

Trading for Mutual Benefit

A GUIDE TO CO-OPERATIVE CONSORTIA



Sole traders and other small businesses sometimes work together co-operatively to enhance their trade through joint activities such as purchasing and marketing. This approach - known as a co-operative consortium - can save money, spread risk, and enables the participating businesses to pool their resources, provide mutual support and learning and strengthen their business sector, while maintaining their business independence.

WHAT IS A CO-OPERATIVE CONSORTIUM?

A co-operative consortium is a co-operative that is owned and controlled by the people or organisations that use its services. Thus it primarily trades with (ie provides a service to) its own members on a democratic and equitable basis. It is sometimes known as a marketing co-operative or as a secondary co-operative (although this definition is technically correct only if all the members are co-operatives).

There are great advantages to individuals and small businesses in forming a consortium, not least the sharing of experiences and risk, increasing buying power, sharing the costs of 'backroom' services such as bookkeeping, and ultimately reducing costs. This guide explores some examples of where they have been successfully established and some of the advantages.

WHERE DO WE FIND CO-OPERATIVE CONSORTIA?

Co-operative consortia comprise either sole traders or small businesses or both. There are examples in a wide variety of sectors. The consortium structure provides great

opportunities across a range of business sectors. The following show some examples of where they may be found:

Agriculture and fishing

Co-operative consortia are relatively common in the farming and fishing industries. Co-operative members benefit from joint selling and the joint purchasing of a wide range of supplies. Some co-operatives (often known as machinery rings) give their members access to a pool of expensive but infrequently used machinery or to specialist seasonal labour.

Producer marketing co-operatives

Food and drink producers who produce a specific product, or a range from a specific area, can usually benefit from setting up a marketing co-operative. The many examples include Hadrian Organics which sells a wide range of quality, organic farm produce, reared, grown and produced in North Cumbria, or East Anglian Brewers which markets the wide range of beers made in local microbreweries.

Makers' co-operatives

A makers' co-operative is a business set up by artists or craftspeople with the objective of helping its members to promote and develop



Great Eastern Craft Co-operative was established in 1987 to enable its members, who are all craftspeople from East Anglia, to market their work in order to be able to 'live from their art'. The focus of members is on the production of contemporary crafts in the form of ceramics, textiles, jewellery and glass. The co-operative runs a shop as a showcase for its members' crafts and participates in an annual regional crafts fair.

Great Eastern has a dual membership structure, with eight full members running the business together with over 100 associate members. The full members run the shop as volunteers and employ a part-time administrator. Members jointly pay the mortgage for the shop, which they now own, and a commission is levied on crafts sold.

The Exmoor Producers Association (EPA) is a company, which was set up in 1995 to promote Exmoor goods and their makers as an initiative to help create employment. The EPA was originally grant funded, but has been financially independent for the last six years. The main function of the association is to organise craft and produce fairs and to promote local goods using the EPA logo. The EPA has nearly 60 member businesses all of which work in the greater Exmoor area.



In 2000 an opportunity arose to lease a shop in an old mill building in Washford. This became the EPA shop - this a co-operative owned by its members each of whom has an equal share in the shop, a vote at meetings and an equal share of any profits. Shop members sub-let space in the shop and pay a small commission on each sale. The shop is staffed by members on a rota basis and is run by an elected chair and manager. In March 2006 the shop moved to a larger premises in Minehead.

their own individual businesses. The consortium may run a shop to sell its members produce or the consortium members may share the costs and responsibility of running a studio complex or shared workspace. It may provide training for its members or be a vehicle to jointly buy essential products or services. Examples include Made in Stroud Shop (Gloucester), The Wool Clip (Cumbria), Welland Gallery Co-operative (Lincs), Hallamshire Crafts (Sheffield), The Makers Guild in Wales.

(See also *Introducing Makers' Co-operatives – What they are, and what they can do for you* - which features The Makers Guild in Wales. This brochure is available from Co-operatives^{UK} or can be downloaded from www.cooperatives-uk.coop/projects/rural).

Other buildings-based, workspace or marketing co-operatives

In addition to makers' co-operatives and shops selling local produce there are other co-operative consortia that are based on the use of space. A typical example is a clinic providing a range of complementary therapies but the model suits a wide range of sole traders

or organisations requiring premises or clinic space. Such co-operatives own or lease the building and provide office services, equipment and work space for their member businesses. The Crafts Centre in the Northern Quarter of Manchester and the Hulme based Work for Change (www.work.change.coop) are co-operatives offering workspace and retail outlets.

