“When a co-operative idea works somewhere, it is an opportunity for it to work somewhere else. When it works in several places, it is an opportunity to pool resources to better achieve our aims.”

Secondary Co-operatives

✔ Marketing
✔ Training
✔ Support for new starts
✔ Mutual aid
✔ Finance
✔ Identity
✔ Replication

✔ Research and development
✔ Evaluation
✔ Career development
✔ Outreach
✔ Recruitment
✔ Community
✔ Investment

A secondary co-operative is a co-operative business democratically controlled by its members, all of whom are themselves co-operatives and share certain aims or values in common. The secondary co-operative can be a way for these co-operatives to do things that help achieve their aims that they would not be able to do by themselves. Secondary co-operatives have been used in a number of sectors already – Credit Unions, Housing Co-operatives and Social Change Co-operatives for example. They have also been used by Radical Routes to bring together diverse co-operatives with similar values. Members of the individual co-ops have found it helpful to be part of something bigger, whether they are volunteers looking for technical aid, a group trying to start a similar type of co-op in a different area, experienced workers wanting to apply their skills more widely, or members looking for a clear identity and and community to belong to.

Bringing a working model to the communities that need it

When a co-operative has brought benefits to a community, those benefits should also be available to other communities in need. It isn't always possible for a team focussed on their local area to put energy into someone else's patch. But by being part of a secondary co-op, extra resources can be mobilised to learn from the successful projects and nurture new ones. A secondary co-op can even spread the word by visiting the people and places who would most benefit.

Growing, but staying human scale

Co-ops often stay small because they want to. There is a community that you get in a
small business that you can't get in business with a hundred or more participants. Instead of growing a local co-op, why not use a secondary co-op to deliver the benefits of wider organisation without losing the autonomy and team spirit of community based co-operatives? The new organisation can do the job of spreading, growing and improving without forcing change and expansion on a happy group.

**Projecting identity and awareness**
Even when a good idea exists in dozens of places, it can have a low profile because each of its exemplars is only able to invest a limited amount in outreach and marketing. With a secondary co-op to explain the bigger picture and transmit the message directly through a range of media, awareness of your aims can rapidly improve. People that would never have heard of you will have heard of the network to which you belong – and that means they start off with a good idea of what you're about.

**Providing specialised services economically**
A lot of small and micro businesses get stuck because they cannot deliver some of the more advanced services that their larger competitors can. A technically complex or highly skilled service, such as training, E-commerce, IT solutions or legal device, can be very profitable for a large scale operation, but impossible for a community based co-op to support. By sharing the costs and benefits among a number of small businesses working together as a secondary co-op, local microbusinesses can punch well above their weight.

**Raising finance**
Many ethical and co-operative businesses have problems with finance. Firstly, they may be very risk averse, or hesitant about the long term commitment involved in taking out loan finance. Secondly, if they require risk investment, or might struggle to make loan repayments for the first year or two, conventional loans will not do. The result is that they are underfinanced and struggle to operate profitably or enter the marketplace effectively. A secondary co-op can help, firstly by taking on the risk and obligations itself, with less pressure on the member co-ops, and secondly by using more flexible forms of finance such as share and loanstock issues. It can then make loans to its member co-ops, or sell services to them, and that enables a return on the investment.

**Legal structures**
A secondary co-operative has a similar range of legal forms available to it that other co-ops do – broadly speaking, they are

- Unincorporated association
- Limited liability partnership
- Company limited by guarantee
- Company limited by share
- Industrial and Provident Society (I&PS)

