

Report of the Welsh Co-operative and Mutuals Commission

Comisiwn Cwmnïau Cydweithredol
a Chydfuddiannol Cymru

Welsh Co-operative
and Mutuals Commission

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Foreword

Many have argued that we are faced with an extensive and systemic breakdown of trust in our society: between citizens and many of the major institutions in civil society and between the individual, the state and the political process.

Much of this suggested breakdown derives from the global banking and economic crisis in 2007 and the continued world economic down-turn and the anaemic recovery in the UK, triggered by scandals in the banking sector and recent corporate failures in other sectors which has led to extensive questioning of the ways in which our economy and society is run. Some have argued that this is a moral as well as an economic crisis and question how we can create the 'virtuous' conditions needed for people and communities to flourish.

While it was the Banking Sector that was largely responsible for the 2007 global economic crash and subsequent recession it shouldn't be forgotten that it was the de-mutualisation of mutuals and building societies like Northern Rock and the Halifax, a process, described by Vince Cable as "one of the great acts of economic vandalism in modern times", that probably accentuated and deepened Britain's banking crisis.

This economic crisis and its effects, particularly in parts of the world like Wales, has coincided with increased criticism of the way in which many of our public utilities and services such as railways and water have operated since the widespread privatisation of these services in the 1980s and 1990s. In addition, the significant reduction in public finances, in Wales as elsewhere, will require the imaginative and innovative use of our resources and the way in which public services are delivered.

The economic and social policy environment has also been transformed by changes in technology and a greater understanding of the ways in which people actually behave, as opposed to ways in which classical economists think we behave. As Rich Bendis, Chief Executive of Innovation Philadelphia, has said, in the 21st century knowledge-based economy "collaborative advantage, not competitive advantage, is the new paradigm".

Developing this idea in his recent book 'Positive Linking: How Networks Can Revolutionise the World', Paul Ormerod argues that our social and economic worlds have been transformed by the Internet, revolutionising communications and that as our societies become ever more inter-connected and dynamic, network effects are having a profound impact at every level of our lives. Ormerod argues convincingly that the financial crisis has shown us that conventional economics is drastically limited by its failure to understand networks and that politicians and businesses need to grasp the possibilities of 'positive linking'.

Consequently, the Commission believes the intellectual and political climate has changed radically and been reflected in the nature of the political debate, with increasing discussion about an 'ethical' or 'socially responsible' capitalism. The orthodoxy of the neo-liberal, free market philosophy which has dominated governmental, political and economic thinking over the last forty years is now being widely challenged for the first time in many years. This widespread disillusionment has led many people to look for alternative, more ethical and socially responsible ways of organising businesses and services, particularly those run on a co-operative, mutual or not-for-profit basis.

This is why the recent problems experienced by the Co-operative Bank have been damaging for the image of the co-operative and mutual movement. The tragedy of this story is that we have never been in greater need of the benefits that mutual responsibility bring. It has however demonstrated that the mutual sector is by no means immune to the difficulties facing any business operating in a market economy. The weakness of the Co-operative Bank wasn't that it was a 'co-operative' but that it was a bank. (The Co-operative Bank, although owned by the Co-operative Group, wasn't actually a co-operative). It is not however enough for co-operatives and mutuals to claim that theirs is a more ethical and sustainable approach to running businesses and services – they must also clearly demonstrate this in their everyday business practice.

The change in the debate was reflected in the address the former Archbishop of Canterbury, Rowan Williams, made to the National Assembly for Wales in March 2012 on the relationship between society and community when he said that, "There needed to be a move away from an assumption that all problems are to be solved top down from the State", of seeing the "centralised state provision as the solution to everything" and that the challenge is "to find the right kind of balance between statutory provision and local initiative". Rowan Williams went on to identify the ideal of the co-operative movement and its tradition in Wales as offering a more ethical and sustainable alternative to the ways in which we order our economic and social affairs.

The Commission wholeheartedly shares that vision and believes that a historic opportunity has opened up for an alternative approach to economic development, public policy and service provision, one based on mutualism, co-operation and shared ownership, creating the opportunity for better government and a fairer society. We believe that this can also contribute to the restoration of trust in government and the ways in which our economy and society are organised.

Wales, the birth-place of Robert Owen, one of the founders of the co-operative movement, has contributed significantly to the development of the mutuals ideal and continues to do so to this day, through the development of companies like Glas Cymru / Welsh Water and the pioneering work of the Wales Co-operative Centre, the largest mutual development agency in the UK. The Commission believes that in Wales we have the opportunity to rethink many of the questions about how we order our lives and to contribute to the wider debate about the future – and not just in Wales. We hope that this report will not only contribute to that wider debate but also give practical effect to developing that vision.



Professor Andrew Davies

Chair, Welsh Co-operative and Mutuals Commission

Executive Summary

The Welsh Co-operative and Mutuals Commission was established to make recommendations to the Minister for Economy, Science and Transport on growing and developing the co-operative and mutual economy in Wales in order to create jobs and wealth. This report sets out the Commission's conclusions and recommendations.

In the course of its work, the Commission has received written and oral evidence from nearly 100 individuals and organisations. Their contribution not only demonstrated the potential of the sector but their proposals have informed the Commission's work and we are most grateful to them.

The Commission has concluded that conventional approaches to economic growth and development are not sufficient alone to achieve the improvement in the social and economic wellbeing of people in Wales. Co-operatives and mutuals offer significant economic, social and environmental benefits compared with ordinary businesses. Their development must be central to transforming Wales' economic fortunes.

Wales' existing co-operatives and mutuals provide a strong platform for further growth. Nevertheless, Wales needs a step-change in the number, performance and impact of co-operatives, mutuals and other socially-owned businesses if the economy is to be transformed.

Our report sets out a comprehensive programme for the co-operative and mutual movement, making an even greater contribution to a vibrant, diverse and resilient Welsh economy. It includes, but goes more widely than, providing advice and support to new start-ups. It aims to create a culture and policy environment in which co-operative ways of doing business are the norm, not the exception. The programme is not costed, and many aspects require further work to operationalise them. Nevertheless, the Commission believes that, taken together and implemented vigorously, they will help to achieve the transformation of Wales' economy, society and communities that is so urgently needed.

Education for Co-operation

Learning about the values, principles and skills of co-operation should be embedded throughout Wales' education system. To achieve this, the Commission recommends that:

1. A co-operative ethos should be the central organising principle of the education system in Wales. It should be achieved by schools explicitly adopting co-operative principles and values, which may be within the maintained school system, integrating co-operation into all aspects of the school. Multi-stakeholder governance of co-operative schools should be encouraged.
2. Learning about co-operation should be embedded in the curriculum, explicit throughout the Youth Entrepreneurship Strategy (YES) Action Plan, at primary and secondary level. The Welsh Baccalaureate should include learning about and through co-operative and mutual principles. Support with learning about co-operation should be provided by regional education consortia.
3. There should be a significant increase in learning about co-operative enterprise in higher education achieved by:

- a. the Higher Education Funding Council for Wales should ensure provision of at least one higher-level business qualification (e.g. MBA) in co-operative business models, using existing resources, ideally delivered in a co-operative environment;
- b. mainstream business and management qualifications should give the same emphasis to co-operative and mutual business models as to mainstream profit-making enterprises;
- c. higher education establishments should explore with co-operative institutions the potential for scholarships and other collaboration;
- d. higher and further education institutions should promote co-operative and mutual business models to students as part of career discussions and the employability agenda.

Advice, Support and Development of Co-operatives

The Commission recommends that the provision of business advice and support to encourage the formation and development of co-operatives and mutuals should be significantly strengthened by a mix of specialist support to co-operatives and mutuals and sectoral programmes to strengthen specific sectors with growth potential, involving:

4. Securing the future of comprehensive business advice and support programmes for co-operatives and mutuals.
5. Extending the specialist support for growth and development of co-operatives in specific sectors with growth potential.
6. Encouraging existing co-operatives to support the development of new co-operatives, either as spin-offs, as suppliers, or as mentors.
7. Accessing advice and support for co-operatives and mutuals through a single web-based portal – Social Business Wales.
8. Strengthening the support and advice to managers and employees of failing, but economically viable, companies to consider a co-operative and mutual business model as a means of saving the enterprise.

Investment Finance

The absence of finance to meet the investment requirements of co-operatives and mutuals is a high priority as often mainstream finance is not appropriate. The Commission recommends:

9. The creation of a grants and loan fund – Co-operative and Mutual Finance Wales – dedicated to co-operative, mutual and other social enterprises and administered by existing financial intermediaries and accessed via Social Business Wales with earmarked funds for business succession and employee buy-outs.
10. Business support providers should collaborate closely with funders to ensure that funders understand co-operative and mutual business models and that co-operative and mutual businesses are 'investment-ready' when their projects are passed through to the funders.

Land and Assets

Co-operative ownership of land and assets can retain value for community benefit and ensure vital services are retained also. The Commission recommends that:

11. The Welsh Government considers legislation to enable communities to list their community assets and have right of first refusal to bring assets into community ownership. In any such legislation, consideration should be given to include sports clubs as community assets.
12. Further work is undertaken on asset locking to ensure that effective safeguards are in place.
13. The Welsh Government and the Community Development Finance Association to continue to encourage the development of Community Development Finance Institutions (CDFIs) to invest in this area to enable more capital investment.

Procurement

The Commission considered that previous inflexible approaches to public procurement and lack of development of the co-operative supply chain had limited access to important markets. It recommends that:

14. Specialist expertise in co-operative procurement be developed within Value Wales and mainstreamed into procurement practice throughout Wales.
15. Specific reference to co-operatives and mutuals be made in all Welsh Government guidance on procurement.
16. Vigorous efforts be made to implement the revised EU procurement rules that could benefit co-operatives and mutuals in due course.
17. The Welsh Government and the co-operative movement develop the co-operative and mutual supply chain for public, consumer and private services, to open new markets for co-operatives and mutuals, utilising the new Joint Bidding guidance.
18. A pilot project be established to demonstrate the potential of public procurement to develop co-operatives, similar to the Evergreen Co-operatives project.

Intelligence and Innovation

Intelligence and innovation are vital to the long-term success of co-operative enterprises. The Commission concluded that in a small country, and with a tough economic climate, Wales' innovation strategy needs to embrace and promote the co-operative and mutual business model. It recommends that:

19. The Welsh Government should ensure that its Innovation Wales strategy fully embraces the importance of co-operatives and mutuals, takes active steps to involve co-operatives and mutuals in its work, and promotes the co-operative and mutual business model in developing new enterprises.
20. Capacity for innovation and dissemination is included in the provision of specialist sector support for co-operatives and mutuals.

Networks and Advocacy

The Commission recognises the limited capacity in Wales to develop policy and strategy on co-operative and mutual development, promote best practice, facilitate networking and increase understanding of the co-operative and mutual business model. The Commission recommends that the co-operative and mutual movement collaborate to increase its voice, influence and capacity in order to:

21. Develop capacity for research, strategy and policy on the expansion of the co-operative and mutual economy, to act as source of international economic intelligence and provide strategic leadership to the movement in Wales.
22. Form a 'leaders forum' of key co-operative and mutual business leaders and entrepreneurs to advise Welsh Ministers and, as appropriate, represent the sector.
23. Facilitate networking and awareness-raising.

The Commission also recommends:

24. That the Welsh Government should explicitly consider co-operative and mutual business models in Welsh Government legislation, regulation, guidance and codes of practice as part of their mandatory requirement to consider sustainable development in all government policies and initiatives.

Delivery and Benchmarks

The Commission's recommendations form a coherent package of actions to kick-start a step change in the start-up and development of co-operatives and mutuals across Wales. The Commission calls on the Welsh Government to lead and pump-prime the package, with delivery being managed by a co-operative intermediary, through co-operative and mutual organisations, or those sympathetic to co-operative values and principles, wherever possible. The Commission envisages European Union (EU) structural fund investment having a pivotal role in releasing the potential of co-operatives and mutuals.

We recommend that further work be undertaken, as part of an enhanced intelligence function, to develop more robust benchmarks.

1. Introduction

In July 2012, the Minister for Economy, Science and Transport announced that she was establishing a Commission to make recommendations on growing and developing the co-operative and mutual economy in Wales in order to create jobs and wealth.

The remit of the Commission¹ was to:

- Consider the evidence for supporting the co-operative and mutual sector in Wales;
- Consider existing business advice for the co-operative and mutual sector and provide suggestions on how this might be strengthened;
- Identify specific areas that might be targeted for additional support by the Welsh Government;
- Consider best practice and evaluations that may be available;
- Set out a vision for the co-operative and mutual economy in Wales;
- Identify and establish benchmarks; and
- Provide suggestions on strategic direction and practical recommendations for the achievement of the vision.

The Commission's members were:

- Professor Andrew Davies
- Nicholas Bennett, Chief Executive of Community Housing Cymru
- Dr Molly Scott Cato, Professor of Strategy and Sustainability at Roehampton University
- Dame Pauline Green, President of International Co-operative Alliance
- David Jenkins OBE, Chair of the Aneurin Bevan Health Board and Chair of Wales Co-operative Centre.
- Robin Murray, London School of Economics
- Dr Ben Reynolds, Director of Trilein
- Sir Paul Williams OBE, CStJ, DL, Former Chief Executive NHS Wales

What we did

The Commission looked very carefully at the many challenges facing the economy, society and environment in Wales, ranging from our ageing society to climate change, through to current pressures on public finances. We looked at how co-operatives and mutuals elsewhere in the world offer very many advantages over mainstream ways of doing businesses.

We then looked at the co-operative and mutual sector in Wales. We found that while it is relatively strong compared with other parts of the UK, there is nevertheless a substantial difference in the role co-operatives play in the economy and society of Wales compared with areas such as Trentino, Emilia Romagna or Mondragon.

¹ Written Statement by Edwina Hart, Minister for Business, Enterprise, Technology and Science, 17th July 2012, Setting up a Welsh Co-operative and Mutuals Commission

The Commission considered the potential for co-operatives to develop further in Wales, centred around three pillars: the provision of essential household services, the mutualisation of public services and the development of tradable goods and services. Finally, we addressed what needs to be done to make Wales a 'co-operative nation'.

In the course of its work, the Commission has:

- Considered written evidence and information submitted by a wide range of individuals and organisations.
- Heard oral evidence from a number of individuals and organisations and held one-to-one meetings or visits with others.
- Participated in the Co-operative Congress 2013.

The Commission’s work was supported by an Advisory Group and assisted in the preparation of its final report by the Bevan Foundation, and in particular its Director, Victoria Winckler. The Commission is most grateful to all those who contributed to its work.

What are Co-operatives and Mutuals?

There can be confusion about what co-operatives and mutuals are. While there are a number of different legal forms that a co-operative or mutual may take (see Appendix 1), and various different types of co-operative and mutual depending on who owns it (workers, consumers, community members or variations thereof), the best known and defining characteristic of a co-operative or mutual is simple: participation. Collectively, members own their co-operative, and through democratic arrangements they participate in its governance². There are six other principles to which co-operatives also adhere (shown in Table 1) and it is operation in accordance with these principles, rather than the precise legal form of an organisation, which is widely acknowledged to be most important.

