Extending opportunity

Livelihoods

3.1 Co-operatives are great vehicles for creating and sustaining decent, rewarding and empowering livelihoods. For example:

- After five years of trading, the average worker co-operative in the UK supports six times more livelihoods, ⁶ and is almost twice as likely to still be trading, as start-ups generally ⁷
- According to a multi-country study, while there are currently far fewer in number, worker co-operatives are on average larger than businesses generally and employ more people ⁸
- Co-operative entrepreneurship (for example taxi drivers in Cardiff who clubbed together to set up their [taxi hailing co-operative](#)) and participation in existing freelancer co-operatives (such as the new mutual aid platform co-operative [We-Guild](#), or creatives' co-operative [Chapel Street Studios](#) in Bradford), offer potentially disadvantaged and marginalized groups, for whom starting a business alone can be riskier and more challenging, a more supportive route into entrepreneurship ⁹
- Transitioning existing businesses to worker or community ownership can help to retain thousands of jobs in the UK each year that would otherwise be put at risk from unfavourable acquisition, failed succession or closure

3.2 Large co-operative employers are at the forefront of good business behaviour when it comes to investing in people, developing skills and creating opportunities for those who need them the most. For example:

- The Co-op Group has committed to increasing the percentage of BAME managers in its business from 3% to 10% by 2025 and is actively diversifying its talent pipeline to ensure it attracts and recruits employees that represent the communities in which it trades
- Southern Co-operative has established a partnership with a local housing association to help match social housing tenants looking for work with their vacancies. It is also targeting employment opportunities to people aged 16-24 and over 50 because they have been hit worst by unemployment as a result of COVID. It has also pledged support for the Armed Services Covenant and is developing a policy to support veterans into work.
- Midcounties Co-operative is actively removing barriers to female progression in its food business, for example by piloting store manager roles that have much greater flexibility. It is also taking steps to address unconscious racial bias across its business. It also hosts a hub in its Oxford store that, in partnership with the charity Aspire, supports people experiencing homelessness, or at risk of homelessness, to develop their readiness for self-employment and help to incubate local residents' enterprise ambitions. Midcounties also funds a number of programmes aimed at helping young and socially excluded people learn skills and gain employment.
- Suma, the largest worker co-operative in the UK with more than 300 workers, gives everyone the opportunity to participate in democratic decision-making processes and invests in time and support to help all workers become effective, responsible co-owners of the business. Suma's co-operative system also includes each worker doing a range of jobs each week, from truck driving, to warehouse picking, to accounts, while also allowing some specialisation.

Community-led economic development

3.3 A range of co-operative models are increasingly used as tools for community-led economic development, where people are collaborating and pooling resources to improve their economic and social circumstances. For example:

- [Dewsbury Arcade](#) – The first community-owned shopping arcade in the UK, being revitalised and repurposed by local people
- [Radcliffe Market Hall](#) – Since taking over their local market hall, the community has created a new space for local entrepreneurs, artists and social organisations
- [Ethical Recruitment Agency](#) – A community business set up as part of our [Empowering Places](#) programme in a deprived part of Grimsby, which acts as an ethical, mission-focused ethical employment agency, to support local people to gain skills and find better jobs
- [The Good Things Collective](#) – This community co-operative in Morcombe brings local people together to boost skills, wellbeing, learning and enterprise
- [Made in Manningham](#) – This project in Bradford offers enterprise coaching and support to local women to start and grow community businesses in one of the most deprived neighbourhoods in England

Skills, experience and empowerment

3.4 Because of their systems of member participation and democratic governance, all co-operatives offer their members (whether those are workers, service users or people in the community) opportunities to develop and share valuable skills and experience. This includes opportunities to develop skills and experience relating to organisational leadership and the boardroom. Indeed, educating and developing members is one of the fundamental principles of the co-operative model and is critical to making the model effective.

4 Extending wealth and wellbeing

4.1 Because of the efficacy of the model, a proliferation of co-operatives can help strengthen the private sector, including in places that need this the most. And because co-operatives are 'distributive by design', value, wealth and wellbeing are shared more broadly through day-to-day activity.

Co-operative resilience

4.2 A growing body of data shows that co-operatives are especially resilient businesses. This resilience can be especially important for struggling places. For example:

- Official data from the UK shows that co-operative start-ups are almost twice as likely to survive the first five years of trading than start-ups generally, with similar findings in other countries.¹⁰ Separate research shows that co-operatives in the UK that raise equity via 'community shares' (a crowdfunding model unique to co-operatives) are more resilient still, with an 92% survival rate.¹¹
- Official data also shows that UK co-operatives were four times less likely to permanently close in 2020 than UK businesses generally.¹² Research published by Scottish Enterprise (Scottish Government's business development agency) also shows resilience among employee-owned businesses in Scotland during the COVID pandemic.¹³
- The fact that twice as many co-operatives were created as dissolved in the UK in 2020, when there was a net reduction in the number of businesses in the UK overall,¹⁴ suggests that co-operative entrepreneurship was a comparatively resilient force during the economic and psychological shocks of the COVID pandemic.

