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# 1. INTRODUCTION

## CATALYST

This book was originally written by Catalyst Collective Ltd, a workers co-op registered using the Self Registration procedure (see chapter 3), and was updated by Radical Routes Ltd, a national secondary co-operative. It is an attempt at putting the parts of company law that refer to forming a small workers co-op into a language that we can all understand.

Catalyst registers co-ops, both housing and workers. They make a small amount of money from each registration, to enable them to pay themselves a basic wage, and to support other 'non-economic' and campaigning activities of the collective. Through this book we are showing people how to register themselves - after reading it, you may want Catalyst to register your co-op and save you some time and effort (so often stretched in the early stages of setting up a co-op) whilst also supporting their work.

Catalyst was started to help set up and support (and even sometimes to help run) innovative enterprises that solve social and environmental problems whilst producing, publishing and distributing information to enable people to take more control over their lives, and the impact that their actions have on the environment.



We believe that if ordinary people regained control over their lives, the level of environmental devastation and injustice in the world, presently caused by big companies and governments, would decrease. We hope this book provides you with an insight into co-ops, and how co-operative economic activity can start to change our society for the better, here & now.

## Charity Commission

St. Alban's House  
57-60 Haymarket  
London SW1Y 4QX

## Co-operative Insurance Society

08000 686 687

If you are after commercial insurance then the CIS should be your first port of call for advice and a quote. Make sure you tell them that you are a co-op.

## Naturesave Policies Ltd

FREEPOST OF 985

Oxford OX2 6YY

Tel: 01865 242280

Building & contents insurance with 10 % of premium donated to benefit environmental & conservationist organisations.

## Data Protection Registrar (DPR)

Wycliffe House

Water Lane

Wilmslow, Cheshire SK9 5AF

<http://www.dpr.gov.uk/>

The chances are that you will not have to register under the Data Protection Act. The chances are also pretty high that you will receive a number of carefully worded letters and forms implying that you do and that it costs about £100. These letters come from companies that sound like they may be government departments and some even have logos that are not dissimilar to that of the Inland Revenue. At present it costs £35 per annum to register and you should do it directly with the DPR. These letters are a Scam (and a pretty good one too).

### **Triodos Bank**

Brunel House  
11 The Promenade  
Clifton, BRISTOL BS8 3NN  
www.triodos.co.uk  
0117 973 9339

A social bank, lending only to social & environmental projects, especially charities and socially-owned businesses. Depositors can target savings to projects of their choice, and are informed about the bank's lending.

### **Ecology Building Society**

18 Station Road  
Cross Hills, Keighley  
West Yorkshire BD20 7EH  
Tel: 01535 635933  
www.ecology.co.uk/

Green deposit taking, mortgages, supportive of co-op and 'green' projects; provides a means of finance for the purchase of ecologically, sound properties only.

### **Unity Trust Bank**

Nine Brindleyplace  
4 Oozells Square  
BIRMINGHAM B1 2HE  
Tel: 0121 616 4101  
Fax: 0121 631 2365  
www.unity.uk.com

A bank set up by trades unions, supported by & supporting unions, co-ops, charities and the voluntary sector. **FREE business banking!!**

### **Industrial Common Ownership Finance [ICOF]**

12-14 Gold St.  
Northampton NN1 1RS  
Makes loans to co-operatives

### **The Ken Lucas Trust**

C/o ICOF [address above]  
A trust which makes grants to co-operators to enable them to visit and learn from other co-ops.

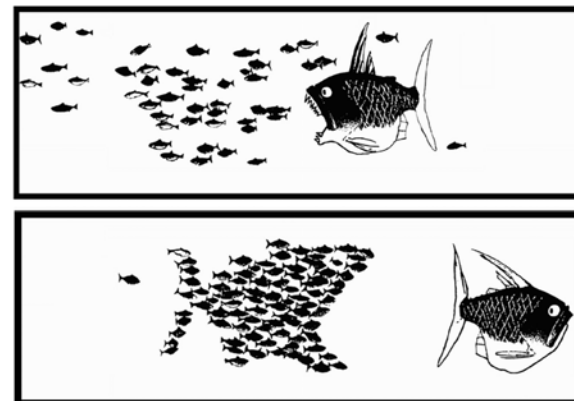
### **RADICAL ROUTES**

This book is published by Radical Routes Ltd. Radical Routes is an organisation made up of various forms of co-ops from all over The UK that are working for social change. The co-ops give each other support and mutual aid of all kinds, and have collectively registered an Industrial and Provident Society as a secondary co-op (a co-op whose members are co-ops). This enables Radical Routes to make loans to its member co-ops. The network encompasses housing co-ops, workers co-ops and social centres, which are involved in a wide range of activities from printing to selling whole foods, running a bar to growing herbs. Catalyst collective is a member of Radical Routes.

Radical Routes' aims and principles are:

"We want to see a world based on equality and co-operation, where people give according to their ability and receive according to their needs, where work is fulfilling and useful and creativity is encouraged, where decision making is open to everyone and where there are no hierarchies, where the environment/Earth is valued and respected in its own right rather than polluted and exploited. We are working towards a better world, concentrating our efforts upon housing, education and work (both the use and production of things). Through gaining collective control over these areas we aim to reduce reliance on exploitative structures and build bases from which to challenge them and encourage others to do so."

There is more information on Radical Routes in Chapter 5 of this booklet and from our website at [www.radicalroutes.org.uk](http://www.radicalroutes.org.uk)



## 2. WHAT IS A WORKERS CO-OP?

A workers co-operative is a business that is owned and controlled by its workers, with membership restricted to employees. There are no outsiders taking decisions about the running of the co-op. It is a means by which people can reclaim some control over their work, share the responsibility of making decisions with their fellow co-op members as equals and can provide a flexible, friendly working environment. It is also a means by which the unemployed can provide themselves with meaningful work. We believe that co-ops can be particularly attractive to those individuals who wish to opt out of the rat race for ethical/political reasons. By forming conscientious co-ops active in 'business' such individuals can take part in economic activity; earn themselves a wage; perhaps channel some of the 'profits' into their environment and/or local communities; integrate their political ethics into co-op decisions, and so start to change the world for the better, here and now, by actually creating alternatives.

In a conventional company the owners (members/shareholders) of the company do not work for the company, but are able to reap the profits generated via dividends paid on their shares. They appoint directors to manage the company on their behalf at the AGM. The workers are a part of the machinery of the company and their labour is 'bought' from them by the bosses, who decide the wages.

In a workers co-op the situation is reversed and the workers use their collective skills, knowledge and capital to provide themselves with an income. Together, they decide their own wages, hours etc. They own the company themselves; they are workers/directors/members all in one. To start the business the co-op normally borrows money, either from themselves (as individuals), friends, banks or



### **Rootstock Ltd** (Ethical Investment Co-op)

BM Rootstock  
London WC1N 3XX  
Tel: 0870 458 1132  
[www.rootstock.org.uk](http://www.rootstock.org.uk)  
[Info@rootstock.org.uk](mailto:Info@rootstock.org.uk)

Ethical investment scheme set up to enable individuals to help radical co-ops with their money, whilst receiving interest. Invests in Radical Routes Ltd to enable it to make loans to its member co-ops.

### **Co-operatives<sup>UK</sup>**

Co-operatives<sup>UK</sup> is a member-based organisation for co-operative enterprises. They seek to represent the interests of their member co-operatives, and develop and extend the co-operative sector as a whole  
[www.cooperatives-uk.coop](http://www.cooperatives-uk.coop)

### **ICOM (Industrial Common Ownership Movement)**

0161 2462959

Was the National Federation of Workers Co-ops, then the Federation of Democratic Employee Controlled Businesses, is now a branch of Co-operatives<sup>UK</sup>

### **The Accountancy Co-operative**

56 Dorchester Rd.  
Lytchett Minster  
Poole, Dorset BH16 6JE  
Tel: 01202 621 622  
[www.accountancy.coop](http://www.accountancy.coop)

Accountants specialising in co-operatives and other small businesses. See the website for information

### **Slade & Cooper**

Fourways House  
57 Hilton St  
Manchester M1 2EJ  
Tel: 0161 236 1493

Auditors, accountants who specialise in co-ops

## 5. USEFUL ADDRESSES

### Radical Routes

16 Sholebroke Avenue  
LEEDS LS7 3HB  
Tel: 0113 262 9365 or 0845 458 4510  
www.radicalroutes.org.uk  
info@radicalroutes.org.uk

A Network of radical housing and worker co-ops working for social change; a mutual aid organisation; provides mutual support, long term and short term loans and can provide advice on all aspects of co-ops; quarterly gatherings hosted by member co-ops.

### Catalyst Collective Ltd

16 Princess Way, Earsham  
Bungay NR 35 2SY  
Tel: 0845 223 5254  
info@catalystcollective.org  
http://www.catalystcollective.org  
Co-op registrations & help/ advice for people setting up co-ops; information on all aspects of co-ops.

