

Draft Submission to the Call for Evidence for Co-operatives and Non-Financial Mutuals

18 Feb 2026

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Data

1. If the co-operative and non-financial mutuals sector were to grow, what do you expect the key impacts would be? Draw on evidence, where possible.

We expect growth in employee ownership to generate impacts at three levels: (1) workforce outcomes, (2) firm performance and resilience, and (3) wider economic and social outcomes.

1. Workforce impacts

The most direct beneficiaries of growth in employee ownership are employees themselves. The model is associated with some key impacts for the workforce:

- ***Financial wellbeing***

Employee ownership increases employees' financial rewards and wellbeing. The most common UK model of employee ownership is the Employee Ownership Trust, which enables tax-free annual bonuses up to

£3,600 per employee (where conditions are met). In addition, some employee-owned businesses use direct share ownership or HMRC-approved share plans, which can provide dividends and support longer-term wealth building.

The 2025 White Rose Employee Ownership Survey, delivered by the White Rose Employee Ownership Centre, surveyed 141 employee owned businesses (97% of which were Employee Ownership Trust owned) that had transitioned before the end of 2022 and found that 88% had paid a profit share (though there was some variation in year-to-year payments). Of those companies for which data was available (97), the average most recent profit share was equal to £2,933.

Aside from profit-share, evidence from the EO Knowledge Programme (WPI Economics, 2023) indicates that employee-owned businesses are more likely to pay higher basic wages than comparable firms. Cross-referencing data shared by the Real Living Wage Foundation with the Employee Owned Business Register also reveals that employee owned businesses are disproportionately represented as real living wage accredited employers. 8% of EO businesses are accredited compared with less than 1% of non-EOBs.

These profit-sharing structures and higher wage rates immediately improve the **financial wellbeing of the workforce**.

- ***Training, development, and skills formation:***

The EO Knowledge Programme found EO businesses are 12% more likely to invest in learning and development than other businesses. This aligns with recurring qualitative feedback received by the eoa that an “ownership mindset” encourages leadership development, governance experience, and wider business skills. At the eoa, we have seen many examples of employee owned businesses incorporating commercial training for the entire workforce into their transition plan (one example being Wildfire PR, who were highly commended for the 2024 “EO Transition of the Year” award). This has been linked to high workforce mobility, equipping members of the workforce to grow into leadership roles and ultimately higher salaries.

- ***Wellbeing, motivation and job satisfaction***

The EO Knowledge Programme also found EO businesses are more likely to invest in employee wellbeing and to implement wellbeing practices (including access to private healthcare and mental health support, flexible/remote working, and career breaks/sabbaticals). These practices were linked to **83% of EOBs reporting increased employee motivation** and **73% reporting increased job satisfaction** since adopting employee ownership.

2. Firm performance and resilience

In general, uplifts to business performance associated with employee ownership are linked to the employee impacts described above. As explored further in our response to Question 3, employee ownership can align incentives between employees and the business more effectively and reduce information frictions that otherwise arise in conventional ownership structures.

- ***Productivity:***

Prior research indicates that, based on **GVA per employee**, EOBs are **8–12% more productive** than non-EOBs. This is commonly linked to increased motivation and engagement.

Beyond individual motivation, productivity gains can also be structural. For example, evidence of lower employee turnover in employee owned businesses supports operational continuity and reduces recruitment/onboarding costs. Qualitative evidence suggests that reducing asymmetric information and principal-agent frictions can enable more efficient strategic and operational decision-making; the EO Knowledge Programme provides quantitative support for this (EOBs are more likely to involve employees in strategic decision-making than non-EOBs).

- ***Profitability and growth***

The EO Knowledge Programme found EO businesses were **30% more likely** to increase profitability over the previous five years. ThinCats' Robust Growth Champions analysis also indicates EOBs were **50% more likely** to see growth in sales, profits, and headcount over a five-year period.

- **Employment growth and retention:**
The EO Knowledge Programme found EO businesses were **more than 50% more likely** to expand their workforces than other businesses. This is consistent with EO Business Register evidence that EOBs have, on average, increased workforce counts by 5–20% since becoming employee-owned (or, where the transition occurred more than ten years ago, over the last ten years).
- **Resilience and survival:**
UK-wide closure data is not yet available, but London-based analysis for the Greater London Authority (Co-operatives UK and eoa, 2025) found very few exits across London EOBs over several years. This aligns with evidence on resilience during Covid-19, including the University of St Andrews/Scottish Enterprise work on employee-owned business resilience.

3. Impacts on wider economy and society

Economic and societal impacts are (i) a mechanistic outcome of employee impacts and (ii) an aggregate outcome of both business and employee impacts. In aggregate, employee ownership can address structural barriers to UK growth – particularly productivity, resilience, and investment, as aggregates of the impacts outlined above. Furthermore, we find the following impacts:

- **Business succession and anchoring economic activity:**
Employee ownership is a business succession route. Evelyn Partners' survey work (2023) found an Employee Ownership Trust (EOT) exit was a preferred exit strategy for **18% of business owners**.

This matters because it can help retain wealth and business activity in the UK by reducing the likelihood that viable businesses are sold offshore, and by keeping viable businesses open where no successor can be found. The former is particularly relevant in high-value/high-growth sectors (e.g., advanced manufacturing). The latter is particularly relevant for “foundational economy” sectors (e.g., social care and retail) where continuity is vital to communities.

