

Co-operatives: inclusive free enterprise

June 2019

1. About co-operatives

Co-ops demonstrate a different way of doing business and organizing resources. One that shares power, wealth and wellbeing broadly, which is absolutely essential as we adapt to life in increasingly narrow ecological constraints. They are a proven, pragmatic tool for people to work together and achieve their aspirations for better work, stronger communities and a more fulfilling, sustainable way of life.

What makes co-ops different is how they allow people to democratically own and control the things that really make a difference - like capital, organization and scale - so that these create real value for people and planet. They are one of the best tools we have for applying social responsibility, solidarity and democracy in a market setting.

2. About Co-operatives UK

Co-operatives UK is the politically independent association of the UK's co-ops. Our members include consumer co-ops, employee and worker owned businesses, leading agricultural co-ops, housing co-ops, credit unions, community businesses and more. Find out more at www.uk.coop.

3. UK and international comparisons

Our annual report on the co-operative economy will be published in August. Our most recent reported data (2018) shows there were 7,226 independent co-op operating across the UK, with a combined turnover of £36.1 billion (up more than £800 million on 2017), with 235,000 people earning their livelihoods directly through co-ops, and 13.1 million members of co-ops overall.¹

Our data indicates that co-ops of all shapes and sizes are thriving right across the economy. There are exciting new co-op clusters emerging in industries like digital-creative, social care and in the community ownership of land, assets and enterprise, while they remain strong and continue to innovate in areas of traditional strength like retail, wholesale, housing and agriculture.

The co-op economy in the UK is diverse, well-established and growing. But by international comparisons it is small. Globally co-ops are a significant force with more than US\$2.1 trillion combined turnover and 1 billion members.² The UK lags behind most OECD countries in the scale and impact of our co-op sector. Germany has a co-op economy four times size of ours, while in France it is six times larger.³ In **part 5** we set out what is holding us back and in **part 6** suggest how governments can work with businesses and communities to change this.

4. Performance and efficacy

Co-ops of all kinds across the economy demonstrate strong performance in delivering economic and social benefits for their members.

Employee and worker ownership

On employee and worker ownership specifically, there is a broad body of evidence that links strong commercial performance to employee and worker ownership, explained by increased discretionary effort on the part of worker-owners, stronger teams, a unifying culture, greater degrees of trust, more efficient management and easier implementation of decisions.⁴ Specifically on productivity, there is evidence suggesting a link between workers sharing beneficial ownership and control and higher productivity.^{5 6}

Farmer co-ops

To take another example, evidence demonstrates that twenty years of intensive farmer co-operation in horticulture has delivered massive improvements in productivity for UK growers.⁷

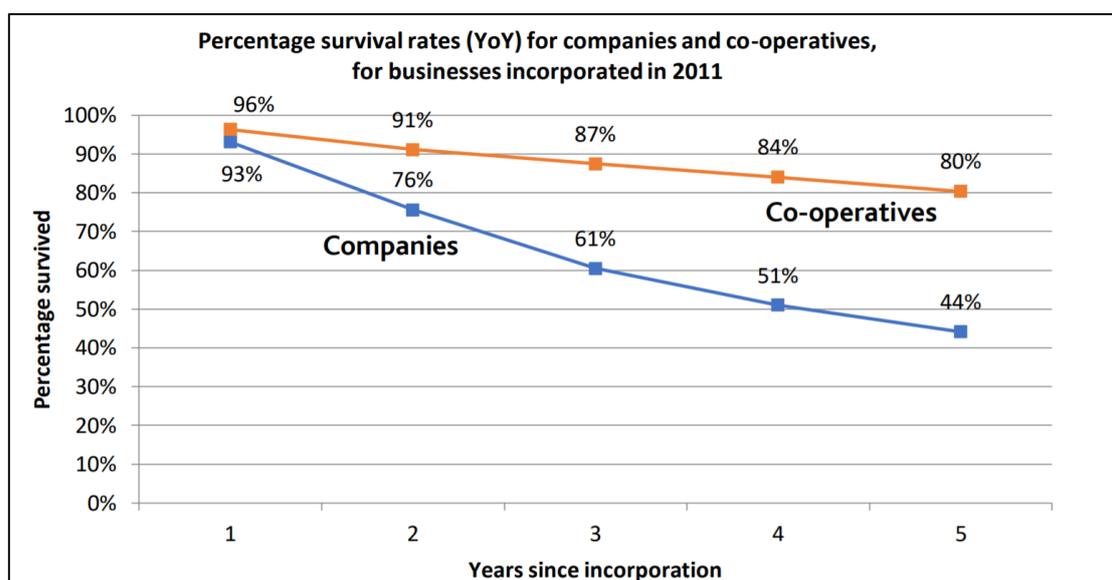
Community co-ops

Elsewhere, evidence also shows that community co-ops have been one of the UK's biggest social

