

We are the rebuilders

Four co-operative offers
for building back better
from COVID-19

June 2020



We are the rebuilders

Co-ops are pivotal to helping our communities and country build back better from COVID-19. In this short paper we make four co-op ‘offers’ to everyone working for a more sustainable and just future. We set out what we’re already doing with our partners. And we call on national and local governments to partner with us to multiply our impact.

In this moment of crisis, co-ops are a great way for people to:

1. **create decent new livelihoods**
2. **keep viable jobs in their community**
3. **breathe new life into local assets and enterprise**
4. **convert newfound community spirit into transformative social action**

With co-ops we can do more than weather the economic storm caused by COVID-19. We can help meet the biggest challenge of our time, by rapidly reducing environmental harms while still living in a way that engenders widespread wellbeing. And we can do it in ways that are fair, democratic, empowering and aspirational.

New data on co-op resilience is impressive and the co-op economy in the UK is diverse, well-established and growing.¹ But by international comparisons it is small and growing slowly.

The UK government is doing critical work to help more co-ops survive the pandemic and we are extremely grateful. But if we want to unleash the true potential of co-ops to build back better, changes in policy are needed nationally and locally.

In **Part 1** we provide a snapshot of what co-ops are and why they are important. We also summarise the key barriers to co-op growth in the UK.

In **Part 2** we make four co-op offers to help build back better. For each offer, we set out what we’re already doing and what government can do to multiply our impact

In **Part 3** we outline more general policy changes to make the UK a better place to start and grow co-ops.

In **Part 4** we ask you to get in touch with us.

Part 1: Snapshot of co-ops

Why co-ops?

Co-ops are democratic businesses with mutual purpose.² Their distinct approach empowers workers, customers and communities and generates enormous social and economic value. The evidence shows co-ops are great at:

- **reducing inequalities of wellbeing, wealth, power and opportunity**
- **driving up environmental and social standards**
- **enhancing the resilience of businesses, as well as communities, local economies and supply chains**
- **nurturing and mobilising social capital**
- **boosting productivity and/or efficacy in meeting people's needs**

Co-ops are a proven, pragmatic tool for people to work together and achieve their aspirations for responsible business, stronger communities, better work and more fulfilling, sustainable ways of life.

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

With a combined annual turnover in excess of £38 billion, over 214,000 employees and 14 million members, co-ops in the UK already make a significant economic and social contribution.

At a time when a return to 'business as usual' is simply not an option, co-ops demonstrate viable alternatives in every market, from financial services and high street retail, to housing, farming and tech. The more co-ops succeed, the faster we can build the sustainable, fair and inclusive economy we urgently need.

Why so few?

With all that's going for co-ops, why aren't there more of them? In 2020 less than 1% of UK businesses are co-ops. 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.

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**
- **additional, and often avoidable, costs and complexities in incorporation and tax compliance**
- **co-op law containing dysfunctions and lacking key features our members say they need**
- **industrial and tax policies that help to undercut co-ops, mutuals and other social enterprise on their environmental, social and governance standards**

Co-ops are working together to address these barriers as best they can. But there are structural limits to what can be achieved without effective government action.

Part 2: Four co-op offers to build back better

We make four co-op offers to help the UK build back better from COVID-19. For each, we summarise what we are already doing and suggest how national and local governments could partner with us to multiply our impact.

Where governments do not act, Co-operatives UK is always open to working in partnership with other non-governmental organisations to make things happen.

Cutting across all four offers we find that transformative action is already being driven by the following factors:

- **the emergence of digital tools for economic and social co-operation**
- **the maturing and evolution of the 'community shares' (co-op equity) financing model**
- **a spreading sense of environmental and social emergency over the past decade**
- **a rediscovery of the power of community and co-operation to address market failures**

To these we would now add the explosion of mutual aid and the widespread desire to build back better from COVID-19. The pandemic has laid bare economic and social injustices and fragilities in critical systems. It has also given us a glimpse of how much our lives would really need to change to actually avert climate disaster.

Co-op offer 1: Create decent new livelihoods

Co-ops offer a proven way to create decent livelihoods, even in challenging socio-economic circumstances.

