



Centre for Local
Economic Strategies

local work

What difference can co-operatives make to local service delivery?

Issue: 86

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Introduction

"We want to see stronger local councils, more co-operatives and social enterprises, more people becoming active in their communities as volunteers, advocates and elected representatives."

'Communities in control: real people, real power', DCLG, July 2008¹

The Government is now recognising the importance of empowerment and the ability of co-operatives to provide a means of empowering people in a local community. Furthermore, Local Authorities have recently stated their commitment to the third sector, which includes co-operatives. 61 top tier Local Authorities have made National Indicator 7 – creating an environment for a thriving third sector – a top priority for how they will be assessed in the next three years. With this in mind, this Local Work explores in more detail the important contribution that co-operatives can and do make to local services.

In this Local Work we outline the work that co-operatives, in their many diverse forms, are doing across different sectors of the economy including local shops, transport, health, leisure, care, education and training. In doing so, we highlight the co-operative contribution to important issues such as women in enterprise, local control and ownership, community investment, worklessness and improving local services. Finally, we suggest points for action to further develop the role that co-operatives play.

What are co-operatives?

Co-operatives are trading enterprises, providing goods and services and generating profits, but these profits are not taken by outside shareholders as with many investor owned businesses: they are under the control of the members, who decide democratically how they should be used. Co-operatives often use their profits for social purposes, investing in the education of members, in the sustainable development of the community or the environment, or for the welfare of the wider community.

In the UK, co-operatives take a variety of different legal forms. A co-operative may be a private limited company, an Industrial and Provident Society (IPS) a partnership or an unincorporated body. Co-operatives are defined by their agreement and adherence to the

¹DCLG (2008), Communities in control: real people, real power. Available From: <http://www.communities.gov.uk/publications/communities/communitiesincontrol>

International Co-operative Alliance (ICA)² values and principles that are defined in the co-operative's governing document and in its business operations.

The co-operative sector is more diverse than is commonly thought. It includes worker co-operatives such as longstanding wholefood retailer Suma³, community-owned wind farms and village shops, multi-stakeholder co-operatives involving users, other stakeholders and employees, co-operative consortia where small businesses collectively manage workspace and on a larger scale the consumer retail societies, including the world's largest consumer co-operative, the Co-operative Group, which runs 1000s of local stores across the UK and owns the Co-operative Bank.⁴

Co-operatives make a substantial contribution to the UK economy. They provide effective, sustainable solutions to many of the social and economic challenges of modern society. The movement has 160 years experience of adapting membership-based trading organisations of all types and sizes to changing economic, social and political conditions.

The most recent statistics produced by Co-operatives^{UK} show that co-operatives:

- have an annual turnover of £27.4 billion⁵
- have net assets of £9.2 billion
- are owned by 10.8 million people in the UK – one in five of the British population
- employ 237,000 people

The strength of co-operative working lies in its ability to bring people together to work on a democratic and equal footing. Co-operatives engender shared ownership and control of businesses that often provide goods and/or services to a local community. As well as being 'members of the local community', people may have other roles within the co-operative – workers, tenants, users of financial services – which they can also be empowered to own and control themselves through a co-operative way of working.

"Co-operatives provide locally owned and managed jobs and services. Their democratic governance structures lead to a far higher proportion of people being involved in the management process than in a conventional business of the same size. This spreads entrepreneurial and management skills, competencies and expertise among a wider group of people. Co-operatives are normally fixed in the areas in which they formed. It is very rare for a successful co-operative to migrate to another area or to be swallowed up by a larger business located elsewhere. Hence they provide long-term sustainable economic and social benefits. Co-operatives are run for the benefit of their members, not for the benefit of external providers of capital. They therefore promote economic equality and community cohesion. Their democratic governance structures increase the social capital in the communities they serve."

Co-operatives^{UK} survey respondent

Local control and ownership

"Co-operatives are defined, in part, by locality...The strong local democratic element, built in to co-operatives, provides a unique mechanism for hearing coherent messages from a particular community."