- **Addressing inequality (market-income channel):**

EO businesses also offer a market-based solution to addressing the fundamental issue of inequality in the UK. Via market profit share and higher rates of basic pay, EOBs reduce inequality by raising market incomes. UK disposable income inequality remains high by OECD standards. It is notable that the gap between market Gini coefficient (i.e. equality of income before taxes and transfers) in the UK and the disposable Gini coefficient (i.e. equality of income after taxes and transfers) is much higher than comparable countries. This poses a conundrum in conventional fiscal policy: lowering inequality in the UK in a similar manner to economically comparable countries would require significant increases to both taxation and welfare spending, which may be difficult in the current fiscal context. Employee ownership, on the other hand, by increasing basic rates of pay and driving profit sharing across employees, offers the opportunity to lower overall inequality by targeting market income, without significant changes to the overall fiscal arithmetic of taxes and transfers.

2. We are interested in reliable data sources that evidence the impact of co-operatives and non-financial mutuals on economic growth. What data sources are available that show the impact – positive, neutral, or negative – of co-operatives on economic growth?

In the employee ownership (EO) sector, the most comprehensive and up-to-date population dataset is the Employee Owned Business Register (EOBR), maintained by the White Rose Employee Ownership Centre in collaboration with the eoa. The EOBR identifies employee-owned businesses across the UK using Companies House ownership/PSC information and public filings, and consolidates this into aggregate statistics showing sector size, composition and trends.

Outcome data (productivity, profitability, survival, workforce outcomes) is less complete in the EOBR, because many employee-owned businesses are not

required to publish full financial statements. Where financials are available, the indicators are generally favourable, as referenced across this submission.

Beyond the EOBR, the strongest UK-wide quantitative evidence base includes:

- **The EO Knowledge Programme (WPI Economics, 2023):** sector-wide research providing robust evidence on workforce outcomes, organisational practices, productivity and resilience.
- **ThinCats “Robust Growth Champions” (2024):** analysis showing stronger growth in sales, profits and headcount among employee-owned businesses over multi-year periods.
- **Ownership at Work, “Generation EO” (2023):** evidence on EO as a succession solution for viable firms at risk of closure due to ownership/succession constraints, including relevance to foundational sectors.

Overall, the evidence base is strongest where it combines (i) population/coverage data (EOBR) with (ii) structured survey and comparative quantitative analysis (Knowledge Programme; ThinCats) and (iii) succession-focused studies (Generation EO).

3. How do different types of co-operatives and non-financial mutuals drive economic growth differently?

Different mutual models affect growth through different economic channels. In employee ownership (and other worker/employee mutuals), the distinctive channel is a strong alignment of incentives and information between labour and the firm.

Mechanism: reducing principal-agent frictions

Employee ownership mitigates two common frictions in conventional ownership structures:

- **Information frictions:** owners can be distant from operational reality, while employees can be distant from strategy and firm-wide performance information.
- **Incentive frictions:** firms seek to minimise labour costs consistent with productivity, while employees seek the highest reward for effort.

By giving employees a structured stake in firm success (for example through Employee Ownership Trust profit-sharing bonuses), employee ownership **aligns employee and firm incentives** and supports higher engagement, stronger voice mechanisms, and greater participation in problem-solving and decision-making.

Why this translates into higher productivity and growth

In practice, EO firms are hardwired to adopt “high-involvement” approaches (employee voice, training, wellbeing practices, information sharing across the hierarchy). These reduce monitoring costs and can increase discretionary effort and retention. Beyond discretionary effort, the uplift to workforce satisfaction is linked to other structural improvements that lead to firm-level productivity uplifts (such as reduced employee turnover which contributes to business continuity and reduced onboarding costs). The result is higher output per input (productivity) and a clear link between individual performance measures and business-wide outcomes, all of which supports growth.

Labour market intuition for the link between productivity and employee voice:

In standard labour-market terms (particularly, using the WS-PS model), improved job quality and voice can reduce the wage premium needed to elicit effort and sustain productivity. In other words, productivity is found to increase at any given wage. At macro scale, higher productivity tends to be consistent with lower “structural” unemployment, but EO is not yet widespread enough in the UK to make strong claims about macro unemployment effects.

Link between employee voice and resilience

Employee owners of a business are naturally incentivised to prioritise their long-term employment, as well as short-term windfalls that might arise from business performance. Therefore, for the same reasons that employee ownership aligns business and employee incentives, **EO businesses tend toward long-term decision-making**, ensuring the long-term viability of the business and keeping it anchored in local and regional economies. This gives rise to evidence presented in response to Question 1.

Employee ownership as a succession route

Employee ownership is also distinctive compared to other mutuals because it is most commonly a succession route for existing firms, rather than a start-up

legal form. That means it can protect the economy’s long-run growth path by keeping viable firms trading, anchoring activity locally, and preserving capacity in strategically important or foundational sectors—provided the Employee Ownership Trust route remains clear, workable and well-supported.

4. What data, if any, is available on the demographic characteristics – such as age, gender, ethnicity, disability, and socioeconomic status – of the management and workforce of individual co-operatives and non-financial mutuals in Great Britain?

Data is limited. Employee ownership is not consistently captured as a reporting category in national datasets, and public filings rarely include workforce demographic detail (ethnicity, disability, socioeconomic background). As a result, demographic evidence is partial and often indirect.

Start Ups

5. Thinking about starting a business in the co-operative or non-financial mutual sector, to what extent do you agree or disagree with the following statements:

a. those starting a business are not aware they can use a co-operative or mutual business model

Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly agree	Don't know
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○ ○ ○ ○ ○ ○

b. it is more difficult for new co-operatives and non-financial mutuals to qualify for start-up capital support schemes than for other business models

g. new co-operative or non-financial mutual founders lack access to peer support networks

Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly agree	Don't know
✓	○	○	○	○	○

h. relative to other business founders, aspiring founders do not know where to find clear, accessible guidance and advice on starting a co-operative or non-financial mutual

Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly agree	Don't know
○	○	○	○	✓	○

i. the rationale for starting-up a co-operative or non-financial mutual is different to starting-up another kind of business

Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly agree	Don't know
○	○	○	○	○	○

j. the process to start-up a co-operative or non-financial mutual is complex

Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly agree	Don't know
○	○	○	○	○	○

5a. Why did you agree and or disagree with these statements?

