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Harnessing the mutual sector's potential for growth

Removing barriers to secure economic, societal and environmental benefits

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Contents

Executive summary

Although very many people will have heard of mutuals, fewer are likely to be sure of what specifically makes a mutual a mutual. Throughout this report, we use the term "mutual" as an umbrella term that encompasses co-operatives, employee-owned businesses, building societies, credit unions, financial mutuals, and other mutual organisations. Today, there are more than 9,500 active mutuals in the UK,[1] with more than 7,000 co-operatives and 68.8 million memberships across the co-operative and mutual sector.[2]

Ahead of the 2024 General Election, the Labour Party decided to include a manifesto pledge to double the size of the mutual sector. This was welcomed by many in the mutual sector as a signal that the model's potential had been recognised. The sector is in agreement that mutual growth could help build a fairer, more resilient and diverse economy. But before that doubling of the mutual sector can be achieved, there is a need to understand both the current state of the nation's mutuals and its future untapped potential. Therefore, this report was commissioned to measure the sector as it stands and outline the opportunities for - and barriers to – mutual growth.

Starting with the sector itself, mutuals today are a collection of democratically-controlled, member-owned businesses and organisations, but they can exist in any sector and come in a range of legal forms. Mutuals have a rich history and can offer a more equitable, sustainable alternative to the traditional shareholder-owned business model. Our analysis was able to consider more than 9,500 independent mutual businesses across the UK to estimate the Gross Value Added (GVA)[i] of the mutual sector:

>9,500
independent businesses across the UK

>£35 bn
annual direct Gross Value Added (GVA)

>1.5%
of the UK's total GVA

>£93 bn
annual total GVA, including direct, indirect and induced contributions

[i] Gross Value Added, or GVA, is the value of industry's outputs minus the value of inputs used in the production process. It measures the total contribution to the economy. (Source: https://www.ons.gov.uk/economy/grossdomesticproductgdp/methodologies/aguidetointerpretingmonthlygrossdomesticproduct)

The mutual sector's direct GVA alone is estimated to be at least £35 billion, equivalent to 1.5% of the UK economy. However, if you also factor in related knock-on benefits to the supply chain and wider economy, the combined direct, indirect and induced GVA contribution of the mutual sector is at least £93 billion. Our analysis suggests that, considering the relatively small number of mutuals in the UK (more than 9,500 or just 0.2% of UK firms), the sector is actually punching above its weight when compared with other sectors' GVA. Furthermore, mutuals' total contribution to UK plc will undoubtedly be higher than these estimates, as there are many small players whose economic activities we cannot fully identify or capture due to limited data.

Types of mutual organisations	Direct GVA (in billions) in 2023/24	Total GVA (in billions) in 2023/24
Employee-owned businesses	£17	£48
Co-operatives	£13	£32
Building societies[ii]	£7.2	£18
Financial mutuals	£0.6	£1.5
Credit unions	£0.04	£0.09
Total (after removing duplicates)	£35	£93

In GVA terms, to achieve the Government's manifesto aim of doubling the size of the sector, achieving this over 10 years would mean annual growth of **7.2%,** and a growth rate of approximately **34%** in total over this Parliament,[iii] which is twice as fast[iv] as the forecast for economic growth over this Parliament.[3]

While the sector believes that this is the right aspiration, to achieve such growth there are funding gaps and other barriers which need to be tackled first. For this research, we interviewed experts across the sector and surveyed mutual businesses to understand what the most significant barriers are, and how the potential for growth could best be harnessed.

[ii] The building societies' figures are before the acquisitions of Virgin Money & Co-operative Bank
[iii] This assumes 4 years and 3 months left and linear growth.
[iv] We take the OBR's March 2025 forecast and calculate nominal GDP growth between Q2 2025 (£730 billion) and Q3 2029 (£861 billion) from which we derive 18% nominal growth. We use nominal values as the GVA estimates are in nominal terms.

We found that the sector-specific main barriers to growth are:

Difficulty accessing funding.	Low awareness of mutuals and their benefits.	Lack of support for mutuals.
Lack of access to mainstream financing options. A legal framework which acts as a barrier to funding. Funding barriers are stifling growth among the fastest-growing players in the sector. Instead, unlocking barriers to funding could help fuel rapid expansion of the sector.	A lack of awareness of the mutual model and its benefits amongst lenders, investors, funders, consumers, and organisations that might otherwise be candidates to mutualise.	Lack of know-how and awareness of financing options amongst mutual organisations, including lack of targeted support for new and growing co-operatives.

These sector-specific challenges are also exacerbated by wider macroeconomic challenges. However, it was also clear that there are several national and international success stories that show how mutuals can be empowered to raise capital funding without compromising on their mutual model. These interventions include:

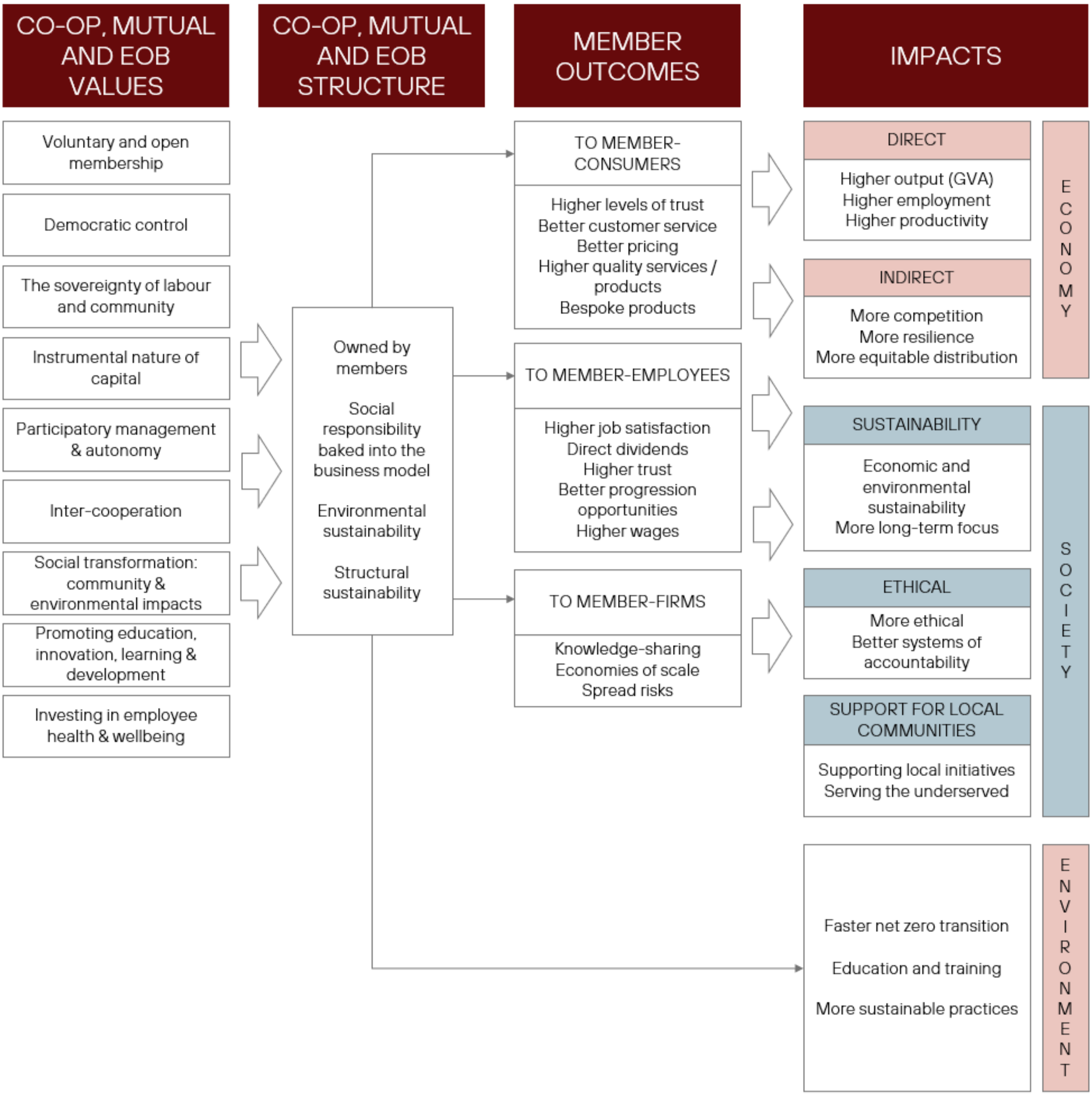
Establishing specialist investment institutions for the mutual sector that could provide additional financing options and support, such as CFI in Italy. These could include co-operative banks. Expand and continue building new schemes that help mutuals grow, such as CDCU designations.	Unlocking access to finance through boosting the importance of existing funding channels such as Community Shares and Dormant Assets schemes, and establishing new channels within existing institutions, such as British Business Bank.	Expanding options for all mutuals to raise equity from external investors, addressing legal, institutional and market barriers. This includes making Core Capital Deferred Shares and Mutual Deferred Shares viable, easier and cheaper to issue.	Engaging with the investor market and mainstream lenders to improve awareness of the mutual model.

Achieving a doubling effect for mutuals would not just be good for the economy. Previous Government publications have recognised there are also wider benefits to this growth, not least given that mutuals are owned by members, run for their benefit, and that they have sustainability and social responsibility baked into their business models. Wider benefits include:

- Mutuals are designed to promote a fairer, more equitable economy: growing mutuals would help build a financial sector that better caters to under-served groups, such as first-time buyers.
- Mutuals also promote local growth and serve their communities; growing the mutual sector would help improve productivity, create a happier, better-paid workforce, and increase customer satisfaction.
- The ownership model also means mutuals are more resilient to shocks, such as financial crises and pandemics. They are also substantially domestically focused, with their

surpluses re-invested into the UK economy.[4] As such, mutual growth would improve the resilience of the UK economy.

In summary, mutuals deliver a host of benefits and positive impacts, as mapped out in the image below:



Overall, the growth potential of mutuals is significant. However, if the benefits of this growth are to be realised, action is needed to address barriers to finance and to ensure that there is a clear growth plan shared between the sector and the Government.

1. Introduction and context

We were commissioned to undertake this research by a group of mutual trade bodies – the Association of British Credit Unions (ABCUL), the Association of Financial Mutuals (AFM), the Building Societies Association (BSA), Co-operatives UK, and The eoa (Employee-Ownership Association). In its 2024 manifesto, the Labour Party committed to supporting diverse business models, with a specific goal of doubling the size of the co-operative and mutual sector through addressing barriers to growth, including by improving access to finance.[5] We were asked by the trade bodies to add a GVA dimension to the baseline for mutual growth[v] and to examine the most important current challenges and opportunities for growth in the sector, with a particular focus on access to finance.

In this report, we bring together insights from literature, expert interviews and a mutual sector survey to shed light on how mutuals can benefit our economy and communities and what the current barriers are to growing the sector, with a particular focus on funding. We also quantify the current estimated size of the mutuals sector through analysis of Gross Value Added (GVA). This introductory section sets out the definition of a mutual, followed by a description of the various forms UK mutuals might take. We explore the history of mutuals, and the recent regulatory changes that have affected the sector.

What is a mutual?