Bed & breakfast co-operatives

These are a very specific type of marketing co-operative based on the use of tourist accommodation in a particular area. A good example is Peak Farm Holidays, a group of some 30 working farms offering bed and breakfast.

Market traders

Co-operatives of market traders are becoming increasingly important in rural areas and they are springing up the hearts of cities. Individual stall holders jointly lease property, develop central services or engage in joint purchasing. There are a large number of market traders' co-operatives and Co-operatives^{UK} has developed specific model governing documents for this sector. They are able to address increasing

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issues and problems facing farmers in marketing their products outside of the dominant supermarkets. They also address the need for healthy eating and bring community spirit to those they serve. Increasingly, farmers' markets are looking to the co-operative option. The Thames Valley Farmers' Market is a typical example.

Actors' agency co-operatives

These will be created where a group of actors come together as a collective to act as agent for one another. Members may employ staff to administer the business or voluntarily staff the office on a rota basis when not working. There are some 35 actors' co-operatives in the UK and

they have their own federal organisation the Co-operative Personal Management Association.

Taxi co-operatives

Taxi drivers in co-operatives jointly contribute to the call centre costs and increasingly join together to purchase satellite tracking systems. Examples include Unicabs North Western Co-operative (Liverpool) or South Coast Cars (Southampton).

Home care co-operatives

A large number of co-operatives provide home care services. In some of these the domiciliary care workers are self-employed members of a

Rba Management is a co-operative that was formed during 1993 in Liverpool to create opportunities and employment in the arts and entertainment industry for professional performers.

Originally founded by three women, the co-op now has around 28 co-op members who are performers that work together as an agency to secure acting work. The main benefit to co-op's members is that they are in control of their own career - traditional actors agencies often select auditions and work for the performing professionals that they represent however the co-operative structure of Rba Management enables members to make such decisions themselves. The co-operative also encourages a supportive environment rather than a competitive one and members often help each other with audition pieces to improve their performances and learn new skills.



SELDOC is a co-operative of 420 GPs from 186 practices in South London, providing out of hours general medical services to 900,000 people. Set up in 1996 it is owned, managed and financed by its GP members. It has diversified into other areas, such as bulk purchasing, primary care GP locum services and ad hoc provision of GPs to the local A&E department.



co-operative consortium that provides administration, organisation and negotiation with contractors. Examples include including Wrekin Care Co-operative.

Teachers' co-operatives

Members of teachers' co-operatives provide supply teaching or specialist teaching services to schools. Examples include North East Music Co-operative which was founded to provide music teaching to schools and Cambridge Teachers' Co-operative which provides supply teachers.

Medical practitioners co-operatives

These are able to provide out of hours services and in some cases a range of other GP and nurses services. SELDOC is a co-operative of over 400 GPs in South London.

Consultancy co-operatives

There are a number of examples of freelance consultants co-operating to market themselves jointly, buy joint services and make alliances for the delivery and tendering of pieces of work. They include CAG Consultants and Cultural Concourse.

And many others

There are also fishing boat co-operatives, those of tug boatmen, stevedores, boat builders and other trades people. There are tourism co-operatives of all kinds, including information centres. There are co-operative opportunities in many different trades or professions and industrial sectors.

WHY BE A CO-OPERATIVE?

The impetus for setting up co-operative consortia varies greatly. The reasons given by members of co-operative consortia include:

- Saving money on marketing, purchasing or shared services. This does away with the agency or middleman. The joint provision of services, which might otherwise be provided by another agency or business, prevents the extraction of profit away from the deliverers of the work. The structure ensures that the members themselves retain the maximum surplus value, rather than a third party. Given the profit extraction by agencies of all types of self-employed workers and professionals, this keeps surplus with those that have earned it and minimises central costs.
- Producing volume and/or continuity of supply. Critical mass and economies of scale mean that enough volume can be brought to market and supply can be maintained.
- Sharing risks and development costs. Consortium members can pool resources for jointly exploring markets, for example, or developing feasibility studies on new opportunities.
- The ability to invest in shared facilities and equipment.
- Control over standards, quality and ways of working. Crucial decisions, such as methods of marketing, hours and conditions are put in the hands of those most affected. It also enables the members to be free of potential exploitation by a

third party. It ensures that the balance of power is in the hands of those delivering the work. Peer pressure means that quality is often raised and a better service is given to the customer or client.

- Mutual support. Sole traders, lone professionals or craftspeople are often isolated. It enables joint working, the sharing of ideas, work and concerns. Co-operative consortia are particularly valuable for traders or businesses that are geographically isolated.
- Promoting a particular ethical approach to business. Co-operative consortia are ideal for those wanting to work in a democratic way with other like-minded traders or businesses.

