**Briefing paper: Optimising the Co-operative Values and Principles in the business case for a new business**

This document provides the content to incorporate into a Briefing Note for officers investigating new businesses with a Co-operative Option.

Section of a Briefing Note would be expected to include:

* low Chart for business Case Development,
* Values and Principles,
* definitions,
* links to sources of specialist support,
* links to co-op college learning,
* roles of officers engaged in the Business Case development.

The content here is informed by government guidance for local authorities about business cases:

[GUIDE TO DEVELOPING THE PROJECT BUSINESS CASE](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/749086/Project_Business_Case_2018.pdf)

1. **Introduction**

This briefing paper discusses how a new business, started by or with a Local Authority, can optimise the application of co-operative values and principles in the business structure.

In developing options for the business model, the paper below discusses the Five Case Business Model process as the mechanism through which Local Authorities would be expected to consider co-operative options.

1. **Background**

The Council is investigating starting a new business.

[Outline the service being investigated]

[Outline the reasons why this is being investigated as a new business – what is the market failure]

As a member of the Co-operative Councils Innovation Network, the council is committed to applying the Co-operative Values and Principles in delivering our services.

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| **Values**  self-help  self-responsibility  democracy  equality  equity  solidarity | **Principles**  **Voluntary Membership**. - Ownership and control is by members. The business exists to serve them, with membership open to anyone who is eligible to join and willing to take on the responsibilities that come with it.  **Democracy -** Every member has one vote, no matter how much of a financial or political stake they have.  **Financial Participation**. - The business is financed by the members pooling their resources. As members, they work together to control the capital and decide what to do with profits.  **Autonomy and Independence**. - Ownership is independent of investors, government or other organisations so that control is with the members  **Education, Training, and Information**. - Members and staff are trained in running a high-performing business and in their role of participating in its governance.  **Cooperation among Cooperatives**. - The business values these principles and seeks to uphold them through its supply chain, and the transfer of any assets.  **Concern for Community -** The business benefits the community and the environment by implementing sustainable policies that have been accepted by their members. |

1. **Writing co-operative values and principles into the Business Case**

There are generally 3 stages to developing a new project:

1. Strategic Outline Business Case
2. Outline Business Case
3. Full Business Case

A co-operative business model would ideally be considered at **Strategic Outline Business** **Case** stage.

This is the first stage of a process to develop the business case with explicit reference to co-operative principles but these impact on the business model in four ways that are developed throughout the process.

Identify factors arising from alignment between Council Corporate Objectives, Project Strategic Objectives and Co-operative Values and Principles

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Quantify the desired spending objectives/ outcomes such as: improved economy, efficiency, effectiveness, replacement and compliance

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Ensure that the Business Needs – the required service improvements - address the aligning strategic factors and the spending objectives. These could include factors identified in the policy drivers listed in Annex 1

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A co-operative Business Model should be at least one option in the long list of the Economic Case and taken through to the short list so that social value can be weighed against financial value.

1. **Strategic Outline Business Case – incorporating the Co-operative Values and Principles**

**Purpose**

The purpose of the SOC is to scope the project and to identify the preferred way forward.

**Scope**

At this early stage, the process focusses on the strategic context – in relation to the organisation strategy, and the economic case – creating a long list and then a short list of options that address the critical success factors.

**Strategic Case**

For the Strategic Case, a Co-operative Council would often have a strategy that seeks to align services with co-operative values and principles such as fairness, democracy, citizen empowerment, etc.

Strategic alignment of the case for a new business is therefore often supported by using a co-operative business model.

**Economic Case**

For the Economic Case critical success factors usually include: strategic fit and business needs; value for money; supply side capacity and capability; affordability and achievability. A short list would be expected to include:

- Business as Usual (BAU)

- A realistic “do minimum” based on the core requirements for the project

- The recommended preferred way forward

- One or more possible options based on a more and/or less ambitious combinations of the preferred way forward.

- Strategic Fit and business needs

It would be expected that a business model that applies the co-operative principles would be one of these options because it would provide an opportunity to optimise strategic fit as discussed above. The Business needs of a service initiated by the Council would be expected to include services to the community and community empowerment.

That business model would include objectives such as:

-**Independent** - Controlled at least 49.5% by stakeholders. (to achieve Full Membership of Co-operatives UK, the business would be controlled at least 51% by stakeholders although for reasons outlined below, this may not be possible for a business created by a local authority).