Which is best? It depends on the kind of activities that the secondary will engage in. This table provides a rough guide.
<table>
<thead>
<tr>
<th>Activity</th>
<th>Unincorporated association</th>
<th>LLP</th>
<th>Company ltd by guarantee</th>
<th>Company ltd by shares</th>
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<tr>
<td>Joint marketing</td>
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<td>✓</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
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<td>✓</td>
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<td>✓</td>
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<tr>
<td>Equity finance</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
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</tr>
<tr>
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<td>✓</td>
<td>✓</td>
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<tr>
<td>Protect members from liability</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Share secondary's profits among members</td>
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<td>✓</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Sell services to members</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
</tr>
<tr>
<td>Make loans to members</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Raise finance from its members</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</tr>
<tr>
<td>Raise limited finance from the public</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Raise finance from the public with full prospectus</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Tax efficiency for investor - members</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
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<tr>
<td>Guaranteed internal democracy</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Cheap and easy to set up</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Just to complicate matters, companies (both guarantee and share) can choose to be
'Community Interest Companies' with regulation of their community purpose and a lock on their assets. This is a good 'badge' of social purpose, but confers no particular legal or tax benefits. It costs an extra £35, and a statement of community interest must be submitted with it. The regulator will need a statement on the company's activities each year; if he feels that the company is no longer serving the community in the way that was intended, he or she can take control over it. The promise is that the regulation will be 'light touch', but as yet we have no experience to tell us what that means. Community Interest Companies have an asset lock – a guarantee that the assets built up in the business cannot be distributed for private gain. In the past, this was only available to I&PSs.

In short, I&PSs are good for raising small sums from members or larger amounts from other I&PSs (Radical Routes is an I&PS that receives its investment entirely from a single I&PS, Rootstock, which gets its investment from a large pool of members. That enables Radical Routes to be run by its members alone, while Rootstock is run by investors). Historically, most secondary co-ops in this country have been I&PSs; prior to Community Interest Companies, they were the only way to secure assets against demutualisation.

Companies are cheaper to form and better supported, and they are quite flexible, but raising money from the public is only possible with large scale share issues (£500K+), as the legal costs are considerable. Unincorporated associations are perfectly sufficient for simpler tasks carried out by mutual agreement. Limited liability partnerships are profit sharing entities that have no accountability; they may have certain tax advantages for a joint project between businesses putting in investment themselves.

**How to form a secondary co-operative**

Before you go forming a secondary co-op, it is worth spending some time deciding if there is really a job for it to do. Firstly, determine clearly what it is that its members will have in common – is there already an organisation that is capable of meeting your needs? Many federal bodies exist – the Confederation of Co-operative Housing, Co-operatives UK, regional co-operative councils, the Community Recycling Network, Radical Routes – before starting a new body, you would be well advised to make sure that you are not wandering on to the territory of an existing, better established organisation. It could waste a lot of time for all concerned.

There are four main things that do or could bring co-ops together in secondaries:

- They share certain values, serve a particular subculture or have goals in common. For example Radical Routes is a secondary whose members share a political viewpoint, and agree on the broad outlines of an alternative society.
- They may have common needs resulting from being in the same line of business, and facing similar administrative or organisational issues. Secondary housing co-ops are a good example of this.
- They may have geography in common; one proposal is for a group of Cornish co-operatives to raise finance collectively.
- They may be promoting a shared brand – that although they might be quite different in the way they are set up and the views held within their co-ops, they are adopting a common label for their activities in order to gain credibility from each other's successes. That would be a bit like a co-operative equivalent of Virgin, or the 'Easy...'
group of companies. No one has tried this yet, as far as I know.
Of course, it could be a combination of all these things.
Secondly, what is its purpose – what is the problem to which it is a solution? The best way to establish this is to consult with prospective members. Indeed, most of the time a secondary will come out of such conversations. Find out what is holding the prospective member groups back or in what ways their achievements are limited. Could these problems be overcome through co-operation? Boil it down to the three things that are most needed. These need to be very significant problems – sufficiently important that they would release a lot of resources (time, or money) if they were solved. It is this resource that will provide the income for the proposed secondary – if it is insufficient, the secondary will not be viable as a business. What's more, even a profitable secondary co-op needs to motivate people to be its director: if the job that it was formed to do is trivial or casual, then there will be no one really committed to directing it.
Thirdly, who will be its founder members? If you have described your criteria for membership, it should be possible to establish how many such prospective members already exist. If the answer is, not many, that isn't necessarily fatal. However, it does step up the level of commitment needed from those few founder members. Ideally, there will be a pool of ten or more similar co-ops who all will see they have something to gain from getting involved. Try and get some of them sitting down round a table together discussing the issues, and if there seems to be some enthusiasm, pop the question: can your group release you for long enough to attend occasional meetings? If there are four or five people (or better still, up to nine) representing more than a quarter of the potential membership, then you have a committee that can run the organisation (although while the secondary is hypothetical, we might more accurately refer to it as a steering group).
If the drive and enthusiasm is coming entirely from outside the co-ops who will make up its membership, this is a warning: unless someone with a stake in it commits to it, it may not have a long future. The 'bottom up', grassroots mode of development gives any organisation deeper roots and the ability to overcome problems that might arise.