WHAT LEGAL STRUCTURE SHOULD BE ADOPTED?

It is usually advisable for a co-operative or association of businesses to incorporate and have a legal structure. If a consortium wishes to incorporate, then both a company and an industrial and provident society legal form would be appropriate. Both legal forms allow for mutual trading status if required (see page 9).

Industrial and provident society (IPS)

It is generally accepted that the industrial and provident society route is the stronger form as it contains statutory protection of the co-operative principles, for example one member one vote, and is designed to enhance democracy and protect the rights of membership.

Industrial and provident societies are registered with the Financial Services Authority (FSA). The FSA scrutinises the content of model rules to ensure that they meet the requirements of the Act to register as a co-operative, and also has the power to refuse any proposed amendments to the model rules post registration if they feel it is not in keeping with the original ethos of the society. No rule amendment is valid until it has been formally registered by the FSA.

The cost of registering as an industrial and provident society is not as prohibitive as it was previously. Often a society is registered through a sponsoring body, such as Co-operatives^{UK}, which provides model rules to suit the members of the society and their aims and objectives. Generally, societies can be registered in three to four weeks.

Company limited by guarantee/shares

Whilst the company structure is widely used by co-operatives it does not offer any protection of the co-operative principles.

If a company limited by shares is used and the consortium wishes to sell shares to non-members it is required to undertake a full public share issue. This can be an onerous and expensive exercise, but in an IPS this is fairly straightforward. There is no maximum limit on shareholdings in companies limited by shares, while in an IPS each shareholder has a limit of £20,000 investment.

Limited companies have a well-recognised legal form and are well known by the majority of advisers and professionals. Whilst the legislation operated under is up-to-date, its requirements can be unduly onerous for smaller enterprises. The Company Law Review, which is currently being undertaken, may address some of the issues.

Companies can be registered in seven to ten days. Companies are registered at Companies House.

All types of co-operative consortia can be registered through Co-operatives^{UK}.

Is this a community co-operative or consumer co-operative instead?

If the users of the proposed co-operative's services are not such a clearly limited number of people as in the examples given above, a different structure will usually be more appropriate.

For example, a group of citizens might think of setting up a co-operative consortium to open a swimming pool: membership open to all who use it. But here the definition of 'users' is far more difficult: what about a person who only comes once? In this instance it would probably be better to set the venture up as a community co-operative and not restrict use to members only, (though perhaps members may receive a discount on entry charges - they may even receive a share of profits).

In this example, it may be seen that there is not a great deal of difference between a user-orientated community co-operative and a consumer co-operative.

WHAT ARE THE ISSUES AFFECTING CO-OPERATIVE CONSORTIA?

There are various issues that affect co-operative consortia. No issues are insurmountable, but all need to be known about and discussed by the founding members. Any decisions resulting from such discussion can then be enshrined in the governing documents of the business or in the general business approach. Members should be encouraged to sign up to these on starting or joining the co-operative. These may need reviewing from time to time.

Organisational and business issues

Business issues, such as working to a robust business and marketing plan, and appointing a Secretary to deal with the legal requirements of running a business, are as necessary for a consortium as for any other business. The issues raised below are particular to co-operative consortia.

A high level of trust and straight dealing between members is an essential pre-requisite for the effective functioning of this type of co-operative.

Raising finance

The financing of co-operative consortia is usually done in the first instance by members themselves providing funds in the form of a membership fee or in the form of share or loan capital. This input will be a sign of the member's commitment to the venture and may well be needed if loans from a financial institution are required. How monies are raised from members may be dependent on the legal form chosen. This will also affect how such monies are shown on the balance sheet. For many co-operative consortia this is a straightforward issue. However for some, especially those with extensive assets, it will be complex (see appendix 2 for a detailed explanation).



Maryport and Solway Fishing Co-op was formed in 1984 and trades in the business of catching seafood and selling some of the products through the local shop it owns. People can see the catch landed from the boats, which 20 minutes later can be in the shop display cabinets. From time to time with prior notice they show school children around the premises giving them an insight into what the co-operative is all about and showing them various species. This photograph (and the nets on the front cover) taken by Mike Steward.



Welland Gallery Co-operative provides a gallery and social centre for self-employed artists in and around Spalding in Lincolnshire. It aims to promote art in the local community and the artistic growth of its 40 members. In 2006 the co-operative modernised its gallery and started a programme to recruit new members

Payment to the co-operative

There can be varieties of payments made to the co-operative by members. There could be an annual payment and then commission on goods sold or percentage of produce put through or work obtained. This will vary according to the industrial sector and the wishes of members.