The term 'mutual' varies in meaning depending on the country, industry, and context, making it difficult to define precisely. Broadly, it refers to member-owned organisations that operate in the interest of their members.[6] A mutual's members, who share a common goal or interest, may include its employees, customers, producers, or local community members.[7] The key distinction between mutual organisations and typical shareholder models is that mutuals exist primarily to economically and/or socially benefit their members, as opposed to maximising returns for external shareholders. In principle, any limited company can be organised as a mutual. For example, a limited partnership is essentially a mutual as it exists to benefit both of its members.[8] However, mutual structures are typically best suited to organisations where its members are directly affected by its outcomes.

The European Commission has identified approximately 40 different types of mutuals, with the definition of mutuality varying between countries – including, in some countries, no legal definition[9] at all. In this report, we use the term 'mutual' to refer to financial mutuals, co-operative organisations, community benefit societies, and employee-owned businesses (EOBs). More detail on the different types of mutuals is provided in Appendix A.

[v] Please see the Co-operative and Mutual Economy 2024 report from Co-Operatives UK for other recent baselines of the size of the sector.

A brief history of mutuals

Mutual insurance organisations have existed in Europe since at least the 18th century,[10] with individuals contributing to mutual funds for support during times of hardship.[11] [12] England's first known mutual insurance fund was created in 1667 to give benefits to those made homeless as a result of the 1666 Great Fire of London. [13]

Member-owned organisations have existed since the beginning of industrialisation.[14] Britain, the first country to industrialise, recognised friendly societies by law as early as 1793,[15] whereas joint stock companies did not gain limited liability until the late 19th century.[16] Before shareholder-owned models became widespread, co-operative models were the dominant type, making them a key part of Britain's heritage. Specifically, the co-operative movement has its origins in the Midlands and North of England: Britain's first known society was Richard Ketley's Building Society, founded in Birmingham in the late 1700s.[17] The Rochdale Pioneers founded the modern co-operative movement in mid-19th century Manchester, creating a co-op store where members bought shares to fund bulk purchases, enabling discounted resales. They set out the 'Rochdale Principles' – a set of values for the co-operative to follow which are still widely held by co-operatives today.[18] [19] In the 1800s, the democratic ownership model spread globally in response to increasing industrialisation.[20] Mutuals spread across Europe and key legislation such as the Industrial and Provident Societies Act and the Regulation of Benefit Building Societies Act were passed in the UK, further establishing the sector. By the end of the 1960s the number of UK building societies had reached over 700[21] and the number of retail co-operatives had grown to 1,400.[22] The International Cooperative Alliance (ICA) and Building Societies Association (BSA) were established in 1895[23] and 1869[24], respectively, laying the foundations for the mutual sector we see today.

However, recent times have been more challenging. By the 1980s, many working-class consumers stopped shopping at co-op stores and their numbers quickly shrank, falling from 1,400 stores to just 120 by 1984. [25] In 1986, changes in the Building Societies Act introduced demutualisation – the process of converting a member-owned mutual organisation into a shareholder-owned company.[26] This incentivised "carpetbaggers" - short-term investors seeking to profit from demutualisation - to join building societies across the UK and vote for their conversions, causing a wave of demutualisations that lasted almost 20 years.[27] In response to the mutual sector's rapid shrinkage, the Labour government of the early 2000s established the Co-operatives Commission to explore ways to modernise and expand the co-operative movement.[28] The commission's final report proposed 60 recommendations, including legislation to secure co-operative assets for the future and "reinterpreting and reinvigorating the principles that the co-operative movement has always stood for, to make them relevant to the present day."[29]

Today's political and legal landscape

Today, there are more than 9,500 active mutuals in the UK,[30] with more than 7,000 co-operatives and 68.8 million memberships across the co-operative and mutual sector.[31] Mutuals and democratically-structured organisations represent less than 1% of UK businesses, but they have a significant impact on the economy, generating £165 billion in income in 2024.[32] The UK has the second highest number of individual co-operative memberships in Europe, behind Italy and closely followed by France.[33] Despite this, the overall size of the mutual economy in Britain is significantly smaller than it was in the 19th and 20th centuries. As of 2025, there are only 42 building societies in the UK, compared to more than 700 in the 1960s. In recent years, the number of co-operatives has decreased, falling from 7,586 to 7,370 between 2023 and 2024.[34] To facilitate the sustained growth of mutuals, this report sets out why financial barriers must be lifted and laws put in place to improve understanding of - and confidence in - the sector.

Although the Labour Party's 2024 General Election manifesto – and this report – talk about mutuals as a single group, the organisations that fall under this umbrella can be very different from one another. Not only do they differ by type of mutual, and the sectors in which they operate, but any organisation which we would consider a mutual may operate under different rules that depend on their legal form.[35] For example, while some co-operatives may be registered as limited companies or partnerships with Companies House, others may not be able to because of how they are structured. This can disadvantage them when trying to secure finance from lenders.[36] Similarly, legislative changes may apply to one type of mutual, but not others: for example, a recently-introduced financial instrument called "Core Capital Deferred Shares", which we discuss in more detail later in the report, can be issued by building societies but not mutual insurers.[37]

While some recent legislation has centred on mutuals, there have been few practical, useful changes. The Mutuals' Deferred Shares Bill, supported by a coalition of mutual insurers, friendly societies and devised by Mutuo, was designed to enable friendly societies and mutual insurers to issue a new financial instrument.[38] The Bill passed in 2015, but secondary legislation is still needed to ensure Mutual Deferred Shares are a viable financial instrument.[39] After the act was already passed, HM Revenue and Customs (HMRC) has raised concerns that Mutual Deferred Shares would affect mutual tax treatment, with industry taking the position that no mutual would be prepared to issue Mutual Deferred Shares if it lost its mutual tax status in the process. This breakdown in communication led to an impasse.[40]

Another initiative that was designed to help co-operatives raise capital – a 2020 bill which sought to allow co-operatives to raise finance by issuing redeemable "green" shares[41] – was withdrawn at the Second Reading legislative stage.[42]

In 2023, the Co-operatives, Mutuals and Friendly Societies Act laid the groundwork for an "asset lock" to prevent distribution of capital surplus. However, secondary legislation would be needed before societies can use its provisions.[43]

Timeline of relevant legislation[44] [45] [46]

2013	2014	2014	2015	2020	2023
The Building Societies (Core Capital Deferred Shares) Regulations 2013	The Co-Operative and Community Benefit Societies Act	Finance Act 2014	The Mutuals' Deferred Shares Act	The withdrawn Co-operative and Community Benefit Societies (Environ-mentally Sustainable Investment) Bill	Co-operatives, Mutuals and Friendly Societies Act 2023
A new financial instrument called Core Capital Deferred Shares is introduced and can be issued by building societies.	Sets out the legal framework within which such societies operate, consolidating previous legislation.	Employee Ownership Trusts (EOTs) are given tax-favoured treatment through tax reliefs. This legislation fuelled rapid growth in the total number of EOTs in the past decade.	Designed to enable friendly societies and mutual insurers to issue a new financial instrument. In practice, secondary legislation is needed to ensure Mutual Deferred Shares are viable.	Sought to allow co-operatives to gain powers to raise finance by issuing redeemable 'green' shares to external investors.	Creates a framework for an 'asset lock' to prevent distribution of surplus capital. Secondary legislation is needed before societies can use its provisions.

One of few useful legislative changes implemented recently were the 2024 updates to the Building Societies Act, which excluded certain types of funding from calculating the minimum 50% threshold of funds that must come from member savings.[47] This change was welcomed by the sector, as it enables mutuals to more effectively compete with commercial banks and ensures access to emergency funding from the Bank of England in a time of financial stress.[48]

Overall, the last decade saw limited progress in modernising the political and legal landscape facing mutual organisations. However, this period of limited progress might soon end. As of March 2025, the Law Commission is undertaking a review of the law governing co-operative and community benefit societies to ensure that it fits the nature and needs of societies and that regulation is proportionate and effective. The Law Commission's proposals for reform include an overhaul of the law relating to society shares, and new statutory definitions of co-operatives and community benefit societies.[49] In November 2024, the Chancellor announced the formation of a Mutual and Cooperative Sector Business Council, comprising some of the largest mutual businesses in the UK, and trade bodies representing smaller organisations, to co-ordinate the sector's relationship with the Government. This is another positive step which will help the sector and the Government to work together to increase the impact of mutuals.[50]

The rest of this report focuses on the current state of play in the sector, including its size as measured by GVA; why accelerating growth would benefit workers, the economy and communities; and discuss changes needed to enable mutuals to thrive, with a particular focus on access to finance.

2. How mutual ownership structures benefit communities, society and the economy

Mutual ownership structures prioritise the collective interests of members rather than maximising shareholder profits and short-term gains. This raises the question of whether the mutuals can offer more advantageous economic outcomes compared to other forms of ownership. To explore this, we have calculated the Gross Value Added (GVA) of mutuals in the UK to add to existing measures of the economic contributions of these businesses. Understanding the economic footprint of mutuals and how these compare with the overall economy allows us to understand the importance of their role in driving sustainable economic growth and benefiting society.

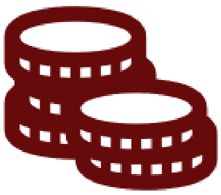
Understanding the current GVA footprint of mutuals also allows us to put the UK Government's doubling ambition into more concrete terms.

The economic footprint of mutuals

Headline results

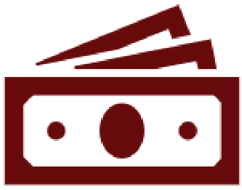
>9,500

independent businesses across the UK



>£35 bn

annual direct Gross Value Added (GVA)



>1.5%

of the UK's total GVA

>£93 bn

annual total GVA, including direct, indirect and induced contributions

To assess the economic contribution of mutuals in the UK, we have used a bottom-up approach – collecting financial data on individual businesses directly from our commissioning partners and from publicly-available data – as these companies are not well captured by the traditional Standard Industrial Classification categorisation. More details about the methodology can be found in Appendix B.

From the available data, we estimate that there are currently more than 9,500 independent mutuals in the UK. Together, they have a combined annual turnover of £115 billion and employ more than 497,000 people in 2023/24.[vi]

Although these organisations do not exist to maximise profits for shareholders, and instead create value for their members, society and communities, nonetheless they make a significant economic contribution in GVA terms. Our analysis estimates that the total economic contribution of mutuals to the UK economy, in terms of direct GVA, amounted to at least £35 billion in 2023/24, or 1.5% of the UK's total GVA. When factoring in the knock-on impacts of these organisations – including the activity they support through supply chains and the spending of their employees – their GVA footprint totalled at least £93 billion in 2023/24 (after adding in £58 billion of both the indirect effects and induced effects). This represents 3.9% of the UK's total GVA. This economic contribution punches well above its weight when considering the number of mutual businesses in the UK (more than 9,500 or just 0.2% of the UK total). Furthermore, our estimates are likely to underestimate the total economic contribution in reality, as there are many small players whose economic activities we cannot fully identify or capture due to limited data availability.

This economic footprint in part manifests through mutuals' member- and customer-focused business model. This has the inherent advantage of being closer to and knowledgeable about their markets and in providing a unique customer experience.[51] Research shows employees of mutuals generally experience better health and wellbeing, lower rates of absenteeism and higher overall productivity than those working in comparable private-sector, profit-seeking companies in the same area.[52] This results in strong economic benefits and brings additional social value that benefits the whole economy. Therefore, we have noted through our research that supporting the growth of mutuals is important to fostering economic growth and social and community-driven prosperity.

