

Making Britain the best place to start an alternative business



**co-operative
party**



**Social
Enterprise UK**

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Executive Summary

We need a policy environment that can nurture and develop new alternative business start-ups across the UK. Through facilitating greater and more targeted investment into start-up alternative business models, establishing networks of support, and simplifying and harmonising the regulatory environment which governs the creation of alternative businesses, we can help make Britain the best place in the world to start an alternative business, pioneering now as the co-operative movement did over 150 years ago in Rochdale.

Through reviewing the existing literature and collecting evidence from a range of alternative businesses, three distinct challenges have been identified, which serve as barriers to those who wish to start an alternative business. These include:

- Access to affordable finance – traditional finance opportunities are often denied to new alternative businesses, often due to a lack of understanding of the nature of their models, or apprehension over the fact that profit is not the exclusive priority.
- Understanding of alternative business needs – starting a business can be daunting and advice is often needed, but awareness of alternative models can be limited within existing support.
- Diverse governance structures – there are many alternative models, with often unique governance structures. Navigating bureaucracy is difficult and likely to be worsened by lack of wider support that make establishing an alternative business more complex.

To help diversify British business and support the establishment and development of new alternative businesses, we need to reimagine our approach to start-up policy. Drawing on the evidence, this report sets out a series of policy recommendations specific to each of these challenges, with the aim of eliminating the barriers that make it more challenging to set up an alternative business.

To build a stronger, fairer, and more resilient economy, the UK needs to encourage the creation of more co-operatives, social enterprises, and employee-owned firms. Co-operatives are businesses or organisations which are democratically controlled and owned by their

members – including workers, customers, or other stakeholders. Social enterprises are business organisations which operate for a social or environmental purpose. Employee-owned firms are businesses which are wholly or significantly owned by their workers. These ‘alternative’ forms of business aim to create social impact, assist communities, spread ownership, and strengthen democracy through their business. Alternative forms of business demonstrate that profit can be pursued and distributed or reinvested equitably without marginalising workers, harming the environment, or diminishing social conditions.

This report has been co-written by Social Enterprise UK and the Co-operative Party. While many of the recommendations would have general benefits for any alternative business model, each organisation has also contributed specific recommendations aimed at the specific benefit of social enterprise and co-operatives respectively.



Policy Recommendations

- Reform and establish new financing initiatives to provide seed funding and patient capital for alternative business start-ups.
- Reform existing institutions in the social investment market to better facilitate affordable, patient capital to support a wider range of alternative business models start-ups.
- Change tax incentives to encourage investment into new alternative businesses and incentivise more responsible business behaviour.
- Develop new capital instruments to allow for equity investment into co-operatives, mutuals or other social businesses that want to raise funds without compromising the direction or ownership of the organisation.
- Allow for the creation of new UK Mutual Guarantee Societies so that SMEs and alternative businesses can better access capital investment.
- Review ways to support local authorities to facilitate local peer networking support groups, aimed at connecting local social enterprises together.
- Build on existing expert provision, such as regional Ownership Hubs, to establish new support infrastructure to provide advice and support to new alternative models.
- Ensure that mainstream institutions responsible for providing support to business, including UK Research and Innovation (UKRI), LEPs and the British Business Bank (BBB), are equipped to understand and provide specialist services for alternative business models such as co-operatives and social enterprises.
- Establish a unit across government to act as support for alternative business start-ups.
- Introduce a new “Right to Buy” initiative which would allow workers and communities the opportunity to buy existing businesses, particularly those at risk of closure or downsizing.
- Introduce legislation to better facilitate businesses to transition to employee-led business models.
- Greater resources and co-ordination across the multiple existing institutions responsible for regulating business across the UK. Adequate funding should help these bodies to serve as effective and joined-up regulators.
- Ensure procurement opportunities are open and available to new alternative businesses, with additional support to assist new alternative businesses applying for public sector contracts.

Introduction

The Labour Party recently launched Start-up, Scale-up, which was the culmination of a review conducted by Lord Jim O'Neill. This report aimed to establish Britain as the best place to start and grow a business in the world. A more diverse business community, committed to the social, economic, and environmental wellbeing of the UK, is critical to restore growth and productivity, while also addressing the entrenched challenges that have undermined living standards, resilience, and sustainability.