Does the co-operative take ownership of goods or produce or is it an agent?

Members need to decide whether the co-operative takes ownership of the goods or produce before it sells them on or merely sells them as an agent on the members' behalf. The latter might be preferable to minimise risk and liability in the case of faulty goods. Member agreements would include quality control and how to deal with faulty goods (see below).

Branding and quality control

Developing a strong co-operative brand normally requires the option to reject members' products or services which are considered to be of sub-standard quality. This form of quality control by peers is often cited as an important benefit of being a member of a co-operative and often tends to raise the overall quality of all members. However, systems are required to ensure the process doesn't cause conflict and there are clear terms of engagement including appeal and means of redress.

Systems for dealing with customer complaints are needed as in any business.

Extent of trade outside the co-operative

The right of members to sell outside the co-operative needs to be clearly defined and the pricing of items in such circumstances needs to

be laid down. If customers learn that they can get a better price by buying directly from the producer or contracting directly with the actor or carer then the viability of the co-operative could be undermined. A co-operative may wish to develop a policy on commitment of supply of goods from its members. Commitments from members to supply need to be real, ie legally enforceable. All products meeting the standards required under the brand should ideally go through the co-operative.

Dividends

Dividends on surplus are often paid according to the extent of the member's trade with the co-operative during the previous year, whether this be in produce or services. Each co-operative will need to develop its own policy on retention of surpluses. Many co-operative consortia will not, in practice, build up big surpluses, as mainly income will be passed on to members through the sale of the product or service at the time, or will be reinvested in central services or marketing. However, a policy for retention of surpluses and a robust system for dealing with dividends if surpluses occur need to be worked out. In the case of mutual trading status the word bonus or return of charges is preferable and makes the taxman happier. (See appendix 2 on financing. This covers reserves.)

Ownership of assets

All assets will be owned by the co-operative as a business entity, however an agreement needs to be made as to the redistribution of assets should the co-operative be dissolved. A common approach is that all investment by members is given back at par, with extra monies being redistributed according to the extent of trade within a specified period. In farming

co-operatives this will vary from 3 to 15 years, however the longer you go back the more need there is for record keeping and extra administration. Some co-operatives may choose to grant assets built up to a charity or to another co-op or good cause, but this may conflict with mutual trading status (see above and appendix 1).

Parity of treatment

Members will want to ensure that they receive fair treatment by systems and staff to ensure that there is no preferential treatment in the sale of their labour, goods, services or in marketing or promotion. Systems to enable smooth and fair treatment of members need to be worked out, though, as stated, high levels of trust will make the business work better.

Employment of staff

The co-operative will be responsible for the responsible employment of any staff, such as administrators, finance officers, cleaners and so forth, and this may require a dedicated personnel function being taken on by one member. There may also be payment made to the Secretary of the company or society for tasks carried out.

Decision-making

In a co-operative consortium there may be some tension between the independence of the sole trader or organisation and the need for a collective approach. These tensions are lessened if there are clear formal agreements in place for decision-making. Transparency and good communication will be key. The individual member will want to be able to make an impact and have their voice heard when necessary. The methodology may be determined by the nature of the business: quarterly meetings; business update bulletins; email or telephone.

Developing and maintaining engagement and ethos

Many of the above points will be dealt with in members' agreements. Fundamental to the good working of the co-operative and maintaining the commitment of its members is a mission statement, clear objectives and agreements to which members will adhere. These will need to be regularly reviewed. Good systems for communication and transparent decision-making will help to maintain the ethos of the business and the satisfaction of its members.

Legal issues

Employee or self-employment status

In the examples given above of agency co-operatives, the co-operative provides central services and the members would remain self-employed and retain the profits made from each piece of work. Usually each member would pay a membership fee to the co-operative to pay for administration etc, and would give a percentage of their earnings back to the co-operative. However, if the co-operative invoices, receives the money and then pays the member, it is more difficult to argue for self-employed status. Indeed if a self-employed individual receives the bulk of their income from the co-operative the Inland Revenue may rule that that person is in fact an employee and should therefore pay PAYE. (See the Inland Revenue's leaflet *Tax: Employed or Self Employed* (IR 35).

The Inland Revenue makes the decisions as to the status of a sole trader member of a co-operative consortium. Money flows and issues such as whether the member receives holiday pay via the co-operative seem to be the decisive factors. However, there seem to be no hard and fast rules and decisions as to employed or self-employed status may vary according to the tax office concerned.