The business plan
Now you can settle down to some serious planning. This is the point at which some money may be needed, and possibly some expert advice. You need to develop a business plan, and although many people enjoy the work of putting these together DIY, others will prefer to hand the detailed work over to a consultant or development worker. While this process is underway, the steering group will need to meet and take some decisions. That all means funds – not as much as would be needed to launch a full scale business, but enough to develop the shared vision among the steering group, and prove the feasibility of the idea to potential backers. Depending on the scale and complexity of the idea, the funds you require at this stage could be anything from £50 to £5000
Where might these funds come from?
-Grant funding (lottery, co-op action, independent foundations, government funds)
-Member investment (the prospective members lend some start up funds)
-In kind benefits (people or organisations giving things or time for free).
-At risk work (people do work on the basis that they will only get paid if the project
succeeds – for example, they could be given loanstock certificates as payment, due to 'mature' in five years)
-Other loan (private, or high risk lending – unusual, without a full business plan)
This isn't the place to go into the details of business planning. But here's a summary.
First, agree the basics:
• Values
• Aims
• Areas of action
• Objectives
Provide some background:
• People on the steering group
• Organisations involved, and in what capacity
• History
• Other organisations active in this field, past and present
• Market / evidence of need
Then describe in detail what you are going to do:
• Timetable / action plan
• Project management
• Technical issues
• Legal arrangements
• Who will provide the various services you need
• Contingencies
• Monitoring and evaluation
That's enough text. Now you need to provide some numbers. First, list all the costs associated with launching the project: recruitment, marketing, website, meetings and events, purchase of tools, resources and equipment, setting up premises, and registering a legal structure (if you haven't done already).
Next, lay out a cash flow over two to three years (anything more than three years is liable to be a bit of a shot in the dark, but can be worth doing in some cases).

Funding and finance
You may already have started to think about how this work can be paid for; much of the work of bringing a steering group together and drawing up a business plan is time consuming and hence expensive. You may also wish to register a legal structure early, though this isn't essential at this stage. In general, a secondary co-op will have five sources of funding:

Loan finance. If the business plan can show the business being successful in the future, then you can raise a loan to be repaid from future income. It may be possible to raise a loan in order to fund the process of developing the business plan, but most mainstream lenders require a finished business plan. Such a loan would have to be from a specialist lender, or from an individual or organisation supporting the project.
The lenders most often associated with lending to co-operatives are Co-op and Community Finance (CCF), Triodos Bank and the Co-operative Bank. They are part of a growing movement of 'Community Development Finance Initiatives' and it is worth contacting the Community Development Finance Association to see what is available in your area. For loans secured on property, the Ecology Building Society and other
building societies are also possibilities. Other well known banks could be approached, but it is likely that the requirement for high levels of security will prove problematic. For the most part, banks are 'risk averse', and unable to support projects with even a modest level of risk.

Of course, Radical Routes is an existing secondary co-operative that makes loans, and there is no reason why a secondary co-op that shares their aims could not join, and receive a loan from them. One small scale secondary co-op, the Sumac Centre in Nottingham, has already done so.

**Loanstock.** This is a kind of halfway house between loans and investments: it is issued in a fixed quantity for a fixed period of time, and may have interest payable on it (usually credited as additional loanstock). It is not repayable before the closing date, other than at the discretion of the co-op, and it is not secured; in the event of the co-op becoming insolvent, loanstock investors would be in the same position as all its other creditors. With high enough levels of interest, it can be an attractive option for small investors and still a good deal for the co-op. It is normally only offered to people closely connected to the project (advertising investments to the public is very closely regulated, for good reasons). It is important to bear in mind that if the issue is ongoing, with people purchasing, returning, and then re-purchasing loanstock, it may come to resemble 'deposit taking'. That is something only licensed banks are allowed to do.