investment success stories. They have been particularly good at facilitating a more democratic and participatory model of social investment, through 'Community Shares'. Since 2012 communities across the UK have raised more than £107.9 million through Community Shares.⁸ According to Big Society Capital, Community Shares account for all of the £4.8 million of equity raised through Social Investment Tax Relief (SITR). And while we really must stress the unmatched success of Community Shares in raising full risk equity finance for social enterprises, community co-ops also account for 45 percent of debt raised through SITR and on average have raised debt investment through SITR in larger amounts.⁹

Business resilience

There is robust statistical evidence from official UK datasets, backed up by similar findings elsewhere in the world, showing that co-ops tend to be more resilient than businesses at large. Official data shows co-op are almost twice as likely to survive the first five years of trading as non-co-operative businesses.^{10 11}



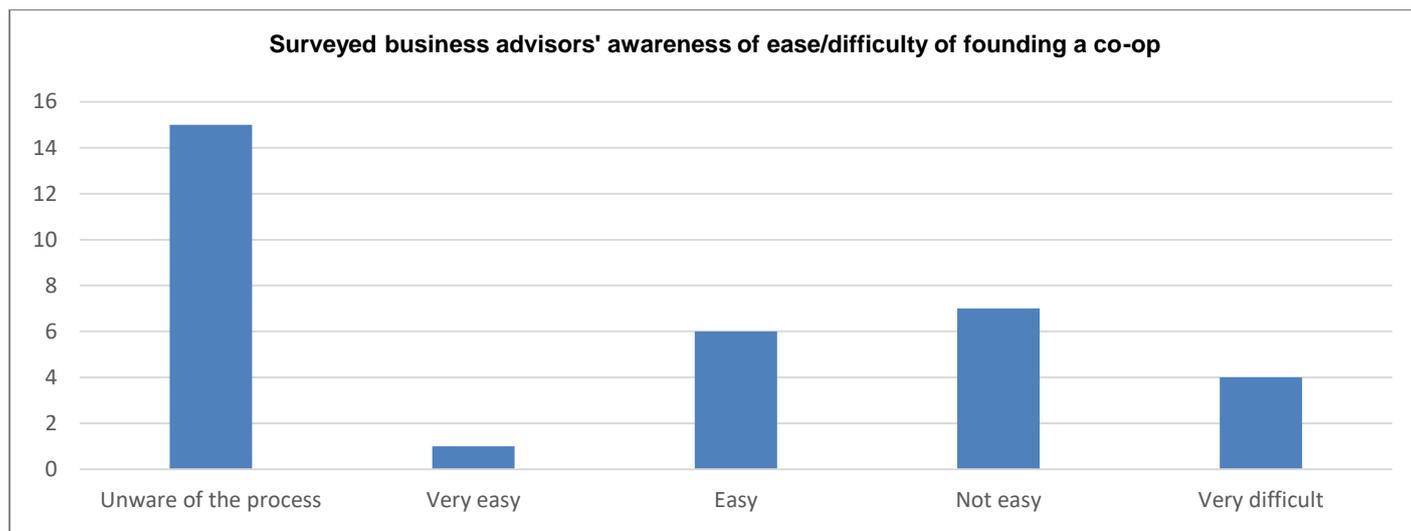
From Co-operatives UK (2019) 'Co-operative Business Survival'

5. Barriers

While over-generalisation is to be avoided, significant factors that leave the UK lagging behind other developed countries in co-op strength include:

- **Fertile conditions for co-op formation are too often absent** – Co-ops form out of strong, effective communities or place and interest, but the potential of too many communities is held back by a lack of investment (financial and non-financial) in social capital and limited devolution of economic power and funding to the community level. Fertile conditions for co-op formation are often absent where co-ops could do the most good, for example in more deprived places.
- **Established cultures and norms of behaviour** – For example, evidence suggests farmers in the UK are culturally disinclined to co-operate, compared with their competitors elsewhere in the world.¹²
- **Lack of awareness, practical understanding and good advice** – Evidence suggests that public understanding of co-ops as a practical organisational tool or an approach to business is very limited.^{13 14} Furthermore research for Co-operatives UK has also identified unhelpful gaps in the knowledge and advice offering of those who influence the decisions of entrepreneurs and businesses.¹⁵ This is compounded by a paucity of useful information and advice provided through public and quasi-public channels. It is very rare for central or local

government, or LEPs, to commission business advice and support that includes expertise on co-ops.