This report hopes to build on Start-up, Scale-up by providing policy recommendations which seek to make Britain the best place in the world to start an alternative business, such as a co-operative or social enterprise. As with Start-up, Scale-up, this report will aim to make the case for unlocking investment, supporting innovation, and reforming public procurement as key drivers which can support the establishment and growth of new alternative businesses. The report is the culmination of a consultation process and call for evidence, which asked how we can make the UK the best place to start an alternative business. The responses informed the final recommendations in the report.

Across the UK, we already see the immense contribution of alternative business models. There are over 100,000 social enterprises operating in almost every sector, contributing over £60 billion to the UK economy and employing over 2 million people. An estimated 7,200 co-operatives were reported to have had a turnover of almost £40 billion in 2021 and employed 250,000 people. It is important to recognise the scale and potential of the alternative business community.

In addition to their economic contribution, alternative businesses also create positive outcomes for their workers, members, and communities. Co-operatives, for example, are renowned for their productivity and resilience, far more likely to still be trading after five years than other forms of business. They are often more ambitious for growth than other forms of small business, and two thirds are taking action to reduce carbon emissions. When workers have a stake in the business, this creates a fairer working environment. As a result, co-operatives have lower levels of staff turnover, lower pay inequality, high job satisfaction and higher economic wellbeing compared with other privately owned businesses. Employee-owned businesses have greater levels of staff engagement than other businesses.

Social enterprises demonstrate greater diversity than more orthodox forms of business. In 2021, it was found that 47% of social enterprises were led by women, while 31% had directors from Black, Asian and Minority Ethnic backgrounds, far greater proportions than the wider business community. Moreover, 22% of social enterprises actively operated in the most deprived parts of the UK.¹ Social enterprise sets an example of what an inclusive business environment looks like, while also helping to stimulate economic activity in a greater range of places.

Despite the benefits and advantages of these forms of business, the UK remains dominated by a homogenous business culture, which focuses primarily on shareholder returns. Despite being the birthplace of the co-operative movement and a global pioneer in the social enterprise movement, alternative business models remain a relatively small proportion of the business community. It is estimated that only 1 in every 500 businesses is a social enterprise, and 1 in every 1,000 businesses is a co-operative.²

Other comparable nations show it is possible to have a much larger social economy, for example 20% of New Zealand's GDP is produced by co-





operatives, with this figure being 18% in France and the Netherlands.

There is a large opportunity to expand the number, size and contribution of co-operatives, social enterprises and employee-owned businesses throughout the different sectors of the UK economy. With the UK currently lagging with low growth and high inequality, the opportunity here is to grow the social economy to meet societal challenges and improve the conditions and stake of workers in the economy.

The report will focus on the unique challenges social enterprises, co-operatives, and employee-owned firms face. This includes access to appropriate capital, awareness of alternative forms of business within the business support community, outdated regulatory environments and more.

Supporting alternative businesses to thrive will bring much needed diversity and dynamism to the British business community and help to encourage business practices that are rooted in the values, interests, and aspirations of communities, members, and workers across the country. We believe with the right regulatory, legislative, and

financial environment, that Britain can become the best place in the world to start an alternative business. The next Labour & Co-operative Government provides the ideal opportunity to re-establish the UK as a global leader for co-operatives, social enterprises and employee-owned firms. By doing so, we can ensure we build a fairer, greener economy for everyone.

Access to appropriate finance

A lack of access to adequate, affordable, and long-term financing is preventing the development of new businesses. Global economic pressures have resulted in a 23% fall in venture capital investment, with £22.7bn being raised by UK businesses in 2022.³ With only 1% of GDP going towards venture capital investment, it is unsurprising that many who aspire to start a business find it difficult to access funding.

However, the challenge to access funding is often exacerbated for alternative business models. By its nature, venture capital is allocated in exchange for “investor control and the potential for large future returns.”⁴ However, profit is not the exclusive driver for many alternative businesses. Social enterprises for example, explicitly pursue profit, for the purpose of re-investing to fulfil their social mission. However, this approach can discourage investors who are primarily seeking a return.