- 4.3 Why are co-operatives so resilient? Co-operative purpose, ownership and governance all dictate long-termism. In an economic shock it is the members making the tough decisions, in their collective, long-term interests, not investors demanding layoffs to protect short-term returns. Co-operatives also patiently build-up and reinvest reserves and use members' capital wherever possible, rather than piling on debt to achieve faster growth.

Resilient local economies and communities

- 4.4 A greater presence of co-operatives and mutuals can add resilience to local economies and communities. For example:

- Co-operative and mutual ownership helps to root operations, jobs, investment and decision-making in places. And the conversion of established businesses to worker and community ownership limits the number of successions that fail, or fail to deliver for local economies and communities. This can be critically important for struggling places in an era of mobile and itinerate capital and talent.
- Evidence from Italy, France and Spain shows that with the right support, it is also sometimes possible to use co-operative conversions to save jobs threatened by business closure and failure.^{15 16} Encouragingly, peer-reviewed researchers found “*outstanding*” survival rates for Italian co-operatives created out of “*once troubled firms*”.¹⁷ The long-term viability and success of co-operatives created via conversions and rescues is also found in data from Spain¹⁸ and France.¹⁹ This is an important point as the Minister for Small Business recently said in Parliament that government needed to see evidence that co-operative conversions and rescues created viable businesses.²⁰
- Co-operation between businesses is also proven to enhance economic resilience. The strongest examples of this in the UK and worldwide are farmers' co-operatives,²¹ including Fair Trade co-operatives in the global south.²² Another example in the UK is [Open Food Network](#) (OFN), a co-operative that provides digital trading platforms for small food producers and retailers, which helped more than 600 of these small businesses to adapt to the shock of COVID by pivoting to e-commerce. Weekly turnover of OFN-member businesses increased by more than 1200% from mid-January to mid-May 2020, during the first COVID lockdown.²³
- Co-operatives are also a powerful tool for communities to secure essential services and support economic life in response to market failures. We estimate that at least 3,500 UK co-operatives are instrumental in this regard, including local consumer co-operatives, credit unions and community businesses in rural areas and deprived neighbourhoods. It's telling that the most isolated parts of the UK, the Outer Hebrides, Orkney Islands and Shetland Islands, have the highest ratio of co-operatives to people.²⁴

Performance and efficacy

- 4.5 The combination of mutual purpose and democratic governance, found in all co-operatives, has significant advantages. It's a proven way for people with shared interests to collaborate effectively, achieving things together that they could not do on their own. For example:

- When workers have a real stake and a say through worker ownership, this is regularly found to enrich culture, aid innovation, increase engagement and boost business performance^{25 26 27 28 29}
- The use of the 'community shares' model - a type of crowdfunding unique to co-operatives that allows local people to share democratic ownership and control of assets and enterprise - is found to enhance the financial performance and social impact of community businesses³⁰

- Farmers' co-operatives are found to help farmers receive more value in supply chains, manage volatility and improve business efficiency, innovation adoption and productivity ³¹
- Housing co-operatives offer private renters an unrivalled combination of affordability, control and security, with a room in a shared housing co-operative in the UK being on average a third cheaper than the market average ³²
- Consumer and community co-operatives were found to be particularly effective at responding to local needs during the first year of the COVID pandemic. ³³ Our largest consumer co-operatives were at the heart of many mutual aid efforts. For example, during the first COVID wave, Midcounties Co-operative mobilised more than 1,000 volunteers and 100 community groups to make over 100,000 home deliveries to support vulnerable members. It also worked to dramatically grow its local supplier base, in order to support local businesses in crisis.
- 92% of co-operatives were able to identify a clear benefit of being a co-operative in dealing with the economic and social shocks of COVID, with this figure rising to 96% for worker and freelancer co-operatives ³⁴

Distributive by design

4.6 At the same time, co-operatives are excellent at sharing the value and wealth they create, because they are 'distributive by design'. For example:

- On average, co-operatives have lower pay ratios than businesses generally, with ratios in worker co-operatives being particularly low ^{35 36}
- All co-operatives either reinvest all their profits in their business, or share them among their workers, customers and in their communities
- Community shares (a democratic crowdfunding model unique to co-operatives) is shown to be a means by which wealthier people can co-invest alongside poorer people in their community without this deepening power imbalances, ³⁷ and because community shares are an investment, people put in almost ten times more than they tend to when donating³⁸
- On average, UK co-operatives outperform other UK businesses on gender pay differentials ³⁹
- Democratic governance in all co-operatives reduces inequalities of power in the economy
- Empowering workplaces are good for worker satisfaction and wellbeing ^{40 41 42}
- Worker and freelancer co-operatives have been especially effective at protecting worker wellbeing during the COVID ⁴³

Democratising ownership and control in the economy

4.7 Co-operatives and other mutuals offer an enterprise and market-oriented way to democratise ownership and control in the economy. For example:

- Altogether there are 13.9 million members of co-operatives in the UK, ⁴⁴ each with a stake and a say in business
- An estimated 200,000 workers in the UK have a stake and a say in business through employee and worker ownership (i.e. worker co-operatives and employee ownership trusts) and on current trajectories, with the right support, this could rise to 1 million workers by 2030 ⁴⁵
- Through community shares - a type of democratic crowdfunding unique to co-operatives – over 115,000 people across the UK now share democratic ownership and control of 500 businesses.⁴⁶ And 56% of community shares investors earn