**Equity finance.** This is a complex area: because co-operatives are run by their stakeholders, and so do not have 'owners' in the way that private businesses do, equity finance is often held not to apply to them. This isn't altogether true. All co-ops involve members buying a minimum of a £1 share, and in most cases it is possible for members to buy more than one share (though they must always have no more than one vote). If the rules permit, separate 'non-voting shares' can be created that carry interest, or even dividends. These are normally non-transferable, and refundable.

Advertising to the general public for investment is heavily restricted and quite a complex area. For smaller projects, the cost of legal and accounting advice will probably be too great. Industrial and Provident societies do have the power to advertise for new members, and then encourage their members to invest up to £20,000. Such 'investor co-operatives', of which Rootstock (mentioned above) is a good example, can then buy non-voting shares in a secondary co-op. That allows the public to invest small sums in a co-op, without the co-op being controlled by investors.

Larger share issues would probably take a different form, and there are few precedents to draw upon. However, we can imagine a company limited by share in which shareholders buy transferable shares that pay dividends from half of each year's profits; the shareholders can elect a quarter of the directors, enough to protect their investment but not enough to run the business. The remaining directors are elected by the ordinary members. This would be suitable for share issues of £500K+.

Currently, the best service available for promoting and trading shares in ethical businesses and co-operatives is Triodos Bank's Ethex service. For small issues (£500K - £4M) they would act as an introducer, and charge a commission for 'introducing' the co-op to social investors. Larger issues of £5M plus would involve a substantial advertising campaign, of the type successfully carried out by Westmill Wind. They set out to raise £3.7M, and succeeded in raising £4M – the excess had to be sent back to unlucky investors.
Grants. The availability of grants to finance a secondary co-op will depend very largely on the type of enterprise, and whether it has charitable objectives. For example, the National Community Wood Recycling Project received substantial funding from the Esmee Fairbairn Foundation (they are not a secondary co-op in fact, but they could easily have been and in some ways behave like one). This is not the place to discuss grant funding in detail; to explore the possibilities, talk to a specialist advisor such as a Council for Voluntary Service.

'In kind' support. This is often neglected, but can be a valuable source of resources for a start up. Are there goods or services that supporters of the project will give as a gift? Often, the most valuable kind of 'in kind' benefit will be people's time, especially that of highly skilled experts. Sometimes LETS can be used to secure this (though this is more common for a project based in a single community) or loanstock can be issued in place of payment. Premises, computers, and advertising might also be secured free or at 'mates rates'.

Mutual Trading Status
You may be eligible for mutual trading status, which can be agreed by the Inspector of Taxes and which gives exemption from paying Corporation Tax on profits. This is available when the members are in effect pooling their money temporarily for their mutual benefit; if the rules clearly show that it some point the assets of the secondary will return to its members as taxable income (for example in profit distribution, or when the business is wound up) then no tax need be paid in the meantime. However, secondaries with common ownership rules (no profit distribution, even if the business is wound up) will not be eligible for this.

Making loans and investments
One of the most common forms of member benefit provided by secondary co-ops is access to finance. Finance is important to get a new project off the ground, but in many ways even more important for established businesses that want to grow. When a business is growing, it needs to buy in more stuff (salaries, stock, equipment) some time before the income from new customers arrives. If customers pay some time after receiving goods from you, you can find that even a brief period of growth needs long term finance to support it.

As discussed above, debt finance is more readily available, but imposes a tougher regime of repayments, and often requires security. A secondary co-op will serve its members better if it can provide unsecured 'patient capital' or even a form of equity. Unsecured lending is risky, and the secondary would have to be certain that it could withstand occasional defaulting lenders. An alternative might be to have a strong hold on weak assets, by leasing capital items such as vehicles, computers or tools. The secondary would retain ownership until the last payment had been made.