While commercial lenders maintain reservations when it comes to lending to alternative business models, several institutions have been established with the explicit purpose of providing “social” investment. However, concerns have been raised that established institutions lack accountability and need structural reform in order to align their activities with the needs of alternative business models. The Adebowale Commission on Social Investment noted that the lack of representation and knowledge within existing institutions has left them incapable of addressing the structural barriers which prevent specific communities from accessing finance.

Critically, the overarching issue is a general lack of long-term, patient capital that respects alternative business models. It is unlikely that a business set up to pursue a social cause, or which must adhere to the democratic decisions of its collective membership, will generate significant short-term profit. The interests of many alternative businesses can only be realised over the longer-term.

Through prioritising long-term ambitions, alternative business models routinely demonstrate greater resilience than other parts of the business community. New co-operatives for example, are estimated to be

“twice as likely to survive their first five years as businesses generally” and are four times less likely to cease trading during times of “acute stress”.⁵ Long-term financing with the specific intent of encouraging new alternative business models to develop into sustainable, resilient organisations, must take precedent over investment in exchange for short-term profits.

The call for evidence identified finance as one of the biggest obstacles that new alternative businesses face. The response was almost unanimous, with many also highlighting that finance was impeded by a lack of understanding over the specific models adopted by alternative businesses. Even setting up bank accounts were reported challenges.

Being able to access finance is critical for success, and for alternative businesses, this typical challenge for a new organisation is intensified. This requires not just more funding opportunities, but a fundamental transformation in approach, predicated on supporting the long-term development of sustainable, and socially impactful business. Further, we need to broaden awareness and understanding of the needs of alternative business models, not just among institutions dedicated to social investment, but the wider financial sector.



“For co-ops it still is... the lack of understanding of the model at all, or they are outdated myths of what co-ops were in the 70s”

Co-operative business leader in response to what they think are the biggest challenges for new alternative businesses

Recommendations to improve access to finance

Reform and establish new financing initiatives to provide seed funding and patient capital for alternative business start-ups

It is vital that alternative businesses can access capital during their early stages. With commercial lenders often unwilling or unable to make investments into alternative businesses, the State should take a more proactive role in providing finance.

We recommend that new initiatives be integrated into the British Business Bank (BBB), the UK's development bank. The BBB is a publicly-owned bank, which rather than lending directly works with external partners to deliver capital to businesses across the UK.

A reformed BBB could be pivotal in facilitating the growth of patient capital required to expand the number of co-operatives, employee-owned and social enterprise start-ups. This could be done by establishing a minimum of 1% of BBB funding being available to such businesses. This would create an additional £120m of finance available to grow the social economy. The state should offer protections and incentives for private investors who commit to supporting alternative businesses with long-term investments.

The BBB's work with private capital investors will help to foster a greater understanding and awareness of the contribution and potential of alternative business models. This should assist the creation of new risk capital investment programmes for start-ups, early stage and growth for co-operatives and social enterprises. BBB could aim to create a market for private investors to help finance worker buy-outs, in a similar approach to systems in France and Italy. This would have a substantial impact in increasing growth in the employee-owned and worker co-operative sector.

Reform existing institutions in the social investment market to better facilitate affordable, patient capital to support a wider range of alternative business models start-ups.

Existing institutions dedicated to social investment – such as Big Society Capital – have a critical role to play in providing investment into new alternative business ventures. However, these institutions must be accountable and reflect the diversity and aspirations of those who establish social businesses.

Institutions that have been entrusted to deploy social investment must be empowered and liberated to support a wider strategy to increase the number of alternative businesses in every part of the country. They should be freed up to provide more enterprise-centric finance, shifting their focus from secured property-based lending. These institutions should also have a wider remit to support the co-operative sector.

Further, new funding pots should be created with the express purpose of supporting those from minority backgrounds to develop their alternative business model. As established in the Adebowale Commission on Social Investment, Black-led enterprises often experience greater challenges and historical barriers that prevent them accessing social finance. Specific funding should be made available to support greater diversity in the alternative business community.

Change tax incentives to encourage investment into new alternative businesses and incentivise more responsible business behaviour.

The current business tax system fails to encourage greater investment into alternative business. While the flaws in the design of the previous Social Investment Tax Relief (SITR) system mean that it had a limited impact and did not live up to expectations, it did demonstrate that there were ways to harness the tax system to incentivise the development of more socially responsible business.