### Somerset Co-op Services Ltd.

Fullards Farm  
Trull  
TAUNTON  
Somerset TA3 7PE  
0845 458 1473  
alexlawrie@upstart.coop  
www.upstart.coop

### Companies House

21 Bloomsbury Street  
London  
WC1B 3XD  
0870 3333636  
http://www.companieshouse.gov.uk/

You may want to refer to their website while reading this booklet to see what various forms and tables that are referred to look like.

other financial institutions.

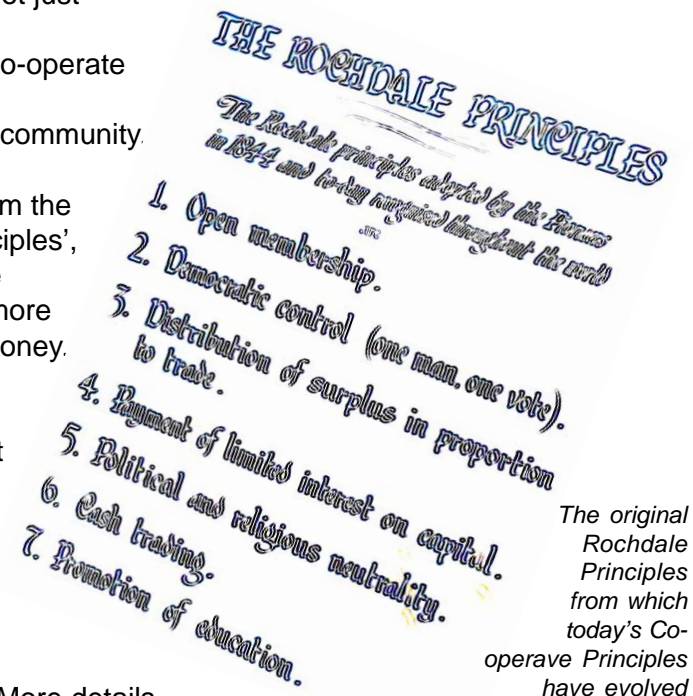
Larger co-ops are often managed by a committee elected by the members, from the membership. Much of this booklet is not relevant to larger co-ops with a committee managed structure as it is aimed at new co-ops, which are usually small, closer-knit groups run on a collective basis.

Remarkably, in British law there is, as yet, no legal definition of a co-operative! There are Seven 'co-operative principles' that are universally recognised by the co-op movement. Put simply, they are:

1. Membership should be open and voluntary.
2. There should be equal control amongst members.
3. Investment should not carry control, and should only receive a limited return in interest or dividends.
4. Any profits distributed among members should be done so fairly.
5. There should be educational and social objectives, not just commercial ones.
6. Co-ops should co-operate with each other.
7. Concern for the community.

As you can see from the 'Co-operative Principles', by their very nature co-ops are about more than just making money.

In fact some of us within the co-op movement feel that the economics are purely a means to an end, and the socially useful/ educational aspects of our co-ops come first. More details



on the seven co-operative principles can be found at [www.essential-trading.co.uk/co-op7.htm](http://www.essential-trading.co.uk/co-op7.htm) and in Appendix 4.

### REGISTRATION - WHY?

Most co-operatives are incorporated bodies. This gives all the members 'limited liability', making them only liable for a nominal amount (i.e. £1), should the co-op fail and go into receivership.



There are two government bodies that you can register your co-op through; Companies House and the Registry of Friendly Societies.

In the past, many co-ops, particularly larger ones, registered as an 'Industrial and Provident Society' with the Registry of Friendly Societies (now part of the Financial Services Authority), which offers many benefits to co-ops with predominantly charitable or social aims and who do not wish to trade for profit. In particular, co-ops registered this way can raise finance more directly by selling shares to their members and by issuing loanstock to the public. You'll need more specialist advice, for example from a Co-op Development Agency (CDA) or Upstart (another Radical Routes co-op) if you want to raise money this way.

There are, however, disadvantages to registering through the Registry of Friendly Societies as opposed to through Companies House:

[a] it presently costs between £375 and £700 to register depending on the legal structure and promoting body you use. As a promoting body, and using their model rules, Catalyst are about as cheap as you will get. In contrast registering at Companies House costs £20;

[b] there are quite strict regulations of what you can and can't do (the Registrar checks out your rules on incorporation, and checks from time to time that the objectives have not been changed);

[c] The annual fees charged are much higher than for companies registered at Companies House.

Nowadays, most workers co-ops register with Companies House and that is the procedure this book deals with. It is much cheaper, has far

## 4. THE SEVEN CO-OPERATIVE PRINCIPLES

- *Voluntary and open membership*  
Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
- *Democratic member control*  
Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.
- *Member economic participation*  
Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative and supporting other activities approved by the membership.
- *Autonomy and independence*  
Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.
- *Education, training and information*  
Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.
- *Co-operation among co-operatives*  
Co-operatives serve their members most effectively and strengthen the Co-operative Movement by working together through local, national, regional and international structures.
- *Concern for community*  
Co-operatives work for the sustainable development of their communities through policies approved by their members.

meeting.

### AUDIT

25. Auditors shall be appointed and their duties regulated in accordance with the provisions of the Act.

### DISSOLUTION

26. Clause[7] of the Memorandum of Association relating to the winding up and dissolution of the co-op shall have effect as if the provisions thereof were repeated in these Articles.

We the several persons whose names and addresses are subscribed are desirous of being formed into a company in pursuance of these Articles of Association.

NAME	ADDRESS	SIGNATURE
------	---------	-----------

- |    |  |  |
|----|--|--|
| 1. |  |  |
| 2. |  |  |
| 3. | Details of subscribing members here, again |  |
| 4. |  |  |
| 5. |  |  |

Dated this \_\_\_\_\_ - day  
of \_\_\_\_\_ ~ \_\_\_\_\_ 20 \_\_\_\_\_

Witness to the above signatures: \_\_\_\_\_

Name and address of witness:

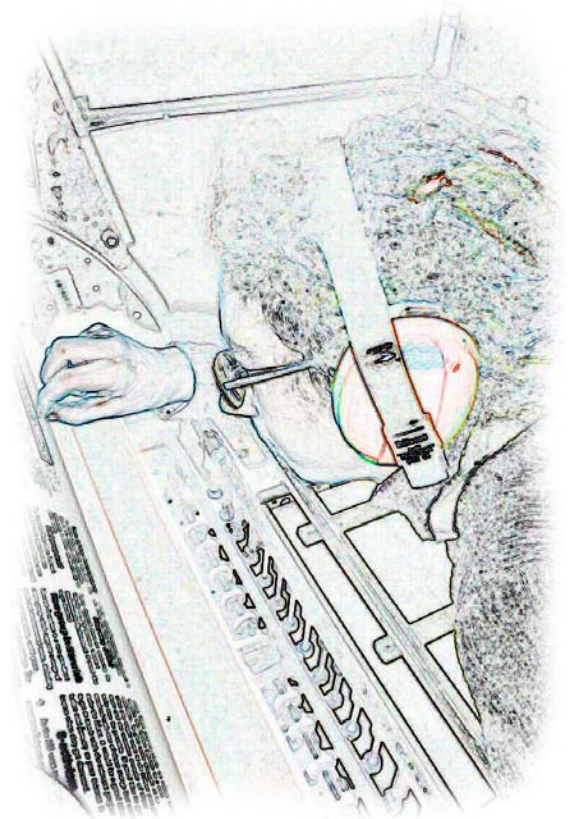
fewer regulations, and it is free to change any details filed at Companies House (except company name change, which presently costs £40).

A disadvantage of registering with Companies House is that later members can de-mutualise themselves and keep the assets. This is because the directors of a company cannot bind their successors; any rules can be changed, including those that say "the following rules cannot be changed...". The government is currently consulting on a new legal structure called a 'Community Interest Company' which would be registered at Companies House but would have an 'asset lock' protecting it from future demutualisation.

There are a lot of laws relating to companies, their formation, and running, but many of these regulations relate specifically to Companies Limited by Share. Some worker co-ops use share co-op rules, in order to reflect the differing contributions of their members or to provide incentives to their members. However, it is questionable whether these are really co-operatives, if all the assets are in fact owned by individuals. Most worker co-ops are Companies Limited by Guarantee, which this book deals with. We will be covering some of the legalities later.

There are quite a few benefits to registering your co-op as opposed to working in a partnership or as sole traders, some are:

[a] As already stated, all members' liability



becomes limited. With a Company Limited by Guarantee Without a Share Capital, a member's liability is limited to an amount they guarantee to pay in the rules at registration, normally £1. This agreed amount has to be paid if the co-op fails and goes into liquidation. No personal property of any member can be taken to settle any of the debts of the co-op. If a co-op is not registered this is not the case, and all debts of the co-op are the debts of the members who can be held personally and severally liable to repay. This means that any personal property, including homes, could be seized to pay off the co-op's debts!

[b] As a Limited Company your co-op will have a lot more credibility in the eyes of suppliers, customers and banks etc, than without registration. It will have a Registration Number, Registered Office and a set of rules to govern what it can and can't do. Anybody can find out about the co-op via Companies House. Registration, in the eyes of many people, shows that you take the business seriously.