£35,000 or less and only 18% are in London and the South East (compared with 80% of angel investors). Furthermore, 41% of community shares investors are women (compared to just 9% of angel investors) ⁴⁷

5 Extending freedom

5.1 Co-operatives extend and deepen human freedom, by allowing people with shared interests to achieve things together that they could not do on their own, and by providing a means for them to take meaningful control over things that shape their lives. This combination of autonomy, self-help and solidarity is a fundamental feature of co-operative practice and identity. For example:

- The ability to have meaningful control at work and to ‘be your own boss’ is a key motivation and experienced benefit in worker co-operatives ^{48 49 50 51}
- Freelancer co-operatives, such as [Chapel Street Studios](#), food delivery platform [Wings](#) and [Crescent Management Actors’ Co-op](#) offer a fit, not just with how a growing number of freelancers and entrepreneurs are working, but with *how they want to work*. Co-operatives combine the benefits of autonomy and flexibility on the one hand, with the benefits of collaboration, solidarity, organization, pooled resources and scale on the other. ^{52 53}
- Some co-operatives empower service users who would otherwise have limited choices, agency and autonomy in key areas of their life, such as care co-operatives [Colne Valley Care](#) and [Equal Care](#), BSL interpretation co-operative [Signalise](#) and credit unions such as [London Mutual Credit Union](#)
- A key motivation and experienced benefit in housing co-operatives is the control renters have over their housing, compared to the insecurity and lack of agency experienced by many private renters ⁵⁴

6 Extending pride and aspiration

6.1 Because co-operatives allow people to come together and do things for themselves, they encourage and mobilise individual and communal pride and aspiration. For example:

- [Nudge Community Builders](#) – a community co-operative in Plymouth that acquires and repurposes derelict buildings in a deprived neighborhood, to ‘nudge’ local people and businesses to be *“brave, creative, resilient and healthy, supporting themselves and their local community”*
- [Norwich Mustard](#) – a multi-stakeholder co-operative established to harness and perpetuate Norwich’s proud local heritage in mustard making
- [Enabled Works](#) - a disabled workers’ co-operative in Leeds that was formed by a group of workers who stood to lose their livelihoods when the local Remploy factory closed in 2012

6.2 Because they allow people to achieve more together than they could alone, survey data shows that small co-operatives are markedly more ambitious than small businesses generally, with 61% of small co-operatives expressing ambitions to grow in Q1 2021, ⁵⁵ compared with 53% of small businesses generally. ⁵⁶

7 Funding and delivering Net Zero

7.1 The co-operative model could be a powerful tool for funding and implementing the UK’s new Net Zero Strategy. Increasingly, we are seeing co-operatives form specifically to facilitate climate action, often driving societal change in ways markets and governments

cannot. This includes co-operatives delivering [home retrofit](#), [e-vehicle charging](#) and renewable energy [generation](#), [demand management](#) and [supply](#).

- 7.2 Each year in the UK, tens of thousands of ordinary people invest millions of pounds in these co-operatives, via the 'community shares' crowdfunding mechanism. This demonstrates the special ability of co-operatives to mobilise financial and social capital simultaneously to tackle climate change.
- 7.3 New research finds that our largest consumer co-operatives are leading the way on the road to net zero. It also finds that the wider co-operative sector is starting to prioritise action on climate like never before. Two thirds of co-operatives, the vast majority of which are SMEs, are taking action to reduce their carbon emissions and of those taking action, one in five has a net zero target.⁵⁷ In comparison with similar surveys of SMEs generally, it appears that SME co-operatives are ahead of the curve on net zero.⁵⁸ But co-operatives are under no illusions about the scale of the challenge ahead. The sector is at the beginning of its journey and is redoubling its efforts.
- 7.4 And because co-operatives are by design very good at distributing value, wealth and wellbeing through day-to-day business, they can play a critical role in creating an economy that engenders widespread wellbeing within safe planetary boundaries.
- 7.5 The Net Zero Strategy rightly acknowledges the instrumental role communities and co-operation can play in achieving net zero on a societal scale. But the strategic and tactical thinking about how government will actually utilise these tools to achieve its goals, across power, buildings, transport and so on, is very much lacking. **If government were to build large-scale proliferation of these solutions into the delivery of the Net Zero Strategy, it would stand a greater chance of success.**
- 7.6 In a [Joint Declaration on the eve of COP26](#) leading UK co-operatives also asked government to:
- Make end-to-end carbon footprint reporting mandatory for all large businesses
 - Simplify the complex landscape of environmental metrics, reporting standards, regulations and guidance to make it easier for all businesses to take effective climate action
 - Ensure all businesses can access comprehensive advice and support to help them develop and implement effective strategies for reducing and eliminating emissions, including paid-for and subsidised advice, grants and green enterprise finance schemes, starting with adequate provision in the UK Shared Prosperity Fund