Worker co-ops in the UK create 35 percent more 'job' with every £1 of turnover than UK employers as whole.³ This is backed up by data from other countries showing that on average worker co-ops create more jobs and are, on average, larger than businesses generally.⁴

There is also evidence that mutual purpose and democratic governance in worker co-ops enriches culture, boosts performance^{5 6} and enhances worker wellbeing.⁷ Meanwhile, worker co-ops have much lower pay ratios than other businesses^{8 9} and share profits equitably among every worker. Furthermore, co-op start-ups in the UK and around the world are shown to be more resilient than start-ups generally.^{10 11} And worker co-ops are shown to be more resilient and better at preserving decent livelihoods in downturns.^{12 13}

We are learning from successful programmes in other OECD countries how team-based entrepreneurship and simple co-op models can help people create decent new livelihoods, even in very challenging socio-economic circumstances.¹⁴ This includes the creation of new worker-owned businesses and co-ops that support self-employment and micro-enterprise.

We believe there could be strong demand for co-op options among:

- newly unemployed workers seeking to replace livelihoods lost during COVID-19, filling gaps in markets left by business failures and in new markets
- an already growing demographic of entrepreneurs interested in collaborative, fair, ethical, pro-social approaches to business
- people in insecure, low paid work (e.g. in the ‘gig economy’) looking for a fairer deal
- people working in digital-creative, sustainable food (whole supply chain), retrofitting, circular economy, care, services and artisanal/high quality making/manufacture

What we’re doing	What governments could do
<p>Ownership Hub – see Appendix for details</p> <p>UnFound – see Appendix for details</p> <p>The Hive – see Appendix for details</p> <p>Community-led economic development – see Appendix for details</p>	<p>Specialised business support</p> <p>Governments should fund tailored, locally delivered packages of awareness raising, advice, grant and optional patient investment (debt and equity), for people founding new worker co-ops and developing existing ones. Crucially, this support should be open to worker-community co-op hybrids. This would complement and expand on the support we will be piloting through the Ownership Hub.</p> <p>Expanded Ownership Hub</p> <p>Central government could provide specific funding so that more Combined Authorities, LEPs and local authorities can participate in an expanded Ownership Hub programme. Modelling suggests £2 million in the next Spending Review could enable five additional combined authorities or Local Enterprise Partnerships to participate.¹⁵</p> <p>Community-led economic development</p> <p>Community-led economic development creates fertile conditions for worker co-op formation, especially in more challenging circumstances. The Devolution White Paper and UK Shared Prosperity Fund should both give a significant role to community-led economic development.</p>

Co-op offer 2: Keep viable jobs in communities

In recent years the UK has seen a surge in the number of established businesses converting to employee and worker ownership as part of planned ownership succession.¹⁶ These conversions retain local operations, jobs, investment and decision-making; at a time when too many successions either fail, or fail to deliver for local economies and communities. And they create businesses that are fairer, more resilient and high-performing.¹⁷

Evidence from Scotland¹⁸ and around the world,¹⁹ demonstrates that with the right information and support, many businesses can convert to employee and worker ownership as part of ownership succession.

We believe there could be strong demand for these options among:

- **SME owners looking for an exit that secures the future of the business, its culture, values and jobs**
- **SME owners bringing forward their retirement because of health and/or economic concerns**
- **SME owners faced with the reduced likelihood of achieving a decent ‘trade sale’**
- **corporate groups looking to divest of subsidiaries**
- **workers and communities hoping to retain potentially viable jobs that are at risk**

What we’re doing	What governments can do
<p>Ownership Hub – <u>see Appendix for details</u></p>	<p>Specialised conversion support Governments should fund tailored, locally delivered, packages of awareness raising, advice, grant and optional patient investment (debt and equity), to support the conversion of existing businesses to employee and worker ownership. This would complement and expand on the support we will be piloting through the Ownership Hub.</p> <p>Expanded Ownership Hub Central government could provide specific funding so that more Combined Authorities, LEPs and local authorities can participate in an expanded Ownership Hub programme. Modelling suggests £2 million in the next Spending Review could enable five additional combined authorities or LEPs to participate.</p> <p>Divest to employee and worker ownership If governments (national or local) take equity stakes in potentially viable businesses as part of COVID-19 rescue and recovery strategies, they should offer workers the option of collectively acquiring the stake along co-operative lines, with the transaction supported as recommended above, subject to feasibility.</p>

Co-op offer 3: Breathe new life into local assets and enterprise

Community ownership of assets and enterprise is a powerful tool for sustainable and inclusive economic development. Co-op approaches to community ownership are collaborative, democratic and enterprise-focused, bringing enhanced commercial rigour and self-sustainability.^{20 21 22} The Community Shares financing model has been extremely successful in providing community businesses with low cost, mission-aligned equity, usually crowdfunded from local people, while also leveraging in other private wealth.²³

We welcomed the UK government's 2019 Manifesto commitment to establish a £150 million Community Ownership Fund. We have submitted a detailed proposal for how to maximise impact by utilising co-ops and Community Shares.²⁴ In our submission we also argued for situating the Community Ownership Fund in an ambitious and properly resourced agenda for community-led economic development, which now seems more pertinent than ever.