Employee ownership differs from most mutual models because it is typically a transition pathway for established firms rather than a start-up form. We therefore focus on the start-up statements that most closely map to barriers faced by businesses exploring an EO transition.

Advisor awareness and capability (agree):

We broadly agree that mainstream business advisers often lack practical understanding of employee ownership. While there is a strong specialist adviser community, outside that group we see recurring gaps. The eoa's experience of working with public bodies suggests that advisors from public institutions especially lack an understanding of the model.

We have seen strong efforts from combined and regional authorities (including the Greater London Authority, West Midlands Combined Authority, South Yorkshire Mayoral Combined Authority, and Rotherham Metropolitan Borough Council) to address this as part of their place-based local growth and economic development strategies.

To gather further evidence on advisor awareness on employee ownership, the eoa surveyed Advisors in our network who reported:

- Generally advisor awareness has increased but is still lacking.
- Where non-specialist advisors (mainly lawyers and accountants) do put forward Employee Ownership Trusts (EOTs), this is too often offered as a tax advantaged option without fully understanding the complexities of the model.
- Gaps amongst non-specialist advisers are particularly pronounced around areas relating to culture shifts.
- Many advisors who are aware of the model remain “intimidated by the complexity” – this is even more pronounced following changes to the EOTs rules and tax liabilities which have increased complexity without being accompanied by formal guidance.
- Awareness gaps outside of lawyers and accountants are even more pronounced (e.g. amongst wealth planners, banks and other financial institutions).

Knowing where to find clear guidance (strongly agree):

We also agree that businesses can struggle to identify trusted, high-quality guidance and the right referral routes. Such guidance is available from a variety of specialists and sector bodies, but is not well-leveraged by mainstream and government-funded signposting and referral pathways.

To provide further evidence we have surveyed businesses that are considering transition to employee ownership or have recently transitioned, and found the following:

- There is a strong link between the lack of awareness amongst advisors and lack of clarity on where to find guidance.
- In lieu of an advisor or another contact with experience/expertise putting the model forward, those exploring EO often find guidance through web searches and using large language models. Difficulties are reported in terms of identifying which guidance is “right”, with guidance published online often being ambiguous and leveraged for firms to market services rather than genuinely promote an authentic understanding of EO.
- Businesses with recent experience of accessing guidance strongly suggest that clear signposting to guidance through existing mainstream business support (including local and combined authorities, devolved and national government, and Chambers of Commerce) would be helpful in promoting the model and ensuring best practice information reaches interested parties.

HMRC guidance gap

A specific recurring concern is the absence of sufficiently updated formal HMRC guidance following recent changes to EOT rules/tax treatment in the Autumn 2025 Budget. Even specialist advisers well-versed in employee ownership report uncertainty, and we have seen this uncertainty delay and deter employee ownership transactions.

Recommendations:

To address the above issues, the eoa recommends that government do the following to prevent uncertainty from being an ongoing barrier to transitions to employee ownership:

- With priority, take the straightforward step of updating HMRC’s formal technical guidance around the EOT, reflecting the changes arising from the 2025 Budget and addressing key uncertainties arising. We outline some priorities in response to Q. 6.
- Integrate Employee Ownership into mainstream business support pathways. This should include building a basic awareness and

understanding of the model amongst publicly provided/funded mainstream business support and advice services, and signposting to trusted sources of best-practice information around employee ownership, particularly around succession through an employee ownership trust.

6. In general, do co-operatives or non-financial mutuals face any unique barriers to starting-up that other types of business don't face? Explain your answer.

We answer this question in relation to the “mutualisation” of an existing business via an Employee Ownership Trust (EOT), as this is the closest analogue to “starting up” in the employee ownership sector.

The Employee Ownership Trust (EOT) has historically been a strong mechanism for transitioning to EO, with the total number of employee owned businesses as of November 2025 (2,690) being more than 17 times the number when the EOT was introduced in 2014 (140).

Recent policy and legislative changes have created new barriers to EOT transitions, primarily through increased complexity and reduced certainty:

1. *CGT liability and payment timing (Budget 2025)*

For disposals to EOT trustees on or after **26 November 2025**, the CGT relief on qualifying EOT disposals was reduced from **100% to 50%**, creating an immediate CGT liability on completion for many vendors.

In most cases, the eoa has found that this new tax liability is not itself barrier to most transitions to employee ownership (expanded on in response to question 16). However, because many EOT transactions are funded via **deferred consideration** (vendor finance paid from future company cashflows), vendors can face a timing mismatch between tax due and cash received. HMRC has indicated that instalment arrangements may be available under **s.280 TCGA 1992** where consideration is paid over time, but crucially there has been no formal guidance on how this applies to the typical EOT structure. This lack of guidance has created a great deal of uncertainty which is stalling, and some cases completely deterring transitions to employee ownership.

2. Increased vendor risk exposure (Budget 2024 reforms)

- 2024 reforms to the EOT's rules increased compliance demands and the risk profile for vendors in certain "disqualifying event" scenarios, including a longer potential period during which tax relief can be clawed back. This risk is magnified by stricter trustee independence expectations, which can reduce the vendor's practical ability to influence outcomes after sale (for example, in distress scenarios).

3. Tax treatment of contributions/distributions and administration

Changes to the treatment of contributions used to repay vendors were intended to provide clarity and reduce reliance on non-statutory clearances, but in practice increase administration (including trustee claims/filings) and create uncertainty in edge cases - particularly where EOT ownership is combined with broader employee share arrangements.

Further issues apply, but in summary: the binding constraint to new employee ownership transitions is increasing **uncertainty and administrative complexity**.