8 Why aren't there more co-operatives?

- 8.1 Given the well-evidenced benefits of pivotal co-operative models, why is the co-operative sector in the UK still small? Evidence points to the following reasons:
- Choosing a co-operative model often means going against established cultures and ways of doing things ⁵⁹
 - Co-operatives are very much a 'best-kept secret' in communities and among potential entrepreneurs, businesses, and crucially, those who advise them ^{60 61}
 - Private and government-funded business support rarely caters to the ambitions of co-operative entrepreneurs or to existing co-operatives looking to develop
 - Co-operatives can raise investment, from their members and externally, but they often have distinctive capital raising requirements that neither the market nor government's enterprise finance interventions cater to
 - The wider operating environment can make starting and running a co-operative harder than it should be – this includes unnecessary and avoidable difficulties for

co-operatives in the policies and processes of banks and other private service providers

- Government provides co-operatives with a limiting and dysfunctional corporate framework (corporate law, regulation, processes) that has been largely neglected for many decades and which costs the sector millions of pounds a year in unnecessary time, expenditure, inefficiency and missed opportunity

9 Government's role and our policy recommendations

9.1 The great benefit of co-operatives is that they enable groups of people to do things for themselves, through a special combination of enterprise, solidarity and community action. They cannot be magically created through policy. But government does have a critical role to play in providing people with relevant information, options and in some cases, support.

9.2 We recognise that during the pandemic government took action to ensure co-operatives were not excluded from support, not least in relation to the Corporate Insolvency and Governance Act. We are very grateful for this.

9.3 There are three key ways in which government can help the UK co-operative economy to thrive:

- Better-tailored business support and enterprise finance for existing co-operatives, co-operative entrepreneurs and the conversion of existing businesses to co-operative ownership
- Legislative and non-legislative action to provide a more enabling corporate framework (law, regulation, processes)
- Tax support for investment in co-operatives and co-operative development

Co-operative entrepreneurship

9.4 The UK's comparatively low co-operative start-up rate is not natural or inevitable. Below we set out our priority policy recommendations for the Westminster Government and Parliament in this area:

- **Offering the co-operative option** - BEIS and DLUHC can encourage and fund the local delivery of tailored support for co-operative entrepreneurship (e.g. through Growth Hubs and local authorities) including for 'pre-technical support' (awareness raising, exploration of co-operative options, group development) specialist co-operative business support (structures, incorporation, business models, finance), co-operative peer mentoring and training for business advisors to improve their understanding of co-operatives. Government can draw on Scottish Government's success in supporting co-operative entrepreneurship, where resourcing of tailored support has resulted in, proportionally, more new start co-operatives than anywhere else in the UK. It can also build on the work of the new [Ownership Hub](#) programme, which is currently piloting support for co-operative entrepreneurs in partnership with South Yorkshire Combined Authority.
- **Options for Universal Credit claimants** – The DWP can support local pilots to help Universal Credit claimants create new livelihoods or enhance their existing businesses, through co-operative entrepreneurship. The increased flexibility in the system post-New Enterprise Allowance creates a great opportunity to do this.
- **Co-operative Start-up Loans** - The British Business Bank can create a variation of its Start-up Loans programme that provides tailored co-operative business support and mentoring alongside its loans. At present the support and mentoring that accompanies loans does not cater to co-operative entrepreneurs.

- **Education** - The Department for Education can work to increase coverage of co-operatives in business studies curricular and in programmes relating to entrepreneurship in schools, colleges and universities.

Co-operative conversions and rescues

- 9.5 The conversion of businesses to worker and community ownership in the UK is becoming more common, with 148 conversions to employee ownership in 2020 alone.⁶² But this is a tiny fraction of the businesses and jobs that are lost each year because of failed or unfavourable succession, divestment or closure. Limited awareness of options and gaps in information, support and finance are the cause of this.
- 9.6 Below we set out our priority policy recommendations for the Westminster Government and Parliament in this area:
- **Planned exit/succession** – BEIS and DLUHC can encourage and fund the local delivery (e.g. through Growth Hubs) of support for business owners considering exit/succession/retirement, to explore and where appropriate adopt, a planned transition to worker ownership. Government can draw on Scottish Government’s success in supporting employee buyouts, where resourcing of tailored support has resulted in, proportionally, more buyouts than anywhere else in the UK. It can also build on the work of the new [Ownership Hub](#) programme which is currently piloting similar support in partnership with South Yorkshire Combined Authority.
 - **Co-operative restarts and rescues** - BEIS and DLUHC can encourage and fund the local delivery of support for groups of workers threatened with unemployment because of business closure, divestment or failure, to explore and where appropriate undertake a co-operative ‘restart’ or ‘rescue’, wherein a ‘newco’ co-operative is formed to acquire viable parts of a business or its productive assets. In developing this support we should draw on what has proven to work France, Spain and Italy, as well as from homegrown successes like Enabled Works in Leeds.
 - **Supportive legislation** - Government can make changes to employment and insolvency law, so that employees have more rights to be informed about the possible sale of their employer, or of a likely insolvency event. Changes to employment and insolvency law also could create additional rights for workers to save their jobs through a co-operative ‘restart’ or ‘rescue’ when a business is insolvent or pre-insolvent (wherein a ‘newco’ co-operative is formed to acquire viable parts of a business or its productive assets). In doing so government can draw on very successful legislation in France and Italy (e.g. the Italian Marcora Law).⁶³