A deeper dive into the economic footprint of the mutual economy

The mutual economy – characterised by being democratically-owned and equitably controlled by their members – spans a wide range of industries, from agriculture and manufacturing to finance and retail. Mutuals can also take on various forms, including building societies, co-operatives, credit unions, employee-owned businesses and mutual insurers. These types are not always mutually exclusive: for example, an organisation can be both a credit union and a co-operative.[vii]

Co-operatives, with more than 7,370 independent businesses operating across the UK, generated a direct GVA of at least £13 billion in 2023/24. When indirect and induced contributions are taken into account, total GVA is estimated to be at least £32 billion. According to the data we collected, the largest sector for co-operatives is retail (£16.5 billion GVA), with the

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[vi] The figures are derived by using the data provided by our commissioning partners and exclude NHS Foundation Trusts, which were included in the 2024 Co-operative and Mutual Economy Report
[vii] See Appendix B for explanation of how we account for these overlaps.

Co-op Group remaining the UK's largest co-operative by turnover. This is followed by the agriculture sector (£10 billion GVA) and the education sector (£2 billion GVA).

Meanwhile, there are more than 2,030 employee-owned businesses, generating at least £17 billion of direct GVA and £48 billion of total GVA in 2023-24.[viii] Additionally, there are 42 building societies (excluding credit unions), which collectively generated at least £7 billion of direct GVA and £18 billion of total GVA. The 47 financial mutuals generated at least £630 million of direct GVA and £1.5 billion of total GVA. Around 380 credit unions added a further £40 million of direct GVA and £90 million of total GVA.

Table 1: Economic footprint of the mutual economy

Types of mutual organisations	Direct GVA (in billions) in 2023/24	Total GVA (in billions) in 2023/24
Employee-owned businesses	£17	£48
Co-operatives	£13	£32
Building societies	£7.2	£18
Financial mutuals	£0.6	£1.5
Credit unions	£0.04	£0.09
Total (after removing duplicates)	**£35**	**£93**

Hailed as inclusive, innovative and resilient, mutuals have the potential to be an engine that propels sustainable economic growth. Doubling mutuals' economic footprint over 10 years would mean an annual growth rate of 7.2%, and growth of approximately 34% in total over this Parliament.[ix] That is double the economic growth forecast for the UK as a whole over this Parliament. Although the annual growth rate of some types of mutuals (such as employee-owned businesses) has exceeded this threshold, barriers continue to hinder their full potential - meaning that something needs to change to make this a reality.[53] Tackling the barriers to finance, as well as other key challenges around wider legislative barriers and lack of awareness of the mutual model, will play a key part of that. But it is not just about doubling the size of GVA - there are also social and wider economic benefits to the UK.

Doubling mutuals' economic footprint over 10 years would mean an annual growth of 7.2%, and growth of approximately 34% in total over this Parliament

[viii] As of November 2024

[ix] This assumes 4 years and 3 months left of this Parliament and linear growth over this period. We take the OBR's March 2025 forecast and calculate nominal GDP growth between Q2 2025 (£730 billion) and Q3 2029 (£861 billion) from which we derive 18% nominal growth. We use nominal values as the GVA estimates are in nominal terms.

Social and wider economic benefits

The mutual model has proven to be beneficial in many ways to the organisations and their employees, the society and the economy. The benefits flow from the unique values that underpin mutuals, which consequently gives rise to an alternative, democratic form of governance within the organisations.[54] To understand how the mutual model drives these benefits, it is imperative to discuss the values upon which mutuals are founded.

Mutual values

Although there is no one set list of mutual principles, most co-operatives, mutuals and employee-owned businesses subscribe to a set of values inspired by the original Rochdale Principles set out in 1844[55] and formalised recently by the International Cooperative Alliance.[56] Although each type of mutual is governed differently, mutual values most commonly include:

Voluntary and open membership	Mutuals are voluntary and welcome everyone willing to share their values, regardless of gender, race, social background or political or religious beliefs.[57]
Democratic control	Control within a mutual is held by members as opposed to external shareholders, with members granted equitable and usually equal voting rights irrespective of their financial stake in the business.[58] In the case of employee-owned businesses, employees either individually own a portion of, or collectively hold, a controlling interest in the company they work for, with a mechanism to express their rights and control as shareholders (though this mechanism is flexible and not defined by statute).[59]
Participatory management & autonomy	Mutuals are autonomously controlled by their members. When entering agreements with outside parties, they do so in ways which ensure members retain control.[60]
Sovereignty of labour and community & instrumental nature of capital	Each member contributes economically, granting them democratic control. Unlike a shareholder-owned business, however, each member's voting power in a mutual is independent of the size of their financial contribution. Mutual capital is viewed as a means to an end. For many mutual ownership models (besides employee ownership), member contributions typically form a significant portion, if not all, of a mutual's available funds.[61]
Inter-cooperation	Mutuals work together through local, national and international structures to serve their members most effectively.[62]

Promoting education, innovation, learning & development and investing in employee health & wellbeing	Mutuals provide education, training and support for their members and teach the general public about the benefits of co-operation.[63] This principle goes back to the very roots of co-operativism as one of the original Rochdale Principles from the 19th century.[64] Modern evidence shows that mutuals outperform other organisations in employee wellbeing and engagement.[65]
Community & environmental impact	Mutuals contribute to the sustainable development of the communities in which they operate.[66] [67] This is both an underlying principle of mutual ownership and a direct result of how mutual structures shape value flows.[68]

Mutual structure

The mutual values underpin a unique organisational structure of mutuals, which is characterised by the following features:

Mutuals are owned by members and run for their benefit. The principles of democratic control and participatory management mean that members – be it workers, consumers, or producers – hold democratic control over their mutual. Depending on the mutual ownership model, members may be directly involved in the running of the businesses and the decision-making process.[69]

Social responsibility is baked into the mutual business model. Organisations that follow mutual principles prioritise benefitting their members and the wider community they operate in (profit distribution) over profit maximisation. In fact, many co-operatives are social enterprises, using their profits to further social objectives.[70]

Mutuals are more sustainable. Because mutuals are member-owned and do not have to answer to shareholders, they are much more likely to prioritise long-term benefit of their members over short-term shareholder profit. This means that mutuals tend to favour sustainability over aggressive expansion or dramatic contraction.[71]

These unique structural characteristics lead to several important benefits for both the wider community and the economy, differentiating them from traditional business models.

Wider benefits of mutuals

These benefits span a wide range of areas, from increased resilience and diversity to a potentially fairer economy and a boost to local communities. Those benefits are explored in more detail below.

Member benefits to consumers and employees

Due to their structure, mutuals benefit members (which, depending on the type of mutual, could be employees, customers, or producers) more than traditional business models.

Members of mutuals can typically enjoy rewards which stem from mutual ownership, and usually participate in a share of the mutual's profit. For example, Nationwide frequently rewards their members with cash payments when they profit.[72]

Because mutuals are run by members for members, mutual leadership is better placed to understand their unique needs, leading to higher customer and employee satisfaction. For example, data shows that members of building societies routinely report higher satisfaction scores than non-building societies.[73] Thanks to their member-ownership structure, mutuals are also more likely to prioritise employee wellbeing. In our 2023 report on EOBs, we found the EOBs we surveyed to be twice as likely to offer flexible working arrangements and mental health resources to staff when compared to non-EOBs.[74]

Increased resilience

Interviews with experts and leaders in the co-operative and mutual sector highlighted the improved stability of mutuals over traditional shareholder-owned businesses, particularly within the financial services sector. Compared to shareholder-owned organisations, mutuals are typically more resilient[75] due to the way their ownership structure aligns the interest of members and decision-makers. There is also some evidence which suggests mutuals' relatively low reliance on external sources of capital improves their resilience.

Cooperative start-ups in the UK have been found to be **twice as likely** to survive their first 5 years than non-cooperative start-up businesses

Co-operative banks (building societies and credit unions) have been found to have lower volatility of returns when compared to commercial banks,[76] meaning their returns are more stable and predictable over time, thus reducing their vulnerability during economic downturns. We saw this phenomenon occur during the 2008 financial crisis, where co-operative banks were found to be more likely to continue lending compared to commercial banks.[77]

Spotlight on mutual benefits: A happier, better-paid workforce & higher productivity

Our 2023 study found that the minimum annual wage offered to workers in employee-owned businesses is on average £2,900 higher compared to traditional businesses. If the number of EOBs were to grow and make up a greater share of businesses in the economy, we might expect wages of those at the lower end of the income distribution to increase. Assuming that minimum wage workers who move to EOBs could expect a wage increase, doubling the total number of EOB workers could see as many as 15,000 minimum-wage workers enjoy pay increases.[78]

Meanwhile, the productivity of workers in employee-owned businesses is up to 12% higher compared to businesses that are not employee-owned. This is driven by a range of factors including higher employee engagement and job satisfaction, stronger focus on employee training, and increased investment in employee wellbeing.[79] This suggests that further growth in the number of EOBs could help to boost productivity in the UK economy.

Spotlight on mutual benefits: Higher customer satisfaction

Building societies average 15% higher customer satisfaction scores on the competitiveness of their interest rates compared to non-building societies.[80] Supporting growth of building societies could help them reach a larger pool of customers and improve the public's access to affordable lending, leading to an increase in the total number of people whose provider meets their needs and circumstances.

Spotlight on mutual benefits: A more resilient economy

Evidence shows mutual banks decrease lending by 4.2% less during times of crisis compared to traditional banks.[81] Co-operative banks have been found to experience 93% less variation in return on assets than commercial banks.[82] Additionally, co-operative start-ups in the UK have been found to be twice as likely to survive their first five years than start-up businesses that are not co-operatives.[83] This suggests that growth in co-operative banks and building societies in the financial sector could reduce overall asset volatility, providing predictability for customers and improving the stability of the UK's financial system. Nevertheless, a trade-off exists between asset return variability and bank profitability. However, in the long run, co-operative banks' lower volatility enhances their stability and reduces the risk of collapse.

Mutuals outside of financial services also display heightened resilience. During the financial crisis, employee-owned businesses (EOBs) were found to be more resilient than traditional shareholder-owned models, which typically reward short-term profitability over long-term sustainability.[84] Furthermore, co-operatives are more than twice as likely to survive their early years of trading compared to start-ups in general.[85] 81.2% of co-operatives are still trading five years after launch, compared to just 39.6% of all companies.[86] Furthermore, during the COVID-19 pandemic, co-operatives were four times less likely to cease trading.[87] The resilience of mutuals is a key advantage of their ownership structure in promoting long-term stability within the economy, particularly in times of economic downturn.

Increased resilience is also partly caused by mutuals' lack of dependence on external capital, and reliance on member surpluses as a method of financing operations. That said, mutuals that gained access to methods of external financing still display increased resilience. For example, co-operatives that issued community shares – an external investment instrument we discuss in more detail later – displayed better than average survival rates.[88]

Additionally, building societies have maintained a stronger branch presence than commercial banks, keeping branches open in socially deprived areas - where, in contrast, commercial banks have withdrawn[89] - and closing fewer branches following the COVID-19 pandemic[90]. In 2023, Nationwide, the 'bank' with the largest branch network in the UK, committed to keeping open all existing branches until 2026, extending this promise to 2028 two years later.[91] The increased focus on maintaining branches provides additional stability to regional customers, stemming from the regional focus which is central to the mutual business model.