[c] Once a name has been registered no one else is able to register another company in that name, so people know that they are dealing with the same organisation. 'Making a name', getting a reputation for good service, etc. is half the struggle with many new business ventures.

[d] The co-op becomes a separate legal entity from its members: 'a legal person', whose property and possessions are quite separate from those of the members, and yet its purpose is to benefit its members.

[e] With a registered co-op being a separate legal entity unto itself, it continues to exist so long as there are people interested in working for it. Members / workers come and go and can alter the rules to suit their needs. So, when you register a co-op, you are making an organisation that will continue when you leave, or even after you are dead.

[f] It is possible to register a co-op with share capital, thereby raising money by offering shares. This could be really useful to a group of employees wanting to carry out a 'worker buy-out' and turn the company they work for into a workers co-op. However, shares aren't usual in co-ops, and we shall not be covering this type of co-op in this book.

As you can see, by registering a co-op we can create an organisation to

directors of the co-op.

19. All decisions of the directors shall be made by consensus following the fullest discussion in which all directors shall be entitled and allowed to speak freely according to their consciences. By consensus is meant a situation where all directors present are in agreement on an issue, or where those not in agreement agree not to maintain an objection.

## SECRETARY

20. The secretary shall be appointed by the directors for such a term, at such remuneration and upon such conditions as they may think fit; and any secretary so appointed may be removed by them.

## ACCOUNTS

21. The directors shall cause proper books of account to be kept with respect to-

- a] all sums of money received and expended by the co-op and the matters in respect of which the receipt and expenditure takes place.
- b] all sales and purchases of goods by the co-op.
- c] the assets and liabilities of the co-op.

Proper books shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the co-op's affairs and to explain its transactions.

22. The books of accounts shall be kept at the registered office of the co-op, or at such other place as the directors think fit, and shall always be open to the inspection of the directors.

23. The directors shall from time to time, in accordance with their statutory obligations, cause to be prepared and to be laid before the co-op in general meeting such profit and loss accounts, balance sheets and reports as are required by statute.

24. A copy of all documents required by statute and any other documents the directors see fit shall be delivered to all persons who receive notice of a general meeting together with the notice of that

following the fullest discussion in which all members shall be entitled and allowed to speak freely according to their consciences. By consensus is meant a situation where those not in agreement agree not to maintain an objection. In the event of consensus not being possible, the matter shall be referred to a second meeting, to be held not more than fourteen days after the date of the first meeting, when if consensus is still not possible the matter shall be decided by a majority of votes.

13. Every member shall have one vote.

## DIRECTORS

14. All members of the co-op shall be directors of the co-op. Only members of the co-op may be directors of the co-op.

## BORROWING POWERS

15. The directors may exercise all powers of the co-op to borrow money, and to mortgage or charge its undertaking and property, or any part thereof.

## POWERS AND DUTIES OF DIRECTORS

16. The business of the co-op shall be managed by the directors, who may pay all expenses incurred in promoting and registering the co-op, and may exercise all such powers of the co-op as are not, by the Act or by these Articles, required to be exercised by the co-op in general meeting.

17. All cheques, promissory notes, drafts, bills of exchange, and all receipts for moneys paid to the co-op, shall be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, in such manner as the directors shall from time to time by resolution determine.

18. The directors shall cause minutes to be made in books provided for the purpose:

- a] of all appointments of members/directors.
- b] of the names of the directors present at each meeting of the directors.
- c] of all resolutions and proceedings at all meetings of the co-op, and of

provide us with all kinds of benefits; primarily wages for working for the co-op, but also others including the use of a vehicle, trips away, paid expenses, reduced food costs, housing and access to tools. Any group of people can decide to work together in an enterprise and improve their circumstances, but by registering at Companies House as a 'Company Limited by Guarantee Without Share Capital' we separate ourselves from the business. We make ourselves 'employees' as well as being 'owners' and so remove our personal liability for tax on profits (the co-op is assessed for Corporation Tax, and all paid employees pay PAYE income tax) and also for the co-op's debts. We are building an organisation that owns assets that we have access to, and that cannot be taken to settle any of our personal debts, an organisation that exists for the benefit of its members (ie its workers).



### 3. SELF-REGISTRATION - THE PROCESS

#### THE PROPOSED NAME

Before we get into the nitty gritty of the registration process, a bit about your company name. Nobody is allowed to register under a company name that is already registered and in use. So when you register a co-op you have to check that the name you intend to use isn't already being used. The Registrar of Companies keeps an Index of Company Names that you can go to view at "Public Search Rooms" in London, Edinburgh or Cardiff, or there are satellite offices in Leeds, Manchester and Glasgow. To view this Index is free. You can also check to see if your proposed name is available at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk). Alternatively all major city libraries have a copy of the Index of Company Names that isn't kept as up to date as the Companies House version but is pretty much accurate. If you do try to register under a name recently registered, it is returned for alteration.

You are not allowed to use the words 'Limited', 'Unlimited', or 'Public Limited Company' (or their Welsh equivalents), or abbreviations, except at the end of the name in the proper context. As well as offensive names or names that might constitute a criminal offence, there is a long list of prohibited words and a list of words that will mean your name needs approving by the Secretary of State before you can use it. You can view a complete list of restricted words in names on the Companies House website.

Companies House supply a free starter pack ("Incorporating a New Company"), which includes a booklet that lists all the words that you can't include in your company name (including some words whose use may constitute a criminal offence), and we advise that the first step of registering should be to order this from the website or by post from:

For England and Wales:  
Companies House, New Company Section, Crown Way, Cardiff, CF14 3UZ

4. All general meetings other than annual general meetings shall be called extraordinary general meetings.

5. The directors may whenever they think fit convene an extraordinary general meeting.

#### NOTICE OF GENERAL MEETINGS

6. An annual general meeting and a meeting called for passing of a special resolution shall be called by twenty-one days notice in writing at the least, and any other general meeting shall be called by fourteen days notice at the least. The notice shall specify the place, the date, the hour of meeting and the general nature of the business of the meeting and be delivered to all members; to the auditor of the co-op; and to any persons the directors wish to invite to the meeting in furtherance of the objects of the co-op.

7. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at the meeting.

8. All business shall be deemed special that is transacted at an extraordinary general meeting, and also all that is transacted at an annual general meeting, with the exception of considering the accounts, balance sheets, and the reports of the directors and auditors and the appointment of, and the fixing of the remuneration of the auditors.

9. No business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business. Fifty percent of the membership or two members, whichever is the greater, shall for the time being be the quorum.

10. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting shall be dissolved.

11. Each general meeting shall elect a facilitator, to conduct the business of the meeting in an orderly manner.

12. All decisions at general meetings shall be made by consensus

### 3. A COPY OF THE ‘ARTICLES OF ASSOCIATION’

The Companies Act 1985  
Company Limited by Guarantee and Not  
Having a Share Capital

#### Articles of Association of

Your Worker Co-op Limited.

1. In these articles:- “the act” means the Companies Act 1985 as amended by the Companies Act 1989 and any amendments from time to time in force. “the co-op” means the above named company. “secretary” means any person appointed to perform the duties of the secretary of the company. “employees” means anyone working 30 hours a week or more for the company.

And words importing the singular number only shall include the plural number and vice versa. Words importing the masculine gender only shall include the feminine gender.

#### MEMBERS

2. Only employees may be members of the co-op, but any or all employees may be members of the co-op.

#### GENERAL MEETINGS

3. The co-op shall in each year hold a general meeting as its annual general meeting and shall specify the meeting as such in the notices calling it; not more than fifteen months shall elapse between the date of one annual general meeting of the co-op and the next, provided that so long as the co-op holds its first Annual General Meeting within 18 months, it need not hold it in the year of its incorporation or in the following year.

For Scotland:  
Companies House, New Company Section, 37 Castle  
Terrace, Edinburgh, EH1 2EB

For England, Wales and Scotland  
Tel: 0870 333 3636  
Email: enquiries@companieshouse.gov.uk  
Web: www.companieshouse.gov.uk

### WHAT COMPANIES HOUSE WANT FROM YOU

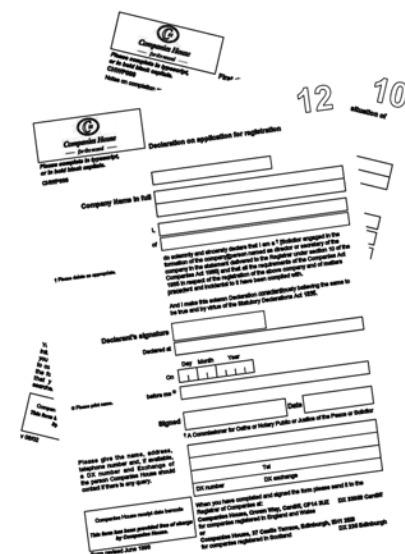
To register a new company you need to send Companies House four things (five if you include the £20 registration fee). You have to write;

- 1) The Memorandum of Association
- 2) The Articles of Association

And you have to fill in

- 1) Form 10
- 2) Form 12

Your starter pack will include forms 10 and 12 which are needed to register your company. These forms are also available from the Companies House Website (search for ‘new company’)



### MEMORANDUM OF ASSOCIATION

The ‘Memorandum of Association’ of a co-op are the rules that govern its dealings in the outside world. It lists what the co-op was set up to do (its objects), and what it can and cannot do to achieve those objects. They are written in ‘legalese’ terms, but don’t let this put you off. Once you are aware what they mean, it all makes sense and is a lot simpler than appears at first sight. The Companies Act 1985 has sets of ‘model rules’ for each of the types of companies under the ‘1st Schedule’. Table C of the 1st Schedule relates to Companies Limited by Guarantee Without a Share Capital (the type of company usually used for co-ops).