We need bolder action to ensure that the business tax system is fostering greater investment into alternative business models. Lessons need to be learned from the SITR system, as well as the Community Investment Tax Relief (CITR) scheme, that provides tax relief to investors who support businesses in less advantaged areas.

Efforts should be made to build on existing tax relief schemes and ensure they are working better for alternative businesses. New entrants who start a social enterprise should have opportunities to reduce their tax bill while they attempt to find a footing in the market. Investors that back social enterprises should also receive benefits commensurate to those enjoyed by early-stage venture capital investors, and favourable tax treatment relative to those who exclusively back more conventional forms of business.

Tax changes and incentives could be introduced which would facilitate more rapid expansion of new start-ups, including co-operatives, such as tax relief on profits reinvested into asset locked co-operatives, Community Benefit Societies and Community Interest Companies.

Develop new capital instruments to allow for equity investment into co-operatives, mutuals or other social businesses that want to raise funds without compromising the direction or ownership of the organisation.

A challenge for co-operatives and mutual societies is raising funds without undermining their commitment to worker and member ownership. This can make it challenging to access finance in an environment where the dominant form of investment is made in exchange for equity or a share of the profits.

We need to develop new financial instruments to help organisations with alternative ownership structures attract investment. In Australia, legislation to introduce Mutual Capital Instruments (MCIs) was recently introduced, with the express aim of allowing mutual entities to access investment more easily, without losing their mutual status. The UK Government should support the creation of similar new capital instruments, with a new model for co-operative financing to allow the provision of non-member investment, which provides capital in return for a limited return but no participation rights. This should enable raising of an unlimited amount of capital to generate larger capital raising for co-operatives starting up or wishing to expand. Perpetual shares which are transferable but not withdrawable could help co-operatives raise greater funding to help growth, investment, and innovation in the co-operative's business without compromising their democratic structure.

Allow for the creation of new UK Mutual Guarantee Societies so that SMEs and alternative businesses can better access capital investment

Mutual Guarantee Societies (MGS) are commonplace in continental Europe and help to provide finance for SMEs to grow and develop. MGSs bring together SMEs into a mutual model in which they can work together to receive lending from financial institutions at good rates and other external investment. MGSs work by having members guarantee other members for their liabilities while lending, strengthening the position of individual members to raise investment from external sources. This means asset light SMEs who don't have the collateral to borrow against can work together to secure loans or investment.

This guarantee on lending liabilities incentivises financial institutions and external investors to provide financing at preferential rates, as their investment is de-risked by the mutual guarantee agreement.

The UK currently has only one form of MGS – the British Business Bank – holding back the ability of SMEs to raise investment and be competitive with European counterparts. A new government should change the regulatory environment to facilitate the development of MGSs throughout the economy, so SMEs can come together to receive preferential funding. This should include legislating for the creation of defined MGSs. MGSs could also be created by and for social enterprises and co-operatives, to expand their operations and raise new forms of patient and seed capital.

Support for social business development

Access to networks of support can be beneficial to a new business. They provide an opportunity to learn from the experiences of those who have successfully started their own business, to raise awareness of their organisation and to instigate relationships with potential partners and customers. In contrast, the absence of these networks can leave new businesses isolated and unable to recognise or overcome the challenges they will likely experience.

The value of networks is even greater for alternative business models that are committed to co-operative and collaborative values. The co-operative movement itself grew from the “broader social, cultural, and political movements” that demanded an alternative approach to business. Principle 6 of the co-operative principles is ‘co-operation between co-operatives’ – demonstrating the long-term commitment to collaboration.⁶ Embedding co-operatives, and other alternative business models into a wider community that provide mutual support and look to strengthen one another, is critical for fostering a business culture where alternative models are recognised for their contribution and effectiveness and allowed to thrive.

However, there remains a dearth of understanding surrounding alternative business models, which can hinder the development of proactive networks. Evidence submitted to the Greater Manchester Co-operative Commission found that there was a general lack of knowledge on how co-operative models work, and the potential contribution of co-operatives and other forms of social business.⁷ This general lack of awareness partially reflects the relatively small presence of alternative business models, which in turn makes it more difficult to establish the very networks which are needed to provide expertise to new entrants.