Taken from Alliance Manchester Business School (2018) 'The Co-operative Business Model: promoting awareness amongst business advisers'

- **Corporate frameworks for co-ops are not as user-friendly as they should be** - The registry function for co-ops (in the FCA) can be cumbersome and is not linked into the increasingly important digital nexus between Companies House and HMRC, upon which so many improvements for businesses, such as Single Filing and Making Tax Digital are predicated. And co-op law is in need of both routine maintenance and strategic reform. This can add to negative perceptions about the co-op option.
- **Challenging operating environment** – There are examples where the operating environment for co-ops is more challenging than other models, including banks not understanding legal forms and difficulties and unwarranted disadvantages in procurement (private and public), due diligence and credit scoring, again adding to negative perceptions about co-op options.
- **Financing challenges** - There can be some distinct challenges for co-ops in raising start-up and growth capital that go beyond those experienced by businesses generally, though this applies more to some types of co-op in some circumstances than to others.

6. Policy options

There are things that central government could do now and in the near future to help address these barriers. Our priorities for central government would be:

Now

- **Shared Prosperity Fund** – Rather than giving all the funding and power to LEPs (in England), government could commit 25 per cent of the new UK Shared Prosperity Fund for community economic development, prioritizing the participation of communities in the most deprived parts of the UK. Community economic development a process through which communities control local partnerships and use enterprise, investment and collaboration to achieve their economic aspirations.
- **Local Industrial Strategies** - Encourage LEPs and Combined Authorities to include support for co-op development in their Local Industrial Strategies, and when they do, ensure they have the funding to make an impact. Very welcome intentions to support co-ops and inclusive growth in the Greater Manchester and West Midlands Local Industrial

Strategies point the way.

- **Social Investment Tax Relief** – Use the current review of Social Investment Tax Relief to make it more supportive of Community Shares, by making community investment in land and real estate, housing development, sustainable agriculture and renewable energy eligible. We also believe government could establish criteria and a checking process that allows some co-operative societies to benefit from SITR.
- **Employee ownership tax support** – In the Budget, extend the £3,600 income tax free allowance on bonuses for employees of trust-owned companies, to bonuses paid to members of worker co-ops as well. This would mean that all employee and worker owners are treated equally in this regard and would remove perverse incentives created by the current disparity. It would also provide a new tax incentive for people to make their business worker owned from start-up or very early in its evolution, because the worker co-op model is more widely used and better suited to these circumstances.
- **Making Tax Digital** – Ensure HMRC has the resources to resolve a number problems being experienced by co-operative and community benefit societies as they attempt to use HMRC's digital services.

In the near future

- **Dormant assets** – Use the next tranche of dormant assets, which is likely to be billions of pounds, to establish 'community wealth funds', controlled by local communities in the most deprived parts of the UK, to enhance their capacity to be incubators of inclusive wealth creation.
- **Legal reform** – At the earliest opportunity, give time for primary legislation that includes some urgent updates and strategic reforms of co-op law. Primary legislation is needed to remove red tape and dysfunctions, and to adapt legal mechanisms that are proven to have worked in other parts of the world, and which our members overwhelming call for. This could be part of any wider Bill for corporate reform that government brings forward.

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References

¹ <https://www.uk.coop/economy>

² <https://www.ica.coop/en/cooperatives/facts-and-figures>

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

⁴ Employee Ownership Association (2018) '[The Ownership Dividend](#)'

⁵ Virginie Pérotin (2012) '[The performance of worker co-operatives](#)'

⁶ EURICSE (2015) '[Cooperation in Italy during the crisis years](#)'

⁷ <http://www.britishgrowers.org/assets/uploads/news/BG%20Producer%20Organisations%2028pp%20V8%20LR.pdf>

⁸ <https://www.uk.coop/economy>

⁹ <https://www.bigsocietycapital.com/get-sitr/social-investment-tax-relief-deals-database>

¹⁰ Co-operatives UK (2019) '[Co-operative Business Survival](#)'

¹¹ Virginie Pérotin (2015) '[What do we really know about worker co-operatives?](#)'

¹² EFPF (2014) '[Conditions, attitudes and structures of successful POs and cooperatives](#)'

¹³ Co-operatives UK public perceptions research undertaken with You.Gov

¹⁴ FSB and RSA (2017) '[The self-organising self-employed](#)'

¹⁵ Alliance Manchester Business School (2018) '[The Co-operative Business Model: promoting awareness amongst business advisers](#)'