Supporting existing co-operatives

- 9.7 Government should be greatly encouraged by the ambition and positive impact of the UK’s 7,000 co-operatives, but equally concerned that its business support and enterprise finance programmes are not playing their part. Unless we put this right nationally and locally, we will squander the clear potential of these co-operatives to build the economy we need. Below we set out our priority policy recommendations for the Westminster Government and Parliament in this area:
- **Co-operative business support** - BEIS and DLUHC can encourage and fund the local delivery (e.g. through Growth Hubs) of tailored support for existing co-operatives. Based on recent research into the support needs of co-operatives with growth ambitions, better-tailored support is needed in the following areas: capital raising, business strategy, culture and people, management and governance, organisational development, innovation adoption, financial management and accounting.⁶⁴
 - **Peer support and collaboration** - BEIS is funding some very promising ‘B2B’ peer support and collaboration programmes to help boost SME productivity and

innovation. It could work with the co-operative sector to run some 'co-op2co-op' programmes to do the same.

Supporting investment in co-operatives

- 9.8 UK households have accumulated over £125 billion of additional savings during the pandemic,⁶⁵ which could be channelled into economically, socially and environmentally productive investments.
- 9.9 Co-operatives provide an effective means for private wealth to be invested in ways that benefit people and planet, as set out in **parts 3 to 7** above. Indeed, in the past decade more than £180 million has been invested in co-operatives by over 115,000 people, using the 'community shares' crowdfunding model.
- 9.10 In recent years we have started to see community shares being adapted to help finance 'hybrid' or 'multi-stakeholder' co-operatives, where workers are members alongside service users and communities of interest. For example, [Signalise](#) and [Equal Care Co-op](#). This hybrid ownership and investment model has huge potential to create high-impact and well-capitalised co-operatives.
- 9.11 In recent years, through our [Community Shares Booster](#) programme, we have demonstrated that external institutional investment in co-operative equity, alongside members and communities, can be very impactful.
- 9.12 Co-operatives can and do raise investment from their members, communities and externally, but they often have distinctive capital raising requirements that neither the market nor government's enterprise finance interventions cater to.
- **Co-operative equity raising** - The British Business Bank can create variations of its equity investment programmes for start-ups, early stage and growth, that cater to the distinctive features of co-operative equity raising. This would involve investing British Business Bank capital on co-operative terms, alongside members and communities, in ways that help to crowd in other private investors (especially 'ESG investors') on the same co-operative terms. Currently the British Business Bank's equity support does not cater to co-operatives. Co-operative and mutuals sector bodies have met with senior officers at the British Business Bank, who broadly agree that there is a 'market failure' in equity investment for new and growing mutuals. They have given a very constructive steer that more insights are needed on the current extent of the market failure and the potential size of a mutuals equity market with intervention. Co-operatives UK intends to put resource into generating these insights but a clear policy steer from government would also make a big difference.
 - **Financing buyouts** – The British Business Bank can help establish a market for private investors to help finance worker and community buyouts, drawing on successful systems in France and Italy in particular, as well as the success of community shares in the UK.
 - **Innovation in preventing unemployment** – Government could adapt a very effective innovation from Italy and Spain (the Marcora Law and Paga Unico respectively), which allows workers faced with job losses to receive would-be future unemployment benefits in a lump sum equity investment, to be used to help fund a buyout or rescue and capitalise their new co-operative.⁶⁶

Corporate framework

- 9.13 Government provides co-operatives with a limiting and dysfunctional corporate framework (corporate law, regulation, processes) that has been largely neglected for many decades and which costs the sector millions of pounds a year in unnecessary time, expenditure, inefficiency and missed opportunity.
- 9.14 Incredibly, the last general review and reform of co-operative and community benefit society law was undertaken by the Gladstone administration in 1893. No government has brought

forward primary legislation to make significant changes to society law since 1939. Since World War Two, improvements to society law have been rare and piecemeal, almost always coming in the form of small Private Members' Bills and secondary legislation.⁶⁷