The social enterprise sector has also been negatively impacted by a lack of awareness of their model. Start-ups in particular have cited that a poor understanding of social enterprise both among support organisations and the wider public impede their development. In a recent survey, 12% of social enterprises less than a year-old identified

lack of awareness as their most pressing barrier to growth, compared to just 5% of the wider social enterprise community.

Once again, the call for evidence stresses the importance of gaining building network infrastructure to support the development of alternative businesses. Not only is it critical for helping to attract finance, but also customers and prospective clients, and talent that can help an organisation develop. For some, building a community and understanding of the impact that alternative businesses can have is critical for alternative business success.

In the absence of strong business networks, there are expectations that government could be doing more. However, the vast majority of respondents to our call for evidence suggested that there was either limited or no government support available for new alternative business models. In 2021, the International Co-operative Alliance deemed that the UK was lagging behind comparable nations in its support and protection towards co-operatives, offering little recognition to their distinct form of enterprise.⁸ This is particularly notable when compared with other major economies such as Germany, France and Spain, which incorporate legislation and regulation that protects and promotes co-operative business models, providing a fertile environment for new co-operative start-ups.



“Support for social enterprise and co-op networks and infrastructure/policy/campaigning work to raise profile of social businesses”

Alternative business leader in response to what would incentivise the creation of new alternative businesses

Recommendations to enhance business support

Review ways to support local authorities to facilitate local peer networking support groups, aimed at connecting local social enterprises together

Local government has a potential role to play in facilitating the growth of social enterprise, and other alternative business models within their community. Their closeness to the community gives local representatives a far more thorough understanding of the businesses that operate in their area. This knowledge should be better harnessed to create support networks that connect social enterprises, raise their profile, and help embed them into local supply chains. A review should be conducted to establish what powers and resources would help local authorities play a greater role in facilitating such networks.

Build on existing expert provision, such as regional Ownership Hubs, to establish new support infrastructure to provide advice and support to new alternative models

This could take inspiration from the Ownership Hub, an ongoing project in collaboration between Co-operatives UK and the Employee Ownership Association. The Ownership Hub supports economic regions through expertise and resources to embed worker ownership into their broader economic strategy.⁹

Independent advice should support new business leaders to establish alternative businesses in their community. There is already a government Business Support Helpline and many services available at the local, regional, and national level, aimed at helping individuals start and expand their business.

However, alternative businesses often have unique concerns and issues, which requires more detail than just generalist guidance. We should establish further Ownership Hubs, or similar organisations across the country, building on recent experience and harnessing relevant expertise that can provide advice on how to establish new alternative organisations. These should also help to raise awareness of what alternative ownership models exist, and why they should be considered a viable option among those looking to start their own business.

Rooted locally, these Ownership Hubs can help develop expertise which responds to local economic conditions. This will help them tailor advice in a way which reflects the needs of their community

and help to foster alternative businesses that align with local priorities. Provision should also be made to help minority and marginalised communities to establish alternative businesses, which can help to improve economic inclusion and address societal challenges locally.

Ensure that mainstream institutions responsible for providing support to business, including UK Research and Innovation (UKRI), LEPs and the British Business Bank (BBB), are equipped to understand and provide specialist services for alternative business models such as co-operatives and social enterprises

Greater investment needs to be made to support the understanding of alternative businesses among existing institutions linked to the British business community. Those with resources and levers need to recognise that alternative models exist and recognise their contribution. Those who lead alternative businesses should be able to interact with these institutions and feel assured that there is a base level of understanding around their models, contribution, and challenges.

Specialist services within these various institutions should be developed to explicitly support those who lead alternative business models. This should involve training staff to recognise the fundamental purpose and role of alternative business models, and mandating responsibility within each institution to lead on alternative business and accountable to local leaders. Training can help to create a more supportive system where alternative businesses can be supported to innovate, undertake R&D and raise capital more effectively in order to achieve productivity growth and better societal outcomes.

Governance structures

Alternative businesses often operate under distinctive governance structures, which can be challenging to navigate for new entrants. Community Interest Companies (CIC), Companies Limited by Guarantee (CLG), Charitable Incorporated Organisation (CIO), co-operative and community benefit societies, are but some of the alternative legal forms available to businesses whose aim goes beyond maximising profits for shareholders.