Co-operatives^{UK} survey respondent

Levers for encouraging local control and ownership are a fundamental part of the co-operative business model, and are firmly based on the movement's values and principles. In practice, co-operatives have a long history of giving local people control over local services. Indeed, democratic governance and the principle of voluntary and open membership mean

² <http://www.ica.coop/>

³ www.suma.co.uk/

⁴ <http://www.co-operative.coop/>

⁵ See Co-operatives Review 2008, http://www.cooperatives-uk.coop/live/images/cme_resources/Public/Co-operative%20Review%202008/Review08.pdf

that co-operative business models, in all their forms, are ideally placed to encourage local participation.

"A co-operative is a democratically-run social enterprise, providing products and services in local communities, responding to local needs and reinvesting profits back into those communities. They are sustainable, accountable and inclusive. They do not rely on grant funding but trade in the market place in competition with the private sector. Because profits are ploughed back, they offer a better deal to local communities than private sector businesses which have to provide return on investment for investors or owner managers."

Co-operatives^{UK} survey respondent

The Natural Food Store in Leeds is an excellent example of how the interest of a community can be capitalised to ensure continuity of local services through the Industrial and Provident Society (IPS) format.

Case Study - The Natural Food Store

When the owners of the privately run Natural Food Store in Headingley, Leeds, announced their intention to retire, the local community decided to buy the business themselves rather than see it disappear. After getting financial and legal advice, an Industrial and Provident Society was formed that raised investment capital by issuing shares to the interested members of the community.

Shares cost £100 each, and members could invest up to £20,000. In just a few months the share issue raised £103,000, enabling the community to buy the store. The Natural Food Store now has 230 members. It is run on a day-to-day basis by a manager and other staff, but the members nominate and vote a board of directors that governs the co-operative. Not only does investing in the business give members a financial return on investment, but the Natural Food Store is a real example of a local community taking control of the services in their area, working together and building a thriving, sustainable neighbourhood.

Community investment: the IPS format⁶

Community investment, where communities invest capital in business ventures serving a social or community purpose, is about engaging communities to invest in themselves. The co-operative Industrial and Provident Society (IPS) legal form is increasing in popularity as a vehicle for such investment. Today, in 2008, there are 60 known cases of IPSs turning to community investment as a source of capital. More than £47m of community investment capital has been raised by 38 of these societies, who between them have more than 65,000 member shareholders.

There are two main types of IPS: bona-fide co-operatives and also societies run for the benefit of the community. Like companies, IPSs have limited liability status, but otherwise they are significantly different to corporate bodies registered under the Companies Acts. IPS legislation has a number of unique attributes that make it the ideal form for community investment initiatives. These include:

- Shareholder democracy and equality: one member, one vote, regardless of how many shares the member holds.
- Withdrawable share capital.
- Limits on shareholding: all members must purchase at least one share, but individuals cannot hold more than £20,000 each in shares. There is no limit to the size of shareholding by one society in another, or by local government bodies.
- Limits on share interest: the interest payable on shares must be limited to what is "necessary to obtain and retain enough capital to run the business". IPS co-operatives can also pay their members a share of the profits based on their transactions with the society, called a dividend.

⁶ This section is extracted from a document about community investment using Industrial and Provident Society legislation, due for publication in September 2008.

- Asset lock: community benefit societies can install an asset lock that prevents the society being sold and the proceeds being distributed among members. This is similar to the asset lock available to charities and Community Interest Companies (CICs).

The 'one member, one vote' principle, unique to the IPS structure, underlines its community credentials. This, combined with the co-operative principle of open membership, distinguishes IPSs from the newly created CIC form.

Community investors are often the best customers of the venture, their loyalty contributing to its sustainability. However, there are challenges in realising community investment's full potential. It depends on a major shift in public attitudes towards how community initiatives are funded, from organising charitable fund-raising events to the very different concept of planning a community share launch. But the full potential of community investment is easy to imagine. Most people's savings and investments are far greater than the amount they could afford to donate to good causes. So if mechanisms are created to enable people to invest and save in local services that affect their communities, there is the potential to raise far greater sums of money than is currently raised through charitable giving.