-**Democratic** – stakeholders participate on a one person, one vote basis (note that this is separate to the company structure which may have an elected board).

-**Voluntary membership** – stakeholders sign-up to be a member. Membership isn’t assumed just because they fit a certain characteristic.

-**Financial Participation** - As members, they work together to control the capital and decide what to do with profits.

-**Concern for Community** – the business benefits the community and the environment through its policies.

These can fit any legal form. Model governing documents are provided by Co-operatives UK. A co-operative doesn’t have to stick to one of these but doing so can make the registration of the co-operative faster.

<https://www.uk.coop/resources/model-governing-documents>

1. **Skills for developing a co-operative businesses**

It is important that the team developing the new business all understand co-operative businesses. Short, online courses about co-operative values and principles and about leading and running a co-operative business are available from the Co-operative College.

<https://www.co-op.ac.uk/online-short-courses>

1. **Further considerations for discussion**

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| **Requirements for council involvement** | **Challenges for the council** |
| Technical knowledge from CDBs, lawyers and accountants. | Knowing when to seek specialist advice.  Finding specialist advice. |
| Understanding whether council involvement is participatory or supportive. | Whether a Teckal arrangement is required.  Oversight of council owned assets may be required, company / society objects.  Community wealth building with public sector partners may require a democratic governance structure with council participation. |
| Resourcing the council’s involvement. | Resourcing from existing staff, a new appointment or external support. |
| Knowledge, skills and experience of key staff. | Building the capacity of key staff to:   1. Manage the start-up process. 2. Manage the resulting enterprise. 3. Build the trust and engagement of members. |
| Working with a new or existing community of interest as the founding members. | Understanding community skills, capacity and appetite for delivery. |
| Access to capital. | Social investment by the council and alongside external investors. |
| Ensuring a viable business model and a viable revenue stream. | Council support may involve cashflow, premises and staff. |

1. **Support**

Professional support for co-operative development is available online and specialist advisors can be engaged through the co-operative Councils innovation Network’s Dynamic purchasing System.

* **Online resources**

Co-operatives UK provides information about starting a co-operative. They and Co-operative Bank also fund The Hive, a business support service offering up to ten days support, mentoring and training from co-operative development advisors who have been through a registration process.

<https://www.uk.coop/start-new-co-op/start>

* **Local Co-operative development Bodies**

Co-operatives UK provide a directory of co-operatives including co-operative development bodies. These can be found by searching the for “Co-operative Development” under the sector drop-down list on the Directory. There is also an option to choose the council’s local region.

<https://www.uk.coop/directory>

* The CCIN Dynamic Purchasing System

The CCIN DPS was set up to enable members to move quickly and flexibly in their innovations to apply Co-operative Values and Principles in their work. The DPS period runs from 1 April 2020 to 31 March 2025.

The tender process ensured that organisations on the DPS could:

* inspire and design an innovative co-operative policy over several policy areas and themes, with a focus on delivering differently and redesigning of public services in line with cooperative values and principles
* demonstrate the ability to build capacity and leave a legacy that continues to deliver outcomes even after the funding and supporting resources have moved out
* bring credibility and profile to the work of the CCIN reaching across a wide range of sectors and agencies.

Further information about using the DPS is available on the CCIN website:

<https://www.councils.coop/resources/dps/>

1. **Challenges**

At different stages of the development of the new business, the council may choose how, or whether or not, to remain involved. Some of the opportunities for council involvement and the issues that the council may need to consider, are provided in the table below.

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| **Opportunities for council involvement** | **Issues for the council** |
| Technical knowledge from CDBs, lawyers and accountants. | Knowing when to seek specialist advice.  Finding specialist advice. |
| Understanding whether council involvement is participatory or supportive. | Whether a Teckal arrangement is required.  Oversight of council owned assets may be required, company / society objects.  Community wealth building with public sector partners may require a democratic governance structure with council participation. |
| Resourcing the council’s involvement. | Resourcing from existing staff, a new appointment or external support. |
| Knowledge, skills and experience of key staff. | Building the capacity of key staff to:   * Manage the start-up process. * Manage the resulting enterprise. * Build the trust and engagement of members. |
| Working with a new or existing community of interest as the founding members. | Understanding community skills, capacity and appetite for delivery. |
| Access to capital. | Social investment by the council and alongside external investors. |
| Ensuring a viable business model and a viable revenue stream. | Council support may involve cashflow, premises and staff. |

**Annex 1 – Spending Objectives and Business Needs**

Spending Objectives will be quantified, even from an early stage, to identify the gap between the current situation and the desired outcomes.