It will also benefit your members if the repayments can be deferred. This could be a loan with a long repayment holiday, or a 'tapered' loan where later repayments are larger than earlier ones. It could involve the secondary co-op investing in the member co-op; one way of doing this is loanstock, a simple non-voting form of investment with a closing date. While the money is with the co-op it accrues interest, and the whole sum is repaid at the end of its term. The secondary co-op could possibly buy shares in its members,
but this gets quite complex and is probably unnecessary for most types of co-op. Here is a typical process for making a loan to a co-op:
1. Co-op approaches loan committee (or an employee of the 2ndary responsible for assessing loans) with an idea.
2. Assessor and applicant work together to develop a proposal that is an effective and prudent use of money, based on the co-op's business plan – see loan assessment below.
3. Loan is agreed by loan committee, board or general meeting.
4. Formal offer of loan made, with conditions attached where necessary.
5. Assessor verifies that conditions have been met, loan agreement signed (along with any legal charges on security). If the investment is loanstock, the borrowing co-op will issue a certificate.
6. Funds are released to the borrower's account, less loan arrangement fees (typically 1%).
7. Follow up support from the assessor as necessary (particularly needed for new starts).
8. Borrowing co-op submits quarterly management accounts.
9. If targets are not met, or there is other cause for concern, the assessor may visit to discuss remedial action. This may include spending controls, product improvements, increases in charges, repayment holidays, further investment or rationalisation of assets. If a loan is secured on property (land or buildings) in the course of a purchase, solicitors will need to act for the lender. It is normal for the buyer's solicitors to be asked to 'perfect the security' (that is, verify that the buyer will gain legal title to the property, and ensure that the legal charge forms are correctly signed).

How should a loan be assessed? One simple way to remember is 'people, purpose, profit'. In other words, remember that there are these three basic aspects to any business. First, look at the credibility of the people involved – are they used to working together? Is there enough of them, and are they all equally committed? Do they have a relevant track record? Do they have enough free time available? Then consider the purpose of the whole co-op. Does it fit with the ethics of the secondary co-op? Does it meet a need, or serve a market? Has it been negotiated with other organisations working in the field? Is it truly co-operative and sustainable? Does it fit co-op principles? Lastly, profit: is the activity capable of being run at a profit? This can be answered in one of two ways: income and expenditure (in other words, will they run out of cash?) and profit and loss (in other words, is the net worth of the business increasing over time, or are they eating into their assets?). These require cash flow forecasts and profit and loss accounts; the job of the assessor is to test all the assumptions, as well as the calculations, to ensure that the picture of the future that is being painted is really realistic.

There are further tools of 'ratio analysis' which can be used to establish whether the indebtedness of the co-op is improving over time, whether it is making use of its stock effectively, and whether the productivity of its workers is high enough. These are more specialised tools, but may come in handy for more complex trading businesses.

**Collective marketing**

There are a number of ways in which a secondary co-op can market the goods or services produced by its members:
1. Establish a brand, or a quality standard. A brand can just be a ubiquitous name, or logo, that people come to have positive associations with. The members, who are the
only businesses entitled to use the brand, pay a regular sum (possibly related to the scale of their trading) towards a common pot, which is used to raise the profile of the brand. This will be most effective if the brand is linked to a quality standard – much like the Soil Association or Fairtrade marks are. A good quality standard will be challenging, and relevant to customers concerns, but not so difficult that no one can measure up to it.

2. A common outlet. At a local level, marketing co-operatives have often run stalls or shop fronts, so that small scale producers can have a permanent and accessible outlet for their goods without having to staff it or pay for it all themselves. On a large scale, the same might be true of e-commerce; it makes sense to have a single website from which goods and services can be bought, rather than each business having to support the expense and complication of doing it themselves. Alternatively, a catalogue with a mail order service might be appropriate. The secondary co-operative gets an income from its members – perhaps in proportion to the volume of their sales – and uses that income to cover the costs of the outlet.

3. 'Bundles'. It can represent good value for the customer to buy linked products at the same time, and a secondary co-op can help facilitate that. The obvious example is the co-operative box scheme, where a number of producers growing different fruit and vegetables combine their produce to provide a 'veg box' with a range of goods. Another kind of bundling is when one product 'joins up' with another – so one co-op that designs home renewable energy systems joins up in a secondary co-op with others that install them, and what is sold to the public is a complete design and build service. The secondary co-operative buys the goods or services from its members (at a wholesale price) and then sells them on as a bundle.

Replication through a secondary co-operative

Perhaps the most important thing that a secondary co-op can do – but also the riskiest – is to export a successful model to other communities. There have been instances where this has worked triumphantly – in the 1990s, Radical Routes catalysed the formation of new housing co-operatives in many different towns – and others that have been less successful (Aspire, a social enterprise in Bristol, provided employment for homeless people with a fairtrade catalogue, and attempted to 'roll out' their ideas in several other towns. Uneven results led to the network falling apart)

The work involved in reproducing a project is considerable, and some way for the secondary co-operative to recover the time it has invested is necessary. That may come through grant funding, where there are obvious social benefits to a project model being more widely adopted, or where the same fund that helped the initial project start is also available in other communities. Alternatively, the secondary co-operative could make loans (as described above) and recover costs from the interest charged.