There is a very basic Memorandum of Association in Appendix 2 at the back of this book (**You will need to refer to this Appendix to make any sense of the next couple of pages**), much of it taken directly from Table C, with certain clauses added or modified to make it a co-op and conform to the co-operative principles. These are the 'model' rules under which Catalyst registers worker co-ops. You can find an electronic copy of both the Memorandum and the Articles of Association on our website ([www.radicalroutes.org.uk](http://www.radicalroutes.org.uk)) that you can download and alter as you wish.

The notes below will help you understand what each clause means, so that you can alter them to suit your co-op, or even entirely rewrite them if you wish! We feel it is better to make the rules fit the co-op right at the beginning, rather than have to make the co-op fit the rules at some later date.

Clause 1] This just states the co-op name, fill yours in when you're sure you can use it.

Clause 2] This is a standard company Clause and must say either England, Scotland or Wales.

Clause 3a] Here you have to fill in the objects for which your co-op is being established. Catalyst Collective Ltd. has a 4-part 'aims' listed here as an example;

"(i) To educate and supply information about ecologically sustainable lifestyles, whilst encouraging individuals to take responsibility for the consequences of their actions.

(ii) To promote and distribute information about other organisations, campaigns and single issues concerned with improving the quality of life for humans, animals and the Earth generally.

(iii) To encourage recycling and conservation of resources, the use of renewable energy sources and the planting of trees.

(iv) To tackle social and environmental problems with innovative ideas, co-operation, human dignity and self empowerment."

Clause 3b] One of the co-operative principles; it is generally accepted that co-ops should help and support other co-ops. This Clause states the ability to do this.

We, the several persons whose names and addresses are subscribed are desirous of being formed into a Company in pursuance of this Memorandum of Association.

NAME	ADDRESS	SIGNATURE
------	---------	-----------

1.

2.

3.

4.

5.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ - 20 \_\_\_\_\_

Witness to the above signatures:- \_\_\_\_\_

Name and address of witness:

4. The income and property of the Company whencesoever derived shall be applied solely towards the promotion of the objects of the Company as set out herein and no portion shall be paid or transferred directly or indirectly to the members of the Company except by way of payment in good faith to any member of the Company in return for services actually rendered to the Company, of reasonable wages, bonuses and repayments of expenses, interest on money lent or reasonable rent on premises demised or let to the Company.

5. The liability of members is limited.

6. Every member of the Company undertakes to contribute to the assets of the Company in the event of it being wound up while he/she is a member or within one year afterwards, for payment of the debts and liabilities of the Company contracted before he/she ceased to be a member, and the costs, charges and expenses of winding up, and for the adjustment of the rights of the contributories among themselves, such amount as may be required not exceeding one pound.

7. In the event of wind up or dissolution of the Company the liquidator shall, according to the law, use the assets of the Company to satisfy its debts and liabilities. Any balance of assets remaining must not be distributed among the members of the Company but shall be transferred by the liquidator to one or several of the following:

(i) A co-operative or common ownership enterprise having aims similar or compatible to those of the Company, and which shall prohibit the distribution of its income among its membership to an extent at least as great as is imposed on the Company under Clause 4. hereof.

(ii) A charity or charities having aims similar or compatible to those of the Company, in such a manner as the members decide at or before the time of winding up or dissolution. This Clause shall not be changed by the members of the Company.

Clause 3c] & d] Normally companies have a whole range of enabling Clauses to allow them to do things, from investing and borrowing money to opening a bank account and issuing cheques. We've simplified things by reducing the 'enabling Clauses' to these two very broad ones, that generally allow you to do anything, or undertake any business venture.

Clause 4] This states that no member receives dividends on their membership, profits are used solely towards the objects of the co-op, a standard co-op Clause.

Clause 5] This is the standard company Clause to give 'limited liability'.

Clause 6] This is the standard company Clause which makes it limited by guarantee rather than by shares. Each member agrees to contribute a certain amount to the assets of the co-op in the event of being wound-up. The agreed amount can be whatever you wish, although normally it is £1.

Clause 7] This is a normal co-op clause that states that, should the co-op be dissolved, any assets left over from paying off debts will not be shared out amongst the members, but will go to another co-op or, in this case, a charity with similar aims to the co-op.

At the end, all the original members of the co-op have to fill in and sign, in the presence of a witness, who also has to sign and write their name and address below.



## THE ARTICLES OF ASSOCIATION

The Articles of Association govern the internal workings of the co-op; how meetings are run, decisions are made etc.

Normal companies operate with a two tier structure: members that own the company and directors that run the company, whilst workers are purely assets of the company, their labour being owned by the members and managed by the directors. In a workers co-operative all these people are the same people. The workers own and manage their own company. In the past, co-op 'model rules' have always kept the company two-tier structure. Large co-ops often use rules that give a method for members/workers electing a management committee from their ranks.

The Articles at the back make use of the two tiers, even though the directors and members are all the same people. These Articles also separate the General Meeting business, which is more important, from the day-to-day business of the co-op. In these rules, even though all members must be directors, and all workers can be members, not all workers must become members if they do not want to. Some people may not want the responsibility, or you may have employees who have been declared bankrupt (undischarged bankrupts can not legally hold directorships). People under 18 are legally barred from being directors as well. Most model rules say that all employees must be members, but we feel justified in making ours differ, for the sake of personal freedom of choice. Surely it is more important that all employees can be members if they desire. If you wish to alter this, or any Clause in the Articles or Memorandum, and would like advice, help or just someone to bounce your ideas off, please don't hesitate to contact Catalyst. As with the Memorandum, there is a copy of the Articles of Association in the Appendices to refer to and there follows a run down explaining what each clause is about:



## 2. A COPY OF THE 'MEMORANDUM OF ASSOCIATION'

The Companies Act 1985 - Company Limited By Guarantee and Not Having A Share Capital.

Memorandum Of Association of

Your Worker Co-op Limited

---

1.The name of the Company is

---

2.The registered office will be situated in England.

3.The objects for which the company is established are:

- a) (Put your objectives as a co-op here)
- b) To support and encourage the growth of the co-operative movement. To promote co-operative principles, enterprises and activities. To encourage equality and democratic control over the workplace.
- c) To carry on any trade or business whatever which can in the opinion of the directors of the Company be advantageously carried on in connection with or ancillary to any of the objects and activities of the Company.
- d) To do all such other activities, enterprises, projects or ventures that can, in the opinion of the directors of the Company, be deemed incidental or conducive (either directly or indirectly) to the attainment of the objects of the Company or any of them.

# APPENDICES

## 1. A SUMMARY OF THE PROCEDURE

1. Contact Companies House:

Tel: 0870 333 3636

Email: [enquiries@companieshouse.gov.uk](mailto:enquiries@companieshouse.gov.uk)

Web: [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

and ask for their information pack on incorporating a new company.

2. When the FREE pack arrives, check out your proposed name in the 'name' booklet, then find out if the name is already in use either in 'Public Search Rooms' or at your local library.

3. Copy and complete 'Memorandum and Articles of Association'.

4. Complete Form 10.

5. Take Form 12 to the office of a 'Commissioner for Oaths'. Complete in their presence, and pay your FEE.

6. Photocopy everything.

7. Send all the originals, by 'recorded delivery' with a cheque for £20 payable to Companies House, either to Cardiff or Edinburgh (see addresses on page 13)

8. Wait for your 'Certificate of Incorporation'.

9. Tell Companies House your Accounting Reference Date within 18 months of Registration being completed.

Clause 1] This Clause is normal and gives definitions of terms used in the Articles. We've kept it simple. Definitions can be altered [the definition of an employee may particularly need altering to suit your co-op's requirements].

Clause 2] This is the Clause that makes the membership consist of only employees, but does not insist that all employees be members [membership is voluntary and some people are legally barred from being directors, see above]. Different kinds of co-operative can use different wording here so that it is the most important stakeholders in a group can determine how it is run. For example, some workers co-ops may want to open membership to regular volunteers, and might use 'employees and volunteers working 2 days a week or longer'.

Clause 3] This Clause says that the co-op should have a General Meeting every year (a legal requirement).

Clause 4] Members meeting are 'Extraordinary General Meetings'.

Clause 5] Allows the day-to day meetings to decide the date and time of General Meetings.

Clause 6] This is a reasonable amount of notice to give to people for the General Meetings and allows the day-to day meetings to decide who to invite.

Clause 7] Meetings are not made invalid if you forget to invite someone who should be invited.

