SUBMISSION FROM CO-OPERATIVES UK

About Co-operatives UK and introductory remarks

Co-operatives UK is the network for Britain’s thousands of co-ops. We welcome the committee’s decision to explore further how co-ops can be a source of innovation in the Scottish economy. We are eager to demonstrate how co-ops can be part of a more enterprising collaborative Scotland, where businesses and markets work for the common good. As a route to economic development co-ops offer Scottish policymaker’s an alternative to the Westminster model.

1 Understanding the scale and growth of co-ops in Scotland

1.1 There are 567 co-operatives in Scotland with a combined turnover in the region of £4.2 billion which represent around 3 percent of Scottish GDP. Scotland is home to some of the largest agricultural co-ops in the UK and has greater credit union membership per head of population than the rest of the country. There are co-operative enterprises across a range of sectors including agriculture, finance, retail, housing, energy, manufacturing and social care.

1.2 The breakdown of co-operative activity by key economic sectors in terms of turnover is as follows:

<table>
<thead>
<tr>
<th>Agriculture</th>
<th>Wholesale/retail excluding motor vehicles</th>
<th>Professional, scientific and technical services</th>
<th>Manufacture</th>
<th>Housing and real estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>£1.03 billion</td>
<td>£2.81 billion*</td>
<td>£165 million</td>
<td>£66.93 million</td>
<td>£52.72 million</td>
</tr>
</tbody>
</table>

*Data from Co-operatives UK Data Explorer

1.3 Salient to the committee’s enquiry, there are 41 worker owned co-ops in Scotland with a combined turnover of £336.47 million. Also pertinent community ownership in Scotland is on the rise. There are at least 35 community owned co-ops with a combined turnover of £6.09 million.

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1 Co-operatives UK Data Explorer
2 Ibid
3 Ibid

*This includes Scottish turnover from UK-wide retailers, such as the Co-operative Group, which contributes to our £4.2 billion total for Scotland. The total turnover for Scottish headquartered co-op retailers is £628 million.
2 Co-op innovation in products, services, processes and communities

Worker co-operation

2.1 One of Scotland’s most successful worker owned co-ops is Edinburgh Bicycle Co-op, with an annual turnover exceeding £11.5 million and over 100 employee owners. It sums itself up as ‘Owned by cyclists for cyclists’, attaching the highest significance in its brand to the relationship between ownership model and customer service. In practice this is exemplified by innovative service offerings such as repair and maintenance classes.

2.2 Green City Wholefoods is £5.1 million wholefood distributor based in the east end of Glasgow. They are owned by over 30 employee owners in a democratic structure that gives employees the flexibility they want to balance their work and home life. They have grown the business organically and helped to support the growth of retail shops to serve this increasing market.

2.3 Increasingly sole traders and small businesses in Scotland are using an agile form of ‘B2B’ co-operative, sometimes referred to as consortia, to develop products and services, access markets and boost productivity. Examples include:

- Good for Ewe – a consortium of independent growers who collaborate to sell fresh produce to households and businesses in Wester Loch Ewe
- Pentland Garden Services – a consortium of independent professional gardeners collaborating to win work and develop services in the Edinburgh region
- Heart of Argyll Tourism Alliance – a consortium of business owners and sole traders in the tourism industry in Heart of Argyll who co-operate in destination marketing and product development
- East End Family Holiday Co-operative – a co-operative comprising small charities and social enterprises who work together to provide holidays for the struggling families they support, an innovation beyond the norm for family social services

Finance

2.4 Scotland’s credit union sector is very strong, allowing workers and communities to borrow and save together on favourable terms. Scotland is also home to the last regional savings bank in the UK: Airdrie Savings Bank. By looking abroad to countries such as Germany and Finland Scottish
policymakers can find examples of co-operative and mutual financial systems having a far greater impact. There, regional networks of mutual banks support local economies through effective locally focused SME lending. With the creation of the Community Savings Bank Association there is renewed interest in the UK in establishing regional mutual banks to boost genuinely broad-based economic growth.

Community

2.5 Scotland leads the UK in developing community owned renewable energy co-ops. Community energy co-ops allow people to pool their resources to meet their environmental needs and aspirations while also ensuring their communities benefit from energy revenues. Recent research on the economic and social impact of community energy found that just 30 currently generating co-ops plan to deliver £23 million in community benefit over their lifetime, while 38 co-ops spent £23 million into local supply chains during their development.

2.6 A new generation of community co-ops is animating local economies across Scotland, and giving communities an ownership stake means this activity is aimed at local needs and delivers broader benefits. For example, in Portpatrick the community has successfully bought its most important asset, its commercial harbour, through a community share offer. Thanks to late amendments Co-operatives UK lobbied for in the Community Empowerment Act the community co-op model is now in scope for asset transfers, so we can expect to see more innovation of this kind.

2.7 Examples such as UIG Community Co-op on Lewis demonstrate how community co-ops can be used to develop and sustain a hub of lifeline services for rural communities. Scottish policymakers should look to countries like Finland, where the network of rural co-ops is extremely well developed and helps to sustain rural economic and social life.

Agriculture

2.8 We draw the committee’s attention to the submission to this enquiry made by the Scottish Agricultural Organisation Society (SAOS), which describes how

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5 http://www.csba.co.uk/
6 Quantum(2015) ‘Community Energy: Generating more than renewable energy’
7 http://www.uk.coop/newsroom/portpatrick-residents-harbour-dreams-community-ownership
8 http://www.uk.coop/newsroom/amendments-scottish-community-empowerment-bill
co-ops allow farmers to participate and own innovation in production and the food industry.