What we're doing	What governments can do
<p>Community Shares Booster – see Appendix for details</p> <p>Community Shares Standards – see Appendix for details</p> <p>MyCommunity – see Appendix for details</p> <p>The Hive – see Appendix for details</p> <p>Community-led economic development – see Appendix for details</p>	<p>Community Ownership Fund</p> <p>Central government should expand the size and focus of the Community Ownership Fund. The fund should be used to support community ownership as a tool for sustainable and inclusive economic development. The fund should support the community ownership of enterprise as well as assets. It should support new starts, community buyouts and the ongoing development of community co-ops. And it should be increased substantially above £150 million, so it can make a more significant impact.</p> <p>Community Shares Institutional Investor</p> <p>Using the Community Ownership Fund central government could inject £6 million to establish a self-sustaining institutional investor intermediary for the Community Shares market.²⁵</p> <p>Specialised business support</p> <p>Some of the Community Ownership Fund should be used to provide tailored packages of advice, grant and optional equity (see above) to support the creation of community co-ops via start-up and community buyout. Packages should also support the development of existing community co-ops. Crucially, this support should be open to community-worker co-op hybrids.</p> <p>Community-led economic development</p> <p>The Devolution White Paper and UK Shared Prosperity Fund should both give a significant role to community-led economic development.</p>

Co-op offer 4: Convert newfound community spirit into transformative social action

During the pandemic we have witnessed the extraordinary power of community and co-operation to help solve big and complex problems. When it comes to the biggest crises we face, such as climate emergency and social division, this power must be harnessed to effect change when markets and governments cannot. If we are to build back better, then people must have good options to convert their newfound community spirit into transformative social action.

Co-ops remain what they have always been: vehicles for people to work together to meet common needs and aspirations. On top of the transformative action in business and local economies summarised in offers 1 to 3, there are amazing examples of communities of place

and interest using co-ops to address major environmental and social challenges, including by:

- **developing affordable, eco-efficient and democratically controlled housing**
- **retrofitting homes**
- **providing new and improved models of social care**
- **deploying e-vehicle infrastructure ahead of the market**
- **developing a low impact farming base and sustainable food systems**
- **creating, storing and sharing digital data for the common good**

What we're doing	What governments can do
<p>MyCommunity - see Appendix for details</p> <p>UnFound - see Appendix for details</p> <p>Community-led economic development - see Appendix for details</p> <p>Community Shares Booster - see Appendix for details</p> <p>Community Shares Standard Mark - see Appendix for details</p> <p>The Hive - see Appendix for details</p>	<p>Community-led economic development The Devolution White Paper and UK Shared Prosperity Fund should both give a significant role to community-led economic development.</p> <p>Specialised business support Governments should fund tailored, locally delivered packages of advice, grant and optional patient investment (debt and equity) to support communities to establish co-ops to facilitate social action.</p> <p>Community Shares Institutional Investor Using the Community Ownership Fund central government could inject £6 million to establish a self-sustaining institutional investor intermediary for the Community Shares market.</p>

Part 3: Making the UK a better place to start and run a co-op

The four 'co-op offers' we make in Part 2 relate primarily to supporting the creation of new co-ops in particular contexts. There are also some more general policy changes that would make it easier to set up a co-op in the UK. Furthermore, government action is needed to make it easier to run and develop co-ops once they are going.

An effective environmental and social floor

Co-ops are top performers on environmental and social standards. They are unfairly disadvantaged when government policy props up businesses and business models that undercut them environmentally and socially.

The interventions governments are going to have to make to drive investment, support existing businesses and encourage the formation of new ones, gives it huge leverage to drive sustainable, fair private sector behaviour. Governments should attach effective conditions to support for private business, so that it is targeted at:

- **activity that reduces environmental harms (e.g. reduced GHG emissions in a businesses' supply chains, its own activities and in the lifecycle of its products/services)**
- **activity that reduces inequalities in wealth, wellbeing, power and opportunity (e.g. reducing pay differentials; decent pay and conditions in businesses and in their supply chains)**

Business support programmes

Too often, government business support programmes for new and existing businesses, do little to serve the distinct needs of co-ops. This includes both non-financial and financial support and programmes that combine the two, such as Start-up Loans. These gaps are found in both central and local government (including LEPs and Combined Authorities) programmes.

We ask that central government and local government (including LEPs and Combined Authorities) include finance-related and non-financial support for new and existing co-ops in their recovery strategies.