Increased economic diversity

An increased presence of mutual organisations can provide necessary diversity of business models. Businesses operating similar structures will face similar external risks, increasing the chances of a systemic crisis like the one seen in 2008. The UK has one of the least resilient financial systems[92], a situation which can be improved through a greater diversity of business models. During interviews, stakeholders emphasised the importance of having a diversity of corporate ownership within the economy. They noted that mutuals contribute to this diversity, which can mitigate the domino effects that can occur during financial crises. Mutuals tend to have longer time horizons and are not focused on quarterly dividend payouts or delivering bonuses to executive staff members. With the exception of EOBs, both financial and non-financial mutuals tend to adopt a lower risk profile because they are heavily dependent on member contributions as a method of raising capital. This is partly because money lost through risk-seeking behaviour cannot easily be replaced by external capital.[93] Having a diversity of business models in the economy provides different approaches to risk management and service provision, making the industries in which they operate less exposed to systemic risks whilst offering consumers more choices.

Case study 1: Increasing resilience and benefiting members – Fram Farmers

Fram Farmers is a member-owned co-op founded in 1960 by a group of farmers with the vision of pooling their purchasing power. They built relationships with local and national suppliers to deliver better prices, service and payment terms for their members and more effective and efficient market access for suppliers, a truly win-win partnership approach. In the 1980s, they introduced more services to enhance members farm profit.

Fram Farmers currently has a nationwide membership of more than 1,400 farm businesses across 37 counties in England, Scotland, and Wales.[94] Their main function is to provide the purchasing, grain marketing and administrative function to farming businesses, saving members time and money as well as providing expert independent advice. Serving as an extension to farm offices, industry professionals are responsible for purchasing and marketing essential agricultural inputs and outputs on behalf of farms.[95] Today, the organisation provides support for all types of agricultural and rural enterprises, ranging from large-scale multisite corporate farming operations and estates with diverse enterprises, to family-operated farms and vineyards.[96]

They play a pivotal role in enhancing the financial resilience of its member businesses by supporting diversification initiatives to help increase income streams and build protection against uncertainty. A few of the services they provide include:[97]

- Grant application support to help identify and secure grant funding for members' *businesses.*
- Facilitating access to building materials by comparing prices from local, regional, and national suppliers to streamline the procurement process and get the best value for members' money.
- Navigating the complexities of planning applications through partnerships with planning consultancies experienced in rural diversification projects.

Apart from this, they facilitate access to specialist insurance, financial advice and HR services specialising in farming businesses. This empowers members to explore and implement diversification strategies which then result in increasing the economic resilience and sustainability of their enterprises.

A fairer, more equitable economy

Member-ownership models inherently incentivise responsible business practices because they are run by those who are directly impacted by the organisations' outcomes.

Mutuals have a long history of providing services to the under-served in society. In recent memory, community co-operatives provided financial support for those hardest hit by the pandemic.[98] In the financial sector, friendly societies and credit unions were developed to allow smaller, underrepresented groups such as local communities and ethnic minorities to access fairer banking.[99] Above that, due to their member-ownership structure and not-for-profit nature, credit unions typically offer borrowers and savers better rates than traditional banks.[100]

Building societies are more likely to offer credit to borrowers whom commercial banks deem to be too risky, such as first-time buyers or the self-employed. This is because they often take a more holistic approach to assessing an individual's financial circumstances, frequently relying on manual underwriting rather than automated systems.[101]

Spotlight on mutual benefits: Financial services that cater to under-served groups

Mutuals are more likely to provide fair and affordable services to those in society who need it the most. Mutuals offer an outsized contribution to the first-time buyer market – and tend to offer better value for money.[102] Nearly half (44%) of all residential lending from building societies was granted to first-time buyers in 2024[103] and their mortgage offer was found to be more attractive than competitors'. Building societies offer, on average, a 7.1% lower two-year fixed interest rate on 90% loan-to-value mortgages to first-time buyers compared to all lenders.[104] This pattern is continued amongst financial mutuals, where 60% of individual income protection claims in 2023 came from members of the Association of Financial Mutuals (AFM) despite only holding 15% of policies.[105] Additionally, co-operative banks emerged as two of the three top-rated banking organisations amongst disabled customers in 2021.[106]

Mutually-owned mortgage providers make homeownership more affordable for first-time buyers. Helping building societies grow could enable them to reach a larger pool of potential customers, helping more first-time buyers get onto the property ladder.

Nearly half (44%)
of all residential lending from building societies was granted to first-time buyers in 2024

Financial mutuals are also more likely to pay out when insurance policy holders make a claim, with 60% of income protection claims coming from financial mutuals despite them making up only 15% of the policies held.[107]

Member-owned banks emerged as two of the three top-rated banking organisations amongst disabled customers, with in-person banking becoming an increasingly important concern for this demographic.[108] In fact, 41% of disabled customers have been negatively affected by the widespread closure of UK bank branches.[109] As previously mentioned, mutuals banks are much less likely to close branches compared to their commercial counterparts. Since 2015, Nationwide has closed significantly fewer branches than other major providers such as Barclays, NatWest, and Lloyds[110] and has pledged to keep all existing branches open until

2028.[111] This commitment is especially beneficial for the elderly, disabled or those who struggle with online banking.

The drive towards fairness and environmental sustainability is not limited to the financial sector. Mutuals have driven the adoption of Fairtrade, with The Co-op being the UK's largest seller of Fairtrade products[112]. EOBs are more likely to be environmental sustainability-accredited and to have net zero strategies in place compared to non-EOBs. Additionally, they give over £500m more each year to local communities than non-EOBs.[113]

This work highlights the role that alternative and mission-driven businesses play in progressing wider societal and environmental goals. A nationwide survey conducted by Ecology Building Society revealed that 74% of savers would like their money to have a positive impact on the environment and society. Furthermore, tackling the climate crisis and helping to support affordable housing are the top priorities for consumers when it comes to having a positive impact with their savings.[114] As the demand steadily increases for ethics-based businesses that play a big part in advancing social goals, organisations such as Ecology Building Society will play an even bigger role.

Spotlight on mutual benefits: Faster transition to green economy

Community energy is the delivery of community-led renewable energy.[i] Unblocking the 79 stalled community energy projects could unlock 270 MW of renewable energy capacity in the UK.[115] Community energy initiatives provided £13.8 million in bill savings from energy efficiency and advice between 2020 and 2023.[116] Helping the community energy projects to double could bring savings to a larger pool of households.

A boost to local communities

Community consideration is at the core of the mutual model. Mutual organisations contribute significantly to the communities in which they operate and often share profits in the form of donations to local causes and non-profits. Of the mutual organisations we surveyed, 48% believed mutuals to be more beneficial to local communities than organisations with other ownership structures – and there is substantial evidence to support this.

Since 2020, the UK's largest co-operative has awarded more than £58m to 20,500 independent local community initiatives across the country.[117] Our 2023 report showed that EOBs are more likely than non-EOBs to support their communities and make charitable donations, with EOBs contributing an average of £68,580 more to charity per year.[118] In addition, many building societies such as Cumberland Building Society have been found to offer better mortgage rates and products to borrowers who live in the local area.[119] Social benefits are a key feature of the mutual model. Because they are member-owned, mutuals do not seek to maximise returns for third-party shareholders. Instead, they reinvest surpluses to enhance services for their local customers and give back to the community. During interviews, stakeholders mentioned that mutuals aid the development of key community infrastructure, such as community hubs, pubs, and sports clubs. Member-ownership models insulate these infrastructures from commercial pressures and private interests, ensuring their sustainability and accountability to the community.

Case study 2: Social and environmental benefits of co-ops and mutuals – Ecology Building Society

Ecology Building Society was established in 1981 to help finance environmental building renovations and support sustainable development. It is a mutual financial institution, owned by its members and dedicated to promoting their interests and its environmental mission.[120] It is an organisation that aims to generate benefits for people and the environment. It supports ecological homes and sustainable communities by facilitating ethical finance between savers and borrowers. Its innovative approach helps people and communities in adopting environmentally sustainable building practices, enhancing the energy efficiency of existing buildings, and promoting sustainable economic practices in their living or working environments.[121]

Ecology Building Society offers specialists mortgages for renovation, conversion, and self-build projects, and it rewards customers for making their buildings more energy efficient. In 2022, nearly £70 million in new lending was made available to support 340 sustainable properties and projects. Moreover, Ecology Building Society has pledged to achieve Net Zero in its lending portfolio by 2050 or sooner, and in business operations by 2030.[122] Since 1981, it has funded more than 4,500 projects, helping individuals, charities, environmental businesses, and community-led housing organisations achieve their sustainable living goals.[123]

Case study 3: Helping local communities – Metfriendly

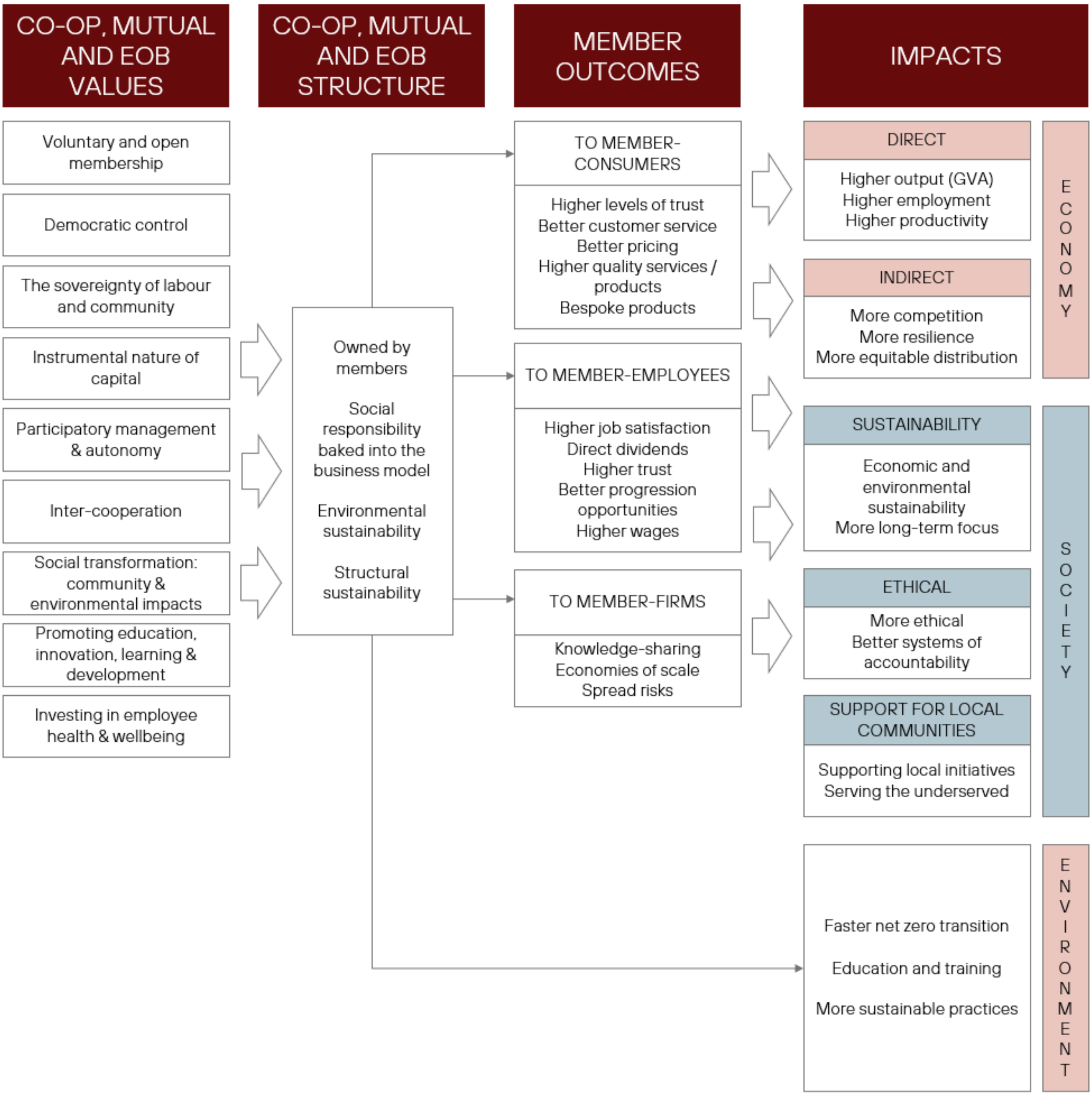
Formed in 1893 by volunteers within the Metropolitan Police to support widows of colleagues and officers who were retiring, Metfriendly today helps its members through tailored financial services and community engagement.[124] It is a member-owned mutual that helps serving and retired police officers, police staff and their families save, invest and protect their money.[125] Their products include ISAs, bonds, life insurance, mortgage and income protection, and critical illness cover - as well as targeted products for children in the form of junior ISAs and long-term savings plans.[126] Their key differentiating feature is their close relationship with the Metropolitan Police Service that helps develop and provide tailored products to members. Being member-owned, Metfriendly develops products while taking into account the police pay system, pension scheme, political landscape as well as the risks that come with the job and the impact it has on its members and their families.[127]

