



BUSINESS COUNCIL  
OF CO-OPERATIVES AND MUTUALS

# Business Council of Co-operatives and Mutuals

European Study Report

March 2017

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## About the Business Council of Co-operatives and Mutuals

The Business Council of Co-operatives and Mutuals (BCCM) is the national peak body representing Australian member-owned businesses. Formed in 2013, the BCCM is led by the chief executives of Australia's co-operative and mutual businesses in all sectors including agriculture, financial services, health insurance, retail, motoring services and human services.

The BCCM works to promote the role of member-owned enterprises in the national economy. With an estimated 2000 co-operative and mutual businesses operating nationally representing a total of 14.8 million memberships, the BCCM highlights the contribution co-operatives and mutuals make to the economy and social development in Australia.

## Executive Summary

In 2016 the BCCM received funding from the EU Centre for Global Affairs, Annual Grant Program, University of Adelaide, to research and report on innovative, best practice examples of public-private partnerships for economic development and regional co-operation involving the co-operative and mutual sector in Europe.

The research was intended to deepen our understanding of the legislative, regulatory, social and organisational factors that influence the development of robust and innovative co-operative sectors in order to inform our contribution to the important current debate in Australia about the delivery of human services. In Italy, for example, up to 70 per cent of social care is delivered by co-operatives in some regions. In Switzerland, 5% of the mainstream housing market is delivered by co-operatives, and in Zurich it is 25%. In France, worker co-operatives in the social sector provide long term sustainable employment for more than 50,000 people across the economy including in social inclusion, education, transport and construction.

Collaboration between the public and private sectors has become increasingly important in addressing key socio-economic issues. However, creation of shared value between government, corporations and the community requires a determined shift in thinking for all involved. The BCCM has led the discussion in Australia on the potential role of co-operatives and mutuals to address key socio-economic issues in partnership with government and the community. These areas include housing affordability, consumer directed care, agricultural competitiveness, foreign aid and investment (Asia-Pacific region), aged care, disability services and the National Disability Insurance Scheme, Indigenous economic development and small business sustainability.

The EU is a leading jurisdiction in developing policy and supporting legislation and regulatory regimes for the social economy. Co-operatives and mutuals are recognised partners in the social economy. Co-operatives and mutuals play a significant role in many EU jurisdictions. They are mainstream market stakeholders and have dominant market share in many areas of the economies of EU nations including social care (including health care and aged care), agriculture, insurance, banking and finance, housing, retail and tourism.

The BCCM has provided evidence from the EU to inform Australian governments on best practice in legislative reforms and regulatory regimes to enable the CME sector to play a greater role. The BCCM has also provided evidence to the Australian government on the ways in which this best practice can be further leveraged to assist in our aid and development program in the Asia-Pacific region. Recent Federal Government reviews have provided support for an increased engagement with the CME sector in public policy reform.

The evidence from the EU gathered in this Report, will make a vital contribution to the developing field of Third Sector research in Australia.

Acknowledgements: Over the course of the 10 day tour, the BCCM met with many organisations in the countries visited, Italy, Switzerland, France and the United Kingdom. The names of these organisations is included in Appendix A of this report.

The BCCM is indebted to the organisations and individuals who gave so much of their time and expertise to welcome the BCCM and share best practice and insights. The willingness to share their knowledge is indicative of the strength of the principle of co-operation amongst co-operatives across the world.

We would also like to take this opportunity to thanks the University of Adelaide for funding this important research.

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## 1. Introduction

Collaboration between the public and private sectors has become increasingly important in addressing key socio-economic issues. However, creation of shared value between government, corporations and the community requires a determined shift in thinking for all involved. The Business Council of Co-operatives and Mutuals (BCCM) has led the discussion in Australia on the potential role of co-operative and mutual enterprises (CMEs) to address key socio-economic issues in partnership with government and the community. These areas include housing affordability, consumer directed care, agricultural competitiveness, foreign aid and investment (Asia-Pacific region), aged care, disability services and the National Disability Insurance Scheme, Indigenous economic development and small business sustainability.

The European Union (EU) is a leading jurisdiction in developing policy and supporting legislation and regulatory regimes for the social economy. CMEs are recognised partners in the social economy and particularly through the delivery of human services. CMEs play a significant role in many EU jurisdictions. They are mainstream market stakeholders and have dominant market share in many areas of the economies of EU nations including social care (including health care and aged care), agriculture, insurance, banking and finance, housing, retail and tourism.

Recent Australian Federal Government reviews have provided support for an increased engagement with the CME sector in public policy reform. Evidence from the EU will make a vital contribution to the developing field of Third Sector research in Australia.

As detailed in the case studies that make up the body of this report, when implemented well, reforms to the social economy and delivery of human services in Australia will provide the opportunity for service users to be placed at the centre of human service delivery and give them more choice and control without compromising quality, efficiency and accountability.

However, in considering the reform agenda, there are two core changes that require more consideration.

- The first is that service users – the customers of human services and where required, their intermediaries must be at the centre of service design and the change process.
- The second is to understand and agree that organisational form is crucial in the delivery of human services in a world with increased choice and contestability. This is especially so where service users are vulnerable and where they more generally have poor information about quality.

In situations in which workers become both the employee and owner of a business (worker co-operatives), or the service users and employees of a business (for example the type-B worker co-operatives in Italy), a further consideration is required:

- The degree to which flexibility in worker conditions is not only necessary, but desirable, when taking in to consideration the additional benefits that secure, ongoing employment and empowerment delivers to the individuals concerned, their families, and the broader community and economy.

Whether the reform of human service delivery is effective in improving human services through better quality, equity, efficiency, accountability and responsiveness, will depend on the type of supplier or service provider. In contestable markets where service users have poor information about quality, as occurs in health and community services, both theory and evidence suggests that a 'for social purpose' (or not-for-profit) organisation will behave very differently to one whose accountability is primarily to investors and shareholders.

Putting service users at the centre of human service design means moving on from delivery mechanisms that rely on trust between a provider and a service user. To do this, we need to relinquish the power of bureaucracies and providers and instead, create new forms of co-operation and governance that facilitate the active participation of the people who use human services.

The social economy operates as part of a civil society involving relationships between people in communities usually helping each other mostly by self-help, informal networks of family, friends and volunteers. Publicly funded human services, as substantial as they are, depend on these informal networks alongside the commitment, passion and skills of caring professionals who mostly regard working in human services as a vocation.

The case studies that form this report have been gathered from some leading European jurisdictions, namely Italy, Switzerland (Zurich), France, and England. They deal with the delivery of social services, the set up and management of worker-owned businesses, and the delivery of other services, which in Australia would generally be considered 'public' services, or those traditionally delivered by government or government-funded (whether wholly or in part) agencies. Each of these sectors will be dealt with individually, pulling case studies from across the jurisdictions where necessary.

## 2. Delivery of Social Services

The approach to social service delivery in a number of the jurisdictions studied contrasted to Australian approaches. In all of these jurisdictions, emphasis is placed on enabling the individuals receiving social services, as there is a strong belief that empowering individuals to, insofar as possible, take care of themselves and others and participate in society, will greatly benefit the community as a whole. To this end, it is the goal of many of these organisations to reduce or eliminate a reliance on government funding, and operate solely or in large part on income they can generate outside of government contracts. This has in part been necessitated by cost cutting by governments in these various jurisdictions.

Further, there is a general belief within the organisations studied that citizens in partnership with government and community are responsible, at least in part, for their care and support, rather than relying on the government to assist or fund them entirely. To that end, the organisations employing (usually long term unemployed) people with a disability in order to assist them enter the workforce and earn an income do so while paying the employees less than the national minimum wage. The relevant regulatory system factors the social, societal and overall economic benefit of ensuring these individuals are gainfully employed into any determination of a 'fair' wage.

### 2.1. Italy

Co-operatives contribute significantly to the Italian economy. Article 45 of the Italian constitution recognised the importance of co-operation and its social function in 1945. The focus of Article 45 is on the social function of co-operatives, and the benefits they bring to local communities and economies.

The co-operative sector in Italy contributes approximately 8% of the country's GDP. There are approximately 39,000 associated co-ops in Italy, and 12 million people employed by these businesses. More than 12 million individual Italians are members of co-operative or mutual businesses. Co-operatives in Italy are well represented in government discussions. All co-operative businesses in the country are required to pay 3% of their annual turnover into a fund to support and develop the co-operative sector.

One area of particular focus for co-operatives in Italy is in the healthcare sector. There is currently a demographic crisis in Italy, much like in other developed countries, as there is a high rate of ageing and a very low birth rate. By 2030 26.1% of the population will be over 65 years old and 4.5% over 85. Life expectancy is between 83 and 88. The old age dependency ratio will be 42.6% and the aging index will be 222.2%.

The healthcare system is focused on care in hospitals – which makes it very expensive. The primary care available is fragmented and underdeveloped. In Italy, only a very small percentage of elderly people are treated at home by professional aged care workers. The others are in hospital or are treated by family. 2.9% in Milan, and 0.7% in Rome.

Social co-operatives have grown throughout the financial crisis in Italy. In 2016 there were approximately 350 new social co-operatives formed. Research conducted by EURICSE, the global research centre for co-operatives at Bologna University, shows that each person supported by social co-operatives in Italy saves the public administration approximately €2,000 per year.

In Italy, there are two types of co-operatively run organisations delivering different types of social services.