We are confident that the EOT can remain a powerful vehicle for employee ownership and continue to be the driving force behind the government's commitment to double the size of the Co-operative and Mutuals sector. However targeted clarifications, updated technical guidance and small tweaks to legislation are needed to reduce friction and protect the EOT route as a viable succession mechanism.

We recommend the following as a priority:

- Update EOT guidance to reflect the S.280 instalment treatment, what information is needed, and typical timelines: The eoa and our network of specialist are ready to support with recommendations of where guidance is most required and specific proposals.
- Implement bespoke treatment for instalment relief related to EOTs, ensuring CGT payable is not front-loaded, and the specific terms of an EOT deferred consideration are accounted for. Bespoke treatment of instalment relief related to EOTs should prioritise:
 1. Ensure that CGT payable on each instalment of deferred consideration received by the vendor is less front-loaded. *Either* 25% for each consideration rather than the usual 50% *or*, setting the CGT payable with each instalment proportionate to the value received by the vendor in that instalment.
 2. Specific guidance around this bespoke mechanism that addresses current ambiguities concerning EOTs, e.g. the variability of payment timetables or amounts. Clarity is needed on how the terms of instalment relief are linked to cashflow, profitability-linked payments, and variations to payment or deferral length, with a view of ensuring CGT is not overpaid. HMRC should clarify that there are no interest charges on CGT paid under an instalment agreement related to disposals to EOTs, to avoid undue complexity and cost unduly being applied to EOT-owned companies that would not apply in other cases. Likewise, HMRC should confirm that there will be no penalties or other adverse treatment of CGT being paid in instalments.
- o Address disproportionate risk that arises for vendors around the four year clawback: Feedback from our advisors suggest that the most disproportionate risk to a vendor arises from circumstances outside of their control after transaction, which will most likely be linked to an insolvency process. We therefore recommend that a minimal step would be to shorten the vendor clawback period to one year in such an event. This would preserve the intent of this measure in preventing misuse of the tax exemptions, whilst ensuring vendors do not face disproportionate risks for unforeseen circumstances and decisions that remain outside of their control.

- Expand the provisions under which a disqualifying event will be ignored in the event of the Trustee Independence requirement being breached (e.g. the departure of an employee trustee is excused, so long as it is corrected in a given timeframe).
- Reduce complexity of funding a transition by reversing the amendments to legislation arising from the 2024 Budget that payments from the trading company to the Trustee would be treated as distributions, requiring a specific relief. Not only would this reduce complexity and administrative burden but, as outlined in response to Q. 27, this would enable greater integration of indirect employee ownership via the Employee Ownership Trust and direct share ownership, building further wealth and contributing to pension adequacy.

7. Do different types of co-operatives or non-financial mutual models face different barriers to starting-up? Explain your answer.

Notwithstanding the recent technical barriers affecting Employee Ownership Trust (EOT) transitions (notably increased complexity without matching guidance), the most persistent barrier to employee ownership remains awareness and practical understanding of the model.

From our survey of recently transitioned EO businesses, businesses exploring EO, and advisers:

- 100% of responses to this question noted awareness as the primary barrier.
- Respondents also noted complexity and uncertainty, particularly in the wake of changes to the EOT legislation as a key barrier.
- Consistent with eoa findings, most respondents reported that they did not see the reduced tax incentive itself as a significant barrier to transitions. As above, the key risk of such changes is uncertainty.
- Some respondents also referred to wider succession-planning weaknesses (e.g. wider gaps in succession planning across family businesses).

Further evidence that awareness is a key barrier can be found in the “Generation EO” report by Ownership at Work, finding that just 26% of owners

facing succession had given detailed consideration to employee ownership. In the context of the strong preference for EOT succession when business owners are aware of the model (evidenced in response to question 1), this further demonstrates that the main barrier to further growth in transitions is awareness. Newly employee owned businesses often report to the eoa, in the words of one member, “when I learned more about [employee ownership], I wondered why everyone isn’t doing this?”

This provides greater weight to our recommendation outlined in response to Q. 5 that government must ensure that mainstream, publicly funded business support and advice services have knowledge, signposting and referral pathways integrated.

In addition, we note that a number of Local Authorities and Combined Authorities (Rotherham Metropolitan Borough Council, East Devon Council, Greater London Authority) have independently, but seeking advice from the employee owned sector, have taken steps to build awareness of employee ownership as part of their own place-based growth strategies. In addition, the activities of Cooperative Development Scotland and Cwmpas (Wales) have been instrumental in building the awareness of employee ownership in their respective geographies. We therefore recommend that government provide support and funding for such schemes.

8. Are there industry or sector-specific barriers to starting a co-operative or non-financial mutual? Explain your answer.

(This question is a duplicate of question 19. We summarise our response to that question below, but suggest referring to the response to that question for further detail).

Although employee ownership is typically a **transition route rather than a start-up form**, there *are* sector-specific barriers: in **asset-intensive/property-heavy and weak cash-flow** businesses, EOT buyouts funded via deferred consideration can imply long repayment periods (higher vendor risk) and can be less competitive versus third-party buyers; and in **regulated sectors**, ownership/control change requirements can add time, uncertainty and transaction cost where there is limited familiarity with EO structures.

Growing and sustaining

9. Is the rationale and process for growing a co-operative or non-financial mutual the same or different for growing a business which is not a co-operative or non-financial mutual?

For employee owned business, the core rationale and process for growth is broadly the same as for other businesses: improving productivity, building capability, expanding markets, and increasing value creation. Though there are important nuances.

1. Time horizon and decision-making

Employee owners often place higher weight on long-term employment security and organisational sustainability alongside short-term profitability. This can reinforce longer-term investment and resilience, consistent with evidence that EO firms are more resilient.