Table 1: Co-operative Principles as applied to Enterprises

Co-operative Principles	Applied to Co-operative Enterprises
Voluntary and open membership	People can join – and leave
Democratic member control	Your voice will be heard
Member economic participation	You control the capital
Autonomy and independence	Together you are autonomous
Education, training and information	You can develop yourself
Co-operation amongst co-operatives	You can be more successful by co-operating with others who know how to co-operate
Concern for Community	You can do something for your community and environment even as you keep succeeding

Source: International Co-operative Alliance (2013) Blueprint for a Co-operative Decade

2 International Co-operative Alliance (2013) Blueprint for a Co-operative Decade p.8, available at: <http://ica.coop/en/media/library/member-publication/blueprint-co-operative-decade-february-2013>

Our Findings

We have been very impressed by the energy, success and innovation exhibited by Wales' co-operatives and mutuals. These qualities are not an accident; they are realised by co-operative and mutual ways of working. Put simply, when people own and control an organisation they are often freer and incentivised to find new and creative solutions to problems. Co-operative and mutual enterprises are a means of capturing and harnessing people's knowledge and expertise, which is so often otherwise dissipated either because management does not listen or employees and their skills are lost if a business closes.

From social housing and the largest network of retail pharmacies to community pubs, shops and sports clubs, co-operatives and mutuals have the potential to transform Wales' economic fortunes. Co-operatives and mutuals can create jobs, improve educational attainment, provide social care in people's homes and reduce inequality. They already underpin the economy and society in regions and nations across the world and there is every reason to expect them to do the same in Wales.

Developing and strengthening co-operatives and mutuals in a tough economic climate will not be easy. Nevertheless, the Commission was mindful of several opportunities that put Wales in a unique and strong position; the next round of European Union (EU) structural funds, the potential of the changes to social care in the Social Services and Well-Being (Wales) Bill, changes to other public services, and the proposed changes to EU procurement rules all make our vision of a thriving co-operative and mutuals sector achievable. Our recommendations are for a whole programme of complementary actions, as we believe that only a comprehensive package of measures such as this will help transform Wales' economy and society.

2. Vision And Strategic Direction

The Commission has been asked to set out a vision and strategic direction for the development of co-operatives and mutuals. As part of this, the Commission considered the challenges and opportunities facing the economy and society of Wales. Some are global, such as climate change, unemployment and demographic change, whilst others have a particular intensity in Wales, such as low incomes, rurality and lack of competitiveness.

Challenges

Wales faces unprecedented challenges in the next decade. The combination of global economic shifts, the fallout from the financial crisis and pressure on public spending, social and demographic change, climate change and rapid developments in technology mean that people, government at all levels and all kinds of business and organisations need to find new ways of working, the old methods will no longer be enough.

“Wales faces unprecedented challenges in the next decade ... people, government at all levels and all kinds of business and organisations need to find new ways of working.”

The Economic Challenge

The traditional model of business has not served the Welsh economy well. Globalisation, the prolonged economic downturn and the concentration of economic activity in London and the south-east of England have stripped jobs and production out of Wales' economy. The result is all too evident in the form of relatively high unemployment and economic inactivity, relatively low wages and relatively low levels of research and development, and innovation. The UK's unbalanced economic development means that the productivity gap between London and the south-east of England and the rest of the UK is growing³. The economic development outlook to the end of the decade is unlikely to bring dramatic improvement. Organisations such as the International Monetary Fund⁴ and Organisation for Economic Co-operation and Development⁵ are warning of low global growth for years to come, with the UK economy forecast to be sluggish at best. Even if growth begins and is sustained, it is highly unlikely that Wales can close the gap with the wealthiest parts of the UK. As The New Economics Foundation has pointed out:

Even if London were to grow at just 1 per cent a year (way below its average) Wales would have to grow at 2.5 per cent every year for the next 60 years to catch up.⁶

3 Welsh Government (2013) Stats Wales Table Econ0013: Sub-regional Gross Value Added, Welsh NUTS areas, accessed 21st October 2013. 1997: Wales = 78.1% UK GVA; 2010 Wales = 74.9% UK GVA.

4 IMF (2013) World Economic Outlook: Hopes, Realities, and Risks. April. Available at: <http://www.imf.org/external/pubs/ft/weo/2013/01/>

5 OECD (2013) OECD Economic Outlook, September. Available at: http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-outlook-volume-2013-issue-1_eco_outlook-v2013-1-en#page1

6 New Economics Foundation (2013) Towards a Welsh Industrial Strategy, p.7. Available at: <http://www.neweconomics.org/publications/entry/towards-a-welsh-industrial-strategy>

The Commission has concluded that conventional approaches to economic growth and development are not sufficient alone to achieve improvement in the social and economic wellbeing of people in Wales. New ways of organising economic activity are needed, in which co-operation and mutuality are fundamental principles.

The Fiscal Challenge

The UK Government's six year plan to reduce public spending is the toughest seen since the Second World War⁷. Spending cuts on social security are affecting hundreds of thousands of people in Wales. The impact on the Welsh Government's budget is a real terms cut in Total Managed Expenditure of almost 10 per cent 2010/11 and 2013/14⁸. Total Managed Expenditure is forecast to fall by a 3.7 per cent in real terms over the budget period 2012-13 to 2014-15⁹. The position being very unlikely to ease for many years, as the Institute for Fiscal Studies and Institute for Government recently said of public spending cuts:

*There is more to come, for a long time to come.*¹⁰

The Commission is very aware of the pressure on public services on Wales. We consider that public services cannot be 'salami-sliced' without seriously damaging the very people they are meant to help, and have concluded that it is imperative that new ways of delivering public services must be found. The Commission sees co-operatives and mutuals playing a vital role in this process, not, we stress, as means of cutting costs but as a way of encouraging innovation, developing new sources of income and, crucially, meeting people's needs.

The Social and Demographic Challenge

At the same time as public spending is being cut, demands on public services are increasing. The projected increase in the number of people aged over 65 years is expected to drive up demand for a range of public services, especially health and social care¹¹. In addition, an increase in the number of people with long-term health conditions, such as dementia, is expected to increase demand further¹². The rising birth rate is, at the same time, increasing demand for education and children's services¹³. These demographic shifts intensify the already considerable pressures on public finances.

7 Brewer, M., Emmerson, C. and Miller, H. (eds) (2011) The IFS Green Budget, February 2011. Chapter 6. Available at: <http://www.ifs.org.uk/budgets/gb2011/11chap6.pdf>

8 National Assembly for Wales (2011) Final Budget 2011/12. Available at: <http://www.assemblywales.org/11-010.pdf>

9 National Assembly for Wales (2012) Research Paper on Final Budget 2013/14 p. 6 Available at: <http://www.assemblywales.org/12-053.pdf>

10 Harris, J. and McCrae, J. (2013) The 2015-16 Spending Round A briefing note to accompany the IfG/ IFS press briefing on 7 June 2013. Institute for Government / Institute for Fiscal Studies. Available at: <http://www.instituteforgovernment.org.uk/publications/201516-spending-round>

11 House of Lords Select Committee on Public Service and Demographic Change (2013) Ready for Ageing? Report of Session 2012-13. Available at: <http://www.publications.parliament.uk/pa/ld201213/ldselect/ldpublic/140/14002.htm>

12 *ibid*

13 Jeffs, M. (2013) Future Pressures on Welsh Public Services: Financial, demand and other cost driven pressures to 2025 and a review of potential responses. Presentation to Wales 2025 Public Services Conference 26th September 2013. Available at: <http://www.walespublicservices2025.org.uk/new-report-by-mark-jeffs-wales-public-services-2025/>

The incidence of poverty and social exclusion in Wales is also forecast to rise as a result of welfare reform and changes to taxation,¹⁴ having been static at around one in four of the Welsh population for several years¹⁵. This is likely to increase the need for a range of public services, from social housing to health and social care, to support in education.

Many people are also demanding a greater say in the public services they receive. In Wales, the emphasis has been on 'voice' rather than 'choice', with considerable support for public engagement in a variety of forms, including 'co-production', evident in the public and third sectors alike.

The Commission's view is that rising need and demand for public services, together with a more participative approach, requires a transformation in public services. There needs to be innovation in service delivery, greater participation by service users and stringent financial management. In a Welsh context, co-operatives and mutuals can drive that radical change. As the Social Co-ops Development Forum explained:

*The fundamental strategic challenge facing Wales and elsewhere [is] to create a pattern of services and systems which is not only capable of sustaining dignity and independence for the most vulnerable, but is preventative, affordable and politically sustainable amongst many competing priorities.*¹⁶

The Environmental Challenge

There is now overwhelming evidence that the global climate is changing as a result of human activity¹⁷. The need to reduce carbon emissions and increase resilience to the expected effects of climate change, even if emissions fall, means that new ways of organising the economy that respect rather than exploit the environment need to be found. Changing how energy is produced and the amount consumed is paramount, but careful use and reuse of other natural resources, is also important.

The Technological Challenge

Technological innovation is opening up the potential for new products and services, new markets and improvements in productivity, not just for the digitally-savvy but for all people. Many recent technological innovations are based on collaboration and co-operation, enabling people to work together in new ways to develop innovative solutions, whether it is developing open source software (which constitutes two-thirds of global software output), crowd-funding community projects, mobilising public opinion or simply sharing information with online communities in ways which were unthinkable even 20 years ago¹⁸. The informal co-operation found online provides a robust basis for growing more formal co-operative structures and values.

14 Welsh Government (2012) Analysing the impact of the UK Government's welfare reforms in Wales Stage 1 analysis. Available at: <http://wales.gov.uk/docs/dcells/publications/120228welfareformen.pdf>

15 New Policy Institute (2013) Monitoring Poverty and Social Exclusion in Wales 2013. Joseph Rowntree Foundation. Available at: <http://www.jrf.org.uk/sites/files/jrf/poverty-exclusion-wales-summary.pdf>

16 Social Co-ops Development Forum, Written Evidence para 2.3

17 Intergovernmental Panel on Climate Change (2013) UN urges global response to scientific evidence that climate change is human-induced. <http://www.un.org/apps/news/story.asp/html/realfile/story.asp?NewsID=46069&Cr=climate+change&Cr1=#.UmWPQMu9KSN>

18 R. Murray (2010) Co-operation in the Age of Google, Co-operatives UK. Available at: http://www.uk.coop/sites/storage/public/downloads/co-operation_in_the_age_of_google_for_consultation_1.pdf

The Commission is mindful that organisations in the public, private and third sectors in Wales need to make the most of technological innovation, whatever form that might take. Co-operatives and mutuals are, in themselves, a new approach to doing business which may, in turn, encourage the take-up of technology and new developments¹⁹.

The Potential of Co-operation

Around the world, co-operatives and mutuals are playing a significant role in local, regional and national economies. The Commission is pleased to see that the number of co-operatives and mutuals is growing in both developed and developing countries and that this growth is at an unprecedented rate²⁰. There are more than 1.4 million co-operative enterprises worldwide, which together are owned by one billion of the world's citizens and which are found in very diverse sectors of the global economy²¹. The largest 300 co-operatives in the world have a combined turnover of 2.5 trillion American dollars and are growing²². There is already a considerable co-operative impact on the global economy but they can do more still.

"The co-operative and mutual business model offers considerable advantages over other business forms. They are more resilient in an economic downturn, are more rooted in the locality, and offer greater equality of opportunity and environmental sustainability."

The co-operative and mutual business model offers considerable advantages over other business forms. Globally as well as in the UK, co-operatives and mutuals are more resilient in an economic downturn, are more rooted in the locality, and offer greater equality of opportunity and environmental sustainability. The Commission noted the compelling evidence that co-operatives, mutuals and employee owned enterprises are out-performing conventional businesses, even in the difficult economic climate. For example, employee owned businesses with fewer than 75 employees have higher profits (both gross and per employee) than non-employee owned businesses²³.

Once established, socially-owned enterprises are more resilient than other business forms. More than 90 per cent of co-operatives survive the first three years compared with 65 per cent of conventional businesses²⁴, while the average sales growth of employee-owned businesses was 11 per cent during the worst of the recession (2008-2009) compared

19 Scott Cato, M (2004) *The Pit and the Pendulum: A Co-operative Future for Work in the Welsh Valleys*. University of Wales Press

20 Smith, S.C and Rothbaum, J. (2013) *Co-operatives in a Global Economy: Key Economic Issues, Recent Trends, and Potential for Development*, Institute for the Study of Labor (IZA) Policy Paper No. 68 Available at: <http://ftp.iza.org/pp68.pdf>

21 Co-operatives UK Build a Better World. <http://www.uk.coop/2012/about/co-operatives-build-better-world>

22 World Co-operative Monitor (2013) *Exploring the Co-operative Economy 2013*. Available at: <http://www.euricse.eu/en/WorldCooperativeMonitor/Report2013>

23 J. Lampel, A. Bhalla and P. Jha (2010) *Model Growth: Do employee-owned businesses deliver sustainable performance?* CASS Business School. Available at: http://www.johnlewispartnership.co.uk/content/dam/cws/pdfs/Resources/Model_Growth_Employee_Ownership_Report.pdf

24 Co-operatives UK (2013) *Homegrown: the UK Co-operative Economy 2013*. Available at: <http://www.uk.coop/economy2013>

with 0.6 per cent in non-employee-owned enterprises²⁵.

Socially-owned businesses are typically better employers than other types of businesses. Employee owned companies experience greater employee growth than other companies,²⁶ worker co-operatives have far lower levels of staff turnover compared with the average²⁷ and employee owned businesses have lower absenteeism rates²⁸. Workers in co-operatives also report much higher levels of job satisfaction than privately owned businesses²⁹.

Generally, co-operatives, mutuals and social enterprises have greater diversity in their workforce than mainstream businesses. The 2006 Global Entrepreneurship Monitor survey found that a greater proportion of women, young people and people from black and minority ethnic communities are active in social enterprise than in mainstream business³⁰. Women and black and minority ethnic workers in social enterprises are more likely to reach positions of leadership than in other types of business³¹.

Globally, co-operatives have been found to make a significant contribution to the reduction of poverty by increasing access to financial services, negotiating lower input prices, expanding the market and capturing more of the value chain³².

The Commission considers that co-operatives and mutuals offer advantages over other types of social enterprise because they have worker, consumer or community participation built in to their structures – it is not an optional extra. They retain and share any surpluses for the wider benefit of co-operative or mutual members, and they are committed to working with rather than competing with each other.

“The Commission found that there is an overwhelming case for co-operatives and mutuals to play a very much greater role in the Welsh economy.”