Procurement

Central and local government and other public sector institutions can change how they procure goods and services, to increase the participation of co-ops in their supply chains. Government buyers increasingly recognise that they can procure social value-added. But the social value-added by co-ops generally, and worker co-ops specifically, is poorly understood and little-recognised.

Our responses to the UK government's Public Service Mutuals 2.0²⁶ and Social Value Procurement Framework²⁷ consultations highlighted issues and made suggestions. We await the outcome of these consultations with interest.

Legislative reform

Government has not brought forward primary legislation to make material changes to co-operative and community benefit society law since 1954.²⁸ Primary legislation is needed to make updates and strategic reforms, which could give UK co-ops the first-class legal framework they deserve.

Clear priorities in the sector are: to give co-operative societies the option of applying a statutory 'asset lock' to their capital surplus; and to provide a new form of equity share that is repayable at the option of the society, rather than being withdrawable at the option of the shareholder.

Policy/programme appraisal and impact assessment

Co-ops and other mutuals can experience additional complexities, burdens and barriers because of policy and process oversights. Some of these are a problem with the treatment of mutuality as an approach, while others are a result of the treatment of their distinct legal forms.²⁹

Following the Mutuals Workshop hosted by HM Treasury in July 2019, mutuals representatives submitted proposals for a new Mutuals and Co-operatives Impact Assessment. This would prompt officials to consider the potential impacts on mutuals and co-operatives in any policy, project, programme, legislation or regulation under appraisal. Including this rubric would reduce the risk that mutuals and co-operatives are unintentionally overlooked, marginalised, penalised, overburdened or disadvantaged.³⁰ We ask that this proposal be considered with more urgency.

HMRC

Government could do more to improve the service societies currently receive from HMRC. For example, Making Tax Digital has focused exclusively on the needs of companies, which has caused numerous problems for societies. Societies cannot use the free filing software HMRC provides for micro businesses. And it appears that HMRC currently lacks a single, clear process for these businesses to register for corporation tax and submit their corporation tax returns.

HMRC has recently agreed to clarify its internal policy to ease the conversion of companies into societies, which is very welcome.³¹ We should build on this.

Information on government websites

In February 2020, government launched a campaign and website called Business Support, to help entrepreneurs and businesses navigate government's business support offer.³² The website contained no information on co-ops or mutuals. At the time of that launch, HM Treasury officials were working with Government Digital Service on proposals made by mutuals representatives, to improve guidance on GOV.UK 'start a business' pages.³³

We ask that this issue and the proposals already submitted be considered with more urgency.

Part 4: What now?

National and local governments are preparing COVID-19 recovery strategies. Coalitions are forming, trying to grasp the opportunity to build back better. Climate emergency, inequalities and social injustices demand that we do just that.

In this context we are making four offers for how co-ops can:

1. **create decent new livelihoods**
2. **keep viable jobs in their community**
3. **breathe new life into local assets and enterprise**
4. **convert newfound community spirit into transformative social action**

We will continue our work with our members and partners to champion co-ops and support their development. We will look to forge new partnerships when good opportunities present themselves. We will also link co-ops into wider coalitions that share our vision for building back better after COVID-19.

Together we will make meaningful progress on all four offers. We will sow the seeds for something better to grow. But government support now could multiply our collective impacts, helping us to grow bigger and faster, as well as better.

If you are a politician, policymaker, organisation or individual wanting to support our work or just find out more, please get in touch:

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

Appendix: What we're doing for ourselves

Below we summarise the major co-operative development programmes that Co-operatives UK has a role in delivering, on our own and with partners.

Ownership Hub: Together with the Employee Ownership Association, we are about to announce a multi-million pound programme piloting support for businesses to adopt employee and worker ownership, via conversion during planned succession and at start-up. The Ownership Hub will initially run pilots in one or two places. The programme will operate in a way that could support more place-based pilots, if more resources became available.

The Ownership Hub is part of our wider **#1MillionOwners agenda**, which sets an ambition for one million employee and worker owners in the UK by 2030. This would be a fivefold increase from current levels.

UnFound: In partnership with Stir to Action and The Co-operative Bank, we are running a programme that provides intensive support for 'platform co-ops' and co-ops seeking to develop through digitisation. We use the 'accelerator' model of business support. [See more.](#)

The Hive: In partnership with The Co-operative Bank, our core co-operative development programme will provide tools and specialist advice, primarily for people founding new co-ops with significant social, environmental and economic potential.