Improving local public services by involving local users and consumers

Improving local public services by involving local users and consumers is an area in which co-operatives have a particularly strong offering. Indeed, the co-operative model goes a step further than 'involving', by bringing in local people as members who have democratic control.

Case study: Harwich Connexions Transport Co-operative Limited

In 2001 Harwich, Essex was awarded £319,000 for a community transport service. Essex County Council initially ran the project, but after some problems, they transferred management to the community. Within six weeks, a full-time transport co-ordinator was appointed, offices leased and further funds raised. In March 2003 the Harwich Connexions Transport Co-operative Limited was founded as a multi-stakeholder co-operative: users, employees and members of the community all have places on the board, with a set number of places reserved for each group.

Harwich Connexions now runs other services that the local authority was struggling to run. It owns and controls Harwich Tourist Information, an enterprise centre, a youth centre and a day centre. The involvement of the local community means that there is widespread commitment to Harwich Connexions' services.

As Les Double, a founder and director of Harwich Connexions, says, "Through co-operatives communities can pick up abandoned public services and run them more efficiently and more effectively than local authorities. Harwich provides an excellent model for the future provision of services, demonstrating that community and worker control can deliver what Councils often cannot."

Leisure trusts are another good example of how customers have been involved to improve the standard of service provision. Salford Community Leisure involves a range of stakeholders on the board, including the local community, council representatives and staff, ensuring that a wide range of opinions are heard. Unlike mainstream private services, it makes profits but they are ploughed back into the business to improve services.

Involving marginalised groups

As co-operatives actively encourage equal member participation, they naturally lend themselves to the involvement and empowerment of the majority, rather than just those who tend normally to be articulate and organised. For instance, evidence has shown that co-operatives provide a supportive environment for women new to business, building their confidence and effectively harnessing their skills and enterprise. A 2006 report, 'Women in Business: The Co-operative Option'⁷ by Co-operatives^{UK} with the then-DTI, highlights the

⁷ See <http://www.cooperatives-uk.coop/live/cme886.htm> for more information.

ways in which co-operatives are responsive to the needs of working women. Account3 is a worker co-operative which provides training and development to women across London, particularly those facing multiple disadvantage. It is an excellent example of how co-operative working can empower marginalised communities.

Case study: Account3

Account3, based in Tower Hamlets, provides free training and development services to women across London. Its services are targeted towards women who face multiple disadvantages in seeking employment, including language barriers, childcare issues, a lack of qualifications or qualifications recognised in the UK, little work experience and low confidence. The co-operative also helps other women to establish business start-ups.

Account3 is a worker co-operative with a diverse group of staff - between them they speak around 10 different languages including Bengali, Urdu, Yoruba, Somali, Portuguese, Spanish, French, Turkish and Greek. The core staff who own and run the business are all women, which has enabled it to create an approachable image and a good reputation with local women.

Account3 is a powerful example of how a worker co-operative can empower women, strengthen the skills of those experiencing difficulties finding employment, and support people at a local level.

Tackling worklessness and promoting enterprise

"Co-operatives help keep communities together by preserving businesses that would have disappeared and keeping local people in employment. More importantly they are then able to run the co-operative their way."

Co-operatives^{UK} survey respondent

There are case studies which suggest that co-operatives can be a stepping stone for people moving from long-term worklessness into the labour market. In Alston, a remote region of Cumbria, co-operatives and social enterprises work together to provide employment and services to an area that faces significant economic challenges.

Case study: Alston

Alston, a remote market town in North East Cumbria, is remarkable for the huge number of co-operatives and other social enterprises in it and the surrounding villages of Alston Moor. There are 14 social enterprises in Alston Moor, five of which are co-operatives, employing 36 full-time and 44 part-timers – all that in an area with just over 2,000 people.

Daniel Heery, one of the Government's 25 Social Enterprise Ambassadors, launched the innovative community broadband service Cybermoor in 2002. It was the first co-operatively-run community broadband service in the UK.