The Commission concluded that co-operatives and mutuals are much more than a short-term ‘sticking plaster’ for the latest economic problems. They have the potential to address many of the underlying structural difficulties in the Welsh economy, ending the cycle of

25 J. Lampel, A. Bhalla and P. Jha (2010) Model Growth: Do employee-owned businesses deliver sustainable performance? CASS Business School. Available at: http://www.johnlewispartnership.co.uk/content/dam/cws/pdfs/Resources/Model_Growth_Employee_Ownership_Report.pdf

26 J. Lampel, A. Bhalla and P. Jha (2012) The Employee Ownership Advantage: Benefits and Consequences. Department for Business, Innovation and Skills. Available at: <https://www.gov.uk/government/publications/employee-ownership-benefits-and-consequences>

27 All Party Parliamentary Group on Employee Ownership (2008) Share value: how employee ownership is changing the face of business. Available at: <http://employeeownership.co.uk/publications/share-value-how-employee-ownership-is-changing-the-face-of-business/>

28 Office for Public Management (2010) New Models of Public Service Ownership, London: OPM <http://www.opm.co.uk/resources/new-models-of-public-service-ownership-a-guide-to-commissioning-policy-and-practice/>

29 Ibid.

30 Government Equalities Office (2008) Social Enterprise: Making it Work for Black, Asian and Minority Ethnic Women, London: Equalities Office

31 Social Enterprise UK (2011) Fightback report on the state of Social Enterprise Survey 2011, London: Social Enterprise UK <http://www.socialenterprise.org.uk/advice-support/resources/fightback-britain-report-the-state-social-enterprise-survey-2011>

32 J. Birchall and R. Simmons (2008) The Role and Potential of Co-operatives in the Poverty Reduction Process: ESRC Research Summary, RES-155-25-0077. Swindon: ESRC. Available at: <http://www.esrc.ac.uk/my-esrc/grants/RES-155-25-0077/read>

investment / dis-investment which has characterised Wales economic past. Co-operatives and mutuals are 'anchored' in the locality, and retain profits for the benefit of consumers, workers or the wider community rather than being siphoned-off and distributed elsewhere. Publicly-owned assets can be 'locked' for public benefit rather than stripped for private gain, protecting and retaining long term investment. Equality is in-built to the structure of co-operatives and mutuals with employees and service users determining the organisation's policies and practices, rather than being bolted-on.

The Commission found that there is an overwhelming case for co-operatives and mutuals to play a very much greater role in the Welsh economy. With the right support and stimuli, they can contribute to a transformation of Wales' economy, creating good quality jobs, increasing wealth and producing high-quality goods and services for its people.

Governance

One of the fundamental flaws of the Co-operative Bank wasn't that it was a 'co-operative', but that it was a bank. (Technically the Co-operative Bank wasn't a co-operative although owned by the Co-operative Group). As a bank it suffered from many of the weakness of the rest of the UK financial services sector, including a weak and ineffective regulatory system, and in particular the role of the former Financial Services Authority. The problems of the Co-operative Bank nevertheless reinforce the Commission's strongly held view that robust, transparent and effective governance must be at the heart of any sustainable co-operative or mutual organisation.

It can be convincingly argued that what links the global failure of the banking sector in 2007/08, including the recent problems of the Co-operative Bank, with local failures in services in the public and third sectors in Wales is a lack of effective accountability and transparency in decision making, which in turn reflect serious failures in corporate governance.

The Commission believes that effective governance is not an add-on, or part of a tick box process but central to the healthy functioning of a sustainable organisation. Governance goes to the heart of the co-operative and mutual movement; as their very *raison d'être* is being organisations based on collective membership and ownership.

The challenge is how to combine this principle of collective ownership and membership with robust, transparent and effective governance. Particularly in large organisations, there is a necessity for a 'creative tension' between the mutual interests of the members and their ability to balance and hold to account the way the business is run by the executive management. For example, some of the larger mutuals like the Nationwide have long had independent non-executive members on its Board to help bring greater challenge and scrutiny to the way in which the business is run.

Another lesson from both the mutual and private corporate sectors is that size should not be the most important criteria in the growth of a business. Once again the lesson of the Co-operative Bank is that in trying to absorb the toxic debt of the Britannia Building Society at the same time as trying to rationalise both organisations' back office functions was the major factor in the Bank's downfall. Organic growth rather than growth through acquisition we believe is frequently more sustainable.

The Commission also believes that the sector needs to learn how to organise itself more effectively once again. It is why we place emphasis in this report on developing and training effective leaders for the movement, who also recognise the imperative for effective corporate governance.

Conclusion

The economic, fiscal, social and technological challenges facing Wales are immense, and their potential to adversely affect people in Wales cannot be underestimated. The Commission believes that the consequences are not inevitable. Action can be, and must be, taken to transform the economy and society. The co-operative and mutual model of enterprise is the ideal vehicle to take forward this transformation.

3. The Co-operative and Mutual Economy

There is already a thriving co-operative and mutual sector in Wales, ranging from businesses which date back to the origins of co-operative movement to new, community based businesses and those which have spun out of local authority housing services. In looking at potential growth areas for the sector, we have looked at publicly funded services, as well as the traditional commercial sector.

Co-operatives and Mutuals in Wales

Co-operatives in Wales date from the early 1840s. The numbers boomed over the rest of the 19th and into the 20th century, providing an extraordinary range of services, from funeral services to food, car hire, hairdressing, optical services, laundries and banking. Co-operation became a central part of the culture of the local community with local societies supporting many aspects of social and cultural life³³. Many of Wales' public bodies have their origins in co-operation, from the NHS and universities to its libraries and working men's clubs.

The culture of collaboration persists in many communities today. Co-operatives UK told the Commission that 'Wales is a co-operative nation' and cited a survey that showed that 86 per cent of people in Wales say that they 'try to co-operate with others in all aspects of life' while only 18 per cent of people disagree with the statement that 'the majority of people co-operate most of the time'³⁴.

Latest estimates suggest that there are 446 co-operatives in Wales which are members of Co-operatives UK³⁵. There are many more co-operatives and mutuals which are not members, and about which less is known. The number of *Co-operatives UK* members is nearly 50 per cent more than might be expected simply on the basis of Wales' population³⁶. The largest one hundred members of *Co-operatives UK* include eleven based in Wales (Table 2), twice as many as might be expected simply on the basis of Wales' population³⁷.

33 A. Burge (2012) Looking Back Towards a Welsh Co-operative Future? *Journal of Co-operative Studies*, Vol 45 No 3 (No 136), Winter 2012

34 Co-ops UK Written Evidence para 3.12

35 Co-operatives UK (2013) Homegrown: the UK Co-operative Economy 2013. <http://www.uk.coop/economy2013>

36 Number of UK co-operatives = 6,169. Wales has 5% of UK population. 5% share of UK co-operatives (5% x 6,169) = 308

37 Co-operatives UK (2013) Homegrown: the UK Co-operative Economy 2013. <http://www.uk.coop/economy2013>

Table 2: Co-operatives and Mutuals in Wales

Name	UK Rank	Turnover (latest)
RCT Homes Ltd	41	£44,169,000
Clynderwen and Cardiganshire Farmers Ltd	43	£42,159,746
South Caernarfon Creameries Ltd	46	£33,788,863
Bron Afon Community Housing Ltd	47	£32,937,000
Carmarthen and Pumsaint Farmers Ltd	57	£23,791,769
Dulas Ltd	59	£23,000,000
Hay and Brecon Farmers Ltd	67	£18,072,989
Monmouthshire Housing Association Ltd	70	£16,085,000
WFS Border Ltd	85	£11,264,365
North Wales Housing Association / Cymdeithas Tai Gogledd Cymru Limited	87	£10,701,000
Welsh Bakers Buying Group Ltd	92	£10,128,942

Source: Co-operatives UK (2013) Homegrown: the UK Co-operative Economy 2013 pp26-31

There are also many other mutual organisations, ranging from large building societies such as the Principality, Monmouthshire and Swansea Building Societies, to housing associations such as Taff Housing Association and Gwalia Group, through to 21 credit unions³⁸, several supporters' clubs, a number of community land trusts and a large number of social clubs.

In addition, a number of UK-wide co-operatives have a strong presence in Wales, including the top two UK co-operatives, the Co-operative Group and John Lewis Partnership, as well as smaller co-operatives such as Shaw Healthcare. The Co-operative Group, for example, told us that in Wales it:

- Operates 154 food stores
- Operates 108 pharmacies, the largest community pharmacy network
- Has 17 branches of the Co-operative Banking throughout Wales and a Corporate Banking Centre in Cardiff
- Operates 57 branches of Co-operative Funeralcare.

Despite its strengths, there are also some weaknesses in the co-operative and mutuals sector in Wales. The majority of co-operatives and mutuals are small and medium sized and some are in economic sectors that are under considerable pressure, such as agriculture, pubs and local retail. The turnover of co-operatives in membership of Co-operatives UK and wholly based in Wales was £1.54 billion in 2012³⁹, approximately 1.6 per cent of total business turnover in Wales⁴⁰. Although this figure underestimates the contribution of all co-operatives and mutuals, it is nevertheless modest indeed compared with regions such as Emilia-Romagna in Italy – Table 3 shows key comparators between the two.

38 Welsh Government website <http://wales.gov.uk/topics/people-and-communities/regeneration/debt/affordcredit/?lang=en> accessed 19th October 2013

39 Excluding UK-wide co-operatives and mutuals with a presence in Wales e.g. Co-operative Group

40 Welsh Government Stats Wales Table Econ0045: Detailed size analysis of business, Wales and UK, accessed 19th October 2013. Total business turnover in Wales 2012 = £94,554 million. Co-operatives' turnover as a percentage calculated as £1,540 million / £94,554 million x 100 = 1.6.

Table 3: Key Comparators – Wales and Emilia Romagna

Name	Wales	Emilia Romagna
Population	3.07 million ⁴¹	4.45 million ⁴²
Per capita income as percentage of EU27 average	79.8 ⁴³	127.2 ⁴⁴
Number of co-operatives	446 ⁴⁵	15,000 ⁴⁶
Number of employees in co-operatives	7,000 ⁴⁷	144,280 ⁴⁸
Contribution of co-operatives to economy	1.6% of business turnover ⁴⁹	37% of regional GDP ⁵⁰

More important than the legal form of co-operatives and mutuals is their adherence to the seven principles of co-operation. The Commission undertook research to establish the extent to which co-operatives in Wales operated according to the principles⁵¹, and found that co-operatives are strongly value-driven organisations, with their values being aligned with, but not necessarily identical to, the internationally recognised co-operative principles. Adherence to the principles was generally high, with the principles of autonomy and independence and of democratic member participation being the most frequently adhered to at all times. Other principles, notably education, training and information and co-operation with other co-operatives, were always adhered to by just 17 per cent and 32 per cent of respondents respectively.

Wales' existing co-operative and mutual sector provides a strong basis from which to develop new co-operative enterprises.

The Commission recognises that economic pressures may result in some principles slipping down the list of priorities, but sees education and co-operation with others as critical to the development of the sector. The seeds of decline lie in neglect of education and co-operation.

The Commission concluded that Wales' existing co-operative and mutual sector provides a strong basis from which to develop new co-operative enterprises (see Figure 1).

41 Welsh Government (2013) 2012 Mid-year Population Estimates for Wales Statistical Bulletin 66/2013

42 Eurostat Regional data tables (2011)

43 Eurostat (2012) Regional GDP per capita in 2009: seven capital regions in the ten first places, News release 13th March. Available at: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/1-13032012-AP/EN/1-13032012-AP-EN.PDF

44 Op. cit.

45 Co-operatives UK (2013) Homegrown: the UK Co-operative Economy 2013 <http://www.uk.coop/economy2013>

46 J. Restakis (n.d.) The Emilian Model – Profile of a Co-operative Economy, British Columbia Co-operative Association. <http://bcc.coop/sites/bcca.coop/files/u2/ER-ProfileofCoop.pdf>

47 Wales Co-operative Centre (2012) Co-operatives in the Welsh Economy <http://www.walescooperative.org/index.php?cID=399&cType=document>

48 T. Menzani and V. Zamagni (2010) Co-operative Networks in the Italian Economy, Enterprise & Society, Volume 11, Number 1, March 2010, pp.98-127 (data for 2001)

49 Wales Co-operative Centre (2012) Co-operatives in the Welsh Economy <http://www.walescooperative.org/index.php?cID=399&cType=document>

50 T. Menzani and V. Zamagni (2010) Co-operative Networks in the Italian Economy, Enterprise & Society, Volume 11, Number 1, March 2010, pp.98-127 (data for 2006)

51 L. Burnett (2013) Co-operatives and Mutuals in Wales: Adherence to the Recognised Principles of the Co-operative Movement. Research for Commission.

The challenges identified by the Commission are two-fold: first, to grow the co-operative and mutuals sector so that it reaches critical, self-sustaining mass, and second, to harness the energy, expertise and resources of existing and new co-operatives and mutuals so that the sector develops further, rapidly and successfully.

Figure 1: Co-operatives as Springboards for Growth

Large co-operative, mutual and employee-owned businesses, such as the Co-operative Group, provide a superb vehicle with which to extend and develop co-operative enterprises. They have resources, expertise and commitment – as well as significant purchasing power – that could help to generate new co-operatives and mutuals of all kinds.

Wales' mutual housing associations, with expenditure of £740 million, 80 per cent of which is retained in Wales are a significant resource with which to expand the co-operative sector.

Consumer co-operatives such as supporters' clubs and credit unions provide a substantial membership base, albeit with smaller economic clout, from which to generate interest in the co-operative and mutual business model.

Employee owned co-operatives, such as Aber Instruments, PrimePac and Dulas demonstrate that this model can apply in a range of sectors, with employee buy-outs on retirement of company owners being particularly important.

Dwr Cymru / Welsh Water, is not organisationally a co-operative or mutual but shares many of the strengths of co-operation and demonstrates how other large scale utilities could be organised.

Micro co-operatives, such as food co-operatives, community shops and pubs, energy and housing co-operatives, demonstrate that there is energy and commitment to start up new enterprises of all kinds.

Potential for Growth

The Commission noted that there are co-operative and mutual businesses in almost all sectors of the economy in Wales, from agriculture to the arts, from energy to engineering, from social care to sports clubs. There is no reason why co-operative or mutual business models cannot flourish in any type of economic activity. However, the Commission is firmly of the view that, irrespective of sector, co-operatives are not the solution for businesses which are not economically viable.