Clause 8] Taken directly from Table C, 1st Schedule of the Companies Act 1985. Makes all business 'special'.

Clause 9] This says how many members must be present for a General Meeting to proceed. Catalyst's have decided for the copy of Articles in the Appendix that half the membership or two, whichever is greater was reasonable, but this should be changed to suit your group.

Clause 10] Meetings must dissolve if not quorate within a given time [half an hour].

Clause 11] Taken from Table C, we used the term facilitator as opposed to chairperson.

Clause 12] This Clause governs the decision making process at General Meetings. All attempts at consensus must be made, then as a last resort, a vote is taken, with a straight majority. Catalyst Collective Ltd. has no voting in its rules, all of our decisions are made by consensus. That is not normal, so we've included voting [should consensus 'fail'] in these model rules.

Clause 13] This Clause gives each member one vote, in the event of consensus not being reached.

Clause 14] This Clause is the one that restricts directorships to members, a standard co-op Clause.

Clause 15] This Clause allows the directors to borrow for the co-op, a standard company clause from Table C.

Clause 16] This Clause separates the day-to day running of the co-op from General Meetings (where important decisions like new appointments, changing rules, resignations etc take place). During the normal operating of the business the workers are acting as directors, separate from General Meetings where they act as members.

Clause 17] This Clause gives the 'directors' more powers.

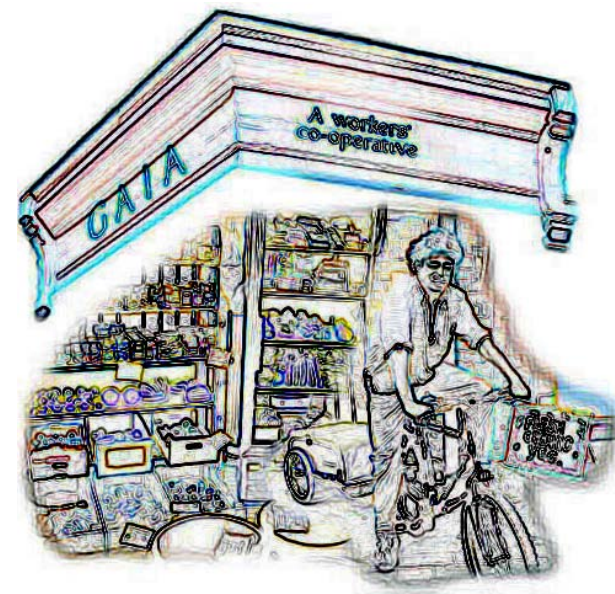
Clause 18] The 'directors' have to keep minutes of all the meetings (both types). A standard Clause from Table C, and a legal requirement.

Clause 19] This is the day-to-day directors decision making process, the same as the General Meeting process, but there are no rules about how often they are or how much notice has to be given.

Clause 20] The 'directors' appoint the Secretary.

Clause 21] Taken from Table C, the directors have to keep accounts, also a legal requirement.

Radical Routes wholeheartedly believes in co-operation and the co-op movement, and wants to see it more accessible to more people. To us, co-operation is about helping each other, working with each other for a more just future, where people support one another and don't exclude the less well off with inflated fees; where all people have more control over their own lives; where the decisions that affect us all aren't made by a small wealthy elite, but by us all, collectively. We have put this book together from our own knowledge; if your experience is different, or you think we've missed something, let us know and we'll see if we can revise future editions to include your comments. So whether you use this book to register yourselves, or you decide to pay someone else to do it for you, or you want more information about the work of the Radical Routes network, or you are just interested in swapping letters with some other folk who care about social justice and the future of humanity on this planet, get in touch with us, we'd like to hear from you. Good Luck!



Directors have an overriding responsibility to ensure that they have adequate information to enable them to manage the co-op's business. They should constantly be aware of the co-op's financial situation.

### **JOINING RADICAL ROUTES LTD.**

Radical Routes Ltd. is, above all else, a 'mutual aid' organisation for co-ops that are working for social change. Member co-ops are committed to certain aims.

All assistance, finance or otherwise is given on the condition of a commitment to the aims and principles of the network. Specifically:

- 1] Labour and skills are collectivised to enable us to create a collective wealth which in turn enables us to achieve our long term aims. Therefore the emphasis of reward for our labours will lie in collective gains not personal income. To achieve this all co-op members agree to receive disposable incomes of no more than twice the income support level after housing costs.
- 2] All co-op members must have a commitment of 15hrs / week working for social change (exception for parents and special circumstances).
- 3] Member co-ops are expected to do RR promotion and administration to keep the work/control collective, one half day per week for co-ops with 5+ members, one half day per fortnight for co-ops with less.
- 4] Member co-ops are expected to pay a service charge, set by themselves according to ability to pay, towards RR running/admin costs.
- 5] Your co-op must be represented at each quarterly gathering and a member from your co-op must attend the summer gathering (for the other 3 gatherings you may instruct a member of another co-op to go on your behalf). The gatherings are where Radical Routes business is discussed. Loans are granted, members are accepted, workgroups report on their activities etc.

We recognise that not all co-ops will want to fulfil these commitments, but if you do, and want to join, you should contact Radical Routes. New members are asked to attend 3 meetings in a row as prospective members, making service payments and doing some work commitment for Radical Routes. If you aren't sure, Radical Routes can send someone to visit you, talk about Radical Routes and answer any queries.

Clause 22] Taken from Table C, accounts to be kept wherever the 'directors' want, but have to be available for inspection.

Clause 23] Taken from Table C, the directors have to report to General Meetings.

Clause 24) Self-explanatory, the directors decide which documents should be sent out with the Notice of General Meetings.

Clause 25] ] This is a reminder that the business and its accountants (if any) must follow any legal requirements for auditing. Most small businesses do not require an audit – see below

Clause 26] Reminder of what happens to the assets if the co-op fails.

You must sign the end here as subscribers again, just the same as you did for the Memorandum.

All the articles up to and including Clause 14 are concerned with General Meetings, the big meetings that co-ops have to have at least once each year, and an extra one every time a person joins, leaves or big decisions have to be made. At these meetings the co-op members are acting as members/owners. The rest of the articles are concerned with the normal affairs of the co-op, where the members are acting as directors/workers and can have meetings whenever they feel the need. They give the 'directors' certain duties and powers, particularly keeping records to operate the normal running of the business. Any major decisions should be referred to an 'Extraordinary General Meeting', which the directors should call.

While we are on the subject of co-op rules, catalyst has also designed a set of community co-operative rules, where the membership is not restricted to employees, that may be more suitable for some types of co-operative organisation. They also have rules for co-operatives limited with shares, designed by Co-opportunity Ltd. And of course from time to time they design a new set of Memorandum and Articles of Association, or modify those listed in the Appendixes as required by the co-op they are helping to register.

## **COMPLETING THE FORMS**

By the time you've got your agreed Memorandum and Articles sorted, and signed you should have received your necessary forms from Companies House.

### **DO NOT FILL IN FORM 12 YET !!!**

Fill in form 10, with all the subscribing directors filling in their details and signing/dating it. It is important to fill in all the required sections, and write "not applicable" or something similar in the bits that aren't relevant (or the Registrar may return it to you!)

Form 12 is a declaration that you have complied with all the legal requirements to apply for the registration of a company and **MUST BE SIGNED IN THE PRESENCE OF A COMMISSIONER FOR OATHS OR JUSTICE OF THE PEACE OR SOLICITOR**. So one of you has to visit a Commissioner for Oaths or J.P., having filled in your name, address, and the proposed name of the co-op. Catalyst uses a local solicitor, who has the powers conferred on them as a Commissioner for Oaths. They should ask you to read out some of the words on the form and then sign. Then the Commissioner for Oaths will sign to say that they saw you sign the declaration. Then you pay them their fee; Catalyst has been charged between £3.50 and £5 in the past.

Now you can send it all off, but before you do, photocopy your completed Memorandum and Articles 6 times or so (banks and other lenders etc will want to see a copy) and make a copy of forms 10 and 12 for your records.

Send the two original forms, the original signed Memorandum and Articles, and a cheque for £20 made payable to Companies House to:-  
For England and Wales:- Companies House, New Company Section, Crown Way, Cardiff, CF14 3UZ

For Scotland: -Companies House, New Company Section, 37 Castle Terrace, Edinburgh, EH1 2EB

You are advised to send these documents 'recorded delivery' to avoid your forms being lost in the post!

You can get computer programs to calculate all of your PAYE responsibilities and generate the year end forms for you, but it probably isn't worth it until you have a number of employees. Many small companies even give the whole payroll system to an accountancy firm to deal with, thus relieving them of a really tedious task.

## **RESPONSIBILITIES OF DIRECTORS**

As already stated, much company legislation applies to Companies Limited by Shares. There are, though, some responsibilities and legal requirements that you, as a director of a Company Limited by Guarantee, **MUST** be aware of. The following is not intended to be comprehensive, rather, a brief summary - not intended to 'frighten' you, only to ensure that you are aware that, as a director in a co-op, there are some legal obligations.

As a director you have a legal duty to act honestly and in good faith for the benefit of the co-op, and to exercise skill and care.