Desired outcomes include improved economy, efficiency, effectiveness, replacement and compliance. Service improvements will address current gaps to meet these.

Some examples of cooperative solutions against these outcomes are given below.

**Improved Economy**

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| Procurement Gaps  Community Wealth Building includes the principle of filling weaknesses in the supply chains of Anchor Institutions, with worker Co-ops that are based in deprived neighbourhoods. | Evergreen Cooperative Corporation  In Cleveland, Ohio, the Evergreen Cooperative Corporation includes Energy Services, a salad producer and a laundry. It was founded through a partnership of the Cleveland Foundation, the Cleveland Clinic, University Hospitals, Case Western Reserve University, and the municipal government |

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| Inconsistency of income streams  In a group or community, inequality is overcome by pooling resources to buy or access goods or services. | CaterEd  Following the Jamie Oliver initiative to raise the standard of school dinners, it became apparent to the schools in Plymouth that the differences in funding between the schools made it very difficult to provide the same standard to all pupils across the City. As a result, Plymouth City Council led the development of Catered which is 51% owned by the Council and 49% owned by a consortium of over 60 schools. Their moto is “every child, every time” |
| Short term Funding gap  Where a business is likely to be viable in the longer term but capital is required for start-up, a Community Share Issue can be a useful mechanism to access the right kind of capital – aligned to the members’ interests and patient where necessary. | Nudge Community Builders  Nudge is a CBS that was set up in 2017 by local residents of Stonehouse and bring buildings back into use.  It received money in 2018 from Plymouth City Council's Social Enterprise Investment Fund to underwrite a Community Share Offer. The finance bought a derelict public house in a deprived part of the City and converted it to a cafe/ community market space open six days a week and flats designed for single parents and their visiting children. Nudge raised a total of £206,750 in Community Shares. Nudge has grown out of local people wanting to make things happen in their area, they run Union Corner - a community hub, monthly markets and little nudges in unloved spaces along the street. Nudge continues to create space for local people to try things and unlock property for lasting local benefit. |

**Efficiency**

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| Increased Community Demand  Individuals or organisations collaborate to access a service, asset or goods that where demand across the community makes the service viable. | Oldham Community Power  Oldham Community Power is an incorporated Community Benefit Society that has been created to install community-owned renewable energy on public buildings in Oldham.  Since its incorporation in February 2016, Oldham Community Power has successfully installed 220 kW of solar PV on five schools and one community building in Oldham; electricity generated is sold directly to the sites at a discount to market rates, and any surplus is exported to the national grid.  £274,000 from Oldham Council guaranteed the first phase and £15,000 of shares were purchased from their Pioneer shareholding scheme. Oldham Council have a permanent seat on the Board, recognising their founder-member role and overseeing the interests of Council buildings involved in the project. |

**Effectiveness**

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| Community Asset Management  The assets most likely to be taken over by local communities are community centres (56% of local authorities surveyed had transferred management), public green spaces (49%), sports facilities (35%) and libraries (28%). | Heywood Magic Market  Established in 2002 when Rochdale Borough Council put management of the Market out to tender and invited the Traders to Bid. Classes of membership ensure that the Traders share governance with Councillors, and the community (including Councillors, an Economic Form, a Community Forum and the Voluntary and Community sector). |
| Wicked problems  Many of the challenges that are addressed by councils have complex interdependencies where the effort to solve one aspect of a problem may reveal or create other problems, making it helpful for multiple stakeholders to work together in a democratic structure. | Complex Needs Alliance Contract  Although not a separate legal entity, Plymouth City Council’s Complex Needs Alliance Contract has attracted national attention for the way that it brings together an Alliance of seven services and three commissioners, covering housing and health services, including the Council in a one-member-one-vote Agreement. |

**Compliance**

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| Council service creates a surplus  Non-statutory services that the council runs can become profitable as markets and technology change. Under S.93 of the Local Government Act 2003, charging powers changed and the council can either deliver at cost, or spin out the service as a new company. The Localism Act 2011 expanded on this by requiring that commercial activity be conducted through a separately constituted company. | Oldham Community Leisure  Several Leisure trusts were set up around the time of the LGA 2003 including Oldham Community Leisure. OCL was established in 2002 and members can include service users and employees.  <https://www.gov.uk/government/case-studies/possabilities-a-public-service-mutual-in-adult-social-care> |