The Commission agreed with the Wales Co-operative Centre's written evidence which identified some circumstances in which co-operatives are more likely to thrive than others, namely where:

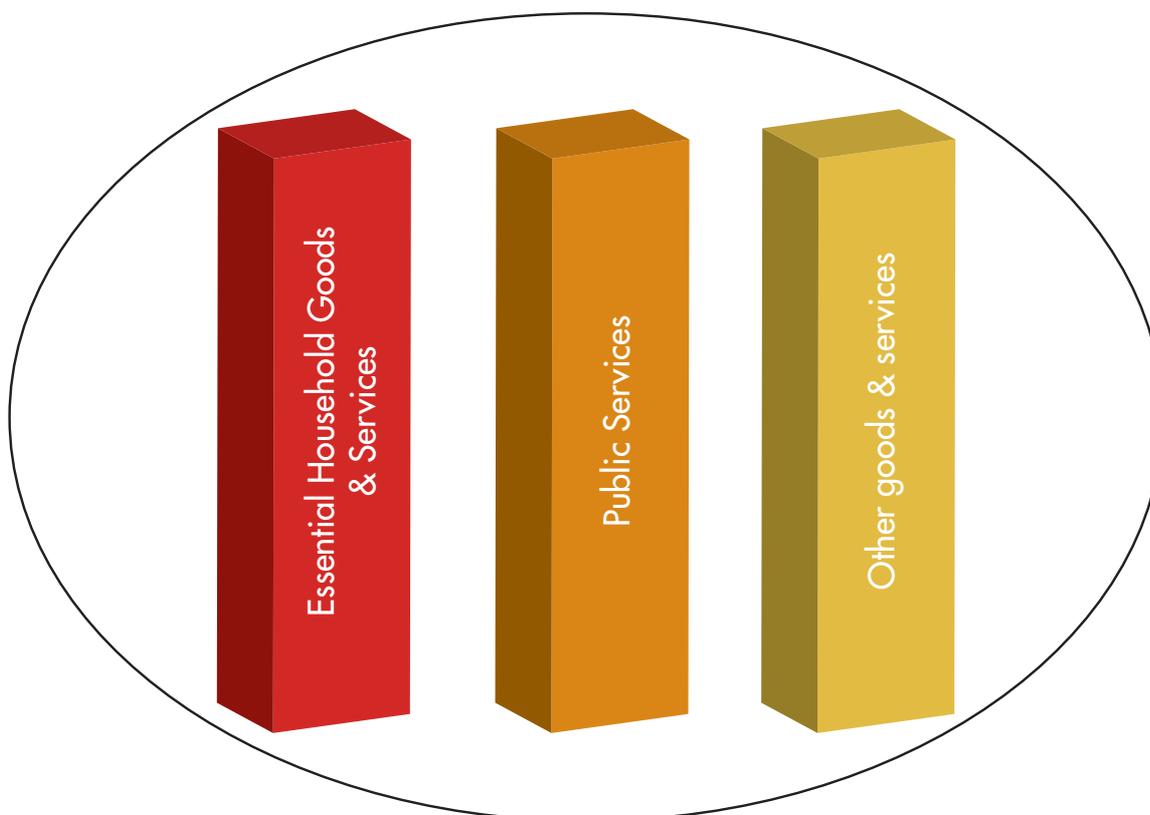
- Stakeholder involvement can add value, increase efficiency and effectiveness of a service or product.
- Potential users of a service feel a strong emotional attachment to that service and are motivated to get involved in its governance.
- Users / communities can play a role in regulation / co-regulation to ensure quality is maintained.

- Profit extraction has a negative impact on the delivery of the service or product.
- There is a will for profits to be invested in new co-operative businesses.
- Inter-trading is mutually beneficial.

Although these conditions can occur in any economic sector, they are more likely in some than others. The Commission has identified potential for co-operative and mutual development in three broad pillars (**Figure 2**):

- Essential household goods and services
- Mutualisation of public services
- Other goods and services.

Figure 2: Potential for Co-operative and Mutual Development



Essential Household Goods and Services

The Commission considers that co-operatives and mutuals can improve people's everyday lives, as well as create sustainable jobs, by delivering essential goods and services. Housing, energy and food account for 29 per cent of the expenditure of households on median incomes, and 39 per cent of expenditure in the lowest income households⁵². Transport and leisure account for a further 26 per cent of expenditure of households on median incomes, although a lower a proportion (18 per cent) of that of the poorest households. Put simply, these five economic sectors account for more than half of all household spending.

⁵² Office for National Statistics (2012) Family Spending 2012 edition, Table 3.2 'Household expenditure by gross income decile group, 2011. Available at: <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-267317>

Co-operatives could help to keep prices of goods and services to a minimum and re-use cash surpluses for consumer, worker or community benefit rather than for distribution to remote shareholders.

Housing

The Commission recognised the very considerable potential of co-operatives and mutuals in housing. Wales' mutual Registered Social Landlords (RSLs) already play a substantial role: members of Community Housing Cymru provide over 153,000 homes across Wales housing 15 per cent of the Welsh population, directly employ 7,500 people and spent over £850 million in the Welsh economy in 2011/12. In addition there are other, less common, models of co-operative housing.

The Commission identified three areas where the role of co-operatives and mutuals in housing could be developed further.

First, there is potential for existing community mutual housing associations to expand their housing portfolios and to develop spin-out, mutually-owned services related to housing management and development such as grounds maintenance, housing refurbishment and repair, lettings services and social care. Several housing mutuals are already actively developing new businesses, but the Commission considered there was scope for more mutuals to take this approach, to extend spin-outs into more areas, and for housing mutuals to mentor and support new co-operative and mutual enterprises in other sectors and promote the benefits of co-operation.

Second, the potential of a new co-operative housing tenure as identified in the Welsh Government's *'White Paper for Better Lives and Communities'*. This model can enable people to access otherwise unaffordable housing by combining resources to purchase or to develop properties. As the Commission learned from a project in Merthyr Tydfil⁵³, co-operative tenure can also help to bring low-demand housing into new markets. The Commission learned that there is evidence of considerable potential demand⁵⁴ for co-operative tenures. The Commission considered that the commitment to the new tenure should be taken forward, with safeguards e.g. asset locks to protect against demutualisation.

Third, the Commission welcomed the potential role of community mutual housing associations to provide the asset base for a 'Co-operative Finance Initiative'. The borrowing powers of RSLs and local authorities could be used in partnership with the Welsh Government and local authorities to convert revenue funding into capital investment. Funds could stimulate supply in housing, but also in other areas including health, education, leisure and other key community facilities. As Community Housing Cymru noted in their written evidence:

*'A new 'Co-operative Finance Initiative' could provide efficient economic investment for the government, whilst ensuring regulatory and community control and accountability for citizens.'*⁵⁵

53 Merthyr Tydfil County Borough Council, Written Evidence.

54 Wales Co-operative Centre (2013) Research into the potential demand for co-operative housing in Wales. Available at: <http://www.walescooperative.org/index.php?cID=826&cType=document>

55 Community Housing Cymru Written Evidence

Energy

The Commission noted that there are a number of different types of energy co-operative. The one most commonly promoted is community renewable energy generation. The Welsh Government's Ynni'r Fro project is currently supporting 24 different community energy projects across Wales⁵⁶ and the recently-established membership organisation Community Energy Wales is growing in support. There are also energy purchasing co-operatives and Energy Action Clubs in which householders are advised and supported to reduce consumption.

The Commission considered that there is very considerable potential to develop the renewable energy sector in Wales. The Welsh Government has identified potential to increase the amount generated from renewables by ten fold between 2011 and 2020/25⁵⁷.

Figure 3: Llangattock Green Valleys

In 2009, the Llangattock Green Valleys project in Powys won the Welsh final of the British Gas Green Streets challenge and went on to win the British title.

Back then, solar panels and 100 radiator panels were installed at the school with an air source heat pump added to the village hall. Meanwhile, 43 homes in Llangattock installed energy efficiency measures including insulation solar panels, a biomass boiler and multi-fuel stoves.

Llangattock won £100,000 to be used to make the village carbon-negative and decided to develop hydro power schemes. Llangattock Green Valleys was set up by villagers as a co-operative business.

In 2013, the community co-operative launched a share offer to fund the construction of two micro hydro schemes and reached their target of raising £273,000 in two months.

Food Shops and Co-operatives, Pubs, Community Facilities and Supporters Clubs

Wales Co-operative Centre estimates that there are approximately 100 community co-operatives in Wales providing a wide range of services, from community shops and pubs, to food co-ops, to village halls to child-care and sports supporters' clubs⁵⁸. The Plunkett Foundation told the Commission that there are approximately 15 community-owned shops and pubs open and trading in Wales. In addition there were 276 food co-operatives in 2011 (not all of which were formally-constituted bodies) supplying just under 4,500 customers a week⁵⁹. Wales also now has a number of sports clubs which are co-operatively or mutually owned, e.g. Wrexham Supporters' Trust.

56 Welsh Government (2013) Community renewable energy projects gather momentum. News release 26th February. Available at: <http://wales.gov.uk/newsroom/environmentandcountryside/2013/7117980/?lang=en>

57 National Assembly for Wales (2013) Renewable Energy in Wales: in figures. Available at: <http://www.assemblywales.org/13-059.pdf>

58 Wales Co-operative Centre (2012) Community Co-operatives in Wales – ordinary people doing extraordinary things. Available at: <http://www.walescooperative.org/index.php?clD=611&cType=document>

59 BMG Research (2012) Evaluation of the Community Food Co-operative Programme in Wales. Available at: <http://wales.gov.uk/docs/caecd/research/120628communityfoodfinalen.pdf>

A study by Wales Co-operative Centre found that community co-operatives help to attract and retain income in communities, offer environmental benefits by delivering services locally, provide vital services and support community cohesion and are viable, if modest, businesses too⁶⁰.

The Plunkett Foundation advised the Commission that there is 'significant potential' to develop community shops and pubs, with the pace of development now accelerating after a relatively slow start⁶¹. The Wales Co-operative Centre and others suggested that there was opportunity to develop other community services, including sports clubs⁶². The closure of local shops, pubs and other community services or the threat of the demise or take over of sports clubs are often the catalysts for co-operative ventures to emerge. However, the Commission is firmly of the view that the potential is much wider than this, with scope for the development of a wide range of essential services as co-operatives or mutuals not just those under threat.

Personal Financial Services

In Wales there are currently 21 credit unions, three mutual building societies, the Co-operative Bank and two Community Development Finance Institutions, Moneyline Cymru and Robert Owen Montgomeryshire Credit Union Limited (ROMCUL), which provide collectively-owned personal financial services. Together, these institutions have substantial assets; credit unions, for example, had a total asset base in September 2012 of over £30 million⁶³, while Principality Building Society's assets totalled £6.7 billion in the year ending 2012⁶⁴.

The Commission noted that private demand for credit is already high. In 2011/12, Community Housing Cymru estimated that 26,000 people borrowed from loan sharks⁶⁵ – and is likely to increase further as a result of welfare reform.

The Association of British Credit Unions Limited (ABCUL) cited evidence that the Financial Inclusion Growth Fund, which ended in March 2011, had saved loan recipients between £119 million and £135 million in interest payments⁶⁶. ABCUL pointed to the significant advantages to the local economy as payments to high cost lenders are reduced, and highlighted some innovative projects introduced by credit unions which can support local producers and retailers. The Commission also noted the potential of property related lending (e.g. a Property Appreciation Loans⁶⁷) and the interest of Care and Repair Cymru in developing such a product.

60 Wales Co-operative Centre (2012) Community Co-operatives in Wales – ordinary people doing extraordinary things. Available at: <http://www.walescooperative.org/index.php?cID=611&cType=document>

61 Plunkett Foundation Written Evidence

62 Wales Co-operative Centre Written Evidence

63 Old Bell 3 Ltd (2012) An Evaluation of the Access to Financial Services through Credit Unions Project Final Interim Report. Available at: <http://wales.gov.uk/docs/caecd/research/130312-access-financial-services-credit-unions-project-interim-en.pdf>

64 Principality Building Society (2013) Annual Report and Accounts, 2012 Available at: http://www.principality.co.uk/~/_media/Files/PDF/Financial%20Reports/2012/PRINCIPALITY%20ANNUAL%20REPORT%202012%20ENGLISH.ashx

65 Ibid.

66 ABCUL Written Evidence, p. 4

67 Welsh Government (2011) A Programme for Government, p.23 Available at: <http://wales.gov.uk/docs/strategies/110929fullen.pdf>

The Commission investigated the role of community currencies which can take various forms. It visited Spice Timebanking in Carmarthenshire, and also learned of the growth of mutual currencies from a Commissioner. There are 400 Local Exchange Trading Schemes (LETS), 75 time banks and 5 community currencies in the UK. The example of the Bristol Pound (Figure 4) has particular potential because it is being used as salary payments and in local taxation.

Figure 4: Bristol Pound

Bristol residents can swap sterling for Bristol Pound notes or mobile credits through their local credit union, which they can use to purchase (often at a discount) from more than 600 shops and services in the city. Traders can pay their commercial rates with Bristol Pounds so they readily accept the currency, as well as getting publicity through the website of the scheme itself.

Bristol Council is now accepting Council Tax payments in Bristol Pounds which they in turn spend on local supplies or salaries. Bristol's Mayor now receives all his salary in Bristol Pounds, and the Chief Executive receives a portion of her salary in the currency.

Although the Bristol Pound is only a year old, it is pushing out the boundary because both tax and wages are being paid in the currency. It is looking increasingly like the celebrated currency in the Austrian town of Worgl in the 1930s, where the mayor eliminated unemployment and the municipal debt by paying employees and accepting tax payments in what were in effect Worgl pounds. Bristol already has 1,200 accounts, (that in turn has led to a marked increase in credit union membership). It is a model of immediate relevance to expanding the local mutual economy in Wales.

The Commission identified that there was considerable potential for credit unions and other personal financial services to grow, not only to provide affordable finance for people at all income levels but also to create jobs both within credit unions and more widely.

Transport

The Commission noted that the current contract for the Wales and the Borders rail franchise ends in 2018. As the analysis of the contract undertaken within *The Great Train Robbery: Rail Privatisation and After*⁶⁸ shows, public subsidy formed the majority of the revenue (60 per cent). Despite the heavy public subsidy, Deutsche Bahn, the owner of Arriva, has been able to extract over £75 million in the form of dividends from the contract in the period 2003-2012.

The Commission therefore welcomes the commitment of the Welsh Government to consider the Wales and Borders rail franchise being run as a not-for-profit operation and

68 A. Bowman, P.Folkman, J.Froud, S. Johal, J. Law, A. Leaver, M. Moran, K. Williams (2013) *The Great Train Robbery: Rail Privatisation and After*. Centre for Research on Socio-Cultural Change. Available at: <http://www.cresc.ac.uk/sites/default/files/GTR%20Report%20final%205%20June%202013.pdf> pp.53-55

recognises the work by Paul Salveson⁶⁹, which demonstrates the potential for a not-for-profit alternative for the Wales and Borders rail franchise.

The Commission understands that there are complex barriers that the Welsh Government would need to address in procurement, legislation, finance and constitutionally with the Department for Transport. Nonetheless, the Commission consider that it would be beneficial for the Wales and Borders rail franchise to be operated in the interests of the communities it serves, rather than the interests of shareholders.

The Commission also noted the considerable potential for co-operative or mutual-ownership of other forms of transport, including community transport, and the potential for non-emergency patient transport that is delegated to health boards to be delivered through co-operatives or mutuals.

Mutualisation of Public Services

The Commission looked very carefully at the contentious issue of whether co-operatives and mutuals should play a role in the delivery of public services in Wales, particularly in a difficult financial climate. The Commission on Public Service Governance and Delivery, chaired by Sir Paul Williams who is also a member of this Commission, offers a real opportunity for some joined-up advice to ministers on the future of public service delivery.

The development of co-operatives and mutuals was supported by several local authorities which gave evidence. The Welsh Local Government Association acknowledged that ‘co-operatives or mutuals could play a greater role in terms of delivering sustainable public services into the future’⁷⁰, while Pembrokeshire County Council said:

*In the context of a growing demand for personalisation and co-production of services, and increased pressures on public sector finances, there is clear potential for co-operation and mutuals to deliver.*⁷¹

We recognised the importance of trade unions within Welsh civil society. Although trade unions have an affinity with the co-operative movement and share many of its values – indeed Wales TUC led the creation of the Wales Co-operative Centre – many public sector unions have deep reservations about current approaches to mutualisation.