Community-led economic development: Working with organisations like New Economics Foundation, Centre for Local Economic Strategies and Power to Change, we are supporting 'community-led economic development' pilots. Community-led economic development (or 'CED') is a process in which local businesses, community organisations, local government and residents work in partnership in pursuit of sustainable and inclusive economic development. CED can create fertile conditions for co-op formation.

Community Shares Booster: Co-operatives UK currently works with Locality, Power to Change and the Architectural Heritage Fund, to operate as an institutional investor in the Community Shares market. Through this programme, Co-operatives UK makes match equity investments of up to £100,000 alongside communities in promising community co-ops. To date we have invested just over £2m into 31 community co-ops.

Community Shares Standards: Co-operatives UK currently oversees the development and maintenance of a voluntary, sector-standards and accreditation framework for the Community Shares financing model.

My Community: My Community is an online tool co-created by 12 organisations including Co-operatives UK, helping people who want to take action in their communities to access support and advice in one place. [See more.](#)

Notes and references

Endnotes

- 1 Co-operatives UK (2020) ***'The Co-op Economy'***
- 2 Read the internationally-recognised definition of a co-op [here](#)
- 3 Comparison of all available data on worker co-op turnover and employee numbers and UK government business statistics
- 4 Virginie Pérotin (2015) ***'What do we really know about worker co-operatives?'***
- 5 Virginie Pérotin (2012) ***'The performance of worker co-operatives'***
- 6 Fathi Fakhfakh, Virginie Pérotin, Monica Gago (2011) ***'Productivity, Capital and Labor in Labor-Managed and Conventional Firms'***
- 7 Coad & Binder (2014) ***'Causal linkages between work and life satisfaction and their determinants in a structural VAR approach'***
- 8 Virginie Pérotin (2015) ***'What do we really know about worker co-operatives?'***
- 9 Co-operatives UK (2018) ***'Gender Pay Gap Report'***
- 10 Co-operatives UK (2020) ***'The Co-op Economy'***
- 11 Co-operatives UK (2019) ***'Co-operative Business Survival'***
- 12 Virginie Pérotin (2012) ***'The performance of worker co-operatives'***
- 13 EURICSE (2015) ***'Cooperation in Italy during the crisis years'***
- 14 For example, the ***'New York Worker Co-op Development Initiative'***
- 15 Co-operatives UK (2019) ***'One million Employee and worker owners by 2030'***
- 16 Robinson & Pendleton (2019) ***'Employee Ownership In Britain: Size and Character'***
- 17 Employee Ownership Association (2017) ***'The Ownership Dividend'***
- 18 See ***this independent evaluation*** of Scottish Enterprise's programme to support conversions to employee and worker ownership
- 19 CECOP (2013) ***'Business Transfers to Employees under the Form of a Cooperative in Europe'***
- 20 For example research by the Plunkett Foundation finds that the long term survival rate of community owned shops in the UK (the vast majority of which will have used Community Shares) is 94 per cent, compared with 44 per cent of UK small businesses. ***'See here'***
- 21 ONS and Co-operatives UK data comparison for the years 2014-18 show that 80 per cent of community co-operatives survive the first five years of business, compared with just 42 percent of businesses generally
- 22 Official data from the FCA Mutuals Register shows that 92 per cent of all community businesses that have raised money through community shares since 2009 are still trading as of May 2020
- 23 Research by the Community Shares Unit has found that every £1 of Community Shares invested leverages an average of £1.75 in private debt and grant funding for community organisations
- 24 Co-operatives UK (2020) ***'Community Ownership Fund: Maximising impact through self-help and co-operation'***
- 25 ***See our proposal for the Community Ownership Fund***
- 26 ***<https://www.uk.coop/resources/consultation-future-definition-public-service-mutuals>***
- 27 ***<https://www.uk.coop/co-ops-social-value-procurement>***
- 28 Aside from the 2014 consolidation legislation (which could not be used to make material changes to the law) and a handful of Private Members' Bills of limited scope, the last significant government-initiated primary legislation that made substantial changes to society law was in 1954
- 29 For example: programmes to support the development of new businesses with advice and finance, such as Start-up Loans, are not configured with mutual businesses in mind; digital projects, such as Making Tax Digital, tend to create problems for mutual societies; and action to update and improve corporate law, only covers company law and interventions are needed to try and extend useful measures to mutual societies
- 30 See the submission of mutuals to HM Treasury [here](#)
- 31 ***<https://www.uk.coop/making-it-easier-convert-company-society>***
- 32 ***<https://www.gov.uk/government/news/government-launches-new-business-support-campaign>***
- 33 ***<https://www.uk.coop/resources/harnessing-mutuality>***

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.

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