Apart from financial products, Metfriendly plays an active role in community engagement by sponsoring and supporting police-linked events and organisations, which help bolster community wellbeing. Some organisations, events and causes that Metfriendly supports include the Metropolitan Police Rugby Football Club, the Met Police Choir, National Police Memorial Day, the Memorial Flame at Hendon, Haringey Boxing Cup, London Retired Police Dogs Trust, passing-out parades, long service awards and Light the Lakes.[128]

In summary: wider benefits of mutuals

The wider impacts of the mutual model extend beyond members and benefit the economy, society and the evironment. Mutual values give rise to a unique structure of the mutual model that is owned by its members and underpinned by environmental and social responsibility. This directly benefits members through increased trust, control, and more equitable participation in the mutuals' success. At the economy-wide level, mutuals bring improved resilience to shocks, a boost for local communities and increased environmental sustainability. These impacts are summarised in Figure 1.

Figure 1: Impacts of the mutual model.



3. Exploring poor access to finance and other barriers to mutual growth

In this section, we explore the current barriers to growth in the sector, drawing on insights from our stakeholder survey (conducted amongst members of the BSA, AFM, Co-operatives UK, ABCUL and EOA to gather stakeholder views on the benefits of the mutual model, funding and growth prospects), a series of expert interviews, and wider literature. Each of these exposed some significant – but addressable – barriers to growth of the mutual sector. These will need to be tackled to enable mutual organisations to meet the Government's doubling ambition.

Mutuals face many of the same headwinds as any business would – including the new employer National Insurance tax hike; the impact of Artificial Intelligence (AI); lasting impacts of the COVID-19 pandemic, cost of living crisis, and Brexit. However, the persistent barriers we explore here are specific to mutuals and put them at a disadvantage compared to other, more traditional businesses. The barriers we explore in detail include:

- **Difficulty accessing finance.** We discuss how mutuals struggle to access traditional financing options, how the current legal framework may act as a barrier to funding, and how the nature of the mutual model means that innovative solutions are needed to enable mutuals to raise capital and grow.
- **Low awareness of the mutual model amongst lenders, investors, funders, consumers, and enterprises that are candidates to mutualise.** Low awareness means investors and lenders are reluctant to support mutuals due to lack of knowledge, while organisations that might be candidates to mutualise may not realise the benefits of the mutual model.
- **Lack of targeted support for new and growing mutuals.**
- **Legal challenges and policy gaps.**

Insights from the survey

Mutual growth: trends and barriers

Our survey collected insights from 50 mutual organisations and stakeholders, covering a wide range of types of mutual, organisational sizes and economic sectors. Our respondents reported median annual revenue growth of 8.5% over the last five years, and median annual employment growth of 4.5%. This suggests that the organisations that engaged with our survey were relatively fast-growing.

More than three in four surveyed organisations reported having encountered barriers to growth in the past. The barriers reported ranged from external factors, such as:

- difficulty securing funding and lack of access to easily available finance;
- a lack of awareness of the mutual model;
- economic conditions.

to internal factors, such as:

- a lack of know-how and awareness of options for financing amongst leaders of mutual organisations.

Almost one in four mutual organisations that responded to our survey have encountered obstacles to securing funding over the last three years.

Analysis of our survey results reveals that organisations that encountered obstacles to funding over the last three years were relatively more likely to have grown rapidly over the last five years, compared to organisations that had not encountered obstacles to funding. This evidence suggests that funding barriers might be hindering the expansion of the fastest-growing players in the mutuals sector.

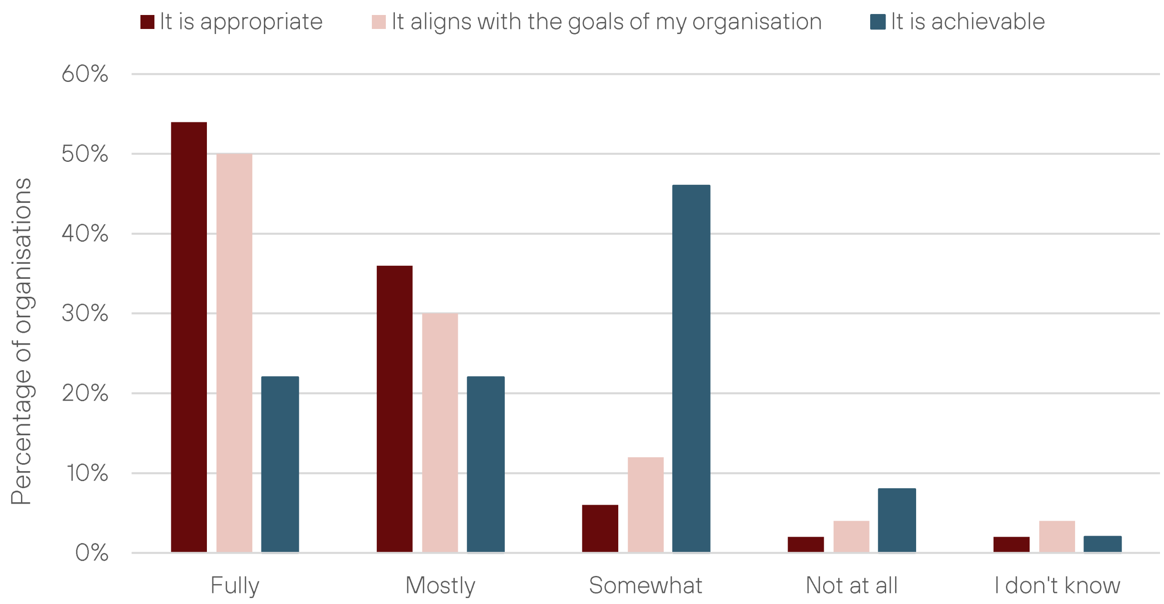
Funding barriers are likely to be hindering the expansion of the fastest-growing players in the mutuals sector.

Attitudes to the "doubling the size of the sector" ambition

Although most mutuals believe that Government's goal to double the size of the sector is appropriate and that it aligns with the respondents' organisational goals, only a minority of organisations believe that this goal is achievable within current conditions. There is also some variability in responses depending on type of mutual – nearly 60% of EOA members surveyed believed the doubling goal to be fully or mostly achievable, compared to only 40% of other respondents. This contrast between these two types of mutuals likely to reflect the optimism amongst EOBs following recent rapid growth of this organisational model.[129] This suggests that more focus and enabling action is likely to be needed from Government to ensure this goal is achieved. Many organisations believe that doubling the size of the mutual sector is an achievable goal, provided that the right policy levers are in place.

While many respondents and interview participants welcomed the goal to double the sector's size, some shared concerns that the doubling ambition is not clearly defined, and it has not been made clear why this goal is socially desirable to pursue. It is also seen by some as lacking in clarity: it is not clearly stated whether doubling the size refers to doubling the number of mutuals, the total number of members, the turnover, jobs, or something else. Some said that the Government's ambition to double the mutual sector should be measured in terms of the share of the economy and employment. They argue that simply doubling the number of mutuals would not be meaningful without considering their economic impact. Amongst our survey respondents, the revenue growth occurred at roughly double the rate of employment growth, showing that refining the definition of "doubling" can significantly change its meaning. Respondents also expressed fears about lack of clear ownership and co-ordination on this issue within Government and the mutuals sector.

What do you think about the Government's ambition of doubling the size of the mutuals sector?



Source: WPI Economics mutuals stakeholders survey, 2024/25

Barriers to mutual growth

In this section, we explore barriers to mutual growth, with a particular focus on access to finance.

As discussed earlier in the report, mutuals span a variety of industries and can take on different legal structures. Because of this, the regulatory landscape faced by mutuals is not uniform – for example, some mutuals may be listed on Companies House, while others are regulated only by the Financial Conduct Authority.[130] Throughout this section, we attempt to draw distinctions between different mutual structures in discussing barriers to mutual growth.

Difficulty accessing finance

Typically, mutuals rely on funding from their members and retained profits to fuel growth. This can make it difficult for mutuals to compete with shareholder-owned enterprises, which are able to rely on investor funds to grow more strongly.

Mutuals lack access to easily available finance to support growth. This is made worse by legislation that is often designed without consideration for the mutual model and is unpredictable over the longer term. For some mutuals, such as co-operatives, regulation does not enable some potentially critical financing options, such as raising equity from non-members. Meanwhile, organisations interested in becoming mutuals may struggle to find finance to enable transition to a mutual model.

For many mutuals, access to finance is hindered by a lack of support and clear signposting of information, as well as a lack of understanding of the complicated legislative environment. This problem is compounded by a lack of awareness of the business model amongst lenders, leading to an algorithmic and cultural bias against mutuals.[131]

Co-operatives take a distinctive approach to ownership, control rights and returns offered. As a consequence, investors are often not familiar with this distinctive approach, and therefore might not see mutuals as attractive on a narrow risk versus return basis. Moreover, when it comes to what investors are used to, co-operative models are not as clear and enabling on capital as other models .. Some co-operatives are not listed on Companies House, which can be a barrier to some lenders who use Companies House data to carry out due diligence on their customers.[132]

Mutuals struggle to access mainstream financing options

One significant challenge facing financial mutuals is that international standards and national regulatory frameworks are frequently developed with only the corporate ownership model in mind. This can create significant issues.[133]

Stakeholders noted in our interviews that mainstream lenders often require personal guarantees, which mutual businesses usually cannot provide. This requirement can be a significant barrier to accessing finance for mutuals, as they typically do not have the same security options as shareholder-owned businesses. This particularly affects charitable organisations and social enterprises that sit under the mutuals umbrella.

Mutual ownership necessitates that investors play a different role than they would in shareholder-owned companies, as a larger financial stake does not automatically grant increased control. Mutuals struggle with a lack of recognition around the additional benefits and opportunities provided by the mutual model that go beyond simple return-on-investment calculations.[134] Businesses with a social focus can be viewed as less attractive to investors who perceive 'people over profits' as not offering enough return for the risk, in spite of evidence that shows such frameworks can be mutually beneficial. The report explores several successful case studies of this later on.