The Commission shares some of the trade union movement’s reservations, in particular the assumptions, assertions and motivations associated with the UK Government’s approach. The Cabinet Office’s promotion of mutual and co-operative organisational models without regard to the underlying principles or values suggests a more measured approach is needed here. Nevertheless, the Commission is firmly convinced that co-operatives, mutuals and other socially-owned business forms are superior to the privatisation of public services.

The Commission also believes strongly that public service providers should seek advice on co-operative and mutual business models from specialist business advisors and engage early and in a meaningful way with its workforce when they are considering changes.

69 P. Salveson (2012) Rail Cymru: A People’s Railway for Wales. Available at: <http://www.party.coop/files/2012/11/Welsh-Rail-pamphlet-online.pdf.pdf.pdf>

70 Welsh Local Government Association Written Evidence para 12

71 Pembrokeshire County Council Written Evidence pp1-2

Public Service Values

The Commission believes strongly that the vast majority of public services should continue to be universal, funded by taxation with the agreement of citizens and provided on the basis of need rather than ability to pay.

The Commission regards the mutualisation of public services as being fundamentally different in principle and in practice to 'contracting out'. We see the role of the state as being one of stewardship of services, goods and assets that promote the wellbeing of its citizens – this may not always mean being the provider of services itself. Indeed, mutualisation can be an effective way of involving citizens or service users, sometimes known as co-production, in service planning and delivery.

The Commission believes strongly that the vast majority of public services should continue to be universal, funded by taxation with the agreement of citizens and provided on the basis of need rather than ability to pay.

Our views are supported by research we commissioned on the experiences of housing mutuels, local authorities and housing associations⁷². This found that housing associations and housing community mutuels were *more* likely to be aware of and demonstrate adherence to public service values than local authorities' own housing departments. They were no more likely to outsource service provision than local authorities, and indeed some had returned externally procured services to in-house provision. The research also demonstrated that the risks of housing associations or community mutuels going out of business or of assets being transferred to the private sector was very low.

Employee Terms and Conditions

The Commission recognises trades unions' concern about the erosion of employee terms and conditions. Our research⁷³ showed that in housing, mutualisation had not damaged employee benefits. Most recently formed housing associations and community mutuels had retained local authority National Joint Council (NJC) terms and conditions. Where organisations had adopted other rewards schemes, employees had received higher salary increases than those on NJC terms, received other benefits and were less at risk of cuts to staffing than those in local authorities. When direct transfers from the public sector are carried out, TUPE will apply. However, in some instance public sector services have been discontinued and then restarted as a new enterprise. The Commission did identify one such organisation, in leisure services, where pay and conditions had been eroded in comparison to local authority pay and conditions. In social care, we were advised that there was downward pressure on wages, irrespective of ownership⁷⁴.

Only in terms of pension arrangements were local authority terms more favourable (and even these are changing from 2014). However the portability of public sector pensions remains an issue that needs to be resolved urgently if mutualisation on a large scale is to take place.

72 Altair Research (2013) Different structures for delivering public services using social housing as a case study area: research for Commission

73 Altair Research (2013) Different structures for delivering public services using social housing as a case study area: research for Commission

74 Care Forum for Wales, oral evidence

Public Assets

The Commission noted that publicly-owned assets need to be protected if a service is mutualised. Assets need to be available to secure loans, but should not normally be able to be transferred into private ownership. Various forms of ‘asset lock’ can prevent disposal – the Commission considers that various types of arrangements need to be developed, under the umbrella term of ‘public social partnerships’ to provide necessary assurance that assets will be retained for community benefit.

The Commission noted that a substantial and growing number of public services are not, in any case, delivered by the public sector. The private and third sectors already deliver an extensive range of public services, from social care, mental health care, agency nursing and supply teaching, special educational needs, leisure services and housing to name just a few of those contracted out voluntarily by local authorities and health boards.

Innovation

The Commission noted that developing new ways of delivering public services is critical to addressing future challenges. Finding ways of doing things differently while still meeting people’s needs, rather than ‘salami-slicing’ services or rationing them is, in the Commission’s view, a fairer and more equitable approach in a tough financial climate. Co-operatives have a long history of initiating new service areas and innovating models of service provision, some of which are later supported by the state, whether directly or indirectly.

“The Commission concluded that a structured, proactive approach to mutualisation of services is preferable to piece-meal, cost-driven contracting-out.”

The Commission received evidence that mutualised services can be more innovative and responsive to citizen’s needs than public service providers. Professional consultants from the commercial sector and also specialist co-operative and mutual advisors that offer advice on mutualising public services informed us that, done well, mutual models of public service delivery can be more responsive to people’s needs. We noted that housing associations and mutuals had also developed new services, some spinning-out new businesses to deliver them. For example, RCT Homes had set up separate organisations to provide training and to service and maintain gas appliances⁷⁵. Elsewhere in the UK, co-operative councils, for example, are identifying new ways of local authorities working with citizens to develop and deliver services that people need.

The Commission concluded that a structured, proactive approach to mutualisation of services is preferable to piecemeal, cost-driven contracting out. We identified the following sectors within the public sector as having particular potential for mutualisation.

75 RCT Homes, Oral Evidence

Co-operative Schools and Colleges

Education in Wales has been under great pressure to raise attainment levels. The Commission noted evidence from the Co-operative Group which highlighted the many benefits of co-operative education⁷⁶. They explained that co-operation can involve the adoption of co-operative ethos without necessarily requiring co-operative governance structures⁷⁷.

In many parts of the UK, pressure to drive up attainment has resulted in schools and colleges being established as co-operatives, sometimes as individual institutions or sometimes as federations of schools, with sometimes dramatic results (Figure 5).

To date, no school in Wales has been established as a co-operative or mutual. The Commission welcomed Robert Hill's⁷⁸ recommendation that Co-operative Trusts should be an option for the future governance of schools in Wales. However co-operative schools cannot be imposed and must emerge from the 'bottom up' to capture the benefits of co-operation. The Commission believes that financial pressures, changes in governance arrangements associated with the formation of regional educational consortia and ongoing concern about standards mean the time is right to take forward a co-operative ethos in schools, which should be the central organising principle of the education system in Wales.

Figure 5: Sir Thomas Boughey High School

Sir Thomas Boughey High School in Newcastle Under Lyme, Staffordshire was one of the first schools in the UK to adopt co-operative values and principles. It became a specialist Co-operative Business College in 2004 and is now a Co-operative Trust School. Before it became a co-operative the school faced significant problems. The Head Teacher used co-operative values and principles as a basis for the school's value structure. The school set three broad aims:

- To use co-operative values and principles as a basis for developing good citizens
- To develop our management using co-operative approaches
- To ensure a balanced approach between the 'PLCs' and the co-operative alternative in all work about business or enterprise.

There was a dramatic improvement in the school's performance at all levels, with the proportion gaining 5 GCSEs at grades A-C including English and Maths rising from 28 per cent to over 70 per cent. In 2010 it was recognised both as a Higher Performing Specialist School and gained 'Outstanding' in its Ofsted inspection.

The school has also pioneered links with co-operatives in other countries and co-operative schools in places like Spain.

*Source: Bevan Foundation (2012) **Co-operative Education for a Co-operative Wales.***

76 Co-operative Group, Written Evidence

77 Co-operative Group Written Evidence

78 Robert Hill (2013) The Future Delivery of Education Services in Wales, <http://wales.gov.uk/docs/dcells/consultation/130621-delivery-of-education-report-en.pdf>

Social Care

Social care is a significant economic sector in Wales. In 2011-12, revenue expenditure on all personal social care services was £1,487 million. The increase in the population of older people and in particular the number of people with long-term health conditions and dementia will mean the sector is set to grow further. A high proportion of social care (87 per cent of adults' services, 69 per cent of children's services and 91 per cent of children's day care) is provided by private, independent or voluntary organisations⁷⁹. Members of Care Forum Wales, which represents private providers of social care, employ 28,000 people⁸⁰.

There is a modest co-operative and mutual social care sector in Wales at present, with organisations such as Shaw Healthcare, providing residential, domiciliary and special care services, and Gwalia, Hendre, Pennaf and Linc which provide residential care services alongside their housing services. There are also a small number of co-operative children's day care settings.

The Commission noted that many organisations have highlighted the potential to develop co-operatives and mutuals in social care. For example, the Welsh Local Government Association said:

*The WLGA recognises the value of such delivery models in providing a genuine opportunity for users and carers to shape and deliver services.*⁸¹

The Commission is pleased that the Social Services and Well-being (Wales) Bill seeks to promote co-operative delivery models, which should be a further catalyst for growth.

The Commission considers that there is a compelling case for a greater role for social care co-operatives because of the added value they can bring to social care services, including:

- High-quality services that are based on co-operative values and principles and not on private profit;
- Services that are responsive to people's needs, as they are citizen directed, giving a much stronger voice and greater control to service users and carers;
- Greater contestability in a market dominated by large, private providers.

There is the potential for co-operative day care, social care and community centres to take over community hospitals – possibly with support from the Registered Social Landlords (RSLs).

Health Care

In 2012-13, over £5 billion was allocated to local health boards⁸². The Commission recognises that, perhaps contrary to popular perception, most primary care providers (GPs, dentists, opticians and pharmacists) are private businesses.

79 Care and Social Services Inspectorate Wales (2011) Information brief: Key activities in regulated settings and services Available at: <http://wales.gov.uk/docs/cssiw/report/110120infobriefen.pdf>

80 Care Forum Wales Written Evidence

81 Welsh Local Government Association Written Evidence, para 18

82 Welsh Government (2013) Health Stats Wales 2012, Table 15.3

Co-operative provision of health services in Wales is currently very limited. The Commission learned of the many examples elsewhere, e.g. provision of 'out of hours' services by general medical practitioners (GPs), the largest of which is SELDOC (South East London Doctors' Co-operative) which treats around a million patients – see also Figure 6⁸³. The Commission considers that there is potential for GP co-operatives to be established in area of Wales where it is hard to recruit new GPs.

The Commission noted that Co-operative Pharmacy is a significant provider of community health care services as well as dispensing prescriptions.

The Commission considered that new ways of commissioning health services need to be developed that meet individuals' needs and allocate resources accordingly. In particular, local co-operatives offer potential to integrate health and social care services in a more effective way. The issues raised in the sector are clearly large and complex and the Commission believes that the Welsh Government should commission further work on the potential of the sector.

Figure 6: A Primary Care Co-operative in Stoke-on-Trent

Primary care in the UK has traditionally been centred round for-profit, community-based GP surgeries. Willow Bank Partnership CIC is exploring a new organisational form based on a local, co-operatively controlled general practice, which it hopes will become one of a network of similar practices that can share experience and other strategic services.

Until 2006 the Willowbank surgery, delivering care in a poor area of Stoke, had been run by the local Primary Care Trust employing two doctors and other health staff. When Primary Care Trusts were required to cease such direct provision, the staff at Willowbank decided to establish a co-operative with clear social objectives. It was to be a multi-stakeholder co-operative, involving the staff, the patients, and the wider community. In addition to the staff, its first shareholders were Gingerbread, a local community group who worked with single parent families and CTP, a specialist social enterprise of former health service managers concerned with new models of distributed health care.

The practice has four main principles:

- The practice should be patient centred and open to all in the area however complex their conditions;
- Staff should develop multiple skills (there is an annual training programme with paid leave, where all staff are encouraged to develop their skills);
- The practice would be a platform that would allow community groups and other services relevant to patients to work together to support the varying needs of individual patients and their families (they have recently completed a user-led design pilot on family centred commissioning that has involved drawing on a variety of care and community services to meet the particular needs of families with complex needs, predicting major savings to NHS budgets);

83 Geraint Day and Mo Girach, Written Evidence

- The GPs and other staff are salaried employees and the financial surplus is re-invested in expanding the service rather than being distributed as profit.

Currently the patients have two directors, one of whom is the Chair. The staff are all associate members (because of the constraints of NHS pensions) and elect directors to sit on the Board every two years. Partner organisations also have a seat on the Board.

Leisure and Cultural Services

Leisure services are a sector where there has already been a degree of 'spin-out' from the public sector in Wales, as well as the significant opportunities for new co-operatives and mutuals to be established.

The Commission examined the experience of four different leisure services organisations, and was impressed with the success of the organisations, their innovation in services and the relationships that they maintained with their 'parent' local authority. The Commission also recognised the potential of cultural industries, with a growing number of co-operative enterprises in cultural activities, such as galleries, theatres, artists' and designers' consortia and local media.

Our conclusion is that, with appropriate support and contract terms with local authorities, there is potential in leisure and culture services to develop co-operatives and mutual enterprises.

Other Goods and Services

There are many other economic sectors where there is potential to develop co-operative and mutual businesses – indeed there is no sector, including manufacturing, which cannot and indeed does not include co-operatives. One of the most important ways in which businesses can come into co-operative or mutual ownership is through employee buyouts of existing businesses, particularly on the retirement of an existing business owner.

Employee Buy Outs

Business succession is a significant issue facing the Welsh economy⁸⁴. The Wales Co-operative Centre informed the Commission that 29 per cent of Welsh businesses (approximately 15,000 businesses) have been owned by the same owner for more than twenty one years. These owners are likely to consider exiting their business in the near future, with options being the transfer of the business to other family members, trade sale, private equity or flotation, or closure. Business transfer is risky, with micro and small owner managed businesses being especially vulnerable to transfer failure.

Employee-ownership has been identified as a significant opportunity that also brings considerable economic benefits⁸⁵. For Wales, employee ownership could retain local

84 W. Davies and J. Michie (2013) Employee ownership: defusing the business succession timebomb in Wales. Available at: <http://www.walescooperative.org/employeeownershipreport>

85 G. Nuttall (2013) Sharing Success: the Nuttall Review of Employee Ownership https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31706/12-933-sharing-success-nuttall-review-

business ownership, keeping and spreading wealth more equitably. Employee buy-outs of existing businesses are an obvious means of increasing employee ownership. The Commission therefore concluded that employee ownership through buy-outs should be a significant strand in developing co-operatives and mutuals.

Agriculture, Food Processing and Woodlands

Many of Wales' agricultural co-operatives are very long established and they are also amongst Wales largest co-operative businesses. They have been joined by recent co-operative enterprises such as Pontbren Farmers Co-operative⁸⁶. Across the UK, agricultural co-operatives have a turnover of more than £5.3 billion⁸⁷ while the Welsh Agricultural Organisation Society estimates that turnover of Wales 20 agricultural co-operatives is £232.5 million⁸⁸. The benefits to farmers of co-operation are well known and include economies of scale in purchasing of inputs, greater impact of marketing and benefits from added value of processing.

The Commission's discussions with three agricultural co-operatives highlighted the very considerable economic pressures they faced. Whilst the general policy and economic environment has a huge impact on the sector there is nevertheless action that can be taken to strengthen co-operation.

The Commission concluded that agriculture, forestry and food processing are vitally important sectors that need support to innovate and diversify in the face of significant economic pressures.