- Type A co-operatives which provide services to people with a disability and their families. These businesses provide 'traditional' disability or aged care services such as in Home Care and assistance; day centres; socio- educational centres; therapeutic communities; residential homes; nursery schools.
- Type B co-operatives which are businesses staffed by people with a disability, or individuals who have some other form of structural disadvantage, such as former prison inmates or rehabilitated drug addicts. These businesses aim to provide jobs to long term, chronically unemployed or underemployed individuals who are unable to enter the job market through traditional means. Type B co-operatives are required to employ at least 30% disadvantaged workers and operate in a range of sectors such as environmental, waste management; services of general interest to local communities; carpentry; cleaning; social agriculture.

Social co-operatives have grown throughout the financial crisis in Italy. In 2016, 350 new co-operatives joined the federation of social co-operatives. The numbers in membership have grown by over 100% in 10 years (2005-2015), which reflects a similar increase in the number of these businesses in the economy. It is important to note that 'disadvantaged' people is a wide ranging definition, including: physical, mental and sensorial invalids; ex-patients of psychiatric institutions; persons under psychiatric treatment; drug and alcohol addicts; minors of working age in difficult family situations; prisoners and ex-prisoners. These are permanent or long-term disadvantaged people.

The social co-operatives have multi-stakeholder membership structures. Members are mainly workers but can include disadvantaged persons; volunteer members; users; non-profit organisations, public and private institutions; and investing members.

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## 3. Type A co-operatives

### 3.1. La Rete, Trento

**Met with:** Mauro Tommasini, CEO.

**Ownership:** Social co-operative. Members are the families of disabled people who require social services.

#### Where is income derived?

Some funding comes from the local government region. Trento has a specific budget for disability. This is different to other areas where disability comes under the health budget. Typically funding is provided to service provision organisations by way of a per capita amount whereby the organisation receives a € amount per person, and the funding follows the person. This encourages organisations to try to keep people within the one organisation to increase funding. It does not encourage independence as those receiving the service are encouraged to remain dependent on the service so that the service provider can continue to receive funding.

La Rete operate differently. Each year they provide a budget for the organisation to the city, and plan with the city and the families to deliver the services they want to deliver during the year. This means that the city does not have to over-evaluate the co-operative because they are part of the planning. Until 2005 they were 100% funded by the city of Trento. After that, they started to ask for a small sliding scale contribution from the families of service users. They also undertake some traditional (but creative) fundraising. It is considered extremely important that the city remains involved in funding services for disabled people because this provides a 'check and balance' on the provision of services and discourages opportunistic practices. The organisation also receives some small amount of funding from mutualistic funds, for the families who cannot afford to contribute anything to the cost of services.

Some of the fundraising activities are incredibly innovative.

- The organisation has developed a relationship with a private supermarket (with multiple locations) in which a percentage of customer spend is donated to the co-operative.
- 24,800 hours of volunteer work was also provided last year which provided significant assistance to the organisation. It was noted, however that the monetization of these relationships is not the focus of the organisation. Rather, the relationships of the volunteers with the people who have a disability is what is important. It was noted that the volunteers build stronger relationships with the community, as families are often relieved to see people choosing to spend time with their children or family members, rather than doing so simply because they are paid to do so.
- The organisation also fundraises on the idea that the social and economic values align with environmental values. They now work with the largest green energy producer in Italy (a hydroelectric company based in Trento). They have developed what they call the 'Heart Bill': the energy company sets out a certain (discounted) price, which La Rete then explain to the consumers. People sign up for the 'Heart Bill' plan, and the cost that otherwise would have gone to marketing for more customers gets paid by the energy company to La Rete. There have been over 3,000 enrolments in this program over 2 years. The key in this program for La Rete is to be able to talk to people who would otherwise have no 'access point' or understanding of the issues being faced, about disability.

The business is now able to guarantee a certain quality of life to people, rather than simply providing a place for them to go for respite. The organisation's CEO noted that in his view, the economic part of the equation cannot be the focus of either the organisation or the government. The 'value add' created in exchange and relationship building between volunteers and disabled people is crucial.

### **How many members/people do they work with?**

They work with 144 families who have a family member or child with a disability.

### **Application to Australia**

La Rete's CEO suggested that caution needs to be taken in a system where people are given individualised funding. Learning from parts of Italy where this happens suggests that sometimes the families will take the funding and hire an individual care giver, who may not be networked or provide socialisation for the disabled person. This can lead to isolation and a failure of the networks.

From the organisational perspective, the multi-stakeholder model is crucial to ensure that the full range of services is provided to the service recipients. A 'voucher system' works where the services provided can be standardised. La Rete provides a multi-stakeholder approach. The people receiving the service, the family, the service providers, volunteers and staff are all member-stakeholders of the business. They are paid on a project-basis, to provide services to the widest possible group of people.

### **Track record**

From inception, La Rete have had the view to bring people into the community rather than putting them in institutions or programs. Traditionally disabled people were institutionalised in Italy, in places outside of the community. The cultural inclusiveness aspect of care is seen as being fundamental to their operations today.

The organisation formed after families got together, feeling that the large organisations providing services in the area were not providing sufficient individualised care to the members of their families who needed assistance. The motivation was coming from the families, but these families were perceived with some antagonism by the larger associations that were providing services already. The tensions between the associations gradually dissipated over time.

Another element they add to their work is seeing the person with disability as being a resource, or someone who can participate in providing services. For example, a cognitively disabled person may be able to help an aged person by carrying their groceries. Also, there is a program where groups of people living within the city can 'adopt' garden beds or parks within the city to look after them. La Rete provided a group of service recipients, who worked with a school group and a community group to develop a garden in a park. This helped to build ties with a local school and the community more broadly.

La Rete has four social workers who work with the families providing training for the families (dedicated to parents, siblings). This service is provided as a support structure. There are then two teams of service providers – one that provides day centres, which run a range of activities from Monday through Saturday. Activities are outside of the main La Rete centre, which are geared towards everyday life and to encourage the clients to gain independence.

They also have activities that work towards building independence and autonomy for the children so that they have some skills for when their parents are not around. They have a range of new activities around housing and housing choice, which are not standardized. They refer to the UN Charter on Human Rights for people with a disability providing each person with a choice for the services they receive. The daily activities which bring people into contact with each other builds relationships that can develop social networks.

Volunteer commitments are made through a verbal agreement only, because they feel that this brings the personal connection back into the discussion, rather than pushing it towards a legal form.

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## 4. Type B co-operatives

### 4.1. A.L.P.I. Trento

**Met with:** Francesco a Beccara, President and Silvano Deavi, CEO.

#### Ownership

Worker co-operative. The co-operative's clients are workers who have mental health problems or mental disabilities. The workers produce a range of products as well as some low level manufacturing. They have approximately 70 workers, and were formed in 1991. Since formation, they have transitioned 600 people out of their workforce and into the mainstream economy, with no job losses.

The members of the co-operative are volunteers, employees (managers), and funders. There are 32 members in total. It is a multi-stakeholder model, so the employees have monthly meetings to discuss the future of the business. Some of the employees and volunteers are also funders.

#### Where is income derived?

From contracts. A.L.P.I. have contracts to package and do some low level manufacturing, including putting together corporate hampers, creating packaging, putting together small things such as fragrance diffusers for other companies out of pre-produced parts.

They have recently won a contract for the local government to fix, clean, and reinvigorate medical beds and wheelchairs. They won this contract from the largest provider of like services in the region, which is a commercial business. They were able to win the contract as they were able to display to government the benefits derived from the work program they are running, as well as providing a competitive quote. The business turns over approximately 2 million Euro per year.

The co-operative is funded through projects and contracts. They also issue bonds to members, on a 1:2 basis. Members pay one thousand Euros, but if they can put in another 2,000, they are paid up to 3% interest on that 2,000. This is above the bank rate of interest.

70% of the income for the business comes from their production. 30% comes from investment and public funding.

Workers are paid below the standard minimum wage, as the social benefit of ensuring secure, ongoing employment and opportunities to transition to the mainstream economy are factored into the costs of the workforce. For many of the families of the employees, ensuring that their family member has secure work allows individuals who had previously been full time carers to enter the workforce, thereby providing further stimulation to the local economy.

#### What sector do they work in?

Production and basic manufacturing. They produce bags, chairs, and stationery such as pouches and pencil cases. They also produce packaging, and run supply chains putting together items such as air diffusers, then packaging them for shipment.

#### How many members/people do they work with?

They have approximately 70 workers at any one time. They have transitioned 600 individuals into the mainstream economy since inception in 1991.

#### Issues

Demand for jobs is high, and they can only accept a certain number of workers.

## 4.2. La Locanda Smeraldi, Bologna

**Met with:** Davide Pieri, Confcooperative Emilia Romagna (liaison).

### Ownership

Social Co-operative Type B. The business is a restaurant, staffed entirely by people with varying levels of intellectual disability. The restaurant caters to the general public, and seats approximately 150 people. The restaurant building is set within a 'hobby farm' which is also staffed by people with an intellectual disability. The hobby farm provides the restaurant with some of the produce.

### Where is income derived?

From paying customers in the business. The business received some initial start-up funding and worked with Confcooperative (peak body), but is now entirely independent and does not require additional funding.

### What sector do they work in?

Social services and hospitality.

### How many members/people do they work with?

They have up to 70 staff on rotation, working in the kitchen, as wait staff, and farming/caring for the gardens and animals.

### Track Record

The business is very successful, offering exceptional quality food and service at a low cost. A three course meal costs approximately 20 Euro per person. The food is all made fresh in the restaurant, using produce from the local region, and then served to the customers. The restaurant is consistently very busy, with two sittings at night.