If the co-op trades with intent to defraud creditors, any director who is knowingly a party to such conduct will be personally liable.

Directors become personally liable if the co-op takes part in 'wrongful' trade, ie trading whilst aware that the co-op is insolvent.

The co-op must keep copies of any contracts that it enters into with directors, and they must be open to inspection by all members.

A director is entrusted with the powers given to her/him in the Articles of Association, and may become liable if they carry out activities that are outside of the scope of the Articles.

The co-op cannot do what is not authorised by its Memorandum of Association, and directors may become liable if the co-op does.

False accounting is an offence, and directors can be held personally liable.

Failure to keep adequate accounting records can make all directors liable to a fine, imprisonment or both.

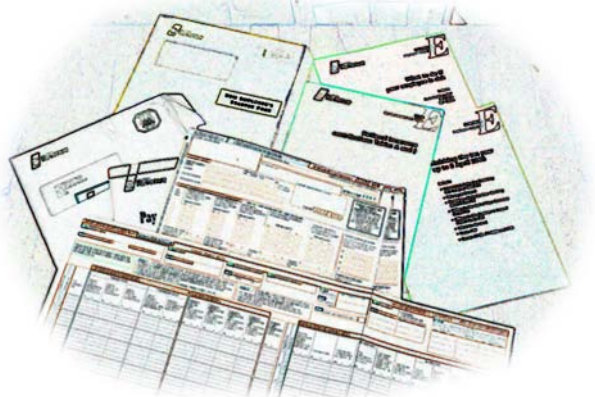
## ANNUAL RETURN

The Annual Return is a form that is sent to you at the end of each Financial Year by Companies House. You are legally obliged to fill it in and return it along with the appropriate fee.

It is a very simple form to check who the current directors are and where they live.

## PAYE

Paying your employees (i.e. yourself) is a daunting task until you get into the swing of things. The best (cheapest) way to find out how to do it is to phone up the nearest office of the Inland Revenue. They put on regular afternoon sessions detailing exactly how to do it. You can also get a new business



starter pack from them and they offer telephone support. At the end of The Financial Year there are a multitude of other forms to fill in regarding PAYE and National Insurance. These are even worse than the normal PAYE forms as you only have to do it once a year, but the Inland Revenue is always one step ahead with a new pack with lots of flow charts to tell you how to fill them in appearing in the post. This is where the telephone support really comes in to its own.

*"I always delay finishing off the PAYE year. Starting with the best of intentions I open the guidance books, panic and put them down. Then when the deadline is approaching I realise I need to order the forms as they don't send them in the pack. In the end it isn't too bad, but I do end up having to phone the help line at least 3 or 4 times that afternoon."*

Andy - Footprint Workers Co-op

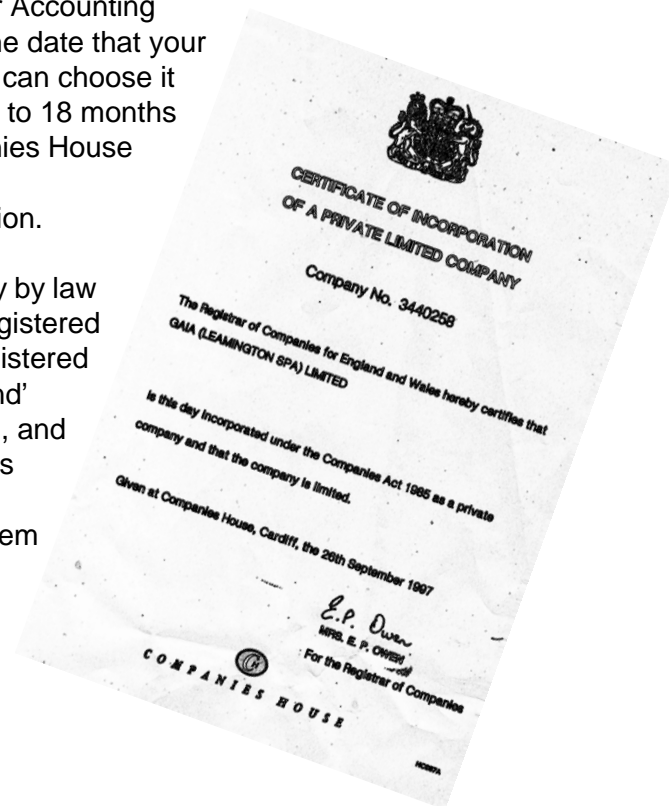
## OTHER LEGAL REQUIREMENTS

Now wait! In about 7 to 10 days you should receive your 'Certificate of Incorporation' for your co-op. Legally, as a company, you are obliged to keep complete records of members, directors etc. All the necessary records can be kept in a 'combined register', which can be bought from a stationers; or you can keep it all as sheets in a loose-leaf binder.

One grey area is that of 'company plaques'. The law says that you should have one outside your registered office, but we've been advised by a solicitor (and it seems to be generally held) that this is not strictly necessary, and that the Certificate mounted on a wall, inside, will be sufficient. Perhaps to be safe there should be some kind of sign showing the co-op name through a window? It is probably better not to buy any of these things until you have become registered.

Within 9 months of registration you have to fill out a form notifying Companies House of your Accounting Reference Date. This is the date that your tax year will end, and you can choose it yourself to be anything up to 18 months after registration, Companies House should send you the form automatically, on registration.

All of your co-op stationery by law has to have your co-op registered name, office address, 'registered in England/ Wales/Scotland' (whichever is appropriate), and registered number. If it lists any of the directors as a director then it must list them all.



You'll probably receive forms from the tax man. Companies House notifies The Inland Revenue of new registrations. It's probably best to let your accountant deal with them, this is what you pay them for! Find out what the present limit on turnover is before you have to start paying VAT. It is an offence not to register if you expect to exceed it, and not knowing is no excuse not to register - they do prosecute!

Also, if you are paying yourselves wages (more than about £90 a week for any employee) you have to obtain a PAYE pack and start operating the Pay As You Earn system as an employer. The tax office has free information on all aspects of tax and runs free courses covering many subject areas, additional help may be available from your accountant or local Co-operative Development Agency. There is more information on PAYE in Chapter 5.

### **REGISTRATION VIA CATALYST**

We at Catalyst Collective recognise that not everybody wants to do all the things involved in registration for themselves. Time and energy are often stretched in the early stages of setting up a co-op. We offer a registration service for you - send us an SAE and we will supply details. Our fee is relatively inexpensive - it covers any costs incurred in modifying Memorandum & Articles of Association, and includes a small payment for our time and expertise. Over the years that our members have been involved in the co-op movement, we have acquired quite a bit of knowledge about all areas of co-ops and running a business. By registering with Catalyst you can tap into this, and use the growing Catalyst resource library. Obviously, we are willing to help anyone setting up a co-op (we do ask for our expenses to be paid), but when we register a co-op we do our utmost to help set it up as part of the registration service.

We can also supply other kinds of information. Our resource library contains all kinds of information - from green groups to recycled paper suppliers, from financial institutions to co-ops of all kinds. If we can't answer a query about co-ops we can almost definitely give you an address or phone number of someone who can. We are active within the 'radical/green/co-op movement' and have made it our business to help others with good ideas get established.

- ✧ A list of ALL debtors and prepayments (a list of people who owe you money). Any documents to back this up should be included.
- ✧ A list of ALL creditors (people you owe money to). Any unpaid invoices should be included, and any items that you have used, but will not have paid for until after the year end eg telephone, electricity etc.
- ✧ A list of any buildings, vehicles, furniture or equipment (fixed assets) that have been bought by the co-op during the year.
- ✧ A copy of any agreements that the co-op has made to lease equipment, hire purchase equipment or lease new premises.
- ✧ A list of any fixed assets that you have 'disposed of' during the year.
- ✧ A schedule showing any changes in loans to and from the co-op during the year.
- ✧ ALL Pay As You Earn records, including deductions cards, wages book, a copy of the co-op's annual return to Inland Revenue and the yellow payslip book.
- ✧ The minutes of the co-op's meetings for the year.
- ✧ Copies of any application forms for, and any agreements or correspondence relating to, grants that the co-op has received during the year.
- ✧ Copies of any budget or 'management accounts' for the year.
- ✧ ALL of the stocktake records and calculations at the time of the end of year. The co-op's accountant should be informed of the planned stocktake, so that they can attend if appropriate.

doing to prepare them for you. Upstart Workers co-op (who are, coincidentally, members of Radical Routes) can prepare accounts for such small companies at a fraction of the cost of going to a qualified accountant.

It is a good idea to get someone else to prepare your accounts as they are more likely to do a thorough job of it. If no one outside your co-op saw the accounts for years on end, it is possible that standards of accounting could slip, which would land you in trouble in the event of an investigation by the powers that be.

If you are asking someone else to do your accounts for you, it is a very good idea to find out exactly how they want them as early as possible. This will save them time and therefore save you money. If you are keeping accounting records on computer, it is a good idea to ensure that you and the people who are going to prepare your accounts are using the same computer program.