- 9.15 In 2014 the Coalition government passed the Co-operative and Community Benefit Societies Act, which while very welcome, was consolidation legislation and so could not make material changes to the law. In the same year, government also passed a package of statutory instruments that made some crucial but ultimately narrow updates.
- 9.16 In 2019, the Financial Conduct Authority recommended that government undertake a review of society law.⁶⁸ **A wholesale review, with a view to introducing primary legislation, is long overdue.**
- 9.17 Below we detail some legislative changes that we already know would remove red tape and have the backing of the sector. These changes would save the co-operative sector millions of pounds each year, while also enabling more innovation, investment and growth:
- **Remove disproportionate audit requirements for small societies** - Small societies with a turnover under £10.2 million are currently required to comply with outdated audit requirements that are not imposed on small companies.⁶⁹ These requirements come with additional costs and complexity⁷⁰ for no additional benefit in terms of governance and transparency. In 2018 HM Treasury agreed that removing this red tape would be beneficial but could not find the time to bring forward the necessary primary legislation.
 - **Provide a simple asset lock for co-operative societies** – A simple legal asset lock is a powerful enabler for many social enterprises in the UK, guaranteeing commitment to social purpose and helping to attract private investment on the right terms. Asset locks can also be a very powerful protection against demutualisation. In many parts of the world where co-operatives thrive, co-operative law provides some form of asset lock, but not in the UK. This anomaly creates complexity and risk for existing co-operative societies. It also regularly forces suboptimal choices of legal form onto co-operative entrepreneurs, creating distortions and limiting innovation, investment and growth in the sector.
 - **Confirm that societies can 'redeem' their shares** – Societies looking to raise equity are hampered by legal uncertainty as to whether they can 'redeem' shares at their option, as companies can.⁷¹ Company law confirms that companies can redeem shares at their option and sets out how they can do this. Society law is silent on this issue, leaving the possibility that their redemptions could be challenged under nineteenth century case law.⁷² This limits options and is a particular obstacle for societies looking to raise significant amounts from external investors.
 - **Remove obstacles for creating charitable societies** - Poorly drafted legislation currently prevents societies from easily becoming charitable societies, even when they adopt charitable objects.⁷³ The only legal option open to such societies is to set up a separate charitable society and undertake a costly and complex transfer of assets and engagements. What would otherwise be a simple change of rules and registration with HMRC, ends up costing thousands of pounds and ties up the society in more than 6 months of complex legal processes.
 - **Allow societies to change auditors 'midterm'** – Society law does not allow societies to appoint auditors without holding a general meeting (i.e. 'midterm'), whereas company law provides a straightforward process for changing auditors between general meetings. The requirement to hold a Special General Meeting just to change auditors, takes up significant time and costs money.
- 9.18 In addition to long-overdue updates to society law, neglect of the corporate framework has led to many policy and process issues across government, which create unnecessary costs and burdens for societies. These include:

- **New society tax registration** – HMRC has overlooked societies in its Making Tax Digital agenda and no longer has a clear and straightforward process for registering new societies for tax purposes. It can take more than four months and countless emails, letters and phone calls for new societies to be given a Unique Tax Reference. Government should create a process for automatically registering new societies with HMRC, as it already has in place for new companies.
- **Single Account Filing** – Societies were not included in government's Single Account Filing project, which now enables companies to file their accounts with Companies House and HMRC in one go. Government should create a process to enable societies to file their accounts with the FCA and HMRC in one go.
- **Online forms on GOV.UK** – Too many online forms for businesses on GOV.UK, covering everything from tax to registering with the Kickstart scheme, have been designed without countenancing the existence of societies. Forms regularly require a Company Registration Number and the supporting information generally provides no guidance on what to do if the business is not a limited company. Government Digital Service's internal guidance should require online forms for businesses to be created in ways that make them straightforward for societies to complete.
- **Due diligence** – Government's Grant Management Function has developed internal guidance⁷⁴ and tools⁷⁵ that do not countenance the existence of societies. This has made it more likely that societies will be unintentionally excluded or disadvantaged in grant making schemes. As an example of this, societies have found it difficult to access the Kickstart Scheme as a result.

9.19 In 2019, at the behest of the Economic Secretary to the Treasury (the minister responsible to societies), Treasury ran a Mutuels Workshop that brought together representatives of the mutuels sector with officials from across Whitehall. The Minister requested a focus on non-legislative issues such as those outlined above. Some 'low hanging fruit' solutions were identified.⁷⁶ Just prior to the COVID pandemic, Treasury officials began to explore the implementation of these solutions but very little progress has been made. Since then, the number non-legislative issues affecting societies has grown.

9.20 We recognise that it is more by historical happenstance than logical design that HM Treasury has responsibility for the society corporate framework. HM Treasury regularly informs us that primary legislation is not a possibility. **We believe it would be more appropriate and effective for BEIS to have responsibility for the society corporate framework.**

Tax support

9.21 In recent years co-operatives have been under-served by governments investor-focused tax reliefs (Enterprise Investment Scheme, Social Investment Tax Relief) because of how these schemes are designed and eligibility restrictions.

9.22 Many smaller co-operatives grow by reinvesting surpluses and have little or no scope to raise money from investors, making Enterprise Investment Scheme and Social Investment Tax Relief irrelevant to them.

9.23 Furthermore, all co-operative societies, and many business activities that are common in the social economy, have been excluded from Social Investment Tax Relief.

9.24 We make two tax-related recommendations:

- **Replacing Social Investment Tax Relief** - 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-operatives and other social enterprise invest, raise finance and reach their potential.
- **Tax support for co-operative development** - Explore the creation of a new tax relief that exempts from corporation tax a percentage of any surplus that a co-

operative chooses to pay into an HMRC-accredited co-operative development institution. This would draw on successful systems in countries with large co-operative economies, such as Italy, where some co-operative surpluses are pooled to fund the development of the wider co-operative sector (e.g. tailored business support, patient loans, specialist investment finance).

10 Sector-specific policy

10.1 Some types of co-operative are sector and policy area specific, such as community energy, housing co-operatives, care co-operatives, credit unions and farmers' co-operatives. Much of the above is cross cutting and applies to these co-operatives, but these co-operatives will also have their own challenges, opportunities and policy recommendations that cannot be covered here.

10.2 If MPs would like to understand the policy needs of co-operatives and mutuals in some specific sectors, they can contact the sector bodies detailed in the table below.