## 4.3. Terre e Domus, Rome

**Met with:** Valerio Pellirossi, Confcooperative Roma (liaison).

### Ownership

Social Co-operative Type B. The business is a restaurant, staffed by former prison inmates who have been released, and are working to get back into the mainstream economy.

### Where is income derived?

From paying customers in the business. The business receives some funding to train employees (much like apprenticeship systems) but does not require other government funding and is operated as any other business.

### What sector do they work in?

Social services and hospitality.

### How many members/people do they work with?

They have a number of staff on rotation working in the kitchen, as wait staff, and in management positions depending on experience and skill sets. The restaurant also sources produce from a local prison, where the inmates participate in farming and food production activities such as producing cheese for sale in the local region.

### Track Record

The business is successful, offering excellent food at a reasonable price in a central location. The business is operated in such a way that customers would not be aware of the social mission of the business. This is extremely important to the organisation and the workers as they are determined to be regarded as mainstream business, and not have it claimed that they are receiving special consideration. The Business successfully transitions individuals out of the business into restaurants or service organisations and has developed a strong relationship with the local prison system as they are seen as leaders in this area of work. Further, the employees who go through the business are significantly less likely to reoffend than those without this level of employment and

## 5. Switzerland

Switzerland is a country with a high cost of living, including for housing. Across the whole country, approximately five percent of residential housing is owned co-operatively. In Zurich, however, a concerted effort was made by the local government following the First World War to address speculative property purchases by enabling the co-operative housing sector. Today, approximately 25 percent of housing in Zurich is owned by co-operatives.

### 5.1. Hunziker Areal, Zurich

**Met with:** Peter Schmid, Director and Hunziker Areal, President Co-operative Housing Zurich.

#### Ownership

Co-operative housing development. The development is owned by the co-operative business entity, and members pay a fee for title to their unit, as well as rent. The rent is subsidised, as is the membership fee.

#### Where is income derived?

From rent paid by the tenants, and from commercial tenants. Further, there is a cost payable by members if they want to use a public area for a private function. The minimum membership fee payable is 1,000 Francs, with 250 Francs per square meter for the apartment. Every adult (over 18 years) who lives in the co-operative has to be a member. So if the tenants are parents with an adult child, one parent could pay the full amount for the unit, and the other parent plus the child would pay the 1,000 Franc membership fee each.

#### What sector do they work in?

Affordable housing. The housing co-operatives in Switzerland were founded to fight against speculative property markets following the First World War.

#### How many members/people do they work with?

The complex comprises 370 units across multiple buildings, housing approximately 1,020 individuals.

#### Government funding

A small amount of government funding was provided in the initial stages, in the form of providing a 100-year lease over the land on which the co-operative has been built. The Co-operative pays rent at the rate of 1 million Swiss Francs per year. There is some debate over whether this is a subsidised rate. The co-operative leaders and progressive political parties claim that the social good and improved housing affordability offset the rental amount so there is no net subsidy provided.

#### Application to Australia

Australian (or State) governments could provide some guarantees or land/lease or funding to ensure more co-operative housing developments were able to be built in Australia. There would also need to be significant education of lenders undertaken, so as to ensure they were adequately apprised of the risks (or lack thereof) of lending to those purchasing in a co-operative housing development.

In Zurich, state-owned land which can be redeveloped for residential housing is only provided to co-operatives, or the government use it to build social housing themselves. It is not ever sold to developers to build new developments. Developers can buy established properties to build new properties, but need to compete on the open market.

Rent is set on a 'cost rent' system. They have three aspects – the capital aspect, the maintenance aspect, and the allowance for depreciation along with reserves.

- The Capital aspect is the amount that was originally invested (cost of land and buildings combined). The government puts the percentage of this up and down each year (like CPI). The co-operatives usually have lower initial costs, so can make a small win on this calculated cost each year.
- The maintenance and reserves costs are calculated together and account for 3.5% of the insurance value of the property. The second amount is at least 1.5% of the capital aspect amount, and can be used to pay down debt.

- The total of amounts 1 and 2 are combined to be the rental amount for the unit.
- This amount is typically significantly less than the market amount. For example, in the centre of Zurich at the city's oldest housing co-operative, the amount paid is 50% less than market rent.

Interest is paid on the membership amount paid into the co-op by members, which provides some incentive to the owners of the property to stay within the co-operative.

Capital is the most important aspect for success in housing co-operatives in Switzerland. For this co-operative, the Zurich town government provided the land on a 100-year lease. Rent is paid on the land to the government. The building cost was funded by established co-operatives in Zurich, who are highly capitalised due to approximately 100 years of property price increases, leading to a very low level of owner capitalisation (approximately 2.5% of the total property value rather than 20% as standard in Switzerland).

There is also a solidarity system where established co-operatives operate a revolving loan fund for new co-operatives.

### **Track Record**

25% of the Zurich Housing Market is co-operatively owned. In Switzerland more generally, 5% of the housing market is co-operatively owned.

### **Further notes**

The Swiss housing co-operatives are also developing a new co-operative housing system/town in Ethiopia – called Co-operative Nestown, which they are funding to provide sustainable, multi-functional co-operatives with agriculture, housing, and social support. This is in support of the Swiss government's foreign aid program.

[www.nestown.org](http://www.nestown.org).

## **6. England**

The English co-operative and mutual sector is highly developed, with a long tradition of these businesses operating in all areas of the English economy. The English social services sector saw a shift in the 1990s to move towards less government management of services and more management of services by users of the services. This process has been reinvigorated since 2010 and as a result, a number of large mutual organisations delivering services to local communities have been developed.

A number of these organisations have been 'spun out' as mutual companies from previous government-owned businesses, now known in the UK as Public Service Mutuals. While there have been examples of the 'spin out' process being used as a form of 'privatisation by stealth', it is clear from the businesses reviewed below that when these spin outs are appropriately managed and overseen, they can be extremely successful and provide significant benefits to the workers and other stakeholder members.

### **6.1. Rochdale Boroughwide Housing, Rochdale**

**Met with:** Gareth Swarbrick, CEO.

#### **Ownership**

Co-operative Housing association, with multi-stakeholder ownership (tenants, employees).

#### **Where did start-up income come from?**

The housing department of Rochdale Borough. In the early 1980s, Rochdale Council managed about 22,000 homes. Margaret Thatcher then introduced the 'right to buy' programme, which allowed council tenants to purchase their homes.

The discount on the purchase price was predicated on how long the tenants had been in residence. The councils were only able to use the income from the sale of properties to pay down debt, rather than buy more homes. By the year 2000 the local council had reduced their housing stock from 22,000 to 15,000. Most of the more popular homes were sold and not replaced, so the programme in effect forced the stock to be run down. Because of the way the housing finance system worked, if you paid your rent in Rochdale, the local council didn't get to keep all of the income as it went into a national pot and was redistributed. Gradually councils developed a backlog of investment and the quality of the homes started to deteriorate.

During the 1990s lots of councils transferred the ownership of the homes to existing or new housing associations, which the government assisted in facilitating, including 'negative value transfers' which encouraged the move of homes from councils to housing associations, effectively taking them off the council balance sheets. The Housing Associations were non-distributing/non-profit. Government thought these organisations would be more efficient in the delivery of housing services than the councils would.

In Rochdale, the council didn't pursue that sort of transfer route, and all political parties on the council were in favour of retaining the homes. The service provided was high level, and tenants had been involved in decision making from the early days of provision of council housing. In 1999 - 2000, the Deputy Prime Minister introduced 'arms-length management' under which program the council would still own the homes, but the tenants would govern the management. The idea was that this would be more efficient than having the council continue to manage the properties.

Rochdale Boroughwide Housing (RBH) was originally set up in this framework, to manage the houses. This didn't however, deal with the structural underlying economic challenge they were facing. By 2008 it was clear there were some big financial challenges which would impact service delivery, which then crystallised in 2012/2013. The revenue account was projected to go into deficit and the capital works account wasn't sufficient to keep the properties in good repair.

It was decided to bring together tenants, board members and administrators to review what were the long term issues requiring a response, and what that meant for the future ownership of the stock and delivery of services. This 'Commission' was independently chaired, and met for a period of about 15 months from the end of 2009, with a final report to the Council delivered in January 2011. Other places had set up similar bodies to carry out reviews, but unlike in this instance, most of these commissions had a predetermined outcome.

The independent chair was a well-respected housing academic (Prof Ian Cole), professor of housing at Sheffield Hallam University. The timing of this worked well as it was in the run up to the 2010 General Election, and the aftermath of that result, the election of the Liberal Democrats-Tory coalition provided some opportunities in this sector.

It was clear that the best and most sustainable model going forward would be for the Council to transfer the ownership of the properties to an organisation that could borrow against future earnings, in a way that the public sector could not. To enable that to happen, the RBH Association would need the government to write off some historic debt. The Government had budget to do that, but needed a proposition put to them to enable it to proceed.

In 2007 it was recommended that Council pursue a stock transfer and the debt write off, on the condition of RBH transitioning to a new housing association owned by tenants and employees. There was then a period of 8 months where the organisation was trying to strike a deal with Government, which ended in the government writing off £90 million of historic debt. The transfer price of the housing stock was £25 million (on a non-open market valuation). RBH then obtained a bank loan of £120 million to fund the next 30 years of their plan.

For a stock transfer to take place under the law, the organisation was required to demonstrate a high level of support among the tenant base. Traditionally this is established by a ballot. There have been a number of high-profile 'no' votes across the years in Britain, with Birmingham being the biggest. The key in this instance was to use employees in the visits to housing, providing information about the vote, which encouraged people to vote yes. Also, unlike in other areas, the unions did not run a strong 'no' campaign.