An immediate challenge is that the general lack of awareness of alternative business structures can discourage new entrants from opting for a governance structure more aligned with their vision. Neil Butler of Companies House has previously written about his experience with people from the accounting profession who had refused to incorporate those asking to form a CIC, attributing this to a little knowledge on the similarities between CICs and other private businesses.¹⁰ Such behaviours may have resulted in many who might otherwise have established an alternative business, being discouraged and opting for more traditional business forms, which maintains the “monoculture” that dominates British business.

Alternative governance structures may also present challenges that new entrants may be unfamiliar with. As Co-operatives UK notes, good governance is critical to the success of any co-operative, but this requires keeping pace with multiple objectives, from following standard operations and processes, engaging with members, complying with the regulatory environment, and maintaining an effective board, all while encapsulating the founding principles and purpose the organisation was established to pursue.¹¹ Good governance therefore is complex, and the democratic principles that underpin co-operative businesses, means workers need a strong understanding of what constitutes good governance, which may be more difficult if they have had no prior experience with a co-operative model.

The diversity of different organisational structures can also leave alternative businesses at risk of losing out from mainstream policy. Tax policy for example remains heavily predicated on conventional venture capital or private equity investment. The recently scrapped Social Investment Tax Relief scheme, which was designed specifically for social enterprises to raise money, had little impact on the sector and was used by only a very small number of social enterprises.¹²

However, despite the ineffectiveness of this measure and its eventual abandonment, no further initiatives have been announced aimed at incentivising more responsible business behaviour through the tax system.

Building a clear and consistent regulatory environment, that reduces unnecessary bureaucracy and the associated business costs, has the potential to help alternative business models thrive. The introduction of a regulatory framework introduced by the South Korean Government in 2012, led to a doubling of the co-operative sector in just two years, through encouraging the creation of smaller organisations.¹³ The Framework Act of Co-operatives introduced by the South Korea Government in 2012 marked the first phase of a co-ordinated mission to expand the co-operative sector, which saw significant growth¹⁴. In 2017, the South Korean Government began the second phase of its co-operative development plan, with the Government introducing direct commissioning from co-operatives and encouraging young people to form co-operatives. A key area for expansion has been identified as freelance co-operatives. A similarly bold master plan is needed to modernise the regulation which governs co-operatives and other alternative business models in the UK, in order to help the creation of a new generation of alternative business start-ups

Contributing to the regulatory challenges faced by new alternative businesses, is the general lack of capacity and transparency in those institutions responsible for overseeing and enforcing regulation.

The current regulatory environment for UK businesses is geared towards traditional private companies. For social businesses, there is an “unequal playing field” that disadvantages alternative businesses, while making it easier for “new enterprises to adopt conventional business models”.¹⁵ Alternative business models are often burdened with additional rules and regulations, enjoying little safeguarding to preserve assets for the use of alternative businesses to address their wider purpose. Creating a regulatory environment aimed at encouraging the creation of new alternative business models is essential to allow them to succeed.

Recommendations to improve governance structures

Establish a unit across government to act as support for alternative business start-ups

A specialist unit could be established at the heart of government, to collect evidence and support the development of new alternative businesses. This unit should have responsibility to expand alternative business models, and work across government departments and with devolved administrations to promote alternative models in addressing the broader social, economic, and environmental challenges the UK faces, and to diversify ownership in the UK economy.

The new unit should be tasked with allocating resources in a way which helps to nurture new alternative business models, learning from the experience of the DTI's previous Social Enterprise Unit, for example. Examples of good practice need to be studied and can be disseminated to support start-up alternative businesses grow in every part of the country.

Introduce a new "Right to Buy" initiative which would allow workers and communities the opportunity to buy existing businesses, particularly those at risk of closure or downsizing

The UK needs more opportunities to help facilitate communities or workers taking on assets within their community. Too many spaces on local high streets and town centres are abandoned, which not only diminishes local economic activity, but can leave some places struggling to attract investment.

The UK Government should make it easier for communities to come together to purchase disused assets and bring them back into public use, under the provision that they pursue social objectives with their new business.