Land

The principle of community ownership of land has a long tradition, both in the countryside in order to widen the access to land for farming, and in cities to provide affordable housing. Community Land Trusts enable any increase in land values to accrue to the community and not individual owners⁸⁹.

In Wales, Rhiwbina Garden Village in Cardiff began as a co-operative company⁹⁰, while more recently several Community Land Trusts have developed with Welsh Government support⁹¹. In addition, Wales Co-operative Centre is supporting eight 'pioneer' housing co-operative projects that include some community land ownership.

The Commission considers that there is potential to develop Community Land Trusts further to meet housing needs in rural and urban areas alike and to support local sustainable development.

[employee-ownership.pdf](#)

86 See for example <http://www.pontbrenfarmers.co.uk/>

87 Co-operatives UK Written Evidence

88 Welsh Agricultural Society (2011) Presentation to the National Assembly for Wales Cross-party Group on Co-operatives, 19th October. Available at: <http://www.cooperatives-wales.coop/who-we-are/assembly-cross-party-group/8th-meeting-october-19th-2011/>

89 David Wedzel, Written Evidence

90 Co-operatives and Mutuals Wales Written Evidence

91 National Assembly for Wales (2010) Community Land Trusts: Members' Research Services Quick Guide. Available at: <http://www.assemblywales.org/gg10-0014.pdf>

Conclusion

It is clear that there is a great deal of potential to develop co-operatives and mutuals in Wales. This potential exists in almost all sectors of the economy, but there are some where there is either an already strong basis for further growth, such as social housing, significant social benefits, such as personal financial services, or economic potential, such as employee buy-outs. Whilst co-operatives and mutuals can be grown across the economy, the Commission believes specific action needs to be taken to realise the potential in the sectors considered.

In looking at each sector, a number of common areas for action were identified. These included the need to raise awareness of the co-operative and mutual business model; the need for expertise in co-operative and mutual development as well as sector-specific expertise; access to finance especially for early-stage development; the role of procurement; the need for supportive policies and legislation, and last, but by no means least, the critical importance of leadership, governance and innovation.

The next section sets out the Commission's recommendations for action to address these issues and make Wales a truly co-operative nation.

4. Achieving A Step Change

The Commission considers that relying on the organic development of co-operatives and mutuals will not be enough to achieve a transformation of the Welsh economy. There are, very simply, not enough co-operatives and mutuals in Wales at present to achieve that critical mass. We applaud the very considerable hard work of Wales Co-operative Centre and others that created and sustained the co-operative and mutual enterprises that exist today. But this work, and the sector's own efforts, are simply not enough to achieve the step-change required. Much more needs to be done.

Successful co-operative regions elsewhere have developed a supportive infrastructure consisting of specialist units that provide information, intelligence, advice, ideas and finance for the co-operative economy as a whole. Such external intermediaries are essential to the long term competitiveness of small and medium sized co-operatives and mutuals. But in Wales, other than the Wales Co-operative Centre, there is a weak infrastructure of co-operative intermediaries.

In making our recommendations, the Commission is mindful of the severe financial pressure facing the public sector, of the need to streamline public institutions and to ensure that policies are effectively implemented. In the current difficult financial climate the creation of new organisations cannot be justified. What is important at a time of such severe pressure on public finances is that current intermediary co-operative functions are developed smartly, using existing institutions that have the capacity and experience and also combine necessary entrepreneurial spirit with co-operative values.

Despite the current stringency, we envisage the public sector having to play a central partnering role in the development of the co-operatives and mutuals sector, providing pump-priming funding for the sector's development and working with new and existing co-operatives and mutuals as business partners.

The Commission's recommendations focus on creating the necessary infrastructure for a thriving co-operative and mutual sector in Wales. They do not usually address detailed operational issues. The recommendations are addressed both to Welsh Government, which commissioned this report and will be responsible for leading and supporting the step-change required, and to the co-operative and mutual movement itself, which is responsible for advocating change and making it happen on the ground.

Based on the evidence submitted to us, the Commission concluded that there are seven key areas in which action is required:

- Education for Co-operation
- Advice and Support
- Finance Investment
- Land and Assets
- Procurement
- Intelligence and Innovation
- Networks and Advocacy

Education for Co-operation

The Commission recognised that the history of the global co-operative and mutual movement has demonstrated that the best way of encouraging co-operative entrepreneurs is through well educated people who have co-operative skills and values. We noted that education had played a key role in the development of the successful co-operative and mutual sector in Mondragon, and concluded that learning about the values, principles and skills of co-operation must be a fundamental element in any Welsh strategy to grow sustainable co-operatives and mutuals.

The Commission heard that general awareness of co-operatives is high and that they are viewed by the public as trustworthy. The Wales Co-operative Centre's written evidence⁹² said that a Co-operatives UK survey undertaken in 2009 found that the public were generally aware of co-operatives and had an understanding of their principles, although there is a lower understanding of the business model⁹³. This view was echoed by the Co-operative Group and others. The Commission thought that the public's views were shaped by the dominance of consumer co-operatives in the UK.

The Commission considered that there needs to be improved awareness and understanding of the specific benefits of co-operatives and mutuals if there is to be a groundswell of popular support for change and the seeds of future co-operative businesses sown. We also considered that there needs to be greater in-depth understanding of the co-operative and mutual business model, with more individuals having skills in co-operative business, from legal to accountancy to management, to contribute to their long-term sustainability.

At present learning about co-operatives and learning how to co-operate are not part of the formal curriculum or school values. We were encouraged by the Co-operative Group's *Inspiring Young People* programme that promotes co-operative principles in schools, but its impact is inevitably modest. The consequence in Wales is similar to that in Scotland where, as the Co-operative Education Trust Scotland commented:

*It is entirely possible to spend 20 years in the Scottish education system, head off into the real world with a Masters qualification and have no knowledge or understanding whatsoever of alternative forms of enterprise and organisation such as co-ops, mutual or employee ownership.*⁹⁴

The Commission noted that much more could be done to support learning about and through co-operation. For example, the Co-operative Education Trust Scotland provides learning materials and support, with 40 per cent of Scottish schools now using their resources⁹⁵. In England, the Schools Co-operative Society supports schools to adopt co-operative values and principles within the maintained system as well as those who have other governance arrangements⁹⁶.

92 Wales Co-operative Centre, Written Evidence p 8

93 Co-operatives UK Written Evidence p.8

94 Co-operative Education Trust Scotland Written Evidence p.1

95 Op. cit.

96 Op. cit.

“The Commission believes that a co-operative ethos should be the central organising principle of the education system in Wales.”

We concluded that embedding co-operative values in education is critical to the creation of future generations of ‘co-operators’ to take the model forward. The Commission believes that a co-operative ethos should be the central organising principle of the education system in Wales. It should be achieved by schools explicitly adopting co-operative principles and values, which may be within the maintained school system, integrating co-operation into all aspects of the school and with a model of multi-stakeholder governance.

The Welsh Baccalaureate should be a vehicle for learning about co-operative and mutual principles and business models. Both it, and wider teaching about co-operation, will need support which should be provided by the regional education consortia.

In further and higher education, the Commission noted that every university in Wales offers MBA or equivalent qualifications yet these typically do not include co-operative and mutual business models, perpetuating the lack of understanding of co-operation in the business community. The Commission noted that some institutions elsewhere in the UK and in the US have established MBAs in Co-operative Studies. The Commission concluded that specialist, higher level qualifications in co-operative enterprise should be available in Wales, ideally offered within a distinct university school with a co-operative ethos. In addition, modules on co-operative and mutual enterprise should be included within mainstream business and management qualifications. The Commission welcomed the potential of digital learning, which can be cost effective and enable international knowledge transfer about co-operatives.

Recommendations

The Commission recommends that:

1. A co-operative ethos should be the central organising principle of the education system in Wales. It should be achieved by schools explicitly adopting co-operative principles and values, which may be within the maintained school system, integrating co-operation into all aspects of the school. Multi-stakeholder governance of co-operative schools should be encouraged.
2. Learning about co-operation should be embedded in the curriculum, explicit throughout the Youth Entrepreneurship Strategy (YES) Action Plan, at primary and secondary level. The Welsh Baccalaureate should include learning about and through co-operative and mutual principles. Support with learning about co-operation should be provided by regional education consortia.
3. There should be a significant increase in learning about co-operative enterprise in higher education achieved by:
 - a. the Higher Education Funding Council for Wales should ensure provision of at least one higher-level business qualification (e.g. MBA) in co-operative business models from existing resources, ideally delivered in a co-operative environment.

- b. mainstream business and management qualifications should give the same emphasis to co-operative and mutual business models as to mainstream profit-making enterprises.
- c. higher education establishments should explore with co-operative institutions the potential for scholarships and other collaboration.
- d. higher and further education institutions should promote co-operative and mutual business models to students as part of career discussions and the employability agenda.

Advice, Support and Development of Co-operatives

Setting up and operating in tough markets needs advice and support if co-operatives are to survive and thrive. High-quality support is key to success in many sectors. The Commission has identified two types of support required:

- Specialist support on establishing and developing co-operatives and mutuals;
- Sector-specific support to develop co-operative and mutual enterprises in growth sectors.

Advice, Support and Development

The Commission found that co-operative and mutual businesses require advice tailored to their specific needs as co-operatives e.g. on legal structures, business planning, membership and share options etc. as well as the issues on which other businesses often seek help e.g. marketing, managing cashflow and credit.

The Commission was advised that mainstream business support providers can find it difficult to support co-operatives and mutuals, as not only do they not have the expertise on the options in respect of legal form, they often do not understand the process involved in forming a co-operative or mutual. Mutuo pointed out that mutualisation is much more than a transaction to establish a new entity – it involves the emergence of a new mutual from the grass-roots and a process of cultural change. Mutuo said:

[creating a mutual] involve[s] a high degree of innovation by those going through the process of transition to the new form of ownership, governance and operation. They have to work out for the first time how to do their job in a co-operative and mutual way, how to work with staff and users in a completely new set of relationships where those two constituencies (and others as well in some cases) have formal roles within the new organisation.⁹⁷

Duncan Forbes, Chief Executive of Bron Afon Community Housing explained how co-operative businesses differ from mainstream ones:

Running a co-op is not simply a question of running a business. It requires discussion around the structures of ownership, particularly power and control, culture, values and relationships. If these are not worked on continuously then a co-op is only a cooperative in name and not reality.⁹⁸

⁹⁷ Mutuo Written Evidence para 2.10

⁹⁸ Bron Afon Community Housing Written Evidence p. 5

Similarly, the Welsh Local Government Association informed us that:

All evidence indicates that both communities and staff mutuals require a high degree of support in terms of “getting off the ground”, such as training and development in skills and knowledge, business support and one to one coaching and support.⁹⁹

The Commission learned from its survey of co-operatives¹⁰⁰ that roughly half of co-operatives and mutuals said they would like support from another co-operative or mutual and 56 per cent said they would like support from an advisor. The Commission concluded that the model of advice and training used should include knowledge transfer and mentoring, i.e. the support of one co-operative (with appropriate financial recompense) for another.

There was unanimity in evidence submitted that co-operatives and mutuals need advice specific to their business model; for example, the Plunkett Foundation said:

Plunkett feels strongly that co-operative and mutual enterprise business support is best delivered by those who know and understand the various forms of co-operatives and mutual enterprises. This is so that there is an understanding of the ‘co-operative difference’ that co-operative and mutual enterprises are able to unlock.¹⁰¹

The Commission concluded that provision of specialist business advice, support and mentoring that meets the specific needs of co-operatives has a crucial role to play in the development and prosperity of the sector in Wales.

The Commission recognised the considerable achievements of those involved in supporting the co-operative and mutual development, not least those of the Wales Co-operative Centre. Other providers of general support to the sector include Wales Council for Voluntary Action, the Co-operative Enterprise Hub and Community Housing Cymru’s Building Enterprise Programme.

Nevertheless, the Commission concluded that the support available to the sector needs to be strengthened to achieve a step-change we seek. Current capacity is insufficient for existing demand. We recognised that support should be available for small and large co-operatives and mutuals not just at start-up but throughout their life, and that it should include mentoring and co-operative-to-co-operative support, and proactive co-operative business development.

Sector-specific Support

The Commission identified that several sectors with growth potential have specific requirements, for example because of the market in which they operate or the regulations that apply to that sector.

99 Welsh Local Government Association Written Evidence para 25

100 L. Burnett (2013) Co-operatives and Mutuals in Wales: Adherence to the Recognised Principles of the Co-operative Movement. Research for Commission

101 Plunkett Foundation Written Evidence p.8

Energy

In energy, three social enterprises informed the Commission that they faced complex technical issues such as permits and licensing, difficulties securing investment finance especially at the development and planning stages, and a complex planning framework. The Commission welcomes the support currently available from the Ynni'r Fro project as well as Renew Wales and Community Energy Wales, but considers that there is scope to increase specialist support particularly on technical issues, to provide early stage finance and to embrace all forms of renewables, and to learn from best practice.

Community Shops and Services

In the case of community shops, the Commission were informed that there needs to be much greater awareness of the role of co-operatives and mutuals in this sector, early stage specialist support and mentoring to establish various types of community co-operative, support and advice on raising community shares, to enable the purchase of community assets. The Commission welcomes the work of the Plunkett Foundation and others in supporting the development of community shops and other services.

Personal Financial Services

For personal financial services, action is needed to help credit unions to meet the challenge of sustainability^{102 103} as well as, as argued by ABCUL, to develop improved financial products to meet members' needs (e.g. online, phone and mobile banking), links with local post offices and to support collaboration between credit unions to reduce costs and increase revenues. Both ABCUL and ACE (Access to Credit Unions for Everyone) have a significant role to play in assisting their members to these ends, along with Community Development Finance Institutions (CDFIs) such as Robert Owen and Moneyline Cymru.

Other new financial products, such as Property Appreciation Loans, also need pro-active development as do community currencies.

Public Services

The Commission is concerned at the paucity of advice that public bodies have access to when considering alternative models of public service provision. The evidence we received confirmed that local authorities and other bodies rarely considered a mutual or co-operative model when considering alternative ways in which services are delivered. Torfaen County Borough Council informed us that part of the reason was a lack of resources and expertise:

*there is a need for a targeted resource that will hand hold potential spin-outs through the process. This resource should also be able to offer ongoing mentoring, ideally via a network of similar types of organisations who can offer practical experience.*¹⁰⁴

102 Old Bell 3 Ltd (2012) An Evaluation of the Access to Financial Services through Credit Unions Project Final Interim Report. Available at: <http://wales.gov.uk/docs/caecd/research/130312-access-financial-services-credit-unions-project-interim-en.pdf>

103 ABCUL Written Evidence

104 Torfaen County Borough Council Written Evidence

Evidence suggested that there was much more could be done to foster co-operation in Wales' schools and colleges. Ideas included raising awareness of the principles of co-operation and developing the skills required for effective co-operative enterprise; changes to the curriculum and approach changes to school governance models including multi-stakeholder models; increased collaboration with parents and the community and collaboration between schools to drive up standards. Several witnesses proposed a 'Welsh model' of a co-operative school.^{105 106}

In social care, evidence received identified issues related to finance, namely the high capital costs of entering the residential home sector, and the market, notably the dominance of local authorities as purchasers of care in the Welsh market and downward pressure on fees. Private care providers told us that residential care was more profitable than domiciliary care¹⁰⁷, but the Commission noted that public policy and older people themselves prefer to receive care in their own homes. The Commission learned of ways of adapting to pressures such as increasing volume¹⁰⁸, encouraging small scale local initiatives that are self managed by clients¹⁰⁹, and using volunteers in place of paid staff¹¹⁰.