### **What sector do they work in?**

Affordable housing delivery.

### **How many members/people do they work with?**

13,500 dwellings under the co-operative. It is a multi-stakeholder model, owned by tenants and employees. There are 5,100 members, with 530 of those being employees. Membership is not automatic, and members have to apply to become a member, agreeing with the values of the organisation. There are two constituencies of members: tenants and employees.

In terms of governance, they have a representative body which has responsibility for the corporate strategy of the organisation. The representative body also appoints non-executive directors to the board, which delivers the strategy. The representative body is made up of tenants and employees: 15 tenants and 8 employees, plus one tenant who represents a tenant management body. They also have two nominees from the Council.

### **Issues**

The organisation had to do a number of legal structure transfers to make it work, from a company limited by guarantee owned wholly by the Council, to a community benefit society with council, board, and tenants/employees having a stake as an interim mechanism to allow tenants to become members. They then had a members meeting to agree the transfer to the multi-stakeholder mutual model, and the Council and the board were bound into voting for the new structure. In March 2013 the organisation had a members meeting which formally adopted the new rules, at which point the organisation became wholly owned by tenants and employees.

### **Track Record**

Extremely successful. Other jurisdictions are looking at replicating the model, and in Wales one group has succeeded in replicating the model.

The organisation measures success in service delivery and tenant satisfaction against a baseline of results from 2012. In 2015 a tenant satisfaction survey was conducted which showed that 85% of tenants were 'satisfied' or 'very satisfied', up 6% on 2012. Given the context of extremely difficult economic conditions for the people living in the organisation's homes due to the global economic downturn, this is a very high success rate.

The organisation is now regenerating housing stock through demolishing and re-building low-quality buildings. They are also selling approximately 100 properties a year, to tenants who have a preserved right to buy. The organisation also runs 'rent to buy' models in order to encourage home ownership amongst their tenant group, who otherwise would be unlikely to be able to afford to purchase a home.

### **Takeouts**

One of the key lessons learned during the transfer and set up process is that there is never enough time spent on soft 'capacity building' work in a transfer of this type. The legal and financial aspects of the transfer have to be done in a timely manner, but should not be done at the expense of developing the culture of the organisation and stepping the tenants and employees through the process in a timeframe they are comfortable with.

The organisation is clear that their model isn't about tenant control or employee control, but is about people working together for the best possible outcome for the group. They say that while the transfer didn't solve their problems, it put them in a better place to deal with the issues the organisation was facing. There is a feeling amongst the staff that without the buy-in of the tenants and employees through the multi-stakeholder model, the original organisation would have been unlikely to be able to reinvigorate itself and transform into a successful organisation.

## 6.2. Salford Community Leisure Centre (SCLC), Salford

**Met with:** Stephen Hassell, CEO and Ross Griffiths, President.

### **Ownership**

A multi-stakeholder mutual business, formed in 2003.

### **Where did start-up income come from?**

Transfer of the staff and a lease to run the business (not ownership of capital assets) came from the council initially, but the transfer of these assets was as part of the closure of a loss-making enterprise. The group was required to bid against private companies (large multi-national for-profit entities) to obtain the contract.

### **What sector do they work in?**

The organisation runs a community leisure centre, providing community services including pools, libraries and community centres.

### **How many members/people do they work with?**

Initially members were required to opt into membership and were required to be someone who lived or worked in the City of Salford, worked for the business, or was interested in using the facilities. Membership was payable when using the facilities for the first time. Initially about a third of the workers chose to come into membership, and there were approximately 40,000 individual members across the city. The organisation has now grown to offer more services such as libraries, community centres and other services. All employees are now automatically made members, as well as every user of their services who holds a membership card and is over 12 years old. As a result of this change, the organisation now has over 100,000 members.

In the early days of operation the organisation would have approximately 25 people attend AGMs. Now they usually have approximately 100 members attend in person, with over 1,000 written apologies, showing a marked increase in member engagement with the organisation. SCLC have worked with the Co-operative College (an educational institution providing training and undertaking research on the co-operative business model) on a program called 'establishing our community and the co-op advantage' to train employees on the co-operative advantage. This has further increased staff engagement within the organisation, and has empowered all staff to speak to customers and members about the co-operative/mutual difference.

### **Issues**

The impetus to set up the organisation came from the finance team within Salford City Council. The Council had the option of moving to a not-for-profit model, or sell the leisure centre arm of their business to a private sector provider. The area has always been a traditionally Labour/unionised area, so the idea of closing services or selling to the private sector were not well received by the community. The Council tendered for companies to run the leisure centre, and the four private companies were assessed against a hypothetical not-for-profit model. The local politicians and local unions were united in opposition to a private provider, because they were worried about pay and conditions for the workforce, as well as a possible decline in service offering. The modelling undertaken by the Council showed that the not-for-profit option would be more efficient and would provide better outcomes in relation to staff conditions and service offering.

A (mutual) community benefit society was the legal model adopted for the organisation after consultation with the consultants working to the program.

### Application to Australia

Government organisations that have responsibility for revenue as well as spending are, by and large, the ones that are able to more successfully make the transition to a business, as opposed to those who just have responsibility for spending and receive government income.

The Executive and SCLC see mutualism as a form of demand management. The general idea being that if funding is devolved to a community level, the community will have a greater desire to exercise good husbandry over it, so the available money will possibly go further. If services are free, there is a tendency for people to use it even in instances where it is not necessarily needed. Experience in the region shows that where the community understand that there is a cost to services, which directly impact the organisation's capacity to deliver other services, individuals are more judicious in their use of services, in order to save for the future of the community organisation.

### Track Record

SCLC have started with a funding model of over 60% of revenue coming from the Council contract with 30% coming from patrons. This has now inverted with just over 30% of revenue coming from the Council contract and over 60% coming from the patrons. Employees are now encouraged to develop and implement money saving ideas for the organisation. The organisation lost approximately 40% of the council funding they originally had in the last 5 years due to council cost cutting. Despite this, they have managed to build reasonably significant equity and are looking to expand some of their services, including library services. The customer satisfaction ratings achieved by the organisation are significantly higher than the national average and local averages.

Staff turnover is now very low. Sick leave is now a third of the city council rate. SCLC also has a high level of volunteers. Approximately 800 staff and 150 volunteers are on the books each month. Over half the volunteers have additional needs, for example a disability or a challenging background, but there is a significant social benefit to these individuals derived from being part of the workforce through SCLC's volunteer program. The organisation has a full time manager for the volunteer program, costing the organisation a reasonable amount. This expenditure is seen as valuable, however, in providing these volunteers support in terms of on the job training, as well as the community work; it is seen as an additional service provided to the local community.

## 6.3. Aspire Mutual, Salford

**Met with:** Janet Tuohy, CEO.

### Ownership

Mutual organisation. They are a community interest company (CIC). Staff are members (they all have a £1 share) and there is no profit share. There is a staff board, and an employee director who sits on the board of directors. There is also a management board.

### Where did start-up income come from?

The Mutual Support Funding (National Government funding pool). The organisation was set up as a mutual because the funding was for mutual organisations. If the funding had been available for other types of organisation, they may have chosen a different legal structure. However, they find that the mutual structure works well for the organisation and is flexible enough to meet all of their organisational needs. The organisation has secured a five year contract with the local council to deliver services, which has been crucial to the success of the mutual.

The organisation is now diversifying its income streams, developing a training department in which their staff train new workers in the industry from other organisations as well as their own. There is a charge for these services which goes back into the mutual. More advanced care courses have also been developed, which are being delivered to existing workforces in other service provision companies across the region. The organisation is now seen as sector leading in the area, and their training courses are highly sought after. The organisation also provides some consultancy services to groups who are looking to spin out, at a reasonable cost.

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### **What sector do they work in?**

Social services – aged and other social care.

### **How many members/people do they work with?**

They have over 420 staff, all of whom are members. Some of these staff are casual employees who have retired and come back to work on a casual basis. The organisation has their own 'agency' model for these casual staff. Aspire Mutual has seven locations across the city.

### **Issues**

Aspire Mutual are now trying to measure their social impact and translate that impact into monetary figures for the Council. The relationship after the spin out has been difficult. A key lesson is that reworking the relationship of the organisation with the local council (which formerly had complete control of the services delivered) and the unions (who were used to negotiating with government and not with a non-government organisation) is a transition that can be difficult.

It was noted that for Aspire Mutual, it was very important to have a full ballot for the staff to vote on whether to spin out. The staff need to understand and have ownership of the process in order for them to be fully committed when the organisation is set up.

The organisation is now looking to secure some hard assets for the company to strengthen the balancesheet going forward.

When they came out from government, the organisation did not have the managerial and business skills they needed within the business. They have been required to upskill staff and hire new staff to fill knowledge and competency gaps. The organisation received funding from Big Potential (government funding for existing 'spin outs'), to develop further business skills.

### **Track Record**

The terms of the five-year deal with the Council include a clause requiring Aspire Mutual to reduce the costs of delivery for the Council. The first year of the contract didn't require a cost reduction, but did require the organisation to repay the set up costs to the Council.

The employees are now incredibly active in the management of the organisation. They arrange 'bright ideas' days, chose the company's name, chose the corporate colours and branding. This has greatly assisted in developing the feelings of ownership amongst the staff.

## Images from the study tour



A.L.P.I. Trento President Francesco a Beccara at the Trento factory.