Records that we have kept, and supplied to our accountant at the end of each year, include:

- ✪ Cash Book - a record of ALL bank transactions, totalled by month and for the year, with analysis columns added up and cross-checked to the total column. It should be reconciled to bank statements.
- ✪ ALL bank statements for ALL bank accounts.
- ✪ Cheque book and paying-in book stubs for ALL accounts for the year.
- ✪ Invoices and receipts to back up the cash book, filed in some logical order.
- ✪ Petty Cash Book (a record of ALL cash transactions), added up and balanced.
- ✪ ALL invoices, receipts and petty cash vouchers for the year, filed in some logical order.

## OTHER CO-OP SUPPORT ORGANISATIONS

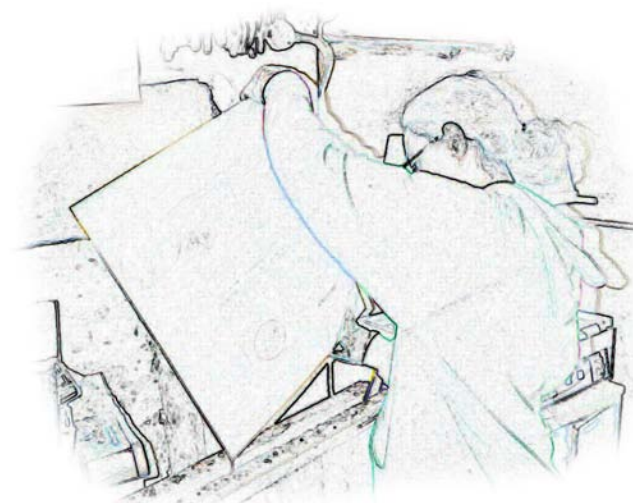
### CO-OPERATIVES<sup>UK</sup>

Many co-ops do not register themselves at Companies House. Co-operatives<sup>UK</sup> is the national co-op umbrella and campaigning organisation, and has a legal department that offers model rules and a registration service. It lobbies government (local, national and European) for more recognition for co-ops (and other 'democratic-employee-owned-businesses'), and has pioneered the growth and establishment of the co-operative sector. If you are aiming at turning a large company into a co-op, or developing a complicated community business, we suggest that you contact them and make use of their experience, knowledge, contacts and services.

You don't have to pay them to register you to become a member. You can pay a yearly subscription and we encourage even the smallest co-op registering themselves to consider joining Co-operatives<sup>UK</sup> if only to support the valuable work that it does in lobbying for co-ops and to have a voice in the Co-operative movement.

### CO-OP DEVELOPMENT AGENCIES

Whatever your intentions, there are local Co-operative Development Agencies (CDA) in some cities and towns that you should definitely get in touch with. They can offer advice and help and some councils offer a co-op start up grant (of up to £1000) available through local CDAs. If you don't know where to find your nearest CDA, contact Co-operatives<sup>UK</sup>.



## 4. YOUR CO-OP IDEA

So far we've covered registration, but with little mention of the realities of running a co-op. One thing not to forget is that a co-op is a business, and as such there is always an element of risk. Although we may view our co-op as 'alternative', we must not discard all that the conventional business world has to offer. There are certain practices that we can adopt to minimise the risks and so increase our economic security. This chapter



deals in brief with some of the practicalities of running a co-op. We advise ALL co-ops starting up to pay a visit to their local CDA. These people are paid to give you in-depth business advice, with an understanding of co-ops and the Co-op Principles. They may be able to offer training courses in all areas of business. There may also be other local advice and support available; most towns have business advice organisations who may not understand the ethics of a co-op, but could almost certainly help with practical things like book-keeping etc. They are meant to offer support to social enterprises just as much as profit-making ones – hold them to it! Catalyst and Upstart have some listings of business support organisations and may be able to put you in touch with someone in your area. If free advice is not sufficient, Upstart provide a range of services to help co-ops get started, some of which are available 'at risk' with payment deferred until the co-op is able to afford it.

### MARKET RESEARCH

This is done to try to judge whether your co-op idea is viable. Nowadays it may be called a 'feasibility study' and your local CDA may have grant money available to do it. You should seek to find out all about your proposed area of business activity - who your customers will be, how much they are willing to pay, whether the 'market' is growing, who potential competitors are and whether there is room for co-operation between you and them etc. You could start off with making a list of useful questions and then seek to answer them. Much of the answers are estimations based on facts, so be realistic.

## 5. ONCE YOU ARE UP AND RUNNING

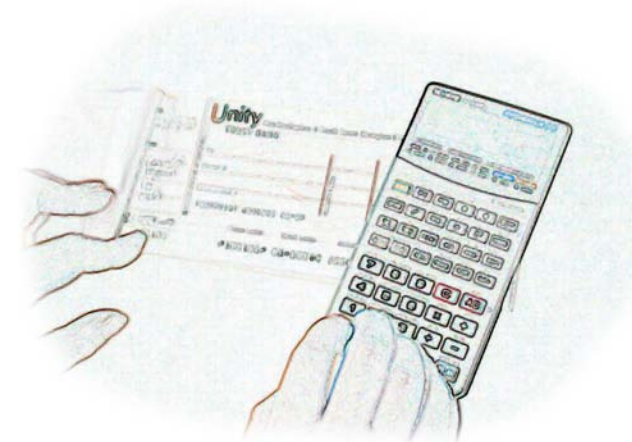
### ACCOUNTS

Each year you have to send a copy of your accounts to Companies House. Every company chooses when their accounting period (otherwise known as their financial year) will run from and to. You can pick any 12 month period you like. It is probably true to say that most companies run their financial year (which, incidentally, is different from THE Financial Year) from 1 January to 31 December. Your accounts must be sent to the Inland Revenue within 10 months of your End of Year.

*"Having our financial year running from January to December is perfect for us. November and December are slow months so by the time December 31 comes round our accounts are pretty tidy. We don't have much money owed to us as we've done relatively little work in the previous couple of months. We have very little turn over of stock so the stock take is simply what you can see, there will be very little stock in transit or not yet invoiced so there is less chance of leaving something out. It also gives us something easy to do after New Year."*

Andy - Footprint Workers Co-op

Companies with an annual turnover of less than £90,000 can choose not to have their accounts audited professionally. You do still have to have your accounts prepared in the manner prescribed by the Companies Act but it does mean that you can prepare them yourselves or pay unqualified people who know what they are



# Your visions are our business.



**The Polishing Room, Flax Drayton, South Petherton, Somerset TA13**

**5LR 0845 458 1473**

**upstart@co-op.org <http://www.upstart.coop>**

#### About our Services

**All over the country, co-operatives are proving that moral principle and ecological awareness are compatible with commercial success. Your group could join a growing network of social change enterprises. We want to help you realise your full potential, by providing in-house and residential training courses, and business services.**

#### New Ventures

**If you're setting up a new co-op, we can help develop shared goals and aims for the group, take you through the process of registering, developing a business plan, help you with loan and grant applications, and provide training in basic co-operative, business and financial skills.**

#### Existing Co-operatives

**If you're an existing co-op, we can facilitate sessions for evaluation and future planning, or help with mediation and conflict resolution. We can also help with managing your finances and increasing your profitability without pushing you away from your core objectives of serving your community sustainably.**

#### Accountancy and Financial Services

**Many co-ops find they can save money by using our accounting services, as well as getting a high quality personal service that meets the particular needs of co-operative businesses. We are one of a handful of financial service providers specialising in the social economy and co-ops.**

**A Workers' Co-operative helping to create and support viable co-operatives.**

There is no substitute for going to the people that you will be depending on (your likely customers and suppliers) and talking to them in detail about what they can do for you, and what you can do for them. Questionnaires are one way of getting this information from potential customers, but you don't have to ask hundreds of people. A small, representative group who will discuss their purchasing patterns in detail with you can be just as good, provided you have an idea of how many people there are like that around. Don't hesitate to change the product, or the way you package, present or deliver it, substantially on the basis of what they say. They are the boss!

It is also very advisable to study other comparable businesses. Watch how many people come and go, and get a feel for the fluctuations in their activity over the day or over the year. Best of all, find another co-op doing what you want to do in another area and ask to get some hard data about sales and profits from them. It is common for people to think that their business idea is unique; but in fact there is usually someone, somewhere that you can copy. If there isn't, are you sure that there is really a market for what you are trying to do? There's not always a living to be made in being too original.

Market research is also about how you communicate with your customers and tell them about the benefits they will get from your product. The best known ways of advertising – in newspapers and magazines, on billboards and posters – are very expensive because they are so unfocussed. Far better to use low cost forms of delivery (eg the internet) and highly targeted approaches (via other businesses supplying the same people, or through direct mail using an appropriate mailing list). The best of all is word of mouth; you need to build a community with your customers and make them feel like part of the co-op. Involvement in community projects and events is important. Don't forget free publicity, like photo opportunities in the local paper. Be imaginative!