Instead of being a top-down initiative, Heery structured Cybermoor as a community co-operative. Residents who use the broadband service are also members with an equal say in how the service is run.

Heery is now managing another project through Cybermoor – the superbly named Business with Altitude. "Business with Altitude," Heery outlines, "enables local enterprises to get support they need quickly. Alston's community gym, for example, needed to train their staff; we quickly funded the training. South Tynedale Railway, run by numerous volunteers, needed an efficient system to ensure that all shifts were covered, and so Business with Altitude set them up with an online diary system."

As Heery concludes: "social enterprises – co-operatives in particular – are a great way of addressing social problems, providing valuable public services and creating employment. Alston is a great example of this."

Employee buyouts, where workers take control of a failing business or one about to be sold, have also been successful in preserving local jobs. UBH International, a tank container manufacturer in Burscough, Lancashire, was put into receivership in 1998, putting 300 people out of work. 90 employees agreed to invest £5,000 each, either their own money or borrowed, in an employee buyout. The 90 founder members were able to save and maintain their own jobs, and create a further 25.

Co-operatives^{UK} believes that there are a number of areas that could be explored to build on the work of co-operatives in tackling worklessness, in particular benefits-related schemes. For example, rolling out the 'Enterprise Rehearsal'⁸ scheme for anyone wanting to start a co-operative, or allowing people to capitalise their benefits by paying any remaining benefit entitlements in a lump sum that can then be used to pay for start-up costs, or allowing community organisations, including co-operatives to pay people on benefits⁹ to do work that strengthens their neighbourhood. Business rate relief could be offered for co-operatives based in deprived areas.

Co-operatives and public sector procurement

Despite significant challenges, co-operatives have a track record in delivering on government concerns to ensure participation and innovation in the delivery of quality public services to meet locally identified needs. Indeed, this is echoed by the Government in 'Communities in control: real people, real power'.¹⁰ Co-operative business can bring a range of advantages to public service delivery, including:

- combining a public sector service ethos with the entrepreneurialism of the private sector;
- providing flexibility, responsiveness to change and new and innovative ways of service delivery arising from independence of past structures or models of service;
- holding specialist knowledge and experience in their service sectors;
- establishing close relationships and engaging with service users, helping to bring their specialist knowledge, experience and skills to shape service delivery;
- their ability to access the community, including sections of the community that authorities have not been able to engage, without institutional barriers at times associated with public authorities;
- creating an effective mechanism for bringing excluded groups into the labour market, raising skill levels and increasing future employability;
- keeping economic benefits within a community;
- improving the working life of staff by promoting good engagement processes, self management and interaction with clients and the wider community;
- working well in partnership with public sector organisations; and,
- creating social capital.

Despite these advantages, some co-operatives, like many other SMEs, compete on an uneven playing field against larger organisations that may have a track record of large-scale contract delivery. However, co-operatives face a further unique barrier, in that public authority understanding of co-operative working can be poor or misinterpreted. This can lead to unjustified scepticism about the ability of a co-operative to deliver high standards of service.

⁸ West Yorkshire Enterprise Agency is currently running such a scheme. This project aims to help people leave welfare dependency and start their own successful business. It allows unemployed people to try out their business idea for up to 26 weeks without losing their entitlement to benefits. It is aimed at people on benefits but not eligible for the New Deal programme, and offers 26 weeks test trading, with mentoring support from a business adviser. See www.sharingthesuccess.co.uk/page.aspx?id=72 for more information.