Workers at the La Locanda Smeraldi Restaurant in Bologna.



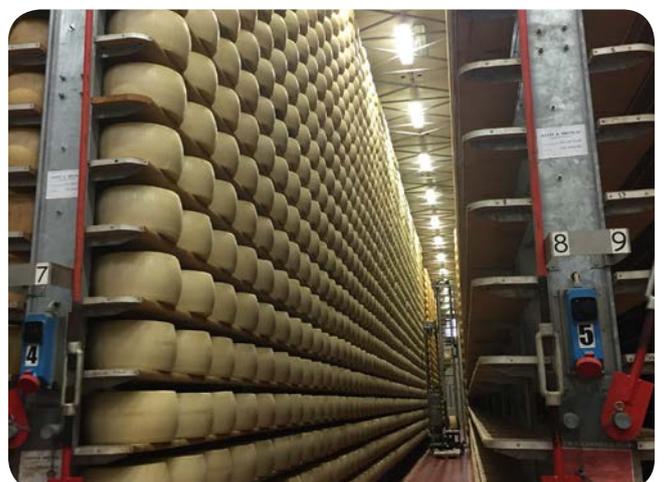
Legacoop headquarters in Bologna.



BCCM CEO Melina Morrison with members of Italstick, a worker co-operative in Bologna.



Workers at the 4 Madonne Caseificio dell'Emilia parmesean factory, agricultural co-operative in Emilia-Romagna.



Some of the 30,000 parmesean wheels stored at 4 Madonne Caseificio dell'Emilia Co-operative.

## Images from the study tour



Hunziker Areal housing co-operative, Zurich.



Rochdale Pioneers Museum, Rochdale.



Employees at Chipping Norton, Midcounties Co-operative store.



Giacomo Lepri, President and Founder of Co.r.a.g.g.io agricultural development co-operative, Rome.



Gareth Swarbrick, CEO of the Rochdale Boroughwide Housing Co-operative, Rochdale.



Trentino Social Tank (business development support), Claudio Tagliabue, General Manager.

## 7. Worker co-operatives

Worker owned co-operatives are ubiquitous across many European jurisdictions. These are businesses that are either founded by the workers, or bought by the workers in the event of management failure and business closure. The structure of these businesses is extremely flexible, with some being owned by a core group of employees, who then employ additional labour when needed, while others extend membership to every employee. Many of these are structured as distributing co-operatives, enabling the businesses to both pay a salary to the worker-owners, as well as pay a bonus or dividend to the workers at a time agreed on by the worker-owners. Others are structured as non-distributing co-operatives, in which case the worker-owners benefit through increased wages and better working conditions, stable employment, as well as additional benefits that may accrue from working in a business they own.

### 7.1. Italy

In Italy, unemployment benefits are paid to the workers of a failed business in the form of 80 per cent of their final salary, over a period of up to three years. In 1985, the Italian government introduced a law known as the Marcora Law (law 49/85), which allows redundant workers to use their accumulated unemployment benefit to capitalize the buyout of a business. The funds committed by workers are supplemented by funding from Cooperazione Finanza Impreza, a revolving loan fund set up to invest in these worker buyouts, along with funding from the mutualistic funds administered by Italy's two co-operative federations, Confcooperative and Legacoop.

#### 7.1.A. Cooperazione Finanza Impreza (CFI), Rome

**Met with:** Alessandro Viola, Cooperazione Finanza Impreza Chiaisano.

##### Ownership

NGO. The organisation is government funded, but run as a separate (private) business. CFI reports to the Minister for Finance, but the Minister has no personal decision making power in relation to the projects funded by the organisation. The Minister sits on the board of 12 directors.

##### Where is income derived?

Government funding. The initial set up capital is now invested and the organisation is now run largely on the interest generated from the capital. CFI partner with other organisations in order to direct funding to recipient organisations. The funding granted by CFI to recipient organisations is repayable on a seven year repayment cycle.

##### What sector do they work in?

Worker buyouts, but also other projects. Between 1986 and 2000, CFI completed many worker buyouts, but for approximately ten years following that there were no worker buyouts and investment was put into developing other co-operative businesses. They are now investing in different established co-operatives to help them develop. From 2011, CFI have moved back towards primarily funding worker buyouts. Following 2011 there has been a 'lag' for firms to start closing down. The organisation has had to decline a number of prospective projects.

Issues faced by businesses in Italy now are different to those envisaged when the Marcora Law was first implemented, meaning that businesses fail for vastly different reasons. Significant issues now come from the need to compete with other countries which have much lower labour costs. Therefore, rescuing a business is no longer as simple as increasing productivity. Commercial issues make it more difficult for the worker buyouts to succeed. Market issues, competition and other factors negatively impact the viability of the organisations they are trying to assist.

The co-operative business model is well known throughout Italy, and it is known that the value produced by the business goes back to the owners of the business. This is received well within the population and as such, banks in Italy want to invest in co-operatives to show their stakeholders that they are investing in social good. CFI has little difficulty in convincing banks to co-invest in worker co-operatives, particularly as they thoroughly vet the businesses and develop a strong business plan prior to seeking funding.

### How many members/people do they work with?

CFI have funded/developed 52 worker co-operatives since 2011, 8 of which have failed.

### Issues

There has been a concerted effort by the corporate business lobby in Italy to claim that co-operatives get too much assistance and are only successful because of the help they receive from the government. The various co-operative representative bodies work hard to dispel this assumption.

### Application to Australia

The pillars for success are:

- An enabling legislative framework;
- Sufficient patient capital;
- An established Co-operative ecosystem to provide advice and support; and
- A strong business advisory network.

A program of worker buyouts needs to be driven by employment policy, aimed at keeping people in jobs through their own entrepreneurship. Stakeholders include state government Employment and Small Business Ministers, local government, ombudsmen (small business ombudsmen – state and federal). Insolvency practitioners are a key stakeholder.

### Track Record

CFI have a track record of success with the businesses they have developed under their renewed model since 2011.

### Takeouts

There are two sides to this program of business development, looking at both startups and buyouts. Worker buyouts would not necessarily suit the rescue of a large scale, heavily indebted, insolvent business. They best suit businesses that have a good market for their goods, but have failed due to poor management practices.

## 7.1.B. Trentino Social Tank, Trento

**Met with:** Claudio Tagliabue, General Manager.

### Ownership

The Social Tank is a co-operative co-working space and business incubator. They are a worker-owned co-operative. The project started in 2013, when the province started a contest (through an EU fund) for new enterprises in regional centres. This contest had previously focused on technological innovation, but in 2013 they were looking at social innovation too.

### Where is income derived?

The co-operative was formed to bid for funding through the province's new enterprise program. The Social Tank then started in March 2014, focusing on assisting young people to start a new business. The organisation has other clients and projects to make money to fund their core business. They originally focused on social enterprises and are now expanding their focus to other types of businesses.

The Social Tank takes a small administration fee from transactions made with government funding. The co-working space is also used to derive income, allowing people to use parts of the space at rent of 3 Euro per day.

### What sector do they work in?

The Social Tank tries to match young business people with other established co-operatives to give them support and advice. In the early stages the Social Tank produced some short courses or 'laboratories' to help people start their business and understand the practicalities of starting a business.

The local government is reducing the amount being spent on social services in the region and as such the start-up businesses being developed through the social tank are focusing on service delivery. There is also a focus on female and young entrepreneurship. The local government has a program which pays 40% of the start-up costs of a business. This is known as “Law 6” and applies only in Trento.

Under Law 6, the applicants put money in a bank account to show their contribution to the start-up costs, and the Government then deposits the additional 40%. The Social Tank then needs to approve all of the spending from the account. This provides accountable reporting for the Government and guidance for the young entrepreneurs.

### **Issues**

It is difficult to start a new business (regardless of business model) in Italy. This causes unnecessary problems, but co-operatives are not at a relative disadvantage to other business models.

### **Track Record**

Since early 2014 approximately ten new co-operatives have been developed in the region. They are now working to become more sustainable to ensure longevity of these businesses.

The Social Tank business is located in a social housing community, along with other co-operative businesses. They are working together to run a cafeteria and ‘family district’ to bring people in the area together. The ‘family district’ program is designed to bring public and private organisations together to make things easier for families, and encourage affordability in the region. This has been quite successful so far. There are a lot of immigrants in this region, and there is a lot of work being done by the group in relation to community integration.

## **7.1.C. Italstick, Emilia-Romagna region**

**Met with:** Marinella Pinotti, Export Manager and Board Member.

### **Ownership**

Worker buyout co-operative, founded in 2011. The management structure is horizontal, with more workers on the floor of the business. Legacoop assists the company in organising the governance of the business, but does not tell the workers how to run their business. They offer support and advice rather than providing directives.

### **Where is income derived?**

Initial funding was co-investment from the workers, Legacoop, CFI (repayable), and government. After the initial start-up funding, income is derived from the contracts the business has.

### **What sector do they work in?**

Self-adhesive materials and coatings. The staff worked for a previous company for many years (some, in excess of 20 years). The company was family owned, meaning that the owner was the manager and the only decision maker, and his wife was the financial director. All of the decisions were taken in complete independence without a board of Directors. For a certain period this worked well, but when the financial crisis of 2008 hit, the company started to suffer due to poor decisions, unnecessary diversification and other failures of management. When the company closed in 2009 (without notice), there were no market or budget problems (there were orders and the budgets were met). The workers then started to think about either opening a new company or going on with the work they were doing.