**Housing**

2.9 Edinburgh Student Housing Co-op is an excellent example of how the co-op model can be used to address market failures. In just 3 years the student owned start-up has grown to offer 106 bedrooms in a city where the student housing market is often considered dysfunctional. Member students are able to rent safe fairly priced accommodation from a landlord they own and control. Policymakers interested in co-operative housing solutions should look to countries such as Sweden and Finland where such sectors are extremely well developed.

3 **Assessing the sources of funding and support available**

3.1 Different types of co-op in different settings are both challenged and advantaged in terms of access to funding and support.

**Worker co-operation**

3.2 Beyond the difficulties in accessing credit and investment experienced by most SMEs, worker co-ops face additional challenges. They can find it harder to access corporate finance because they are poorly understood by lenders. This is more acute when using the lessor known ‘society’ legal form. Indeed entrepreneurs in many sectors tell us it is harder as a society to access debt finance, particularly project finance for significant capital investment and growth. This is frustrating because there is nothing inherent in the society legal form that should impinge on lenders’ decisions.

3.3 Profitable worker co-ops looking to grow also face additional challenges to other SMEs because they are restricted in how much equity they can offer to external investors without ceding worker ownership and control. Instead these businesses must commit to intensive reinvestment of profits and a long term build-up of retained earnings and reserves to fund productive investment.

3.4 Another option is to raise capital through employee shareholdings. In a co-op these interest bearing shares retain par value and cannot be sold on for capital gain. Co-operative shares thus tie workers’ individual financial interests to the long term success of the business and don’t allow for speculative pressure.

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* That is businesses incorporated under the Co-operative and Community Benefit Societies Act (2014)
3.5 There is interest in worker co-ops using crowdfunding as a means of attracting engaged external investment from those who, while not members of the co-op, are still stakeholders or supporters of the business. This is particularly the case when a co-op can demonstrate ethical credentials or social impact.

3.6 Notwithstanding these challenges, when perspective shifts from businesses to individuals, models of worker co-operation can greatly improve access to finance. A growing number of entrepreneurs see collaborating in a co-op start-up as an attractive alternative to conventional employment or going it alone. A worker co-op or a freelancer consortium can leverage in more funds than most individuals could on their own.

3.7 Returning to the perspective of businesses, many European worker co-ops and other SMEs now club together to offer mutual guarantees to lenders, thus accessing credit more favourably (often called Mutual Guarantee Societies).\textsuperscript{10}

*Community co-operation*

3.8 Co-ops offer communities significant advantages in terms of raising finance and developing enterprise because they are a means by which people pool their resources and lever in other investment. Increasingly Scottish communities are making excellent use of a kind of social finance unique to community co-ops called Community Shares. Community Shares Scotland has supported 55 projects which have raised over £3 million in their first 18 months.\textsuperscript{11}

*Funding and support schemes*

3.9 Government schemes to fund business tend to contain built-in presumptions more attuned to traditional profit-driven and investor-owned business models. For instance UK-wide measures such as Start Up Loans and Help to Grow are delivered through a financial service sector that, as discussed in 3.2, lacks appropriate understanding of co-ops. In Scotland the picture is better, with Scottish Enterprise funding Co-operative Development Scotland (CDS), an agency which tailors public support schemes to the specific needs of co-op entrepreneurs.

3.10 Many co-ops are also social enterprises. Some are worker owned while others empower service users or allow communities to meet their own needs and aspirations. Social impact is greatly enhanced through sharing ownership and control. Yet too often schemes to develop social entrepreneurs and support

\textsuperscript{10} Mullineux, A. Chapter 7 Banking in Co-operatives UK (2015) The Co-operative Advantage (Edited by Ed Mayo)

\textsuperscript{11} http://communitysharesscotland.org.uk/news-and-events/news/community-shares-scotland-programme-infographic
social enterprise reproduce the closed hierarchies found in the public sector and business spheres; only going so far as to introduce commerciality to the former and social purpose to the latter. There are also too many funding and support bodies that do not recognise or understand the society legal form, even when it is very appropriate for self-help social enterprise.

4 What public bodies are doing and should be doing to encourage these business models

4.1 Scotland already outperforms the rest of UK in its support for co-ops. Public funding and close working with SAOS, cited in part 2.8, ensures that farmer co-ops are at the heart of Scottish agriculture and foods industries. Meanwhile public funding for CDS, discussed in 3.9, has made a significant impact, most notably in spreading employee ownership.

4.2 We make the following further recommendations:

*Boost entrepreneurialism by encouraging collaboration*

- Scotland’s Partnership Action for Continuing Employment service should help those moving into self-employment to make use of co-op options
- Following devolution of employment support Scotland should encourage more co-operative uses of the New Enterprise Allowance and develop a Collaborative Entrepreneurs’ Scheme within an improved Scottish Work Programme
- Lobby the UK government to remove regulatory barriers to SMEs creating Mutual Guarantee Societies

*Harness the potential of community co-ops*

- Promote community co-ops in initiatives under the Community Empowerment Act and promote the use of Community Shares
- Work with local government and the social economy to promote community owned multi-purpose hubs for lifeline services in rural and peripheral urban communities
- Respond to the withdrawal of renewable energy subsidies by the Westminster government by finding alternative ways to support community energy deployment

*Level the playingfield for co-ops*
- Ensure co-ops are not unnecessarily or unwittingly disadvantaged in, or excluded from, its schemes to boost Scottish entrepreneurship and business growth

- Ensure co-ops are well-served by its social enterprise support schemes, including those provided through Just Enterprise

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