The importance of involving users of services in social care co-operatives was strongly emphasised. The Social Co-ops Development Forum argued strongly that 'social co-operatives' must fully include user and carer voices 'at the heart of their governance', and should have an 'open door' to worker and trade union involvement¹¹¹. Multi-stakeholder co-operatives are therefore particularly relevant in social care. The Commission also noted the potential to combine social care services with other services, notably housing, building on the current initiatives of some housing mutuals.

The Commission noted that the Social Services and Well-Being (Wales) Bill allows Welsh Ministers to issue Codes of Practice in relation to the exercise of social service functions. The Commission recommends the Codes of Practice include the involvement of service users and staff in service design and delivery in their criteria for commissioned services.

Our conclusion is that there needs to be a significant shift in culture and strong leadership, alongside enabling legislation and guidance if the changes we wish to see in social care are to be realised. Pro-active encouragement and support will be needed to drive forward the development of social care co-operatives and learn from experience and elsewhere in the UK and world, including provision of appropriate finance, expertise and partnership with other agencies.

In terms of health, the issues raised in the sector are clearly large and complex and the Commission believes that the Welsh Government should commission further work on the potential of the sector.

105 Co-operative Group Written Evidence

106 Co-operative College Written Evidence

107 Care Forum Wales Oral Evidence

108 Care and Share Associates, Sunderland, Oral Evidence

109 Mick Taylor, Adviser on Co-operative Care, Oral Evidence

110 John Restakis, Executive Director at the British Columbia Co-operative Association, Oral Evidence

111 Social Co-ops Development Forum, Written Evidence

Employee Buy-outs

The Commission heard that the issues faced in business transfers to employees are complex, with risks of failure inherent in the transfer process. We noted that the Wales Co-operative Centre has a specialist employee ownership team, which is experienced in providing advice and support and helping to secure investment finance particularly when a buy-out is phased. The Commission concluded that action to meet the specific requirements of employee buy-outs is required.

Agriculture, food and forestry

The evidence the Commission received on agriculture, food and forestry¹¹² demonstrated that although co-operatives are relatively well established, they nevertheless need to adapt to a tough economic climate, develop beyond purchasing and marketing co-operatives and innovate if they are to succeed. The Commission concluded that support for agricultural co-operatives needs to be stepped-up, with further work undertaken to define the precise actions required, and should be linked with wider co-operative and mutual development.

Land

The Commission recognised that the experience of other parts of the UK indicated that the need for support for the development of local CLTs, including expertise on housing development, access to finance and to cheap land.

Specialist expertise

The Commission noted that several organisations provide sector-specific advice and support, such as the Plunkett Foundation for community shops, Ynni'r Fro for community renewables, Social Investment Business for Credit Unions, Supporters' Direct for supporters' trusts, Co-operative Group's Public Service Mutuals work and Wales Co-operative Centre's support for housing co-operatives and employee buy-outs. Not all these organisations enjoy the high profile and capacity needed to achieve the significant increase in co-operative and mutual enterprise formation and growth we want to see. In addition, there are several sectors where there are at present no sources of specialist expertise – this is particularly the case in respect of public services, notably social care and education.

The Commission concluded that sector-specific co-operative and mutual support programmes should be developed and strengthened, which offer access to high-quality expertise and technical support, facilitate access to investment finance, and offer the opportunity to learn from other co-operatives operating in the same sector.

The Commission also considered that the number of initiatives and providers risks confusing prospective co-operatives and mutuals wanting advice and support and that this could be avoided by establishing a web-based point of access to the network of providers through a portal potentially entitled '*Social Business Wales*'.

¹¹² Discussions with and visits to three enterprises.

Recommendations

The Commission recommends that the provision of business advice and support to encourage the formation and development of co-operatives and mutuals should be significantly strengthened by:

4. Securing the future of comprehensive business advice and support programmes for co-operatives and mutuals.
5. Extending the specialist support for growth and development of co-operatives in specific sectors with growth potential.
6. Encouraging existing co-operatives to support the development of new co-operatives, either as spin-offs, as suppliers, or as mentors.
7. Establishing a web-based portal – Social Business Wales – to facilitate access to advice and support for proposed or established co-operatives and mutuals.
8. Strengthening the support and advice to managers and employees of failing, but economically viable, companies to consider a co-operative and mutual business model as a means of saving the enterprise.

Investment Finance

The Commission noted a number of different providers of debt finance, including mainstream providers such as banks and building societies, specialist loan providers (such as Charity Bank and Co-operative & Community Finance), other loan providers such as WCVA's Communities Investment Fund, Property Loan Fund and the Microbusiness Loan Fund, as well as providers of grants such as the Plunkett Foundation's bursary scheme, the local authority-led Community Economic Development Grant in south-east Wales, and doubtless several more. The Commission also noted specific arrangements for community energy projects in Wales via the Ynni'r Fro programme which provides grants and loans (as well as advice and information) to social enterprises to develop community-scale renewable energy schemes. We heard that some credit unions are keen to develop business lending (and one was already doing so), although others preferred to consolidate or expand their personal lending portfolios.

The Commission recognised that many lenders are independent of government and that diversity of provider is important, but was concerned about the risks of duplication and fragmentation, and lack of awareness of potential sources of finance.

On the issue of availability of business finance, some providers suggested that there was no shortage, and that funding is available to those able to demonstrate sound business and financial planning. Finance providers also said that investment in co-operatives and mutuals was generally low risk, supported by the low default rates reported to the Commission.

The Commission found that many of those who submitted written evidence saw the lack of finance as a major challenge to the growth of co-operatives and mutuals in Wales. Wales Co-operative Centre's evidence cited research by Social Enterprise UK which found that 44 per cent of social enterprises had experienced difficulty accessing finance, and some individual co-operatives said they had difficulty securing finance particularly for capital investment.

One reason for difficulty getting finance is structural. The Charity Bank pointed out that as many co-operatives and mutuals are companies limited by guarantee their only option to raise finance is through debt. Yet borrowing can be difficult for new co-operatives and mutuals without a track record, particularly if the start-up is protracted; for example as is sometimes the case in renewable energy co-operatives. For start-ups, Wales Co-operative Centre told us that grants have a role to play and are essential to maintaining a 'pipeline' of new businesses.¹¹³

In addition, there is a lack of understanding of the co-operative or mutual model. Charity Bank told us that some lenders require personal guarantees from the directors of the co-operative or mutual, in effect expecting volunteer trustees to offer equity in their residential property as security without any prospect of gain. Charity Bank cited 23 instances of organisations which had approached them after being refused credit outright or being offered it on unaffordable terms¹¹⁴.

Another issue faced by co-operatives and mutuals is the cost of accessing finance. The Commission noted that some said even if finance is available, the cost of due diligence work by some lenders can make small loans uneconomic and the lack of track record and guarantees can sometime prohibit large loans from some lenders. The Commission noted that the 'credit crunch' has affected co-operatives and mutuals as well as many mainstream businesses.

For employee buy-outs, the Commission learned that exit strategies for mainstream equity and venture capital funding are usually at odds with the objectives of an employee owned company, and that even specialist co-operative funds are often not suitable for phased buy-outs. There are also no financial incentives to encourage employee owned businesses to invest in each other to help grow the sector.

The Commission concluded that despite mainstream finance being available in principle, lenders' criteria were sometimes so demanding or inappropriate to the sector that in practice many co-operatives and mutuals were unable to access it. We therefore support the provision of debt finance through specialist lenders to co-operatives and mutuals.

The Commission heard that one alternative to loans and grants is to raise equity finance through employee or community shares. At present support is available from the Community Shares Unit at Co-operatives UK (via Wales Co-operative Centre), Plunkett Foundation and the Co-operative Communities Shares Fund managed by Co-operative & Community Finance. The Commission thought there was scope to increase the profile and use of employee and community shares, including the potential for credit unions to lend for their purchase.

The Commission received a number of other proposals to strengthen and simplify the provision of finance to co-operatives and mutuals, ranging from a fund to support employee buy-outs, to a Co-operative Finance Initiative in which the borrowing powers of RSLs would be used in partnership with Welsh Government and Welsh local authorities to convert revenue funding into capital investment for housing and other key public and community services, to a 'revolving loan fund' financed by co-operatives and mutuals themselves.

113 Wales Co-operative Centre Oral Evidence

114 Charity Bank Written Evidence

We concluded that there should be a dedicated grants and loan fund for co-operatives and mutuals, which should include provision and earmarked funds for employee buy-outs. As with mainstream business finance, the fund would complement lenders such as Charity Bank and other banks, but would respond to the specific requirements of co-operatives and mutuals.

Recommendation

The Commission recommends that the need for investment finance should be addressed by:

9. The creation of a grants and loan fund – Co-operative and Mutual Finance Wales – dedicated to co-operative, mutual and other social enterprises, with specific provision for employee ownership. It should be administered by a range of financial intermediaries and accessed via the web portal of Social Business Wales.
10. Business support providers should collaborate closely with funders to ensure that funders understand co-operative and mutual business models and that co-operative and mutual businesses are ‘investment-ready’ when their projects are passed through to the funders.

Land and Assets

The Commission noted that the Welsh Government has not to date implemented legislation to put privately owned community assets into community hands. The Commission finds that being presented with the opportunity to take ownership and support to do so would be an important first step to communities coming together to take control of the facilities that matter most to them.

Wales has an opportunity to go further than Scotland and England in this regard, by including sports clubs as community assets. This could protect the proud traditions of Welsh sports clubs from insensitive ownership. Welsh local authorities already have powers to transfer assets to community ownership.

Community Land Trusts, as discussed earlier, have an important role to play here, ensuring development meets community needs and retaining increases in asset values for community benefit.

The question of ‘asset locks’ is crucial. They ensure that formerly public assets that are in community ownership cannot be disposed of, preventing asset stripping whilst still allowing assets to be used as security for borrowing.

Recommendations

The Commission recommends that:

11. The Welsh Government should consider legislation to enable communities to list their community assets and have right of first refusal to bring assets into community ownership. In any such legislation, consideration should be given to include sports clubs as community assets.

12. Further work be undertaken on asset locking to ensure that effective safeguards are in place.
13. The Welsh Government and the Community Development Finance Association to continue to encourage the development of Community Development Finance Institutions to invest in this area to enable more capital investment.

Procurement

The Commission identified that opening up public and private sector purchasing to co-operatives and mutuals is a significant opportunity. The Welsh public sector, for example, spends approximately £4.3 billion a year on externally sourced goods and services¹¹⁵.

The potential impact of procurement is illustrated by the experience of RSLs¹¹⁶. RSLs spend £951 million a year on external goods and services, of which approximately 80 per cent is retained in Wales. Indirect benefits of this spend are approximately £850 million. The combined impact is 20,200 full-time equivalent jobs and £570 million in Gross Value Added.

Many organisations which commented on the importance of procurement in their evidence urged that guidance on public procurement should be reviewed to enable co-operatives and mutuals to tender. WCVA argued that new organisations would be unable to pass the qualification stage because they lacked a track record, and several others argued that 'whole-of-life' approach would be preferable to contract evaluation based on price¹¹⁷. One organisation¹¹⁸ said that some local authorities had tendered services even when tendering was not a requirement under EU rules, and that as a consequence the number of small businesses which had been successful had decreased.

The Commission noted that the McClelland review of procurement¹¹⁹ had found that while the policies and procedures recommended by Welsh Government and Value Wales were often excellent and reflected social and environmental as well as economic concerns, there was an issue with implementation of guidance. It is vital that any changes to EU procurement rules, due from 2015, that could benefit co-operatives and mutuals are implemented vigorously and in full. The Commission acknowledges that Value Wales, the procurement arm of the Welsh Government, has a remit to improve public procurement practice and the outcomes secured from the annual £4.3 billion. The new EU procurement rules are likely to contain provisions that may increase the opportunities for co-operative or mutuals, and Value Wales will be looking at how to maximise these opportunities.

The Commission recognises that the majority of Welsh businesses and third sector organisations are SMEs, and sometimes they may not have the capacity to bid independently for larger collaborative and one-off contracts. Consortium bidding and delivery is an ideal way for businesses to retain their autonomy whilst increasing their scale and scope to handle larger pieces of work.

115 J. McClelland (2012) Maximising the Impact of Welsh Procurement. Welsh Government. Available at: <http://wales.gov.uk/docs/dpsp/publications/valuewales/120917mcclellandreviewfullfinal.pdf>

116 Community Housing Cymru Written Evidence

117 Wales Council for Voluntary Action Written Evidence

118 Care Forum Wales oral evidence

119 J. McClelland (2012) Maximising the Impact of Welsh Procurement. Welsh Government. Available at: <http://wales.gov.uk/docs/dpsp/publications/valuewales/120917mcclellandreviewfullfinal.pdf>

The Commission welcomes the 2013 Joint Bidding Guide which gives practical advice on the benefits and challenges associated with bidding as a consortium, for both potential consortium members and the public sector who are advertising contracts. It was produced collaboratively by the Welsh Government, the Wales Cooperative Centre and the Wales Council for Voluntary Action, and includes a comprehensive package of practical tools to help buyers and suppliers identify the benefits and manage the risks involved.

The Welsh Government intend to develop some procurement training to be included within the suite of courses offered by the Value Wales training contract, and run some consortium-friendly procurement pilots to test the guide and record lessons learnt, while also working with partners to develop training material for prospective consortium members.

In addition, the Commission considered that the benefits of a whole-area approach to procurement should be seized. They noted the impact of the approach taken by Evergreen Co-operatives in Cleveland, Ohio where public bodies collectively used procurement to incubate and upgrade co-operatives, creating jobs as well as providing value for money (see figure 7). The Commission urges that a similar project be piloted in Wales.

Figure 7: Evergreen Co-operatives, Cleveland, Ohio, USA

The Evergreen Co-operative Initiative was launched in 2008 by a number of institutions based in Cleveland, Ohio to build “community wealth” by creating living-wage jobs in six low-income, disadvantaged communities.

The Initiative builds the local economy from the ground up rather than relying on wealth trickling-down from elsewhere or offering government grants to companies to set up in the area. It increases asset ownership, anchors jobs and wealth locally, gives economic stability and strengthens the tax base.

The Evergreen approach is based on leveraging some of the expenditure of local institutions into the area which totals \$3 billion, building a network of community co-operatives to meet local needs and those of the institutions and ensuring the jobs are environmentally sustainable jobs. Central to this is a focus on expanding sectors of the economy and scaling-up of the co-operative businesses.

The initiative aims to help the formation of 10 new co-operatives employing 500 people in the medium term. Today Evergreen Co-operatives comprise:

- Evergreen Co-operative Laundry
- Evergreen Energy Solutions
- Green City Growers

The co-operatives established will donate 10% of their profits to the Evergreen Co-operative Initiative to be reinvested in creating new co-operatives.