Once the company was in the hands of the liquidators, for some months the workers started to work with another company, thinking that they would purchase a division of the previous company. The liquidators were negotiating with this new company, but the negotiations failed. The workers then started to think about the opportunity to purchase the company or rent it, and started to talk to the local administration to see if they could provide some funding, along with Legacoop. The workers who bought the company out were a part of the former workforce of the company (approximately 24 from 82). The 24 workers who bought the company were all from different areas of the business (export, chemical control, financial controllers) so that they were able to cover all of the necessary skill sets. It is important that the 'workers' and the 'managers' own the co-operative together in order to avoid a situation in which the workers own the company and employ managers to manage them. The current structure means that every member, regardless of station within the company, has one vote in the major decisions of the business. This is crucial for the proper working of the company.

The administrators received three separate offers from the workers, and one was finally accepted. The new company was started in March 2011, purchasing the self-adhesive division of the original bankrupt company. The workers bought the machines needed to continue production, and rented the building as the costs to buy it were considered unreasonable.

Part of the Marcora Law requires that former workers of a bankrupt company in Italy have the first advantage when competing with other offers. Usually this isn't required as the offer from the workers is usually higher than other corporate offers. This is because the workers usually value the company more than other potential purchasers because they have worked in it and are committed to it.

#### **How many members/people do they work with?**

24 worker owners in total.

#### **Funding**

The business was funded as a worker buyout. Each member put in a different amount initially, depending on their age and capacity to pay. They also had support from the government in the form of the unemployment benefits. As they were starting a new company, as members of the company, they were able to receive the unemployment benefits as a lump sum to invest in the business (up to the amount they wanted to put in). There is a maximum of three years' payment of unemployment benefits, and the company bought using these benefits must remain in business for a minimum of three years, otherwise the benefits are repayable to the government.

All of the workers also agreed to take a lower salary for the first couple of years to enable them to capitalise the business adequately. Finally, there was further funding from CFI and Legacoop, as well as some additional funding from the Ministry. The business received double the amount of capital that was recruited by the workers.

#### **Issues**

The main issues as the current business owners see it are around funding and timeliness, in the initial parts of setting up the business. The start-up period was critical, as they say they "had to take off without much gasoline". It was therefore necessary to have the funding structures in place so that they could move quickly when they needed to. This also came down, in large part, to having significant expertise (via sector support) available to them around the development of worker co-operatives.

#### **Application to Australia**

The support structure in Australia would need to change significantly to make such worker buyouts viable. The Government would need to provide more support to workers, and workers would need to be able to access lump sum redundancy payments for investment in the new business. Further, liquidators and insolvency practitioners would need to be educated in the opportunities for worker buyouts, as currently they are not seen as a viable option for recovery of a company in difficulty. If workers vote to take a pay cut to enable them to adequately capitalise and run the business, this decision needs to be supported rather than objected to, provided it is reasonable and the workers are not being influenced by external parties.

### **Track Record**

The business has been operating successfully since March 2011, and has retained its contracts with previous customers, as well as growing its customer base.

The workers were able to restructure the business and change the way things were managed, because they had been observing the previous owner but had no input into the way the business was managed. This meant that they were able to address issues that they had previously seen in the business.

There are fewer staff members than there were previously, and all staff members have agreed to enlarge their roles, which they are happy to do because it is growing and strengthening their business.

The business has significantly increased its export share, diversifying so that they are no longer as vulnerable to downturns in the Italian economy.

The business is successful because they are a niche business, able to be highly flexible in quantities and size of labels made for clients around the world. Everything in the business is hand-cut, and they make custom size labels for a range of clients. They only make the stickers/labels and then deliver them to the printers to be printed and finished.

### **Takeouts**

The ecosystem is crucial to the success of worker co-operatives. The workers received assistance in business planning, funding from different sources, and additional support where needed from the local co-operative association. If they had not have had this level of support, they would not have been able to set up the business.

Further, the ecosystem needs to be in place and ready to act when workers want to buyout a business. This is because when the workers decide to buy out a business, they need to be able to do so quickly, so that they don't lose contracts and have to start from scratch. The workers were also able to continue running the factory and filling their production orders under the direction of the liquidators, so as to not lose customers. This was beneficial to both the liquidators and the workers who ended up purchasing the company as income continued to come in, and contracts were maintained.

## **7.1.D. Co.r.ag.gio, Rome**

**Met with:** Giacomo Lepri, President.

### **Ownership**

Worker owned co-operative, rehabilitating unused and degraded farming land in Rome. The business works to educate the public about farming and agriculture and also works with disadvantaged young people to teach them farming skills. The co-operative aims to increase the access of young farmers to agricultural land so that they are able to earn enough money from their work to survive.

### **Where is income derived?**

Initial support came from government, after two years of advocacy by the group, in the form of the grant of a lease over some unused agricultural land that had been seized as part of bankruptcy proceedings against a corporate entity. The organisation now runs education programs for funding, sells their crops, and is developing a restaurant to assist in funding the organisation.

### **What sector do they work in?**

Agriculture and social services.

### **How many members/people do they work with?**

There are 15 members in total, and they work with a range of external people to deliver services.

### **Funding**

Currently all income is generated within the co-operative from the sale of produce and some local funding for running programs for disadvantaged youth. The co-operative also accepts donations and volunteer hours from local people who are interested in and support the work of the co-operative.

### **Issues**

Funding is the main issue. Currently, all members of the co-operative work in other jobs as they are not able to draw a wage from the co-operative. The hours they put into working in the co-operative are therefore largely volunteer hours.

### **Track Record**

The business has been extremely successful in their aim of raising awareness of unused agricultural land within the Roman region in Italy. They have worked with the public to lobby government to take an interest in ensuring food security and that young farmers and similar co-operative groups are provided with access to such land, when it becomes available.

## 8. France

In France, as in Italy, the co-operative movement is strong and an important part of the economy. There are approximately 23,000 co-operatives, providing services to their 26 million members, and employing approximately 1.2 million people across all business sectors. Worker co-operatives are represented by two peak bodies, Les Scic, and Les Scop. Combined, these organisations represent 2,855 enterprises, comprising 2,274 worker co-operatives and 526 multi-stakeholder co-operatives, with 55 'other'.

They represent 51,500 employees in total. Worker co-operatives operate across the economy, in services (developing very quickly with 1 in 2 start-ups in this sector), construction (32.5% of the sector's turnover), education, health and social action, commerce, transport, and energy and environment. There are very few in agriculture as it is unusual for agriculture co-operatives to be owned by the organisation's workers. Over 31,000 members participate in the governance of French multi-stakeholder worker co-operatives.

As at the end of 2015, approximately two thirds of worker co-operatives in France are those starting from scratch, rather than buying out a business as in the Italian context. Roughly 11% are from a takeover of a struggling company, and another 11% come from conversions from associations or existing co-operatives. About 13% are from the transfer of healthy businesses. French enterprises in general have a 50% five-year survival rate, whereas worker co-operatives have a 64.5% five-year survival rate.

### 8.1. Enercoop

**Met with:** Mathieu Richard, President.

Enercoop is a multi-stakeholder co-operative providing energy to approximately 15,000 members, all of whom participate in the governance of the organisation.

It is the largest SCIC (multi-stakeholder co-operative) in France by members. It is a platform that links local consumers, producers and local authorities around renewable energy. They look to co-operatives in Belgium, Germany and Denmark for their model. In Denmark, co-operatives of this kind account for approximately 50% of the energy sector.

#### **Where did start-up income come from?**

Regular income comes from selling electricity, and the capital base comes from the members, a growing number of whom are individual citizens. The founding members of the co-operative were large environmental associations, ethical banks, co-operative businesses, and organic food co-operatives. The price of electricity was initially set slightly higher than the amount charged by monopoly suppliers, and now through natural increase by other suppliers on the French market, the difference is very small.

#### **What sector do they work in?**

Energy sales. In Belgium energy co-operatives started with investment co-operatives investing in energy production plants, and then working out a way to sell to consumers. Enercoop is the opposite. Initially there was very little production of renewable energy throughout France, and Enercoop gathered existing independent producers into the co-operative, as well as a growing range of consumers, and now some city councils are among the consumers. Enercoop makes a direct financial connection through the national grid (a public monopoly), and then members of the co-operative have all of the costs of energy on their bill allocated to one of their member producers. New producers are brought in every year.

### How many members/people do they work with?

Approximately 15,000 members.

### Issues

There was a slow start, because there was lack of information in France for consumers about the fact that consumers could change energy suppliers. Slowly this movement grew despite the still being small in France. 0.1 – 0.2% of energy consumers in France are members of Enercoop. In 2005, the European Union directed energy grids to allow access to third parties. This allowed renewable energy to become a much more diversified ecosystem in the region. There was significant protection for renewable energy, and the grids prioritised renewable energy. Some regions had quite cumbersome administrative processes, for example in France it is difficult to get through to the final approval to develop a wind farm, but once approved it is very secure and easy to operate.

Enercoop needs to have a specific licence as a supplier/retailer of electricity, implying financial guarantees. The cost of the licence is tied to the consumer base. When they first started the bar was not particularly high to obtain this licence.

### Application to Australia

Enabling regulation is key here. Enercoop advise that it would have been impossible for them to establish without the EU requirement to offer priority access to the grid from renewable energy companies.