Sector	Organisation	Policy contact
Credit unions	Association of British Credit Unions (ABCUL)	Natalie.McQuade@abcul.org
Housing co-operatives	Confederation of Co-operative Housing	nic@cch.coop
Community energy	Community Energy England	d.law@communityenergyengland.org
Farmers' co-operatives	Co-operatives UK	richard.self@uk.coop
Employee ownership	Employee Ownership Association	keely.lead@employeeownership.co.uk

James Wright, Policy Officer

Co-operatives UK

t: 0790 351 4288

e: james.wright@uk.coop

References

¹ <https://www.uk.coop/resources/co-op-economy-report-2021>

² Ibid

³ <https://coopseurope.coop/power-cooperation-%E2%80%93-cooperatives-europe-key-figures-2015>

⁴ <https://www.un.org/esa/socdev/documents/2014/coopsegm/grace.pdf>

⁵ <https://coop.exchange/blog/d8bf329f-c512-11ea-b711-06ceb0bf34bd/the-number-of-cooperatives-in-south-korea-has-exploded>

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- ⁶ On average worker co-operatives support six livelihoods after five years, whereas most start-ups still only support one
- ⁷ In the UK 76% of co-operative start-ups survive the first five years compared to 42% of start-ups generally - see [here](#)
- ⁸ <https://www.uk.coop/resources/what-do-we-really-know-about-worker-co-operatives>
- ⁹ FSB and RSA (2017) '[The self-organising self-employed](#)'
- ¹⁰ https://www.uk.coop/sites/default/files/2020-10/co-operative_survival_1.pdf
- ¹¹ <https://www.uk.coop/resources/understanding-maturing-community-shares-market>
- ¹² https://www.uk.coop/sites/default/files/2021-06/Ready_For_Whats_Next_1.pdf
- ¹³ According to the latest research from Scottish Enterprise, almost half as many Scottish employee owned businesses reported reduced turnover as a result of the pandemic compared with SMEs generally – see [here](#)
- ¹⁴ <https://www.uk.coop/resources/co-op-economy-report-2021>
- ¹⁵ Vieta, Depedri & Carrano (2015) '[The Italian Road to Recuperating Enterprises and the Legge Marcora Framework Italy's Worker Buyouts in Times of Crisis](#)'
- ¹⁶ CECOP (2013) '[Business Transfers to Employees under the Form of a Cooperative in Europe](#)'
- ¹⁷ Vieta, Depedri & Carrano (2015) '[The Italian Road to Recuperating Enterprises and the Legge Marcora Framework Italy's Worker Buyouts in Times of Crisis](#)'
- ¹⁸ <https://repositorio.ucp.pt/bitstream/10400.14/35190/1/202749606.pdf>
- ¹⁹ https://base.socioeco.org/docs/bussiness_transfers_to_employees_under_the_form_of_a_cooperative_in_europe_ce_cop-3.pdf
- ²⁰ Debate on [Co-operative Purchase of Companies](#) (8 September 2021)
- ²¹ <https://www.mdpi.com/2071-1050/12/24/10362/pdf>
- ²² <https://www.fairtrade.net/news/cooperating-to-create-change>
- ²³ https://www.uk.coop/sites/default/files/2020-09/Co-op_Economy_2020_0.pdf
- ²⁴ <https://www.uk.coop/news/rural-communities-are-most-co-operative-uk>
- ²⁵ [Pérotin 2012](#)
- ²⁶ [Kruse 2016](#)
- ²⁷ Employee Ownership Association (2017) '[The Ownership Dividend](#)'
- ²⁸ See the evidence presented in the 2012 [Nuttall Review of Employee Ownership](#)
- ²⁹ Fathi Fakhfakh, Virginie Pérotin, Monica Gago (2011) '[Productivity, Capital and Labor in Labor-Managed and Conventional Firms](#)'
- ³⁰ 85% of businesses that have used community shares report clear benefits in terms of financial performance – see [here](#)
- ³¹ <https://www.uk.coop/resources/farmer-co-operation-uk-opportunities-industry>
- ³² <https://www.uk.coop/resources/housing-2040-consultation-outline-policy-options>
- ³³ [Co-operatives UK 2021](#)
- ³⁴ Ibid
- ³⁵ <https://institute.app.box.com/s/28pe2jpxvowxjvqralw6e778k5npavx9>
- ³⁶ https://www.uk.coop/sites/default/files/2020-10/worker_co-op_report.pdf
- ³⁷ According to recent research half of co-operatives raising community shares are found in higher deprivation neighbourhoods (1-5 IMD decile) but 70% of investors live in lower deprivation neighbourhoods (6-10 IMD decile), usually in the wider locality - see [here](#)
- ³⁸ <https://www.uk.coop/resources/understanding-maturing-community-shares-market>
- ³⁹ [Co-operatives UK 2019](#)
- ⁴⁰ [National Centre for Employee Ownership 2017](#)
- ⁴¹ Cultural Workers Organise (2020) [Sharing Like We Mean It: Working Co-operatively in the Cultural and Tech Sectors](#)
- ⁴² Employee Ownership Association (2017) '[The Ownership Dividend](#)'