2. Governance and participation infrastructure

EO firms may invest more in mechanisms that embed employee voice, transparency and participation. These can support engagement and performance, but also require intentional design as the business scales.

3. Access to finance and financial services

EO structures can face practical friction with lenders' and banks' standard processes—particularly **Know Your Customer/beneficial ownership understanding** and lending norms such as **personal guarantees**, which are less straightforward where there is no single majority shareholder benefiting personally in proportion to the risk. We have also seen cases where lack of structural understanding creates friction even in access to basic banking services. This is an area where government can have a strong impact by acting as a facilitator, encouraging commercial banks to work with the employee owned sector to update their policies and processes to accommodate the model.

10. To what extent do you agree or disagree with the following statements about growing and sustaining a co-operative or non-financial mutual:

a) growing and sustaining is too capital intensive for many co-operatives or non-financial mutuals

Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly agree	Don't know
<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

b) it is too difficult for co-operatives or non-financial mutuals to meet the eligibility criteria for capital support

Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly agree	Don't know
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

c) it is too difficult to maintain co-operative and mutual principles at scale

Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly agree	Don't know
<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

d) co-operatives or non-financial mutuals looking to grow and sustain lack access to peer support networks

Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly agree	Don't know
<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

e) co-operatives and non-financial mutuals do not know where to find clear, accessible guidance and advice on growing and sustaining

Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly agree	Don't know
<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

f) co-operative or non-financial mutual founders often lack the necessary skills to grow and sustain

Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly agree	Don't know
<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

10a. Why did you agree and or disagree with these statements?

Growing and sustaining is too capital intensive (disagree)

For employee-owned businesses, capital intensity is primarily a function of sector and business model rather than ownership form. Evidence cited elsewhere in this submission indicates EO businesses can and do grow at favourable rates relative to comparable firms. The main ownership-linked issue is not capital intensity per se, but occasional friction in accessing finance (see below).

Accessing capital support (agree)

We interpret “capital support” to include both lending and formal schemes (for example the Growth Guarantee Scheme). EO businesses can face friction where eligibility criteria or provider processes assume a conventional ownership model (for example single controlling shareholders, or standard personal-guarantee expectations). In practice, this can interact with broader SME finance challenges, but EO structures can add an additional layer where providers are unfamiliar with trust-based ownership.

Difficult to preserve businesses at scale (disagree)

We disagree. There are many large, high-profile employee-owned firms demonstrating that EO principles can operate at scale (e.g. John Lewis, Arup, Mott MacDonald, LUSH, Go Ape, Richer Sounds, The Entertainer). Additionally,

evidence outlined elsewhere in this submission shows strong growth outcomes for employee owned businesses.

It is true that maintaining strong employee voice and participation does have organisational costs (communications, governance, consultation structures), and these can rise with headcount.

However, the evidence base suggests these costs can be offset and outweighed by performance benefits (engagement, retention, productivity), and employee ownership is agnostic (compared to e.g. industry and business model) as to whether a business sees strong returns to scale.

Lack peer support networks (disagree)

Peer networks are a comparative strength of the EO sector, and the EO community benefits from a dense ecosystem of peers. We see this in practice with sharing of advice and experience in our online eo Hub community and the plethora of networking and learning events well attended by EO businesses.

Lack of clear, accessible guidance on growing and sustaining (disagree)

We disagree in general, because growing and sustaining an EO firm is commercially similar to any comparable business. EO-specific guidance is most relevant around sustaining and evolving governance/voice arrangements at scale, and this support is available. The main improvement opportunity is better signposting through mainstream business support channels to EO-specific expertise where needed.

Lack the skills to grow and sustain (disagree)

Growth and sustainability skills are not inherently weaker in EO firms. That said, EO firms do need to adapt management practices and governance arrangements as they scale, and capability-building (leadership development, governance literacy, employee engagement design) becomes increasingly important.

11. Are there unique barriers to growing and sustaining a co-operative or non-financial mutual which other types of business don't face? Explain your answer.

As outlined in response to Q. 10, the main EO-specific barrier we observe in growing and sustaining a business is access to finance and financial services, driven largely by provider unfamiliarity with trust-based ownership structures. This includes friction in Know Your Customer processes, ownership/beneficial-control interpretation, and lending practices that assume personal guarantees from a single controlling shareholder.

While specialist lending schemes would be helpful, our main recommendation to government on accessing capital for growth is to act as a facilitator, working with both the employee owned sector and commercial banks so the former might support the latter in ensuring processes and policy can accommodate the model without friction.

12. Do different types of co-operatives and non-financial mutuals face different barriers to growing and sustaining? Explain your answer.

While the main route for employee ownership succession, the Employee Ownership Trust (EOT), has many structural and legal advantages it faces a unique challenge when compared to other mutuals, especially at scale.

Conferring direct share capital ownership to employee owners is complex and burdensome. This is partially structural, with few facilities to enable an internal market of shares that grows increasingly complex at scale. Legal barriers also exist here, in excessive administrative and legislative complexity for combining majority EOT-ownership with well-designed share plans that could support long-term wealth building whilst remaining consistent with the purpose and intent of the EOT regime. The opportunity here is further outlined in response to question 27. Overall, our advisor networks views this as an easy problem to fix through minor tweaks to legislation (in particular, the treatment of contributions from a trading company to a trust as distributions, as outlined in response to Q. 6) and guidance, which could have a sizeable impact on growing workforce

wealth. Q. 27 outlines opportunities to grow wealth beyond the fixes to existing legislation outline in Q. 6.

13. Are there industry-specific barriers faced by co-operatives and non-financial mutuals when trying to grow and sustain? Explain your answer.