### Track Record

Links are now starting to be developed with other sectors, and there is a move towards a citizen-led engagement in procuring from certain providers. This is also becoming an interesting tool for public policy because it enables the participation of local authorities, which are often greater drivers of the energy conditions than local authorities, because it can also dramatically effect local employment and drive local economic development. This type of co-operative brings a form of public-private partnership together, bringing private companies alongside public authorities, while maintaining direct participation of all stakeholders including consumers and local



Les Scop headquarters, Paris

## 8.2. Les Scop “Democracy no xxxx”

**Name of organisation:** Les Scop ([www.jefinanceunprojetcooperatif.fr](http://www.jefinanceunprojetcooperatif.fr))

**Met with:** Thierry Perrin, Director of Financial Tools, Les Scop and Jean Huet. Les Seic Social Innovacion and Catherine Friedrich, Director of Research, Les Scop.

### Ownership

A ‘Scop’ is where the employees hold the majority of the company’s share capital, and have a minimum of 55% of the vote in the company. Previous employees can remain a member. Employees elect the management team, and actively participate in the decision making process. All profits are shared into three parts. Firstly, the profit distributed to the employees (minimum 25% of the amount, in practice it is closer to 45% of the company’s turnover). Secondly, the fixed assets, which are reinvested in the company under an asset lock. The minimum is 15% but again in practice it is closer to 45%. The asset-locked funds will be used to pay out the creditors on closing, and any remainder has to go to set up a new co-op or an association. Finally there are dividends – these go to the associates of the co-op. Dividends are allocated in accordance with the percentage of shares you have in the company.

### Where did start-up income come from?

There is a network of financial partners including Credit Cooperatif, Societe D’Investissement France Active (a bank which is set up to facilitate locked five-year profit sharing funds), Institut de Developement de L’economie Sociale (investment bank that is part of Credit Cooperatif, but only investing in co-operatives and social investment), Caisse des Depots (a fund from the French Government).

There are three companies under Les Scop:

1. Socoden, which supports cash flow through equity loans only.
2. Scopinvest, which provides long term financial resources to support the growth of the businesses.
3. Sofiscop, guaranteed loans from the Credit Cooperatif bank, thus acting as the personal guarantor for the managing directors.

Initial start-up funding for the investment fund came from increasing membership fees for five years, along with a large co-operative underwriting them. This process started in 1966, with formal launch in 1972. One third of membership fees fund development.

Membership fees are 0.1% of the income of the relevant co-operative. There is a high rate of membership within this federation. This is not the case for all federations in France – this particular movement is quite militant. The Federation does not make management decisions, they just operate the technical aspects of the business. The decision makers are leaders of the co-operative businesses represented, and they have the power to determine membership.

### What sector do they work in?

Co-operatives are present in all sectors, particularly services, construction, education, health and community transport.

### How many members/people do they work with?

There are 2,274 Scop worker co-operatives in France, with nearly 48,000 employees.

## Track Record

Three types of investment available:

1. Guaranteed loans are the most common investment. The loan is guaranteed up to 25%, and in return a modest contribution is made to Sofiscop's capital and guarantee fund.
2. Equity loans are provided on a per employee basis to facilitate cash flow, share purchases and investment. The loan only ever amounts to a minority stake in the co-operative.
3. Equity Shares are not used so often. They are from 25k Euro, and should allow businesses to improve their borrowing capacity. They are non-preferential shares (so equity shares without voting rights). They are limited to 50% of permanent capital (shareholders' equity and mid and long-term loans). They usually enter into a partnership with another financier, and the share repurchase value is defined (up to 150% of the nominal value). They are loaned for 7 years, so ensure high levels of sustainability for the business involved. They are usually used for projects with a high growth potential.

They are now using some crowdfunding – the aim was to expand the financing possibilities to 30 coops in 6 months. There is an active partnership with two platforms, with loan, equity and donation forms of funding. A GC Scop website has been set up to relay the co-operative based projects – that way investors can find the platforms that specialise in co-operatives and refers them on to those companies. This is used primarily for projects where there is a real threat to job sustainability.

## Takeouts

The Guarantee aspect is crucial – there is 3 million Euro at risk in France, underwriting 25 million Euro in loans.

Evergreen fund – a fund that finances companies and start-ups, that after three years instead of repaying the fund, they are required to buy shares in the fund to use as venture capital to keep reinvesting. They are asked to buy 2.5 times the amount they were given initially.

There is a separate line in worker co-ops that handles business transfers to workers once the owners of the business want to retire/close the business. Website in English to come from Catherine.

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## 9. Other services provided by co-operatives

### 9.1. Midcounties Co-operative

#### Ownership

Co-operative business with members across the mid counties of England. The company operates in the mid counties of England, with some operation in Wales. The childcare business extends up to Newcastle.

#### Where did start-up income come from?

This is a legacy co-operative with start-up income being derived from original members.

#### What sector do they work in?

A range of services including B2B operation, childcare, energy, food (supermarket), funeral care and travel services. They also operate about 70 post offices which are housed within the supermarkets.

#### How many members/people do they work with?

They have nearly 600,000 members, with over 8,600 employees across 535 sites in the UK. The 2015/16 gross sales were £1.3 billion.

#### Issues

In the supermarket business, only one third of trade is with their members. They are working on improving this percentage.

#### Application to Australia

The company have realised that they cannot compete in the mainstream supermarket arena so have moved into the 'premium supermarket' market, stocking premium products and special lines, particularly from the local area. The grocery market in the UK has been incredibly competitive with discount stores and online delivery being increasingly important for consumers. The premium stores stock local produce and respond to customer requests for products, thereby ensuring customer loyalty.

#### Track Record

Midcounties is seen as the largest and most vocal of the co-operative businesses in the UK and is known to voice its views, and the views of its customers, more so than some of the other co-operative businesses. Sales last year were up 3.1% to £1.3 billion with profits of £15.5 million. Net borrowings were reduced by £13 million to £36 million.

The business has a significant social responsibility program. It is focusing on consistent messaging about the CSR program within its customer base and more broadly, because it wants to make it clear that this program runs regardless of the profits of the business. The organisation makes a point of stating that it will not cut the CSR program when profits drop a little, because shareholder returns does not need to be factored in. There have been 26,000 'colleague hours' (volunteer hours) given in the last twelve months. The employment agreements allow for three paid days per year of donated hours. The company sees this as a staff retention strategy, because staff appreciate the opportunity to give to the community.

In the UK, the Government provides a "Fair Tax" mark, which certifies that the business in receipt of the mark is paying the right amount of tax at the right time in the right place. If a particular business is above a certain number on the scale provided by government, they are certified with the Fair Tax mark. The Midcounties Co-operative has been in receipt of the Fair Tax mark since its inception.

#### Takeouts

Each of the groups within the business has a 'colleague council' (employee council) which then reports back to a central 'colleague council'. Issues are also taken to the colleague council to see if it can help to fix the problems. It is important to note that the organisation sees itself as not just in existence to do business, but have a focus on doing good in the world. This focus is within their six pillar imagined future.

### 9.1.A. Midcounties Co-operative - funeral business

**Met with:** Simon Fisher, Group General Manager.

#### **Ownership**

Co-operative businesses in the UK started providing funeral services towards the end of the 19th century. The funeral system was originally part of the co-operative department stores. Counting Midcounties Co-operative, there are only 14 societies with funeral businesses, and Midcounties is the third largest, taking about 28% of the funeral market. The Co-operative Group funeral plans are more transparent than other funeral providers. Members receive points from spending within the funeral business, as with other areas of the business.

One of the largest growth areas is future-proofing funerals, or people buying funeral plans (1 in 20 purchases) to cover the costs when they die. In ten years 50% of business will be funeral plans.

#### **Application to Australia**

Funeral plans are an unregulated business in the UK, both in the pre-need and at-need markets. Scotland is about to regulate their funeral planning business, and that will likely happen in the UK within a couple of years following the introduction in Scotland.

Funerals have traditionally been seen as a strong part of the co-operative group. It is also highly profitable for the larger group.

### 9.1.B. Midcounties Co-operative - energy group

**Met with:** Pete Westall, Group General Manager.

#### **Ownership**

Co-operative, as part of the Midcounties Co-operative Group

#### **Where did start-up income come from?**

From the existing Midcounties business. The energy group started in 2010 and grew consistently from then. The energy plans provided have always been at a competitive price, within the bottom quartile of plans available, but have not been the cheapest available. Approximately 52% of their customers are Co-operative members, and they do a significant amount of advocacy within government for the promotion of green energy and community energy programs. They focus on community generation on a local basis.

#### **What sector do they work in?**

Energy. The members of the Midcounties Co-operative asked the business to get involved in energy distribution, so that they could understand more simply the energy market and what they were getting from their providers. Midcounties Co-operative champions fairness within the energy resale sector.

#### **How many members/people do they work with?**

In the UK marketplace, in 2010 there were just 13 suppliers and 53 million meter points (gas and electric) in 30 million domestic and small business units. The 'big 6' suppliers held 99% market share. Customers were unwilling to switch between suppliers. As of November 2016, there were 54 UK suppliers, and the 'big 6' have dropped to 85% market share.

The Midcounties Co-operative electrical supply business has approximately 265,000 domestic customers. There are 400 'colleagues' (employees) working within the electrical supply business call centres.

### Issues

Reputational risks, and the cost of getting appropriate numbers of staff, highly trained enough to deliver the services required.

### Track Record

They have a good track record. Sales have been at a level they are happy with, and are climbing. There is a gross profit of 15.1% overall and a return on capital employed of 14.7%. There has been significant success in terms of cross selling within the group. For example, they offer promotions such as 'fix your energy for the year and get a £25 food voucher' which are well received by their Members.