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- ⁴³ [Co-operatives UK 2021](#)
- ⁴⁴ <https://www.uk.coop/resources/co-op-economy-report-2021>
- ⁴⁵ <https://www.uk.coop/resources/1millionowners-campaign-proposal>
- ⁴⁶ Community Shares Unit
- ⁴⁷ <https://www.uk.coop/resources/understanding-maturing-community-shares-market>
- ⁴⁸ Cultural Workers Organise (2020) [Sharing Like We Mean It: Working Co-operatively in the Cultural and Tech Sectors](#)
- ⁴⁹ Spear, Roger and Thomas, Alan (2015). Worker Control in Worker Co-operatives? *Journal of Co-operative Studies*, 48 No 1(143) pp. 6–19.
- ⁵⁰ <https://www.uk.coop/resources/worker-co-op-code>
- ⁵¹ <https://www.uk.coop/case-studies/why-worker-ownership-works-leeds-bread-co-op-hive>
- ⁵² Cultural Workers Organise (2020) [Sharing Like We Mean It: Working Co-operatively in the Cultural and Tech Sectors](#)
- ⁵³ https://www.thersa.org/globalassets/pdfs/reports/rsa_self-organising-self-employed-report.pdf
- ⁵⁴ <https://www.uk.coop/resources/shared-space-how-scottish-housing-co-ops-build-communities>
- ⁵⁵ [Co-operatives UK 2021](#)
- ⁵⁶ <https://www.fsb.org.uk/static/b2c75005-00fa-4b71-ba55fcc08345aa2d/FSB-Voice-of-Small-Business-Index-Quarter-1-2021.pdf%20>
- ⁵⁷ <https://www.uk.coop/resources/race-net-zero-role-co-ops-driving-climate-action-post-cop26>
- ⁵⁸ <https://www.britishchambers.org.uk/page/o2-bcc-survey-results>
- ⁵⁹ For example, research by the Royal Agricultural University has dedicated a cultural disinclination to co-operate among UK farmers- see [here](#)
- ⁶⁰ Alliance Manchester Business School (2018) [‘The Co-operative Business Model: promoting awareness amongst business advisers’](#)
- ⁶¹ Wavehill (2017) [‘How Dangerous is the Business Succession Time Bomb? – SME succession planning support in Wales’](#)
- ⁶² <https://employeeownership.co.uk/resources/what-the-evidence-tells-us/>
- ⁶³ The Marcora Law in Italy and the Social and Solidarity Economy Law in France
- ⁶⁴ [Co-operatives UK 2021](#)
- ⁶⁵ <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2021/february/monetary-policy-report-february-2021.pdf>
- ⁶⁶ In Spain this is called the [Pago Unico](#) while in Italy this part of the [Marcora Framework](#)
- ⁶⁷ For the history of society law see Ian Snaith (2014) [‘Handbook of Co-operative and Community Benefit Society Law’](#)
- ⁶⁸ 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.”
- ⁶⁹ Section 85 of the Co-operative and Community Benefit Society Act requires that all societies with a turnover under £10.2 million turnover and over £90,000, that disapply the full audit requirement, obtain an ‘auditors’ report’ instead. There is no clarity on what an auditors’ report should include. In practice most societies get no benefit from the auditors’ report. Auditors often make up the report and the price charge in an arbitrary manner. Meanwhile Section 83 requires that societies with a turnover under £5,000 conduct a ‘lay audit’. No-one knows what is required in practice. It is anomalous and dysfunctional that the law places greater audit requirements on the very smallest societies that those with a turnover between £5,000 and £90,000.
- ⁷⁰ The auditors’ report requirement costs each small society hundreds of pounds a year for no benefit.
- ⁷¹ Society law provides for the issuance of shares that are ‘withdrawable’, which while not defined anywhere, is widely taken to mean withdrawn at the option of the shareholder, rather than repaid at the option of the society. Withdrawable shares are very useful, but are not practical for raising large amounts from external investors.
- ⁷² Trevor vs Whitworth case law made it unlawful to redeem shares, until companies legislation provided explicit ways for this to be done

⁷³ Community benefit societies can adopt a 'statutory asset lock' under Community Benefit Societies (Restriction on Use of Assets) Regulations 2006. This asset lock is not stringent enough to meet the requirements of charity law, because it does not restrict the use of residual assets exclusively to charitable purposes only. Thus HMRC cannot grant charitable status to a community benefit society with this asset lock. To gain charitable status, a community benefit society needs to adopt a more stringent 'charitable asset lock'. Unfortunately, an unintended consequence the wording of the Community Benefit Societies (Restriction on Use of Assets) Regulations 2006, is that it is not permissible for an asset-locked community benefit society to strengthen its asset lock provisions to make them charitable. Under the asset lock regulations once provisions are adopted they cannot be altered, even if to make them more stringent. This is not an intended operation of the regulations and represents a legislative dysfunction which needs to be dealt with.

⁷⁴ [Guidance for General Grants](#), page 18, requires: "*verification of identity and/ or legal status via legal teams including checks **against Companies House and the Charities Commission.***" Not listing the FCA Mutuals Register here increases the risk that policies and processes created following this guidance will be problematic for societies.

⁷⁵ [Spotlight](#), government's online automated due-diligence tool, does not search the FCA Mutuals Register.

⁷⁶ See parts 2 and 3 [here](#).