Industries dependent on external finance may struggle to scale with employee ownership because of barriers outlined in response to question 11. As outlined there, we would like to see government act as a facilitator between the employee owned sector and mainstream commercial banks, so that the former can support the latter in ensuring policy and process can accommodate the model.

Mutualisation

14. If you have considered mutualising, or have already mutualised, what prompted you to explore this option?

Although the eoa is a membership body rather than a mutual itself, our members' experience suggests that businesses are most commonly prompted to explore employee ownership through peer effects (seeing comparable firms transition successfully) supplemented by exposure to evidence and information about EO.

Our preliminary diffusion analysis (using a Bass-type modelling that distinguishes "innovation" effects such as publicity/research from "imitation" effects such as peer experience and networks) suggests that imitation dynamics are a major driver of EO adoption.

This implies that visible case studies, trusted peer networks and effective referral pathways can materially accelerate take-up, which could easily supported by government and other public institutions. We recommend that government can play a key role here, especially by ensuring that trusted best-practice information on employee ownership is built into mainstream business support signposting and referral pathways.

15. What do you think the impact would be of more businesses mutualising?

You may wish to consider:

- short, medium, and long-term implications of increased conversion into a co-operative or mutual model
- the potential impact on individual businesses (such as performance, resilience, employee engagement) and on the wider economy (such as productivity, innovation, regional development)
- any risks, challenges, or unintended consequences that might arise

Cite evidence where possible.

By mutualisation, we mean transitions to employee ownership. We have outlined the impacts of more transitions to Employee Ownership in response to Q.1.

To summarise the response to Question 1.:

More businesses mutualising into **employee ownership** would be expected to improve workforce outcomes (financial wellbeing, engagement and voice), align workforce and commercial interests contributing to **stronger productivity and resilience** at firm level, and address critical challenges facing the UK economy (productivity, business resilience, building and retaining wealth, inequality).

16. To what extent, if at all, do you agree or disagree with the following statements:

- there is a lack of awareness of co-operative and mutual models among business leaders

Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly agree	Don't know
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

○ ○ ○ ✓ ○ ○

- there are insufficient incentives to encourage businesses to mutualise

Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly agree	Don't know
○	✓	○	○	○	○

16a. Why did you agree and or disagree with these statements?

Lack of awareness amongst business leaders (agree)

Employee ownership is often viewed positively once understood, but it is still not routinely raised within mainstream succession planning.

To gather evidence on this point, the eoa surveyed business advisors in our networks, businesses exploring employee ownership, and businesses who have recently transitioned to employee ownership. All respondents on this question indicated that there is a persistent lack of awareness of employee ownership amongst business leaders, although advisors reflected some improvements since the introduction of the Employee Ownership Trust (EOT) in 2014.

Not enough visible success stories (disagree)

We do not consider the UK to lack employee ownership success stories; there are many strong examples across sectors. The gap is less the existence of examples and more the systematic profiling of those examples through mainstream business support, sector bodies, and local economic institutions.

Not enough information on how to mutualise (agree)

High-quality employee ownership advice exists, but businesses do not consistently know where to find it through trusted channels. Better collation and signposting through recognised routes (for example government-funded business support and local growth ecosystems) would materially reduce friction. A specific issue is the absence of sufficiently updated formal guidance following recent Employee Ownership Trust (EOT) changes, which increases uncertainty.

There are many reasons why businesses mutualise (agree)

The drivers are varied, commonly including: preserving independence and culture, rewarding employees, and succession/exit considerations (including the fiscal and transactional features of the EOT route). These motivations coexist; the model serves both stewardship and succession needs, and is seen as both commercially advantageous for a selling shareholder, and an altruistically motivated option – often at the same time.

The process to mutualise is complex (agree)

The EOT (employee ownership trust) has proven an elegant solution to the complexity of mutualisation that can sometimes arise, providing an easily replicable legal form that a company can adapt to its specific circumstances. However, for reasons outlined in response to question 6, this complexity has increased across two successive Budgets, compounded by a lack of accompanying guidance.

Lack of awareness by employees (agree)

As with business leadership, employees typically are not aware of employee ownership until they encounter or have experience with the model. Increasing awareness across the UK workforce may promote more transitions – very few transitions to employee ownership are proposed or initiated by the employees themselves.

Insufficient incentives to mutualise (disagree)

We have agreed that the landscape is too complicated, for the same reasons we have agreed that the process to mutualise is complex – that, while the EOT has served as an elegant solution to complexity for years, recent changes unaccompanied by guidance have increased complexity without providing any measure of certainty as to how to address said complexity.

However, we have disagreed that, as concerns employee ownership, that there is insufficient incentive to mutualise, even with the CGT exemption on the transition to EOT being reduced – we are confident that, if uncertainty were addressed through formal guidance, that the current arrangement of a 50% exemption on CGT would be a sufficient incentive.

Our preliminary modelling (using standard risk-aversion assumptions) suggests the EOT route can remain competitive versus trade sales in many cases. Where competitiveness can weaken is typically in **lower-value deals** and/or **long**

deferred-consideration structures, where vendors are more sensitive to liquidity timing and perceived risk. However, across the board, the more binding constraint is currently **uncertainty and administrative friction**, rather than the headline incentive level.

Overview – addressing frictions for mutualising via employee ownership:

Overall the main barriers to mutualisation are firstly awareness, and secondly increasing complexity to the process via changes to the EOT which have been unaccompanied by guidance.

Our recommendations are, as in response to other questions, address the issues in EOT legislation and technical guidance (see question 6), and ensuring clear signposting and referral pathways to general information about employee ownership from trusted, best-practice sources are integrated into mainstream business support services.

17. If you have de-mutualised, can you explain why you did this and how the process went?

[Not applicable]

18. In the last 3 years, have you sought out external advice or business support?

- information relating to the day-to-day running of my business
- strategic advice to help grow my business
- both of the above
- other (specify)
- I have not used external advice or information

19. Are there industry or sector-specific barriers to starting a co-operative or non-financial mutual?

Explain your answer.