The key to successful replication is linking the experience of the established project with new energy and commitment in the community it is being brought to. Experience can be transferred through written materials and 'how to' guides, through visits (both to and from) and mentoring, through the provision of services to each other and through starting joint projects together. Some key guidelines: ensure that the stability of the secondary co-op, and more importantly the existing member co-ops, are not placed at risk by the new project. They must be autonomous and responsible for their own destiny, and not able to drag others down if they fail. If there is any risk in the
investment that the secondary co-op make in the new projects, it must be carefully assessed, minimised and spread between several projects. The people who will be running the new projects must understand the nature of the support available, and its limits. If it is too easy in the early stages, and too much of the work is done for them, there will be no evidence that they have what it takes to stand on their own two feet.

Management of a secondary co-op
Small co-ops (up to a dozen members) can be managed collectively (that is, all the members are directors and take decisions together) and the same is true of secondary co-operatives. Typically, directors will be nominated representatives of the member co-ops, who serve as directors as long as they have the confidence of the co-ops they represent. It is possible for a co-op to provide more than one director if the rules permit it; it is also possible for the nominated representative to change from meeting to meeting, though it is questionable how effective they will be as directors (also, Companies House do like to be told about changes in the makeup of the board, and the form filling can get tedious).

If there are likely to be more than a dozen members, collective management becomes more challenging. It is likely that some member co-ops (or their nominees) will be more active than others, and there needs to be a mechanism to keep them accountable, well supported and effective. These individuals will comprise a board of directors that is a subset of the wider membership (in an Industrial and Provident Society, these are usually referred to as a committee of management, and in some contexts you will hear references to a steering group - the role and function is the same).

However in the general meetings that are the supreme authority, and which appoint directors, each member co-op has one vote only, and all of them should be encouraged to participate. One way to keep a high level of collective decision making is to have general meetings more often than once a year - Radical Routes, for example, meets quarterly, and so its committee members have little decision making role and simply carry out the instructions of the general meeting. Alternatively, an Annual General Meeting could elect Directors once a year.

However, the board / committee is unlikely to want or be able to do all the work themselves. In fact, they are likely to be preoccupied with their own local projects. So who is going to do the work in the secondary co-op? There are a number of options. The secondary co-op may be able to attract volunteers, particularly if the objectives of the group are of obvious social benefit and the workload relatively light. However, it is more likely that paid workers will be required.

The most obvious way to do this is to hire employees. However, there are a number of reasons why many organisations have shied away from this. Firstly, there is the burden of administration (however, payroll services are available, including a service for co-ops provided by UpStart). Secondly there are the obligations of management; quite apart from checking the quality of the work carried out, there is a range of issues from health and safety through grievances to sickness cover. Finally, national insurance is a significant burden (though as contractors will have to pay their own NI, they will in all probability expect to be paid more).

An alternative is to contract either an individual or an organisation to either carry out a specific project, or to provide an ongoing 'service level agreement'. It is important to
check that this is not employment masquerading as a contract; Inland Revenue will advise as to whether the relationship can truly be described as not employment. Assuming there is no difficulty here, this can be an effective way of managing a range of tasks, and leaves the role of the directors being strategic direction and oversight of contract delivery. In many cases, the necessary skills will be found among the member co-ops; in which case they can be contracted by the secondary co-op. It is important to ensure that contracts are awarded by a subcommittee that excludes anyone who may have an interest in the outcome.

It is important to be clear what the expectations are of the membership. In many secondary co-ops, a regular service payment is charged. This makes a modest contribution to funds, and also has the advantage of keeping the membership 'fresh' – in other words, the membership list does not get clogged with defunct or dormant groups. A secondary co-op can also ask for a contribution of time, or work: Radical Routes has no employees, and almost all of the work it does is supplied as part of the members 'work commitments'. It may also require members to adhere to some code of conduct or business practice, or disclose certain information about themselves. This helps the secondary co-op to establish a consistent brand and to be able to speak confidently about the kind of activities it supports.