In some mutuals such as Community Interest Companies, 'asset locks' may prevent or restrict investors from claiming a share of the underlying assets of a mutual. This might make some investors hesitant to lend to organisations with such restrictions, further limiting the financing options available to them.[135]

Another barrier to mutuals is a significant credit rating burden, in that rating agencies often do not understand the difference between size and quality. This can often lead to these businesses being unfairly rated as sub-investment grade due to their small size. The mutuals register also has some drawbacks compared to companies register – it is, for example, not machine-readable – and so might be less useful for credit reference agencies. This might lead to mutuals being analysed less accurately.

The current legal framework is a barrier to financing

Mutuals can take a variety of legal forms. Because of this, different mutuals can face drastically different legal rules. This makes it difficult to discuss legal barriers to mutuals as a uniform group, as different legislation will apply to different mutuals. However, one struggle shared by most mutual organisations is legislation that is complicated and, in many cases, not created with the mutual ownership model in mind.

Stakeholders highlighted certain examples of legal rules which make it difficult for mutuals to grow and secure funding. For instance, they stress that the legal forms under the Co-operative and Community Benefits Society Act are not fit for purpose because this law is outdated and contains immobilising ambiguities on capital raising. Stakeholders pointed out in our interviews that this makes it difficult for mutuals to start businesses that require significant capital. Interviewees also discussed legal challenges, such as trust-owned companies facing significant barriers to accessing finance due to legal restrictions on their existence in perpetuity. These companies are not allowed to exist indefinitely, making it difficult for them to borrow money for long-term investments, such as issuing 100-year bonds.

The unique structure of mutual enterprises makes it difficult to access funding

Apart from the regulatory and legislative barriers, the nature of the mutual model and the size of these enterprises often act as barriers. Stakeholders said that the small volume of capital raising by mutuals makes it difficult for investors to pay attention to and understand the sector. This results in a volume penalty, which affects the ability of smaller enterprises to raise capital effectively. Additionally, social benefits created by many mutual models (such as co-operatives) are often localised, leading to smaller organisational sizes. This small size is a disadvantage when it comes to fundraising, as most investors prefer to invest in larger organisations.

> *The small volume of capital raising by mutuals makes it difficult for investors to pay attention and understand the sector, resulting in a volume penalty, affecting the ability of smaller enterprises to raise capital effectively.*

Larger mutual enterprises face challenges in accessing capital due to their different business model. Stakeholders highlighted that they rely more on knowledge and talent than assets. Traditional equity models that enable aggressive expansion are incompatible with the democratic ownership structure of some mutuals (although that may not be true in some cases, such as for employee-owned businesses). In particular, mutuals cannot follow the traditional funding journey of shareholder-owned businesses that involves angel investment, followed by venture capital and an eventual Initial Public Offering (IPO).

Low awareness of the mutual model amongst lenders, investors, enterprises and consumers

Lack of awareness of the mutual model amongst lenders, investors, enterprises and the public hinders mutuals' operations, growth and ability to scale.

Mainstream lenders often lack understanding of the mutual sector, which can be a significant barrier to financing. This lack of understanding can lead to difficulties in assessing the viability and structure of mutuals. This makes it difficult for mutuals to access capital and loans necessary to grow. In particular, it has been highlighted in our stakeholder interviews that the awareness of mutuals in the UK lags behind Europe.

> *There is a lack of awareness of the mutual model amongst traditional financial services, banks and investors.*

The complexity of mutual governance can be a barrier for mainstream lenders. The democratic ownership and control structures of mutuals are often not well understood, leading to nervousness and reluctance to lend. Stakeholders also mentioned that smaller banks and the new challenger banks lack the expertise needed to properly understand mutual business models.

Automation of systems used by mainstream lenders can also create challenges for mutuals. That is because these systems often rely on data from Companies House. As mentioned earlier in this report, some mutuals are not listed on Companies House,[136] leading to difficulties in accessing information.

Meanwhile, capital markets fail to understand the different risk quotients associated with mutuals. This misunderstanding leads to inappropriate pricing and challenges in accessing capital.

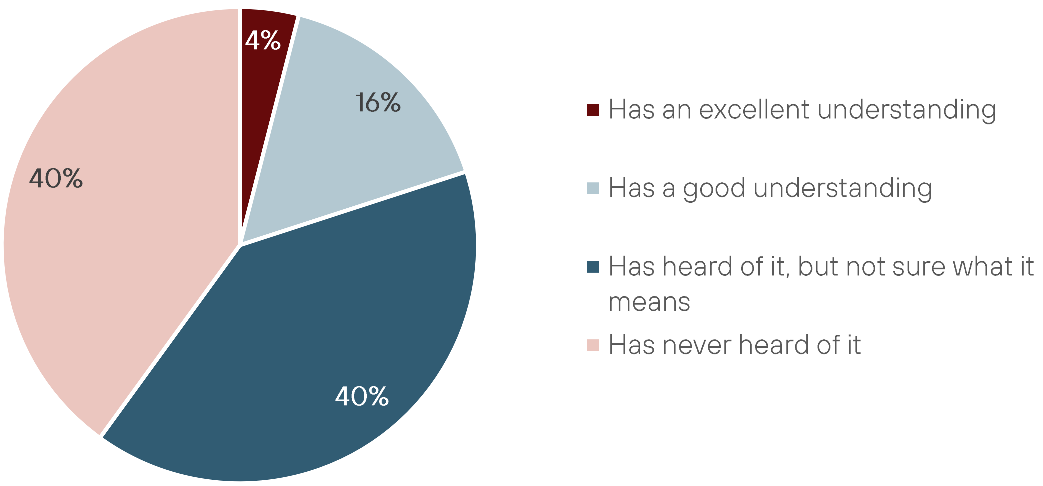
Enterprises that might be candidates to mutualise are not aware of the potential benefits

Throughout the report, we detail many benefits of mutual models – from increased employee engagement, through improved business survival rates, to tax breaks that favour mutual ownership models. In spite of many evidence-backed benefits of mutual models, there is low awareness of them among either enterprises that could transition into mutual ownership or among potential entrepreneurs for whom mutual models could be relevant. This means that potentially suitable candidates to mutualise fail to grasp the opportunity to reap those benefits.

There is low awareness of the mutual model amongst the public

Low public awareness of the model is an important piece of context in understanding attitudes of lenders, investors and funders to mutuals. Public awareness of mutuals is low. A Social Market Foundation report featured a representative survey of 1,500 consumers which found only 20% of adults understand what "mutual ownership" means – in contrast to 40% who had never heard of it. The most widely-recognised type of mutual was a building society, followed by housing associations and NHS foundation trusts. Fewer than one in four consumers indicated any familiarity with worker and community co-operatives, mutual insurers and public services mutuals.[137] In our stakeholder survey, it has been highlighted that the mutual model is often confused with a charity organisation. In addition, although what we consider a mutual in this report is quite broad, we acknowledge that some organisations that would fall under our definition of mutuals – such as employee-owned businesses – might not recognise themselves as mutuals, as that language is not often used by their sector.

Self-perceived consumer familiarity with 'mutual ownership'



Source: Opinium poll. SMF 2023. https://www.smf.co.uk/wp-content/uploads/2023/06/Mutual-understanding-June-2023.pdf

Lack of targeted support for new and growing mutuals

Some mutuals lack training, support and research around leadership and organisational growth, which leads to low investment readiness and a lack of tools that would help mutual boards satisfy new investors. Additionally, since the leadership themselves are sometimes volunteers (particularly in smaller co-operatives), there may be a lack of capacity to drive change. This means that some mutuals may have difficulty identifying market opportunities for mutual growth, and they may not sufficiently fund innovation.

The lack of support targeting organisations that might be candidates to mutualise is a major missed opportunity. This is particularly true considering that historic examples of rapid growth of mutuals – such as the recent boom in employee ownership – are driven by highly-entrepreneurial individuals with the courage to undertake an organisational transition.[138]

Some stakeholders argued that the understanding of what a mutual is and does may also be too narrow, both within and outside the sector, to allow for innovation and expansion. As already mentioned, some organisations which we call mutuals here, particularly employee-owned businesses, may not necessarily understand themselves to be mutuals according to their own, more narrow definitions.

Stakeholder interviews highlighted that mutuals often seek finance for immediate needs without considering refinancing, which adds to the risk of financial instability. Mutuals require more collaboration and partnerships, which can be challenging to establish. The legal and regulatory frameworks also create friction, making it harder to register and operate mutuals compared to traditional business models.

Regulation

As mentioned previously, mutuals can come in a variety of legal forms, which means that the policy and regulatory landscape facing them is not uniform. Interviews with stakeholders revealed that there are still considerable gaps in the policy and regulatory landscape of the mutual sector. Driven by ambiguity, plus a lack of attention and recognition, this acts as a barrier to the growth of the sector. Some key findings from our interviews include:

- The Financial Conduct Authority (FCA) is responsible for authorising the registration of some mutuals. This role is often confused with regulation, leading to misunderstandings about FCA's involvement with mutuals. Additionally, regulators, including the FCA and the Prudential Regulation Authority (PRA), often fail to accommodate mutuals due to their differences from mainstream businesses. This can create challenges in accessing capital and navigating regulatory requirements. Co-operative and community benefit societies also identify FCA's interpretation of the law (which cane, in some cases, be vague), and the policies it puts in place which restrict capital-raising, as a barrier to raising finance.

- Some mutuals are listed on Companies House under various legal forms, while others appear on the FCA mutuals register. This latter creates barriers when mainstream lenders use automated systems that rely on Companies House data. Even for the businesses listed on the FCA mutual register, there are gaps in the information listed, such as absence of director information. This, in turn, makes it even more difficult for lenders to perform due diligence, leading to reluctance in providing finance.

- There is a lack of regulatory infrastructure for mutuals. Unlike the Companies Act, which provides a manual for private sector companies, mutual regulations do not offer similar guidance, leading to uncertainty for investors. As mutual law is spread across various pieces of legislature, it can be hard to ensure it is all kept up to date.

The complicated rules and regulations surrounding mutuals mean that, at certain points in their lifecycle, some mutuals might encounter incentives to demutualise – transition their ownership model to a shareholder-owned enterprise.[139] Historic demutualisations were often motivated by regulatory challenges around finance and capital – for example, Northern Rock's decision to demutualise in 1997 was motivated by stringent funding limits for building societies (around the total proportion of funds that must be raised from member savings).[140] Northern Rock's demutualisation was part of a wave of building society demutualisations in the 1990s, which included Halifax, Woolwich and Abbey National, following a change and relaxation of regulations in the mid-1980s. None of these demutualised institutions exist today independently, possibly due to their adoption of unsustainable lending practices.[141]

Demutualisation is typically proposed by boards of directors, and rarely by members (with the exception of some agricultural co-operatives). Following demutualisation, shares are usually allocated to existing members, which gives them an incentive to vote in support of the transfer. Alternatively, demutualisation can involve the sale of the mutual to an external entity. In deciding whether to vote for demutualisation, members typically rely on advice, and the information they receive may be influenced by the board of directors in ways which make it difficult to make an objective, impartial judgement.[142]

It is important to note that incentives to demutualise are not equal amongst different types of mutuals. For example, while the Building Societies Act contains provisions that allow building societies to demutualise,[143] there is no equivalent provision in the Credit Unions Act.[144]

4. Solutions for overcoming barriers to mutual growth

Establish specialist investment institutions for the British mutual sector that could provide additional financing options and support, as is the case with CFI in Italy. These could include co-operative banks. Expand and continue building new schemes that help mutuals grow, such as Community Development Credit Union (CDCU) designations.	Unlock access to finance through boosting the importance of existing funding channels such as Community Shares and Dormant Assets schemes, and establishing new channel within existing institutions, such as British Business Bank.	Expand options for all mutuals to raise equity from external investors, thereby addressing legal, institutional and market barriers. This includes making Core Capital Deferred Shares and Mutual Deferred Shares viable, easier and cheaper to issue.	Engage with the investor market and mainstream lenders to improve awareness of the mutual model.