### Takeouts

The energy business has a Members' Advisory Panel which influences operational activity, product design and environmental policies. Local members are also invited to attend the co-operative's Community Energy Conference, whilst nationally invited to attend over a live internet feed. The business also does a lot of work around energy efficiency education to show their members how to save energy.

## 9.1.C. Midcounties Co-operative - Co-operative nursery and preschool

### Ownership

Co-operative, as part of the Midcounties Co-operative Group.

### Where did start-up income come from?

From within the group. Each arm of the Group is expected to make a profit in order to be able to subsidise new or underperforming businesses that are important to the Members.

### What sector do they work in?

Childcare services (nurseries and pre-school). These were set up after the business executive considered what they thought the Rochdale Pioneers would move into today if they had the chance. The Rochdale group set up a food co-operative to address unsafe food supply issues. Now, one of the key areas that needs support is childcare (and utilities). Services where trust is key are, in the view of the executive of the Midcounties group, the areas in which the co-operative sector should work.

### How many members/people do they work with?

They have 48 nurseries across England, starting with 6 nurseries in 2010. They are the UK's sixth largest nursery provider with 3,590 child places. They have 100% 'good or outstanding' ratio, with 16 rated as outstanding. They have 1,347 'colleagues' or employees in the division, second only to the food section. They have a high ratio of carers to children in comparison to other providers in the sector.

### Application to Australia

The Midcounties Co-operative has a 'cradle to grave' business model. While the organisation employs people to work with the Midcounties Co-operative Group in a specific group within the organisation, people move between the different parts (where possible). This means that their 'colleagues' are able to start thinking about other aspects of the business which encourages innovation.

### Takeouts

They have a parent advisory panel which is fed from parent panels in each nursery. These are well attended and discuss any issues or opportunities for the co-operative group nurseries as a whole.

The 'Little Pioneers' book series for the nurseries teaches the colleagues, children and parents what the co-operative business is about, and the importance of being a Member.

They also work with students in 13 colleges around the UK, teaching the students in the childcare curriculum and providing interview skills. They find this is helpful in terms of attracting and retaining good staff for the businesses.

## 9.2. The Phone Co-op

**Met with:** Vivian Woodell, CEO.

### Ownership

Co-operatively owned and designed to reduce costs. The idea came initially from being charged high phone charges on international projects, and looking for an alternative supplier.

### Where did start-up income come from?

Members. The business was slowly built up from a humble beginning. The average amount invested by members is approximately £600.

### What sector do they work in?

Telecommunications and internet services.

### How many members/people do they work with?

27,000 home users, local authorities, other co-ops. The major customer survey recently shows that there was a 92.5% satisfaction rate and over 90% of members would recommend them to a friend.

They have an employee stakeholding system within the business. Despite being recognised as a consumer co-operative, their employees are recognised as partners and as key stakeholders. They have an employee council to act as a forum for employees, and a profit-sharing scheme which pays 11% of profits to employees based on hours worked. There is a sales-related bonus scheme operating across all staff, and 11% non-contributory pensions.

The business is also active in supporting student housing co-operatives, through acquiring a house and leasing back to the students wanting to form the co-operative. This would allow the students to establish a rental track record, provide access to better value housing, enable a co-operative to get started and provide a return for the Phone Co-operative's Members.

### Issues

Initially it was difficult to persuade a carrier to sell to the Co-operative wholesale. This is no longer an issue.

### Track Record

They have no borrowings, cash flow is very strong, and the business has a good trading record. They are financed by their Members and not by external investors or banks. This compares favourably with their competitors.

### Takeouts

They work hard to 'live their values', publishing an ethical policy and setting up an ethical policy committee to oversee it. They are focused on the environment, and report on business travel, 90% of which was by public transport in 2014/15. Free bikes are provided to staff, and the business offers staff a mileage incentive for cycling and walking. They invest significantly in renewable energy, trade with other co-operatives, and invest in other co-operatives where possible. They use 'affinity schemes' for the majority of their marketing.

### 9.3. The Co-operative Group

**Met with:** Nick Crofts, President - Member's Council, the Co-operative Group, Emer Coleman, The Foundation innovation hub.

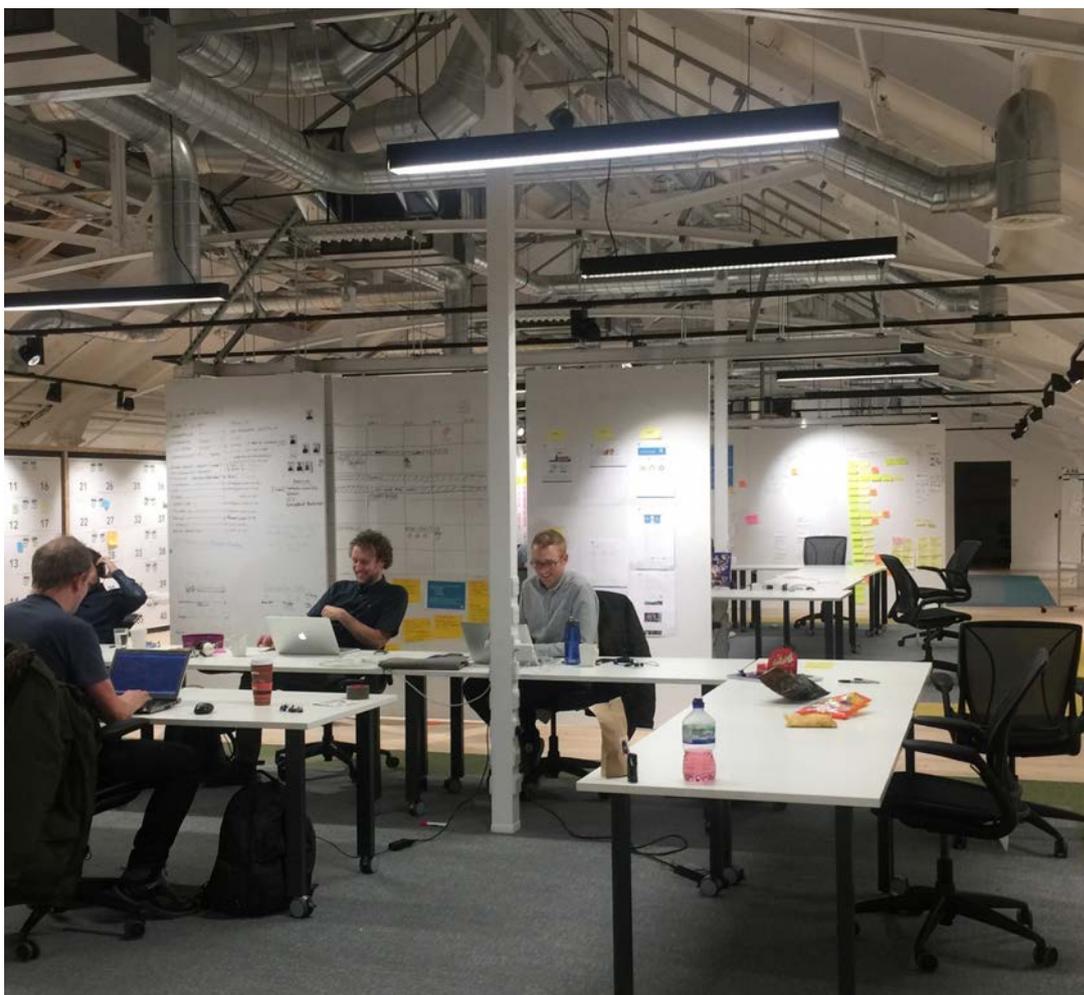
#### Ownership

The Co-operative Group is the largest and longest standing consumer co-operative in England, tracing its roots back to the original Rochdale Co-operative. The Federation is a department within the Co-operative Group, working on digital transformation and development of new digital businesses with a co-operative structure or focus.

#### How many members/people do they work with?

The Co-operative Group has a 'campaigns' sector of the business, which works on political campaigns designed to improve the lives of Members and the broader community. The Co-operative Group initiated the 'Fairtrade' campaign, ensuring that their businesses bought from companies that returned profits to the workers, and providing country of origin labelling on all of their products. They are currently working with the Red Cross on a campaign to combat loneliness.

The Foundation is forging partnerships with other technology companies that have a social purpose or can add to a common goal, such as the leading technology company for women in the industry, so that they can work together to increase the number of women in the sector in Manchester.



The Foundation, innovation hub established by The Co-operative Group, Manchester.

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## Appendix A

### List of meetings by country

#### Italy

La Rete, Trento  
A.L.P.I. Trento  
Euricse, Trento  
Trentino Social Tank, Trento  
La Locanda Smeraldi, Bologna  
Cooperative Anima, Bologna  
4 Madonne Caseificio Dell'Emilia, Bologna  
Cooperazione Finanza Impresa, Rome  
Terre e Domus, Rome  
Co.r.ag.gio, Rome  
Legacoop  
    - Legacoop, Estense  
Innovacoop  
Italstick  
Confcooperative, Rome  
    - Federsolidarietà  
    - Federcultura  
    - Federcoopescas  
    - Federlavoro  
    - Federazione Sanità

#### Switzerland

Hunziker Areal, Zurich  
Mehr als Wohnen, Zurich

#### France

Les Scop, Paris  
Les Scic, Paris  
Ciocopa, Paris

#### England

Rochdale Boroughwide Housing, Rochdale  
Salford Community Leisure Centre (SCLC), Salford  
Aspire Mutual, Salford  
The Phone Co-op  
Midcounties Co-op  
The Co-operative Group  
Mutuo