Mutual trading status

If a co-operative can persuade the Inland Revenue that it is a mutual trading association, it is exempt from paying Corporation Tax on profits earned from its own members. To qualify for mutual trading status (MTS), the co-operative must have the following characteristics:

- There must be a complete identity of class between those who contribute to a surplus and those who are entitled to the return of that surplus.
- Surpluses must be returned to contributors in their capacity as contributors. In practice what this means is that only service-users may be members (not employees or others).
- Surpluses must be returnable to the members (not given for charitable purposes or otherwise), and assets must be returnable to members (so common ownership or 'philanthropic distribution' clauses are out).

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The Inland Revenue will always look this at on a case-by-case basis, and it is hard to indicate clear criteria. For a more detailed outline of MTS particularly in regard to agricultural co-operatives see appendix 1.

Issues affecting agencies: an employment business?

Government has recently turned its attention to agencies that broker work for self-employed people. The DTI has issued *Guidance on the Conduct of Employment Agencies and Employment Businesses - Regulations 2003*.

There are particular issues to look at if the consortium is in fact an employment business. For example, a group of self-employed supply teachers come together and set up a co-operative consortium, as they believe that they will be more likely to gain employment from schools if they can market their services as

a whole rather than as individual teachers. The consortium approaches schools and negotiates short/long term supply contracts on the teachers' behalf. This type of consortium runs along similar lines to actors' agency co-operatives. Generally, the teachers would be self-employed and to ensure that this status is not lost, members should consult the Inland Revenue's leaflet *Tax: Employed or Self Employed*. Co-operative consortia such as this that are supplying persons for employment to an employer, who will then have control over that person, may be considered to be an 'employment business' under *The Conduct of Employment Agencies and Employment Businesses Regulations 2003*. Co-operative consortia that are unsure whether this applies to their activities should take appropriate advice. (Actors' agency co-operatives are exempt from these Regulations.)

Thames Valley Farmers' Market Co-operative is one of the growing number of farmers' markets that are operated by producers rather than by local authorities. Photograph taken at the regular market at Witney, Oxfordshire, by Lee Athirton courtesy of Plunkett Foundation.



Peak District Farm Holidays is an association of 31 farm businesses offering farm-based accommodation in the Derbyshire and Staffordshire Moorlands. Founded in 1977 it was the first farm tourism co-operative in the UK, pioneering the concept of staying on farms. It works closely with other Farm Holiday Groups and the majority of members are also members of the umbrella body Farm Stay UK Ltd (formerly Farm Holiday Bureau UK Ltd). One impetus in its founding was to provide training to its members to raise quality standards and provides both services and a social forum for its member businesses.



THE OPPORTUNITIES

New co-operative consortia are being formed all the time. These include

- Trades people and others that need to provide 24-hour service or need central shared services.
- Employment or service agencies providing health care, nursing, office services, security, cleaners, drivers, couriers, education services.
- Consultants and professional advisers.
- Housing and housing services.
- Groups of organisations wishing to follow a joint approach or joint venture (including existing co-operatives).

Co-operative consortia can be devised to suit each unique group of members and each industrial sector. The model is flexible, offering benefits to members and enhancement to their businesses.



Legal Services at Co-operatives^{UK} has a wide range of model structures for all types of co-operative and community enterprise, and can advise on the most appropriate structure to adopt. It offers a low cost rapid registration service, and has a reputation for innovation and problem solving. It designs legal structures tailored to the needs of the organisation, making use of all the available forms of legal status: associations, trusts, limited companies and industrial & provident societies, as appropriate.

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The New Ventures Panel works on behalf of the co-operative movement to identify significant new opportunities with the potential to be successful co-operative ventures. It works partly through the Innovation and Development Fund launched by a number of consumer co-operative societies. For more information contact:

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Co-operatives^{UK} represents the spectrum of co-operative enterprise throughout the UK, the Channel Islands and the Isle of Man. Its purpose is to develop and extend the co-operative sector. It is a member-based organisation and an industrial and provident society owned and democratically controlled by the range of co-operative enterprises and others which make up its membership. It is funded by those members and by trading activities. It believes that co-operatives and the wider social enterprise sector make a substantial contribution to the UK economy, and in all its diverse forms can provide effective sustainable solutions to many of the social and economic challenges of modern society whilst encouraging democratic participation. To this end it runs a variety of specialist initiatives.

There are co-operative development bodies in many parts of the country that can advise you. Please see www.cooperatives-uk.coop for details.

Appendices

If Appendix 1 Mutual Trading Status and Appendix 2 Financing Co-operative Consortia are not included with this booklet they can be obtained by contacting Helen Seymour or Linda Banks (details on this page) or by downloading from www.cooperatives-uk.coop

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