## **BUSINESS PLAN**

The information that you find out during market research will be used to produce a business plan. A well researched and produced business plan can prove invaluable to you. As well as being an overview of your co-op that can be given to potential lenders, the business plan

encourages you to focus your ideas. You may find that by producing a plan (which doesn't necessarily have to be followed rigidly) you actually turn ideas into practical realistic objectives and targets to aim for. You may also find that some of the potential members of the co-op have different ideas, and the plan brings them all closer together or at least points out some possible areas of disagreement before you start. The production of the plan involves all members discussing all aspects of the proposed idea. Agreed decisions should be written down for the benefit of your own clarity and outside persons who may have an interest e.g. money lenders etc. The finished business plan should include:

- information about you, the proposed co-op members, your relevant histories and experience, relevant skills, knowledge, education, contacts etc - everything you can think of which shows that you have all the necessary qualifications to make the co-op work.

- information about your proposed 'market' - size, condition, customer profile, competition, method of sales and promotion, advertising plans, pricing structure with comparisons to present market etc.

- information about your proposed operations - your proposed premises (where, cost, services etc), your suppliers and their terms, equipment needed, legal aspects such as insurance, licences, planning permission etc.

- financial information including your proposed wages, a monthly cash flow for at least the first year of trading (some lenders will want to see 2 or 3 years), profit and loss forecast with a statement about all the assumptions made to base it on, and some details of what your contingency plans are if your assumptions prove wrong.

- estimates of the time needed to do the work, and the effective hourly rate workers will be paid. If the workers are being paid to be idle, you are wasting your most valuable resource; if they are working long hours for low pay, then the business is unsustainable and will sooner or later burn out its members and collapse.

- an idea of your long term plans, what the co-op plans to achieve.

taking are both skills, and you can take courses to learn how to do them (grants may be available - see your local CDA), but the best way is just to do it, and learn by watching others take the roles too. Always remember that a meeting's objective is to make decisions. Consensus decision-making is not necessarily about everyone agreeing; sometimes an individual must back down on an issue, recognising that sometimes achieving agreement is more important than getting your own way. Some people function better at meetings than others. You should all be tolerant with each other - after all, you are all working together for common aims.

Another role of the facilitator is to ensure that everyone gets a chance to contribute to discussions - sometimes you may have to slow down the pace to allow some members time. At the end of meetings the minute-taker should read out all decisions made, what has to be done, who is to do it, and when. You can judge the 'health' of a co-op by its meetings. If a co-op can work efficiently through business at meetings, allowing everyone a democratic contribution to the proceedings, this approach and the skills involved should be apparent in the day-to-day running of the co-op. If meetings are dominated by a few individuals, these individuals will probably dominate the co-op, making other members feel disempowered and dissatisfied. Getting the meetings right has a large impact on the other areas of activity of the co-op - its worth putting thought and energy into your meetings.



hierarchy and competition; some of us find co-operation harder than others, and some of us find the responsibility more stressful than having a boss! Obviously there are a lot of benefits to working in a co-op, but if you start out recognising that there may be a few difficulties you won't be let down. A commitment to co-operative working, collective problem-solving and a recognition that everybody is different (and does things differently) will help your co-op.

At the beginning, it may be useful for you all to make a list of.

- a] what you have to offer the co-op - skills, interests, resources etc.
- b] what you hope to get from the co-op - skills, satisfaction etc
- c] where you want to see the co-op going - non-business aims and objectives, development etc.

### **DEMOCRATIC DECISION MAKING AND MEETINGS**

Regular meetings are probably one of the most important tools to make your co-op work. It is very easy to think "oh no, not another meeting", and harder to try to make dull meetings interesting. Make sure that the co-op meets as often as is necessary, and at times that are convenient to ALL members. It is usually best to have meetings at regular times and intervals, eg 6pm every Monday. You could consider the co-op paying babysitting costs for members who are parents, if the meetings are evenings. Each meeting should have a 'facilitator', who should make sure that the meeting moves along through the business, and follows an agenda. This agenda should be prepared beforehand, with all members able to contribute items for discussion, and circulated before the meeting so that people have a chance to prepare their contribution to the discussion. Someone should record the decisions made at the meeting (take minutes), and make notes on the discussions.

*"Any decisions on business policy or decisions that are changing the way the co-op works should be written into the co-op policy document or the notes given to new co-op members. It's easy for important decisions to 'get lost' in a minutes book"*

Pete - The Tree House

Ideally, these posts should be rotated amongst the members from meeting to meeting, so that skills are shared. Facilitation and minute-

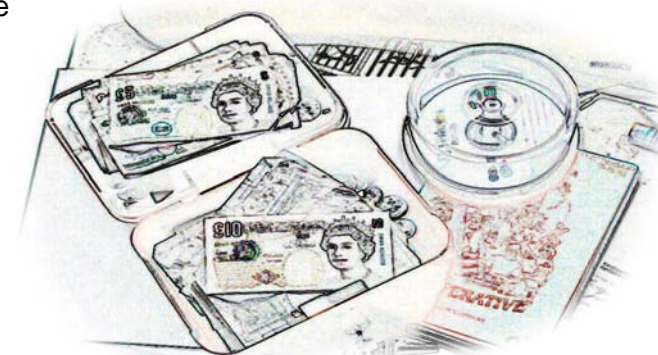
Some tools you can use to analyse your situation are SWOT (strengths, weaknesses, opportunities, threats) and PESTLE (political, economic, social, technological, legal and environmental opportunities). Use them as the basis for a brainstorming session for issues that the business needs to take account of.

The above is in no way comprehensive, and the contents of your plan will depend entirely on you and what you decide is important. Your local CDA should be able to assist in the production of your business plan, perhaps giving some idea of what the local business community and banks etc expect to see in it. The plan might also include an explanation of your co-op structure and how ALL employees have an interest in seeing the business succeed because they own it. Many conventional financial institutions still have little experience of co-ops, so an explanation may be particularly useful if you intend to use your plan to borrow money.

### **FINANCES**

Once registered your co-op owns nothing and so will need to borrow some money to carry out its aims. Your first source of lending will probably be yourselves and your friends and families. Your co-op can pay interest on loans, but will obviously benefit from interest-free loans.

You will probably have to borrow money from an institution, and your business plan should show how much money you need to make your co-op work. There are basically two types of loan requirements. You may need a long-term loan for start-up costs and to buy any capital equipment, and there may also be times when your 'balance' goes in the red and you require a short-term loan to see you through until your income grows. You may decide that an overdraft facility arranged with your bank will cover your short-term lending needs, but don't



forget that overdrafts have very high rates of interest. Whatever types of lending you decide upon, **DON'T BORROW MORE THAN YOU NEED**; you have to pay interest on your loans whether you actually use the money or not. You may also become lazy and insufficiently responsive to your customers. Becoming too big too fast can impose real strains on the organisation.

Equally, though, don't borrow too little. Many businesses fail through being undercapitalised. This can be because of the inefficiency of out-of-date or malfunctioning equipment, through cash flow problems in the first year, or through not having the right skills to do the job effectively. The key is minimum finance – borrowing enough to do the job right, but no more. Think hard about what level your business needs to enter the market at so that your people, premises and tools are neither overspecified or inadequate for the customers you will have.



Although your co-op is a 'limited liability' organisation, banks will often ask for personal guarantees from your members, to secure any lending. You should discuss this possibility before hand, particularly if one or two individual members have homes that the bank may ask to be taken into account as security. There isn't much we can say about this, other than that it is normal nowadays for banks to seek personal guarantees when lending to incorporated bodies with no assets or track record.

Something that 'conventional' financial institutions and business advice organisations don't consider is the ethical implications of your lending.

Banks and building societies make their money by lending other people's money. Their criteria for judging loan applications rarely consider the environmental and social costs of the applicant's proposed business. This means that any money they make out of your co-op, by lending you money to carry on your 'ethical' business, could then enable them to lend money to another business that is chopping down virgin forest, perpetuating the oppression of other people, or polluting the air, water, soil etc. There are a growing number of financial institutions that not only refuse to support 'dirty' businesses, but also positively invest in 'green' or radical businesses. Some are listed at the back. We encourage co-ops to not only use these organisations to borrow, but also to invest any 'reserves' or profits so that they can be used to help other ventures/co-ops setting up. These organisations will probably have more experience of dealing with co-ops and other 'ethical' organisations - you may find them far more helpful than conventional banks.

Again, your local CDA may be able to give some pointers to local sources of finance, including grants that may be available in your area. They can also provide up-to-date information on 'The Business Start Up Grant' which may be of considerable help during your first year of trading (find out about this before you register your co-op - you have to be a new business to qualify for it). They may also be able to direct you towards the Princes Youth Business Trust (if your members are under 30 years old) who make grants and low interest loans.

Check out your local LETS scheme (Local Exchange Trading) or Timebank. They may have skills or resources available that you would otherwise have to pay for, and they are effectively a 0% source of finance.

### **COMMITMENT**

Anyone can set-up a co-op. You don't need any special qualifications or skills, except of course the skills required to do your proposed co-op business. You do need commitment though. Running any kind of business is hard work. In a co-op, you have added difficulties of maintaining a positive, co-operative relationship between members. There is no hierarchical structure, with one person telling others what to do, when or how. Members have to organise themselves, and also have a responsibility to other members. We have all grown up in a society of