To support the Community Right to Buy, funding pots should be redirected and established to help kickstart initiatives in some of the least advantaged parts of the country. A High Streets Buyout Fund could enable communities to move rapidly and at pace to secure major Assets of Community Value, such as old town halls, leisure centres or cinemas. The High Street Buyout Fund, a concept created by Power to Change, would bring together both public and private capital to help communities to rejuvenate their local town centres¹⁶. Making funding available will help revive local high streets, and put socially conscious, community driven businesses at the heart of local growth strategies.

Introduce legislation in the UK to better facilitate businesses to transition to employee-led business models

In Italy, the Marcora law was introduced to allow workers in organisations at risk of closure to access their future unemployment benefits in a lump-sum, in order to buyout and rescue their firm. This legislation is reminiscent of the Lucas Plan, an initiative launched by workers of Lucas Aerospace in the 1970s with the intent of allowing workers to take a greater role in their organisation's future, rather than face redundancy.

To create new alternative businesses in the UK, we need to enable the transformation of existing private businesses into alternative models. Many existing businesses have the potential to be transformed, especially those that face closure without major reform. The UK should take inspiration from Marcora-style legislation to support workers in businesses at risk of closure, to take ownership of their organisation. This should sit alongside other right-to-buy initiatives that give communities, service users, and those looking to establish social businesses priority and support acquiring struggling or failed businesses and assets.

Not only will this help broaden the potential for existing organisations to transition to different business structures, but it can help maintain viable businesses in the face of external pressures, and re-purpose them for the social good. This gives power back to vulnerable workers, supports new business models to thrive, reduces the threat of unemployment, and can help root businesses deeper within their communities.

Greater resources and co-ordination across the multiple existing institutions responsible for regulating business across the UK. Adequate funding should help these bodies to serve as effective and joined-up regulators.

There is no single point of contact for alternative business models, with Companies House, the Charity Commission, and the Financial Conduct Authority (FCA) among the organisations responsible for their regulatory oversight. While these cannot be easily combined, there needs to be greater cohesion and co-operation when it comes to the regulation of alternative business, and transparent, well-resourced organisations that can help new enterprises recognise the options available to them.

Ensure procurement opportunities are open and available to new alternative businesses, with additional support to assist new alternative businesses applying for public sector contracts

While the Social Value Act went some way to ensuring that alternative business models had more opportunities to engage with procurement opportunities, there remain many obstacles that make it difficult for alternative businesses to fully embed themselves into public sector supply chains.

The procurement process needs to fundamentally recognise the intrinsic social value of alternative business models. If a business is owned by members of its community or workforce or dedicated to specific social missions that influence the way in which they deliver services, the full extent of their social contribution may be more difficult to measure. If a social enterprise exclusively hires vulnerable adults, then their business model itself is predicated on supporting a marginalised group. Such things need to be taken into consideration when comparing the potential social contribution of alternative and more conventional business.

Further, many new enterprises will find it challenging to navigate the procurement system, which can leave them shut out. Tailored support should be available to support new business leaders to apply for public contracts and to help them understand how they can demonstrate value in a way which appeals to those making public spending decisions.



An incoming Labour & Co-operative government could review how the procurement system could be utilised to promote social value through alternative businesses, such as social enterprises and co-operatives. The Welsh Government has begun to implement forms of 'progressive procurement' which aim to ensure the promotion of social value, local jobs and the retention of public spending in the local economy. These initiatives could be expanded across the wider UK in order to assist the development of new start-up alternative businesses providing essential services

Conclusion

This report aims to build on the recommendations provided by Labour’s Start-up, Scale-up report. The evidence we have received indicates the need to make changes to our finance, regulatory, business support and governance systems in order to help establish the UK as the best place in the world to start an alternative business.

Achieving this should be an important ambition for an incoming Labour & Co-operative government, as its clear spreading the benefits of new social enterprises, co-operatives and employee-owned businesses would help to tackle entrenched issues of inequality, productivity, and socio-economic deprivation.

The success of co-operatives, social enterprises and other alternative business models demonstrates these models can be transformative for their local economies and communities. By creating the right environment, we can ensure a new generation of alternative businesses can help to create a stronger, fairer economy.



Endnotes

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- 14 [South Korean government sets out second master plan for co-ops](#)
- 15 <https://neweconomics.org/uploads/files/co-ops-unleashed.pdf>
- 16 [Why now is the time for a High Street Buyout Fund \(2022\). Power to Change](#)

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