*Source: Wales Co-operative Centre (2012) **Community Co-operatives in Wales – ordinary people doing extraordinary things.***

The Commission also identified significant potential for co-operatives and mutuals to procure from each other. Because the sector is fragmented in Wales, we believe

that more could be done to encourage and support co-operative, mutual and social enterprises to trade with each other.

Recommendations

The Commission considered that inflexible approaches to public procurement and lack of development of the co-operative and mutual supply chain limit access to important markets. It recommends that:

14. Specialist expertise in co-operative procurement be developed within Value Wales and mainstreamed into procurement practice throughout Wales.
15. Specific reference to co-operatives and mutuals be made in all Welsh Government guidance on procurement.
16. Vigorous efforts be made to implement the revised EU procurement rules that could benefit co-operatives and mutuals in due course.
17. The Welsh Government and the co-operative and mutual movement develop the co-operative and mutual supply chains, for public, consumer and private services, to open new markets for co-operatives and mutuals, utilising the new Joint Bidding guidance.
18. A pilot project be established to demonstrate the potential of public procurement to develop co-operatives, similar to the Evergreen Co-operatives project.

Intelligence and Innovation

Intelligence and innovation are vital to the long-term success of co-operative enterprises. It is around knowledge and expertise that competition takes place – competition solely on price is not beneficial either to co-operatives or to the Welsh economy. The Commission noted that intelligence and innovation had underpinned the success of co-operatives and mutuals in Mondragon, elsewhere in Spain and Italy although innovation has been supported in different ways.

Wales' track record of innovation in general is mixed, performing relatively poorly on conventional measures of innovation such as research and development while doing better on others such as higher education innovation¹²⁰. The evidence on innovation in the co-operatives and mutuals sector is slim. The Commission was struck by the lack of information about the co-operative and mutual sector, which means that even the simple matter of the number of co-operatives and mutuals in Wales is not straight forward. The difficulties are compounded by a lack of intelligence about business performance and prospects. Co-operatives are not able to benchmark their performance against others, learn from best practice and understand the risks and prospects ahead.

The Welsh Government's innovation strategy, Innovation Wales, identifies collaboration as essential for success, although it refers mainly to collaboration in respect of funding and does not refer to the co-operative and mutual business models. Its priority sectors of life sciences and health; low carbon, energy and environment; advanced engineering and materials; and ICT and the digital economy, include several sectors which the

120 Welsh Government (2013) Innovation Wales, Available at: <http://wales.gov.uk/docs/det/policy/130307innovationreviewen.pdf>

Commission has identified as having potential for co-operatives and mutuals to grow and where there are already emergent co-operative enterprises.

The Commission concluded that in a small country and a tough economic climate, Wales' innovation strategy needs to embrace and promote the co-operative and mutual business model, so that new and existing co-operatives and mutuals in the priority sectors can benefit from mainstream funding and expertise alongside other types of SME.

Sectors outside the priority areas of Innovation Wales also need support to innovate, whether in terms of new developments in retailing or new models of social care. This support could most efficiently be delivered in parallel with specialist sectoral advice, so that it reaches co-operatives themselves and builds collaboration between them and with innovators elsewhere e.g. in higher education. This work could be termed a 'co-operative innovation hub' although the function is more important than its name.

Recommendation

The Commission recommends that:

19. The Welsh Government should ensure that its Innovation Wales strategy fully embraces the importance of co-operatives and mutuals, takes active steps to involve co-operatives and mutuals in its work, and promotes the co-operative and mutual business model in developing new enterprises.
20. Capacity for innovation and dissemination be included in the provision of specialist sector support for co-operatives.

Networks and Advocacy

The Commission recognised the excellent work of several bodies that represent co-operatives and mutuals. However most have very limited capacity and as a result, the voice of the co-operative and mutual movement in Wales is relatively small and fragmented. It is difficult to advocate co-operative principles and develop the strategic capacity required to drive forward the co-operative agenda.

The Commission considers that the co-operative and mutual movement needs to be strengthened to make the most of what remains a relatively small sector. The Commission believes that co-operatives and mutuals themselves are best placed to develop and represent the sector. The Commission was impressed with the enthusiasm and vigour with which some co-operatives and mutuals, such as John Lewis¹²¹, promoted their business model to employees and customers alike. The 'co-operative difference' was amply demonstrated by the findings of our research which showed that 100 per cent of co-operatives would be willing to help other co-operatives to implement co-operative principles through buddying arrangements¹²² – it is hard to imagine such a response from mainstream businesses.

The challenge is to harness and grow the energy and enthusiasm of the sector in Wales, which it must be recognised remains relatively small. The challenge the Commission issues to the co-operative movement is to increase co-operation between co-operative

121 John Lewis Partnership, Oral Evidence

122 L. Burnett (2013) Co-operatives and Mutuals in Wales: Adherence to the Recognised Principles of the Co-operative Movement. Research for Commission

organisations and enterprises in order to increase their profile and influence and to build strategic capacity.

Recommendations

The Commission recognises the limited capacity in Wales to develop policy and strategy on co-operative and mutual development, promote best practice, facilitate networking and increase understanding of the co-operative and mutual business model. To take forward an increase in intelligence, networking and advocacy required it recommends:

21. Developing capacity for research, strategy and policy on the expansion of the co-operative and mutual economy, to act as source of international economic intelligence and provide strategic leadership to the movement in Wales.
22. The formation of a 'leaders' forum' of key co-operative entrepreneurs to advise Welsh Ministers and, as appropriate, represent the sector.
23. That co-operative development organisations and co-operative representative bodies should facilitate networking and awareness-raising.
24. That the Welsh Government should explicitly consider co-operative and mutual business models in Welsh Government legislation, regulation, guidance and codes of practice as part of their mandatory requirement to consider sustainable development.

5. Delivery And Benchmarks

The Commission believes that its recommendations will, taken together, provide a substantial and comprehensive investment in all aspects of developing and supporting co-operatives, mutuals and other socially-owned enterprises in Wales. Ensuring this programme is effectively delivered will be vital.

Funding

Throughout its work the Commission has recognised the severe constraints on public expenditure, and their persistence in the long term. Many of our recommendations are cost-neutral as they involve either mainstreaming work on co-operatives and mutuals, for example into Value Wales, or adapting or 'bending' existing expenditure e.g. to support higher-level qualifications in co-operation.

However, some of recommendations do require public investment. The Commission considers that public expenditure, by Welsh Government, the European Union's structural funds and other bodies, in creating a climate and environment in which co-operatives and mutuals can thrive, is a sound investment. Spending on developing co-operatives and mutuals is a proven way of meeting the Welsh Government's core priorities of jobs, education and health, and tackling poverty.

The next round of EU structural funding provides an opportunity to launch the kind of step change that is needed. The Commission calls on the Welsh Government to seek ERDF funding to put in place an integrated initiative that acts as a platform to develop the co-operative and mutual sector in Wales. This initiative should:

- Provide an integrated service including finance and specialist development funding, business support, pro-active development, innovation activities and awareness.
- Be flexible to allow for a sectoral approach harnessing the networks and experience of leaders within those sectors.
- Be able to offer support to public bodies considering new models of service delivery through mutual approaches.
- Be collaborative, bringing together key agencies to deliver the initiative such as finance bodies and sector experts such as Community Housing Cymru, Plunkett Foundation and Wales Co-operative Centre:
 - be separate but work in partnership with Business Wales to ensure effective cross-referral
 - be broad enough to include support to existing businesses to convert to a co-operative or an employee-owned business as part of a succession plan
 - be extended to include support to social enterprises, as well as co-operatives and mutuals, which have more in common with co-operatives and mutuals than with traditional businesses
 - be sustainable by the end of the EU funding in 2020, providing a lasting legacy for the economy and communities of Wales. This could include new investment funding from within the sector, peer-to-peer finance and fee-paying services.

Implementation

The Commission is firmly of the view that the successful development of co-operatives cannot be driven in a top-down way, at the behest of the state. Co-operative principles need to be understood by people involved in their development and embedded in all aspects of their operation – as we have noted previously, co-operatives and mutuals must be more than just a legal form.

We therefore propose that our co-operative development programme be taken forward in a different way to conventional, government-led initiatives. We recommend a collaborative approach, which brings together different organisations and sources of funding to achieve a common goal. While public bodies can – and indeed must – help and support the process of co-operative development, it must also actively involve co-operatives and mutuals themselves.

The Welsh Government's role must be one of helping to strengthen strategic leadership – providing some funding to support infrastructure, pump-priming and enabling new initiatives, strongly encouraging a co-operative ethos in public services, be it in education or local government or, as is already occurring, social care, and itself promoting co-operation through public policy.

We envisage the programme therefore being delivered, in the main, by co-operatives and mutuals themselves or by organisations which are evidently sympathetic to co-operative principles and values. Indeed, existing organisations could establish a secondary co-operative to act as an intermediary to manage the delivery of the overall programme. We stress that this would not be yet another committee, but an action-oriented, co-operatively-owned entity.

Benchmarks

The Commission was asked to “identify and establish benchmarks”. This task has not been easy given the paucity of information and intelligence about the sector, and we have no option but to recommend that:

25. Further work be undertaken, as part of an enhanced intelligence function, to develop more robust benchmarks.

There are two areas in which benchmarking can be used. The first measures the overall contribution of co-operatives and mutuals to the Welsh economy; the second measures the overall performance of individual co-operatives and mutuals.

Economic Performance

Monitoring the development of the co-operative and mutual sector is essential not only to assess the impact of investment but as an early warning system of areas of potential difficulty. The Commission suggests use of six basic indicators (see Table 4), which currently form the basis of Co-operatives UK's annual reporting on the co-operative economy. Not all indicators are currently available for Wales, nor are all currently available by specific sector or type of co-operative. In addition, existing data only includes those co-operatives which are members of Co-operatives UK – many are not. The gaps need to be addressed if the development of the sector is to be effectively measured.

Table 4: Measures of Economic Performance

Indicator	Sub-indicator	Current position
Number of co-operatives and mutuals in Wales	Analysed by a. type of co-operative b. economic sector	446
Turnover of co-operatives and mutuals: • total • as a percentage of all business turnover in Wales		£1.54 billion 1.6%
Number of members		727,416
Pre-tax profit: • total • as a percentage of turnover		Not available
Shareholder funds		Not available
Number of employees		11,060

Source: Wales Co-operative Centre, <http://www.walescooperative.org/one-four-welsh-population-member-co-operative> accessed 17th November 2013

Co-operative Performance

Co-operatives UK has also developed indicators of co-operative performance with which individual co-operatives can assess themselves. They include both financial and non-financial performance measures¹²³. The Commission recommends that these be adopted and implemented in Wales by co-operatives and mutuals of all kinds. The results should be gathered regularly in order to monitor the performance of the sector as a whole as well as to identify if intervention is required.

¹²³ Co-operatives UK (2013) Simply Performance. Available at: <http://www.uk.coop/documents/simply-performance>

Appendix 1 – A Guide to Co-operative and Mutual Ownership Models¹²⁴

What is a mutual?

The term “mutual” is used as an umbrella term for several different ownership models. Mutuals are often described as being characterised by the extent to which members have democratic control of the business and share in its profits, and contrasted with ‘investor controlled’ companies.

However, this is a misleading distinction, because all limited companies operate for the benefit of their members – the shareholders who invest in a company limited by shares, or the guarantors of a company limited by guarantee – and these members are involved in control of the business whether directly, or through scrutiny of the actions of the directors, or simply by buying and selling shares in response to the company’s performance.

The distinguishing characteristic of a mutual is that the organisation is owned by, and run for, the benefit of its members, who are actively and directly involved in the business – whether its employees, suppliers, or the community or consumers it serves, rather than being owned and controlled by outside investors.

Legal structures for mutual ownership

It is important to note that legal structure is not the same as ownership model – mutuals can be based on a variety of different legal structures.

For example, the flexibility of the limited company structure means it is possible for companies to operate a mutual ownership model. But it is also true that partnerships and limited liability partnerships are essentially mutual – the partners own and run the business for their own benefit.

There is also an incorporated legal structure which is specifically mutual: the industrial and provident society. There are two types of these: Co-operative Societies and Community Benefit Societies (BenComms).

Co-operative Societies operate for the benefit of their members, and distribute any surplus not reinvested in the business to those members. BenComms conduct business for the benefit of their community. Any profits are not distributed among members, but returned to the community. They therefore provide a legal structure designed for social enterprise.

Industrial and provident societies always have a mutual ownership structure. The term “Co-operatives” describes a wider movement of mutual enterprises, which includes all Co-operative Societies and Community Benefits Societies. However, not all co-operatives use these legal structures – many are in fact limited companies. For more information about co-operatives, see below.

¹²⁴ Department for Business, Innovation and Skills, A Guide to Mutual Ownership Models, November 2011 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31678/11-1401-guide-mutual-ownership-models.pdf

Employee-owned companies

If a limited company is more than fifty percent owned by its employees it is usually described as 'employee-owned'. Where employees hold a significant stake in a company, but less than fifty percent, this is often referred to as co-ownership.

There are two main types of employee ownership:

- Direct employee ownership – where employees become individual shareholders of shares in their company
- Indirect employee ownership – where shares are held collectively on behalf of employees, often through an employee trust.

Many companies, including many large public companies (listed or otherwise), operate employee share ownership plans – using one or more tax advantaged share schemes – to allow either all or some of their staff to own shares in the company they work for.

Indirect employee ownership via an employee trust is a commonly used model by employee-owned businesses. It is a way of enshrining employee ownership in the business for the long term via the rules of the trust.

It is also possible to combine direct and indirect ownership – a combination of individual and collective share ownership.

Co-operatives

The term 'co-operative' is defined by the International Co-operative Alliance as "an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly owned and democratically controlled enterprise".

To be a co-operative, the enterprise must reflect the following co-operative values set out by the International Co-operative Alliance, namely: self help, self responsibility, democracy, equality, equity, and solidarity.

Co-operatives must also reflect four ethical values: honesty, openness, social responsibility and caring for others. They must also subscribe to the following set of co-operative principles: voluntary and open membership, democratic member control, member economic participation, autonomy and independence, provision of education, training and information, co-operation among co-operatives, and concern for community.

There are a number of different types of co-operative, these include:

- Worker co-operatives – these effectively operate a system of 100% employee ownership
- Consumer co-operatives – where members are the customers of the business
- Producer co-operatives – where members are independent producers who form a consortium, often to reduce fixed costs such as distribution or marketing
- Community co-operatives – drawing their members from a local community (or a community of people with a common interest)

Some co-operatives may of course have more than one membership type. The term 'co-operative' does not itself refer to a specific legal form. Many co-operatives are industrial

and provident societies (either co-operative societies or community benefit societies), but it is not necessary to use this legal form to be a co-operative: many co-operatives are in fact companies – usually limited by guarantee.

Because of the values and principles of the co-operative movement, many co-operatives are social enterprises – that is they have primarily social objectives and reinvest or use the majority of their profits for those objectives. Such enterprises may use a standard co-operative society or company legal structure. Alternatively they may adopt a legal structure designed for social enterprise – either the community interest company (CIC) or the community benefit society.