Having discussed funding barriers, in this section we turn to solutions. We outline the respective roles of innovative funding approaches, regulation and education in enabling mutuals to raise funding for growth. We also present a set of UK success stories that have worked in the past and can be built on; a set of international success stories whose innovations the UK could learn from; and some promising future avenues of helping mutuals grow.

Additional funding can fuel mutual growth and enable investment into capital, training, and development. Historically, mutuals in the UK have struggled to access patient and flexible capital (with no fixed payback dates, and no fixed interest rates for the investment) that simultaneously enables faster growth and does not threaten their underlying values, purpose and ownership. International examples show that change is possible – and mutuals in the UK can be supported to grow, allowing more people to enjoy their benefits.

Evidence shows that access to finance can improve the turnover, employment and survival of companies – both small to medium enterprises[145] and larger firms. However, not all finance is made equal, and it is vital to ensure that solutions serve mutuals and help preserve their values, purpose and ownership.

Ways to improve access to finance

Stakeholders highlighted the importance of fully allowing mutuals to appeal to the retail investor base. This would enable mutuals to raise capital from their natural supporter base, addressing the challenges posed by the current restrictions on retail participation in high-risk instruments.

Stakeholders advocated for allowing the establishment of specialist financing institutions for the mutual sector (including new co-operative banks) in Britain, similar to those in France, Germany, and the United States. These institutions could provide additional financing options for mutuals and help grow the sector itself. Stakeholders suggested establishing specific credit providers whose mission would be to serve the mutual sector, as this could address the gap in bank finance for these entities.

Expanding the role of finance institutions could help mutuals grow through providing knowledge and finance to mutual organisations. In other countries, such as Italy and the US, the existence of such financial institutions plays a key role in supporting existing mutuals and establishing new ones.[146]

Stakeholders also mentioned that social investment lenders play a crucial role in providing finance to some mutuals, although this does not apply to all models of mutual ownership. These lenders are part of an ecosystem that supports social enterprises and community-focused projects, offering tailored financial products.

The existing successful programmes, such as the Community Shares programme, should be built upon and expanded. There should be a drive to improve mutuals' ability to raise non-member equity, as exemplified by Core Capital Deferred Shares. For Core Capital Deferred Shares in particular, stakeholders argued investors are open to the idea of receiving returns without control - just as they are accustomed to owning shares in large companies without controlling them. They seek steady returns and proper due diligence on mutuals, which can be leveraged to gain more funding. Similar investment propositions would be welcomed by other mutuals beyond building societies.

In the survey, many mutuals pointed to the Dormant Assets release scheme as a promising new avenue for fundraising, but for this to materialise, assets have to be released in ways which cater to the needs of mutuals.

Regulatory role in mitigating challenges

Stakeholders suggested that the Prudential Regulation Authority (PRA) could help by engaging more with the investor market. Sectors where regulators engage regularly tend to receive better funding, highlighting the importance of regulatory support in improving access to finance for mutuals. They further emphasised the need for additional regulatory support to help mutuals access finance. This includes engaging with rating agencies and investors to improve the perception and understanding of mutuals in the financial market.

It is clear to us from our stakeholder interviews that the Mutual Deferred Shares Act should be revisited, reviewed and revised. Currently, mutuals are not prepared to issue deferred shares because those that do are subject to corporation tax. This renders the act ineffective.[147]

Increasing awareness and familiarity

Education is a key solution to enable better access to finance for mutuals. This includes educating investors and regulators about the unique aspects and benefits of mutuals to improve their understanding and support, as well as increasing awareness of the existence and various forms of mutual ownership models.

Removing barriers to funding to accelerate mutual growth: lessons from the UK and around the world

Success story #1: Community Shares [148]

Co-operatives in the UK were able to raise £228 million in equity between 2012 and early 2024 via Community Shares – an innovative instrument of patient, flexible capital that is unique to co-operatives and community benefit societies. Community Shares adhere to the co-operative principle of one member, one vote. This instrument helped transform local communities, funding local energy schemes, pubs, shops and football clubs.

85% of participating businesses say using community shares has had a positive impact on their trading performance. Community Shares make investment accessible, with an average investment of just £395, allowing people to help grow initiatives they care about:

- 80% of people invest in Community Shares because of their wider social and environmental benefit;
- 53% believe their investment will create a stronger community; meanwhile, only
- 17% invest expecting financial returns (in spite of this, the average interest rate achieved by Community Shares up to 2020 was a healthy 4.8%).

Community Shares investors are 41% female; and 56% of those investing earn £35,000 per year or less. Community Shares helped co-operatives achieve survival rates of 92%. The Social Investment Tax Relief introduced in 2014 allowed investors to claim income tax relief of up to 30% of the amount invested, which encouraged investors to invest more.

Success story #2: Core Capital Deferred Shares

Core Capital Deferred Shares (CCDS) are a form of Common Equity Tier 1 capital aligned with mutual principles[149] that has been available to building societies since 2014.[150] These shares are different from traditional stocks: each investor only gets one vote, irrespective of how many shares they buy, which allows the society to issue shares without threatening its mutual status.

Nationwide Building Society has raised more than £1 billion of CCDS via the wholesale market, whilst Cambridge Building Society raised £15 million and Ecology Building Society £3 million.[151]

Core Capital Deferred Shares is a capital instrument designed to comply with the Basel international capital framework, making them suitable for building societies – the only type of mutual that needs to comply with that framework. During our stakeholder engagement, some organisations expressed wishes for similar capital instruments to become available to other mutuals, including mutual insurers and co-operatives. However, in their case, the instrument would not have to comply with the Basel framework. At the same time, steps should be taken to reduce barriers and costs to all mutuals.

Success story #3: Employee Ownership Trust (EOT) tax breaks

To incentivise and support the employee ownership business model, the tax regime surrounding Employee Ownership Trusts (EOTs) changed in 2014.[152]

An EOT is an indirect form of employee ownership where a trust is set up for the benefit of employees in the company. The trust owns a controlling shareholding stake in the business, and is required to exercise its control for the benefit of all employees.[153] In 2014, the Government introduced new tax incentives for EOTs, including a relief from capital gains tax on gains accruing at the disposal of shares to the trust, and an exemption from income tax for certain payments made to employees.[154]

The rules have been updated in the 2024 Autumn Budget to ensure that the policy successfully fulfils its objectives. Additional conditions will ensure both that former owners cannot retain control of the Employee Ownership Trust, and that any payments on disposal of shares do not exceed market value.[155]

The introduction of the EOT as a tax-advantaged model has successfully incentivised a rapid boom in the total number of EOTs in the UK, with each year since 2017 seeing more transitions to EO than the last. Between 2004 and 2012, before the introduction of the reform, the EO sector grew by an average of approximately 10% year-on-year, with 130 registered EOBs in 2013. Between 2014 and 2023, the growth rate tripled to 30% year-on-year, and more than 2,000 businesses were employee-owned by 2024.[156]

This rapid boom in employee ownership shows how small changes to incentives can drive exponential growth of certain ownership models.

International success story #1: Australian Mutual Capital Instruments

In 2019, the Australian Federal Parliament passed legislation introducing Mutual Capital Instruments (MCIs) as a new, unique financial instrument for mutual entities. This reform was a result of collaboration between mutual businesses across industries, supported by Mutuo and the Australian Business Council of Co-operatives and Mutuals.[157]

MCIs are a type of share designed to allow mutuals to compete "on equal footing" with other types of firms.[158] MCIs enable mutuals to raise CET1 investment capital (beyond debt and retained profits) without having to demutualise. MCIs do not grant additional voting rights to holders – rather, each member of the mutual has one vote, irrespective of how many shares they hold. MCI holders are also prevented from votes on demutualisation.[159] Crucially, issuing MCIs does not affect the tax treatment of mutual entities (namely, that issuing MCIs does not amount to demutualisation for tax purposes[160]), and the shares are available to all types of mutuals.[161]

Australian Unity (a financial mutual) was the first to issue MCIs, and it has so far successfully raised $350 million AUD to drive its business activities.[162]

Although MCIs bear many similarities to the UK Core Capital Deferred Shares, they improve upon the model by making the capital instrument available to all mutuals (whereas only building societies can issue CCDS is the UK).

International success story #2: The legal and institutional framework in Italy

The Italian Marcora law dates back to 1985 and allows workers to invest their unemployment benefit and severance indemnity in recovering the firm that employed them and converting them into a co-operative, with help from institutional investors such as Cooperazione Finanza Impresa (CFI) (currently at a ratio of 1:1 between workers and the state). It was a solution to a manufacturing crisis which started in the 1970s and sparked unemployment and social tensions. [163]
The management of Marcora law measures is primarily handled by CFI and regional agencies, which provide financial and counselling solutions to worker-recovered enterprises. From 2007 to 2015, CFI invested €84 million in Italian worker buyouts. A parliamentary commission report estimates that this investment generated more than €576 million in tax revenues - 6.8 times the invested capital. Beside the measures implemented exclusively by CFI, the overall investments granted by the Marcora law from 1985 amount to €240 million, with 35 of them to be invested from 2021 onwards. This means Marcora law has granted financial resources that can be translated to roughly €14,000 per worker, much less than the average €40,000 of public contribution to unemployment benefits per worker. [164]

International success story #3: USA Community Development Financial Institutions Fund (CDFI) innovations

The Community Development Financial Institutions Fund (CDFI) has been set up in the USA to serve mission-driven organisations that support economically-disadvantaged communities. CDFI offers tailored resources and innovative programmes that invest federal money alongside private sector capital[165] to help expand economic opportunities to under-served communities.[166]

Since 1994, the CDFI fund awarded more than $8 billion to community development organisations and financial institutions, including many mutuals, as well as allocating $81 billion in tax credit to Community Development Entities, and guaranteed bonds for nearly $3 billion.[167]

Although, at present, CDFIs could be doing more to serve mutuals, representatives from mutual organisations in the UK highlighted CDFI's as an international success story in responses to our survey. They applauded this initiative for ensuring funding was available at scale, understood within the sector and applied well, such that the ecosystem was supporting the growth of mutuals to achieve even more change in communities.

Future opportunity #1: Dormant Assets Scheme

Dormant assets are UK financial products, such as bank accounts, that have not been used in a long time and whose owner the provider has been unable to trace. Over the last decade, the Dormant Assets scheme has released nearly £1 billion,[168] a portion of which has gone into growing co-operatives and funding new ones.

The Government is planning to release another £350 million between 2024 and 2028, of which £87.5 million is already allocated to social investment wholesalers.[169] Work is underway to expand the scheme, and it is estimated that the next phase of the scheme could unlock a further £880 million.[170]

Our engagement with stakeholders underscored that many mutual organisations hope to access finance in the future through the Dormant Assets Scheme, and they indicated that they would like to see the Government take more proactive approaches to releasing dormant funds.

Future opportunity #2: UK Community Development Credit Unions (CDCU)

In the USA, Community Development Credit Union (CDCU) certification allows credit unions to access public and private capital that enables them to offer more affordable products, expand services and reach more people in economically-disadvantaged and under-served areas. Targeted support and funding programmes through the federal Government meant that credit unions were supported in providing ethical products and services to those individuals and families who needed them most, and to be innovative and bold in their ability to serve wider parts of the community.