It is important to ensure that the balance between the rights and responsibilities of membership is maintained. If the secondary co-op asks too much of its members, they will fall away and the benefits of collective action will be lost. If it asks too little the focus and purpose of the organisation may be diluted and the membership list will become swollen with dud or irrelevant contacts. External supporters and investors may be less inclined to assist an organisation whose own members seem to care little about it.

**Evaluation and social reporting**

All registered bodies are required to prepare annual accounts, but for a business with social or ethical objectives, this will only ever tell half the story. It is good practice to prepare a social report to accompany it: in fact, many business consultants now speak of a 'triple bottom line' – economic, social and environmental results.

To prepare a 'social audit', you need to establish what the benchmarks that you are working towards are. Unlike financial results, you get to choose these! Refer back to the values, aims and objectives discussed earlier: these may well imply certain indicators of success. For example, if one of your aims is 'enabling wider use of climate friendly fuels by members co-ops' then an indicator of success is what proportion of fuel used by members co-ops is indeed climate friendly. Similarly, if one of your values is 'participatory democracy' then an indicator of success is the proportion of membership that participated in the democratic processes. Alternatively, you could ask members through a questionnaire whether they think the organisation responds to their ideas and wishes.

This kind of reporting will enable you to evaluate your achievements as a secondary co-op year by year, and evaluate where you are successful and where your approach needs to change. Change is difficult, and even unpopular; this kind of objective reporting is sometimes necessary to shake off complacency.
Appendix 1

The International Co-operative Principles
The notes on applying these principles to service co-operatives come from Avon CDA's website, www.avoncda.coop.

1 Open and voluntary membership.
Service co-operatives are not cartels. They do not exist to help their members at the expense of others. Any person or organisation may apply to join the co-operative and the existing members should allow them to join if they agree to abide by the rules and pay the necessary fees and charges.

2 One member one vote.
This principle safeguards democracy. All users of the service, big or small, individual or corporate acquire voting rights. Extra votes cannot be acquired through investment or by affiliating organisations to acquire block votes. Simple democracy based on every member's right to vote and a knowledge that no vote will count for more than another is the best guarantee of support and involvement.

3 Limited return on capital.
Service co-operatives have the power to accept loans from members and from other individuals and organisations, including banks and finance companies, and to make reasonable interest payments. It is, however, contrary to true co-operative principles to enter into agreements which give over control of the organisation to those who provide financial support, by allowing them to purchase voting rights or to benefit from trading profits or from growth in the value of assets such as property holdings. The function of service co-operatives is to provide services to their members and, conceivably, to generate jobs and reward for those that carry them out, rather than to make large windfall profits for outside investors.

4 Equitable distribution of surpluses.
Co-operatives usually allocate their surpluses under three headings:
1. the reserves which are needed to carry on and improve the work of the co-operative (building up the assets)
2. charitable donations
3. bonuses or dividends to members

It is important that any distribution of surpluses between members is made on a basis which is fair and equitable. In a Service Co-operative this is usually based on the amount of services purchased by each member. Thus the share of profits distributed relates directly to the members commitment to the co-op and the purchasing power which they provide.

Co-operatives are self-help organisations and are entitled to generate services, jobs, payments and profits for their members.

5 Social objectives.
Co-operatives have a function beyond providing cost effective services to their members. By drawing together people and organisations with a common interest they usually provide a forum through which they can meet and support one another in many other ways. Co-operatives often take on a representational function and social function for their members. It is even a way by which members can express their social responsibility, drawing perhaps upon resources generated through increased income or saved expense generated by their Co-operative.

6 Co-operation between co-operatives
There are co-operatives in business, housing and community action in this country and throughout the world - literally hundreds of thousands of co-operative organisations with hundreds of millions of members, all pursuing their activities guided by the same essential principles. One of those principles is
that the more we help and learn from one another the better off we will all be! A variety of linking initiatives and organisations are in place at a local, national and international level. Some concentrate on trade, others on exchange of information and ideas.

7 Concern for the environment
Co-operatives are actively encouraged to consider environmental issues in the day to day running of their business. Waste paper, tins, bottles etc can be collected for recycling and many co-ops use recycled products themselves.