Yes. Industry characteristics can make Employee Ownership Trust (EOT) transitions easier or harder, mainly through cashflow dynamics and buyer competition.

Asset-intensive/property-heavy, and weak cash-flow businesses:

Many EOT buyouts rely on **deferred consideration funded from future operating cashflows**. In businesses with relatively low free cashflow relative to asset value (for example property-heavy models), repayment periods can be long, increasing vendor risk. In parallel, where asset values are expected to appreciate, third-party buyers (including private equity) may offer prices and terms that an EOT, funded principally from operating cashflow, cannot match, even allowing for tax advantages.

Given these sectors are high-value (either in terms of value added, such as advanced manufacturing and engineering, or in terms of providing foundational services such as residential social care), and employee ownership can play a key role in ensuring they are anchored in and build wealth across the UK economy we recommend that government should act to stimulate transitions in these sectors (see: Care England “People Powered Care” report (2025)). This can be accomplished either through a bespoke lending scheme, or scheme to guarantee debts that concern transition costs. This would enable employee buyouts in high-value sectors.

Regulated sectors:

In some regulated professions and sectors (for example financial services), ownership and control changes can require regulatory engagement or approval. Where regulators and compliance functions have limited familiarity with EO structures, this can add time, uncertainty and transaction cost.

We suggest that government can again make a significant impact by acting as a facilitator, ensuring regulators understand the employee ownership model and are not a barrier to transitions.

What did you seek advice or support on?

- business growth and scaling
- mutualisation
- digitalisation
- e-commerce
- human resources
- exporting
- financial advice
- legal issues
- management and leadership development
- marketing
- training or skills needs
- transition to net zero
- industry or sector specific support
- starting-up
- succession (including closing or selling business)
- other
- do not know

20. Which of the following support best describes your business at the time you sought external advice or support?

[Not applicable]

21. Where did you receive the external advice or information from?

[Not applicable]

22. In what format (such as written, in-person, virtual, hybrid) was this information delivered to you and how did you find that experience?

[Not applicable]

23. What was your experience of accessing and using the support or advice and how useful was it?

[Not applicable]

24. Is there enough tailored support for co-operatives and non-financial mutuals?

The tailored support currently available, largely provided by private sector advisors and industry bodies, has led to vibrant growth in the employee ownership sector. Though there is a growing gap around technical guidance aligned to the new rules and legislation on Employee Ownership Trust (EOT) transitions.

Aside from addressing this specific technical guidance, government might support by improving signposting and referral pathways through government-funded and local business support to specialist authoritative guidance and information about employee ownership. This would help address uncertainty and contribute to further mainstreaming the model.

Furthermore, there is also the opportunity to leverage the resilience, wealth-building/retaining and continuity impacts of employee ownership in high value sectors by providing tailored funding support for employee ownership transitions. This might be targeted to promote transitions in mission-critical areas (e.g. social care, construction and built environment, advanced manufacturing) to hardwire resilience and anchor these businesses into UK and regional economies. See response to Q. 19.

25. Is there support or advice you think is missing for co-operatives and non-financial mutuals?

Linked to our response to question 24, The main missing elements are:

1. Targeted financial mechanisms (for example guarantee schemes) to enable employee buyouts in mission-critical but capital-intensive sectors where deferred consideration may be less competitive.
2. Funded feasibility support (for example feasibility studies), building on approaches used successfully in Scotland to create EO “exploring to transitioning” pathways.
3. Updated, authoritative guidance on recent Employee Ownership Trust changes, to prevent uncertainty becoming a persistent blocker for transitions.
4. Clear signposting and referral to support that currently exists, and basic guidance and awareness in mainstream business support services.

Questions for general response:

For the following questions, you may wish to consider what forms of public, private, or community support would help overcome existing barriers to starting, and whether there are specific types of guidance, funding, or broader support that would make a difference.

26. What do you think is working well and what is working less well when it comes to how co-operative and non-financial mutual businesses access capital in Great Britain?

You may wish to comment on:

- access to and types of capital (for example, loans, equity, grants or community shares)

- how accessible these are for co-operatives and non-financial mutual models compared with other business models
- examples of good practice or persistent difficulties

Working well

- **Deferred consideration/vendor finance** enables many Employee Ownership Trust (EOT) transitions without requiring large upfront external capital, allowing viable firms to transition while preserving cash for operations and investment.
- A small number of **specialist lenders and advisers** understand EO structures and can support both transitions and subsequent growth.

Working less well

- **Mainstream lenders and financial institutions often lack familiarity** with EO trust structures, creating friction in Know Your Customer, risk assessment, and product fit (including expectations around personal guarantees and conventional control rights).
- In some **asset-heavy sectors**, EO buyouts funded primarily from operating cashflows can struggle to compete with third-party buyers offering higher multiples or more immediate liquidity.

27. What further support would co-operative and non-financial mutual businesses benefit from when starting, growing and sustaining or mutualising?

Priority support (near-term)

1. **Update and clarify guidance** to reflect recent Employee Ownership Trust (EOT) legislative and tax changes, reducing uncertainty and transaction friction.
2. **Improve signposting and referral pathways** through mainstream business support (local growth ecosystems, government-funded advice channels, Chambers) to route businesses to trusted EO expertise and best-practice materials.

3. **Targeted transition support in mission-critical sectors**, including guarantee mechanisms or blended finance approaches where deferred consideration is structurally disadvantaged.

Technical guidance (where needed)

Where recent changes have unintentionally increased administrative burden or created avoidable uncertainty, targeted technical clarification (and, where necessary, narrow legislative adjustment) would protect the EOT as a workable succession route while preserving safeguards against misuse.