Inspired by this, eight ABCUL member credit unions have undertaken data analysis to determine whether credit unions are actually serving the demographics that drive their mission and strategy. The data has conclusively proved that the financially vulnerable and low- and moderate- income people and communities form the majority of the eight pathfinder credit unions member base, both for savings and loan accounts. Because of this, credit unions are perfectly positioned to offer wider support to these key demographics and priority groups. Increased support would enable credit unions to expand their ability to reach more of the financially vulnerable and excluded members of society.

To explore this idea further, ABCUL has established an Advisory Panel of credit unions and relevant stakeholders to approve the finalise the CDCU designation status criteria. ABCUL is also engaging with philanthropic organisations to try and secure funding to enable a proof of concept with the pathfinder credit unions. Moreover, this would take the data analytics ABCUL has conducted with the eight pathfinder credit unions and widen it to include many more credit unions across the UK.

ABCUL is hoping for the CDCU designation to become a growth catalyst for credit unions by providing structural, technical, business development and direct funding support. This, in turn, would enable credit unions to sustainably expand their reach in communities, households and employers all across the country, aligning with the objectives of central Government, local government, key sector partners and stakeholders and, last but not least, their own missions and visions. Continued support is required to enable the CDCU designation to grow and develop into a widely-recognised and established kitemark across Great Britain.

6. Conclusion and recommendations

The mutual sector is made up of more than 9,500 independent businesses across the UK that contribute at least £35 billion in annual direct GVA to the UK economy, or 1.5% of the UK's total GVA. In addition to those direct economic impacts, mutuals benefit their members, local communities and society through an approach to business that emphasises social responsibility, equity, and sustainability. Mutuals benefit workers through better working conditions and better pay, consumers for improved choice and satisfaction scores, and communities through delivering value tailored to local needs.

In its 2024 General Election manifesto, Labour set out its ambition to double the size of the mutual sector. Although the definition of doubling is not entirely clear, this report sets out a useful baseline for growth as measured in terms of GVA.

In November 2024, the Chancellor announced the formation of a Mutual and Cooperative Sector Business Council, comprising some of the largest mutual and co-operative businesses in the UK, and trade bodies representing small and medium sized firms, reflecting the breadth and diversity of the sector. The Council has identified initial core areas of work of housing, including Community Land Trusts[x], community energy, financial services and education. The barriers identified in this report will apply to differing extents across these sectors.

For the Government's doubling ambition to become reality, mutual businesses need to operate in an environment that will help them realise their growth potential. Sadly, the current reality facing mutuals does not promote their expansion. The legal, institutional and market conditions in Britain favour the shareholder model. Mutuals encounter obstacles to securing funding – these include:

- a lack of awareness amongst lenders and investors;
- algorithmic bias;
- lack of know-how and support;
- a complicated legal framework; and
- lack of access to financial instruments that help preserve the mutual ownership model.

Unlike their counterparts who benefit from the USA's CDFI fund or Italy's CFI, mutuals in the UK lack access to large institutions that help them get funding and knowledge. Many types of mutuals lack ways to raise capital from external investors – a gap which has been successfully addressed in Australia with the Mutual Capital Instruments. For the most part, there is a lack of legal incentives to mutualise in the UK. Taken together, those barriers mean that the benefits of the mutual model cannot be fully realised. However, by addressing some of the challenges, the mutual sector could make up a much greater part of the UK economy.

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[x] A Community Land Trust is a community-led organisation working with local people to create affordable homes and community spaces.

Recommendations

We recommend that the Government reviews and clarifies the legal definitions surrounding the mutual sector, and welcome the Law Commission review of co-operative and community benefit societies[171] and friendly societies[172] as a positive step in this area.

We recommend that stakeholders work together to build up and expand interventions which worked well in the past or hold a lot of future promise. This includes:

- Expanding the Community Shares programme
- Taking a more pro-active approach to releasing Dormant Assets to fund community projects
- Enabling other mutuals besides building societies to issue equity to non-members in ways which are relevant and appropriate to different types of mutuals, following examples such as the Australian Mutual Capital Instruments.
- Continuing to find ways to make Core Capital Deferred Shares easier and cheaper to issue for Building Societies.

We also recommend that the sector, policy-makers and regulators work together, including through the Mutual and Cooperative Sector Business Council, to introduce new solutions to help mutuals grow. These include:

- Establishing specialist investment institutions for the UK mutual economy that enable the pooling and recycling of mutual assets and raising and deploying of private capital in mutuals, with public funds to 'crowd in' private finance.
- Raising awareness of the benefits of the mutual model amongst lenders, investors and funders; the public; and industry.
- Empowering leaders in mutual organisations to take advantage of available opportunities; for example, through increasing awareness of existing channels of financing.

Appendix A: Types of mutuals

Financial mutuals

Financial mutuals are organisations following a member-ownership model that provide financial services such as mortgages, loans and savings. Any member-owned business providing financial services can be considered a financial mutual. Primarily, this includes:

- Building societies: Member-owned banks specialising in savings and mortgages.[173] Building societies are regulated in the UK by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) under the Building Societies Act.[174]
- Mutual insurance companies: Insurers that provide collective self-insurance to its members, where the policyholders control the extent of their insurance cover. Any surpluses are used to benefit members.[175]
- Credit unions: Member-owned financial co-operatives, focussing on savings and personal loans.[176] Credit unions in the UK are regulated by the FCA and PRA[177].
- Co-operative banks: An international term for member-owned banks[178].
- Friendly Societies: A fund contributed to by members that provides financial assistance in times of need such as sickness or unemployment. Although the UK has no such statutory definition, registered and incorporated friendly societies are regulated by the FCA.[179]

Co-operatives

Co-operative organisations are general businesses or organisations that follow a member ownership structure and can take various forms including worker, consumer, producer, and community co-operatives.[180] These businesses can operate in almost any industry but are most commonly found in retail, housing, agriculture, and sports and recreation.[181] Community benefit societies are organisations that are run for the benefit of the wider community in which they operate in.[182]

Employee-owned businesses

Employee-owned businesses (EOBs) are businesses where all employees have a “significant and meaningful” stake in the business.[183] Although the level of employee ownership varies amongst organisations, the Employee Ownership Association defines organisations with at least 25% of the ownership being held by or on behalf of employees as employee-owned.[184] While employee owners do not have direct decision-making powers, i.e. one person one vote, they have mechanisms to have a voice in both the operational and strategic direction of the business, underpinned by governance that ensures decisions are made in the best interests of the employees current and future.

All of the above types of mutual organisations differ greatly in their aims, structures, methods of raising capital, and key stakeholders. However, the core principle that unites all mutuals is the presence of democratic control, where members decide what happens within the organisation.

Unlike a typical shareholder-owned business, decision-making power in a mutual is independent of a member's financial contribution. Another common characteristic amongst mutual organisations is that member contributions serve as the primary source of operational funding. Mutuals also typically have stronger regional ties than typical shareholder-owned businesses.[185]

Appendix B: Methodology for the derivation of Gross Value Added (GVA)

Our methodology provides estimates of the economic contribution to the co-ops and mutuals in the UK in 2023/24. As well as looking at the direct GVA contribution, we also look at the indirect and induced effects generated by the co-ops and mutuals.

- Indirect impact: includes other industries that supply goods and services to co-ops and mutuals' businesses.
- Induced impact: refers to other industries affected by the spending of the co-ops and mutuals' employees.

Defining the research scope

The key elements include identification of entities within the co-ops and mutuals. They primarily include entities covered by the following trade bodies:

- Building Societies Association
- Employee Ownership Association
- Association of British Credit Unions
- Association of Financial Mutuals
- Co-operatives UK

We have also included large players that are not affiliated with the above trade bodies, including Royal London and NFU Mutual.

For the direct GVA analysis, each trade body has provided us with the financial data available in their respective domain.

We have used a hybrid approach to estimate the direct GVA that incorporates both the direct and proxy-based estimation methods. This accounts for data limitations while providing a robust estimate of the overall GVA contribution. Additionally, indirect and induced impacts are calculated using input-output table and sector-specific multipliers.

GVA analysis approaches

Direct GVA

As not all companies or organisations report their financial data uniformly (due to company size and filing requirements), we cannot apply a uniform approach to do the GVA estimation across all trade bodies. Therefore, we use a hybrid approach (direct and proxy-based methods) for the estimation.

Direct estimation

This approach involves calculating GVA for co-ops and mutuals where detailed financial data is available. Calculations of the GVA use the following formula:

Estimated GVA = compensation of employees + operating profit (EBIT) + depreciation + amortisation

The individual GVA figures are then aggregated to produce the sectoral and total GVA for all the co-ops and mutuals (while removing any duplications of businesses) and for each trade body.

Figure B1: GVA analysis – direct estimation

Estimate individual GVA using the formula: GVA = compensation of employees + operating profit (EBIT) + depreciation + amortisation

↓

Sum up the individual GVA to obtain the aggregated GVA for co-ops and mutuals

↓

Estimate the sectoral GVA (according to SIC codes)

↓

Calculate the indirect and induced GVA contributions using multipliers derived from the input-output table

Proxy-based estimation

For the co-ops and mutuals under study, where detailed financial data is unavailable, turnover or other proxies have been used.

We used turnover data - or insurance premiums as a proxy for turnover[186] - reported by the trade bodies and extracted relevant sectoral GVA-to-turnover ratio from national statistics, using the following formula:

Estimated GVA = Turnover x GVA-to-turnover ratio

The technique involves using Office for National Statistics (ONS) national data to calculate the GVA-to-turnover ratios for the sectors (based on SIC codes). We primarily use the 2022 Annual Business Survey dataset, which provides total sectoral turnover and approximate GVA (aGVA) in the same dataset, which can be used as a proxy for GVA (ONS, 2014)[187]. However, the dataset has limitations in that it excludes the financial services industry. Therefore, other datasets, including the sectoral GVA data in the national accounts and the count and turnover of VAT and/or PAYE-based enterprises dataset, are used.

In addition, due to the large number of employee-owned businesses (EOBs) in the country and the difficulties with capturing the financial information for all of them, we estimate their aggregated GVA using our previous estimates published in October 2023 – where we used the proxy-based estimation and YouGov survey data,[188] adjusted with the new number of EOBs (provided by EOA and White Rose Employee Ownership Centre), inflation and projected growth.

The estimated GVAs are combined with those calculated using the direct approach to produce an aggregated GVA for co-ops and mutuals in the UK. We then manually cross-checked the list of entities appearing in multiple trade bodies to remove duplicates when we produced the UK-wide figures.

Indirect and induced GVA

The broader economic impact of co-ops and mutuals incorporates indirect and induced impact using sectoral multipliers, as outlined below.

- Indirect impact: includes other industries that supply goods and services to the co-ops and mutuals' businesses.
- Induced impact: refers to other industries affected by the spending of the co-ops and mutuals' employees.

The input-output model is used to estimate the indirect and induced effects of the GVA generated by the co-ops and mutuals in the area. This requires identifying the industries that the entities within various trade bodies belong to – we do this by assigning the appropriate SIC codes based on the input-output table categorisation. The process largely depends on the trade bodies these entities are associated with. For example, entities under credit unions are categorised as part of the financial industry. For co-operatives, Co-operatives UK have often already categorised the industries they belong to; if not, we use information from Companies House to complete the classification.

To derive the indirect and induced output multipliers, Type I and Type II Leontief Inverse matrices generate the indirect and induced GVA per unit of output multipliers. The indirect and induced benefits are calculated by applying these multipliers to the direct benefits derived earlier.

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