⁹ This 'Community Allowance' scheme has been proposed by the CREATE Consortium. The Consortium's proposal is to free up people to serve their communities by working in them and be paid for up to 15 hours a week without losing their entitlement to job seekers allowance, incapacity and other benefits. Under present benefit rules, any additional income can result in the termination of existing benefits resulting in severe financial problems for individuals and their families, plus major barriers to overcome to get their range of benefits back when the extra income source stops. For more information see www.communityallowance.org

¹⁰DCLG (2008), Communities in control: real people, real power. Available From: <http://www.communities.gov.uk/publications/communities/communitiesincontrol>

In the worst case scenario the co-operative structure itself can be the key reason for a co-operative's bid being unsuccessful.¹¹

Developing co-operatives

Experience and research show that successful co-operative and mutual enterprises depend on the availability of high quality, affordable, and appropriate business advice and support. This support has never been adequately provided and is becoming scarcer. Co-operatives^{UK} believes that there are opportunities for improving this situation, which include:

- Ensuring that Local Area Agreements include the provision of co-operative business support;
- Ensuring that additional funding for social enterprise business advice will be used to support existing specialist co-operative enterprise business support providers; and
- Ensuring that business advice leaflets by Business Link clearly identify co-operative enterprise as an important business model for consideration by entrepreneurs.

A network of co-operative development advisors, which are members of Co-operatives^{UK}, exist across the country, providing expert advice and guidance on establishing and developing co-operative enterprise. From initial business discussions through to helping local communities establish the most appropriate structure for their needs, co-operative development advisors are a key source of advice and support. Detail of how they can be contacted is available in the 'Points for Action' section.

Points for Action – how to develop and use co-operatives

The benefits of co-operative working are not widely appreciated at local government level, which can act as a barrier to the development of co-operative enterprise. As discussed above, this is most acutely felt in procurement, where small and medium co-operatives can struggle to compete for public sector contracts. Raising awareness of co-operatives at local government level is key to the development of a thriving co-operative sector. There are a number of ways in which the public sector can help to achieve this:

- By encouraging and enabling the participation of co-operatives in Local Strategic Partnerships and Local Area Agreements.
- Through forging contacts with regional co-operative networks and development advisors. Regional co-operative networks and organisations are coterminous with government regions and exist to promote and provide information on co-operative enterprise in their area. They can be contacted through the Co-operatives^{UK} website at <http://www.cooperatives-uk.coop/HoldingPage/about/regionsAndNations>.
- Co-operative development advisors are the 'Business Link' for co-operative enterprise and have a wealth of specialist knowledge on starting and supporting co-operative enterprise. They also have detailed knowledge of co-operatives in their local area. To find your local co-operative development advisor visit www.cooperatives-uk.coop/cooperativedevelopment.
- Using information from Co-operatives^{UK}, and the regional networks, raise awareness of co-operatives as a viable alternative to mainstream enterprise at local government level, including in the following divisions: procurement, planning, health and social care, housing, environment, leisure and travel, and any other relevant divisions. If you would like more information about co-operatives, or the regional networks and co-operatives in your local authority please contact giles.simon@cooperatives-uk.coop.

Co-operatives^{UK} is the national member owned and led trade association for all types of co-operative enterprise throughout the UK. It is the strategic voice for co-operation and works to increase awareness and understanding of co-operative values and principles, supports the development and growth of new co-operatives and helps existing co-operatives to achieve high performance levels and good governance. It is a focal point for the sector, a

¹¹ One worker co-operative ceased promoting itself as a co-operative in local authority tendering bids after it was informed that on one occasion the reason it had been unsuccessful had been down to concerns about the efficiency of decision making in a worker co-operative structure.

forum for innovation and best practice, and a strategic voice for the co-operative movement. Co-operatives^{UK} represents co-operative enterprise throughout the United Kingdom of Great Britain, Northern Ireland, the Channel Islands and the Isle of Man.

By becoming an Associate member for just £100 you can gain access to invaluable advice and information from Co-operatives^{UK}. Associate membership is open to any public body supportive of the co-operative values and principles. Contact membership@cooperatives-uk.coop for further information.

Local Work is one of a series of regular policy reports produced by the Centre for Local Economic Strategies (CLES). CLES is a not-for-profit think doing organisation, consultancy and network of subscribing organisations specialising in regeneration, economic development and local governance. CLES also publishes Bulletin, Rapid Research and bespoke Briefings on a range of issues.

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