Longer-term opportunity: evolve employee ownership to deepen wealth-building

The EOT has been highly effective as a vendor-initiated succession and governance model, but two limitations constrain its potential impact:

- employee-initiated buyouts are not yet widely feasible; and
- the model primarily supports **income participation** (bonuses/profit share) rather than systematic **individual capital accumulation**.

International models (for example US ESOP structures) illustrate how trust-based employee ownership can operate as a long-term wealth-building mechanism alongside retirement saving. An immediate UK opportunity is to reduce barriers to combining majority EOT ownership with well-designed share plans (for example SIPs) and to explore structures that enable individual capital accumulation without undermining the collective stewardship benefits of trust ownership. Longer term, such a concept could evolve into a dual structured EOT that combines collective, trust based beneficial ownership with individual accumulation through Individual Capital Accounts (ICAs), borrowing best practice from “democratic ESOP” models such as Slovenia. Such model innovation is entirely feasible in the UK context, and concepts are being explored across the EO sector within the existing legislative framework.

Further policy support and collaborative work between government and the EO sector would enable the employee owned model to be further leveraged to address such critical challenges.

28. Is there anything else you would like to share?

Overall, the employee owned sector is the central moving force that can accomplish Government's aim of doubling the size of the Co-operative and Mutuals Sector this Parliamentary term. Furthermore, this Call for Evidence collates a wealth of evidence to show that employee ownership already plays a fundamental role in tackling core economic challenges facing the UK today, and can be leveraged further.

There are straightforward steps that must be taken to address key challenges that have recently emerged in growing employee ownerships, and further steps that can be taken to fully leverage the model's potential. We ask that government work in partnership with the employee owned sector and its expert advisors to use our collective experience and expertise such that the model can become a part of mainstream business in the UK.

We now summarise the main recommendations from throughout our response to this Call for Evidence:

Recommendation group A – reducing uncertainty and friction in Employee Ownership Trust transactions (see response to Q5a, Q6, Q8, Q16a, Q24-25 and Q27 for context):

- **Update HMRC's formal Employee Ownership Trust (EOT) technical guidance as a priority**, reflecting recent legislative/tax changes and addressing key uncertainties that are delaying or deterring transactions. In particular, clarifying the use of s.280 TCGA 1992 instalment arrangements for typical EOT deferred-considerations.
- **It may be relevant to implement a bespoke instalment relief treatment for EOT disposals** so Capital Gains Tax is not inappropriately front-loaded where vendors are paid over time via deferred consideration (e.g., reduce the usual front-loading effect; align CGT paid with value actually received in each instalment).
- **Address disproportionate vendor risk from the extended clawback period**, especially where disqualifying events arise from circumstances outside the vendor's control (notably insolvency processes). A minimum step proposed is to **shorten the vendor clawback period to one year in**

insolvency scenarios, preserving anti-abuse intent while reducing disproportionate risk.

- **Expand circumstances where disqualifying events are ignored for trustee-independence breaches**, where the breach is corrected within a defined timeframe (e.g., excusing temporary departure of an employee trustee if promptly remedied).
- **Reduce complexity in funding transitions** by reversing elements of Budget 2024-related legislative changes that treat payments from a trading company to the EOT trustee as distributions requiring specific relief—reducing administrative burden and enabling more straightforward integration of EOT ownership with broader employee share arrangements.
- **Provide funded feasibility support** (i.e. feasibility studies) to create clearer “exploring to transitioning” pathways and expand the pipeline of viable EO transitions.
- In regulated sectors, government can act as a **facilitator**, ensuring regulators and compliance functions understand employee ownership structures so regulatory engagement does not add avoidable time, uncertainty, and transaction costs.

Recommendation group B – Awareness building and mainstreaming the model (see response to Q5a, Q6, Q16a, and Q27 for context)

- **Integrate employee ownership into mainstream business support pathways**, ensuring publicly provided/funded support and advice services have baseline EO capability and can signpost to trusted sources of best-practice information (especially on succession via EOT).
- **Improve signposting/referral routes** through mainstream channels (e.g., recognised business-support routes, leverage the emerging Business Support Service) so businesses can reliably find high-quality EO guidance rather than relying on ad hoc web searches.

- Provide support/funding for place-based EO awareness and support initiatives (learning from activity in devolved nations and local/combined authority initiatives referenced in the response).

Recommendation group C – Improving access to finance and reducing financial service barriers (see response to Q5a, Q6, Q16a, Q19, Q24-25 and Q27 for context):

- Government should act as a facilitator between the employee-owned sector and commercial banks/financial institutions to reduce friction arising from unfamiliarity with trust-based ownership—particularly in KYC/beneficial ownership interpretation, risk assessment, and personal-guarantee norms.
- Where appropriate, complement facilitation with **targeted financing solutions** (e.g., guarantees/blended approaches) to ensure EOBs have access to finance for growth and scale up.
- Introduce **targeted financial mechanisms** (e.g., bespoke lending schemes or **guarantee schemes** covering transition costs) to stimulate employee buyouts in **mission-critical but capital-intensive sectors** where deferred-consideration structures are less competitive (examples cited include social care, construction/built environment, advanced manufacturing).

Recommendation group D – Longer-term opportunity: deepen wealth-building within employee ownership (see response to Q1, Q12 and Q27 for context):

- Reduce barriers (administrative and legislative) to combining **majority EOT ownership** with well-designed **employee share plans** (e.g., to support long-term wealth building alongside income participation). The initial step here relate to the distributions treatment of contributions to an EOT from a trading company, as outlined in Recommendation group A.
- Work collaboratively with the EO sector to explore longer-term model evolution (i.e. structures that combine collective trust-based ownership

with mechanisms for individual wealth accumulation), leveraging international examples referenced in the submission.