development.coop

Business Strategy 2018

Developing Co-ops across the Nation

As a consortium of the UKs CDBs, The Development Co-operative Limited (DC) aims to ensure there is a coherent and professional co-operative development and consultancy service available nationally, regionally and locally able to initiate the development of CDB infrastructure, respond swiftly to opportunities and systematicall replicate success.

DC does not aim to compete with existing CDBs, but rather enable its members to collaborate in order to achieve scale to deliver national and multi-regional contracts. In doing so it is channelling additional resources into the existing network of CDBs.

DC will monitor and improve the quality of co-operative development support nationally through peer-to-peer evaluation processes and by promoting new standards and guidelines to ensure that our services best meet the needs of a growing co-operative economy in the UK.

DC will seek to support the development of appropriate skills among member CDBs and the co-op development professionals they employ in order to ensure capacities are in place when required. Development.Coop's strategic aim is to position itself as the primary vehicle for delivery of co-operative development services on a UK-wide and multi-regional scale.

Development.Coop aims to recruit 90% to 100% of all suitably qualified CDBs in the UK as active members to maximise our reach, ensure the sector has the capacity to meet effective demand for co-operative developments, ensure a standardised service is available across the UK and to provide revenue to CDBs in all areas.

Development.Coop will redress the uneven spread in UK co-operatives, providing growth in economic sectors in geographic areas not highly represented by clusters of successful co-operatives. We are particularly keen to see CDBs established that are accountable to the co-op movement locally, and that benefit from long-term financial support from those co-ops that have benefited, or will benefit, from their services. However, in many places it is individual consultants and 'barefoot' development workers that are mainstay of co-op development practice, and we will be keen to recognise and support them as well.

The main principles of this plan are: a balance between commercial trade that we specify, and commissioned and funded contracts that we do not; the use of risk capital provided by social investors with limited voting rights; and a mix of rewards for members doing work comprising paid, unpaid and sweat equity (the latter two being used only for administrative or speculative work).

The business model

Our business is based around five offers:

Offer to members: - we will provide collective services and access to shared platforms that many CDBs make use of. In particular, video conferencing, online surveying and GDPR compliant communications may well be part of our offer. In addition, we will liase with Platform 6, Shares.coop, SCS Co-op Angels and others to further the development of an affordable, all-sector and co-operatively owned crowdfunding platform and investor network; and support efforts to establish and provide access to recognised qualifications for co-operative development work.

Offer to funders – we will design projects that build the capacity of the co-operative movement to coniduct co-operative development, and strengthen the professional practice of co-operative development work.as and when this is consistent with the priorities of on eor more funding agencies.

Offer to commissioners – we will tender for contracts that require specialist skills in co-operative development and community economics, and that are not well suited to an individual CDB woirking alone.

Offer to communities – we will replicate successful co-operative models in communities where they can effectively add social value. These models will be drawn from an approved list maintained by the DC board.

Offer to co-operative entrepreneurs – we will establish new co-operative incubators wherever there is the opportunity to link affordable workspace, specialist skills and social investment. A standing policy will describe the requirements that we have before we can consider a proposal to be both viable and consistent with our goals.

Offer to activists– we will support the establishment and revival of new CDBs in areas and sectors that lack local and specialised support, as resilient, accountable and well resourced enterprises in their own right. It is recognised that there is a deficit in proven business models for CDBs, and our first steps should be to review the replicable, profitable and scalable work that our most successful CDBs have done.

The latter three services will be projects delivered to both new and existing mutuals in partnership with other local co-operatives and co-operators; part of our role will be to recruit, develop and support new non-executive directors for the client, and consult within the co-op movement before any intervention. Key partners will include independent retail co-ops, credit unions and community co-ops.

Delivery

The work of DC will be in part delivered by volunteers (for example, serving on the board of directors; partly through sweat equity (for example, developing high risk projects; and partly through paid contracts (for example, preparation of a share offer document or delivery of a local authority contract).

In general, we will aim to strike a balance between the need to pay to secure high quality and consistent capacity, and the need to build reserves and common wealth through profitable trading. We also have an urgent need to build a track record and we hope to work with members that have already secured contracts so that DC's reputation can be enhanced.

The selection of which member will deliver contracts for DC will be decided by the Board. The assessment of this decision will be based on the evidenced ability of the member to both contribute effectively to bids and to effectively manage contracts of similar size and complexity.

At all times the selection process will be transparent and aim to award the work to the candidate that demonstrates the highest qualifications for that specific contract. However, the Board will also take into account fair distribution of paid work, aiming to provide all members with equality of opportunity to lead contracts over time.

On completion of a Development.Coop contract, members who have provided support delivery will conduct one-to-one peer reviews of the quality of the support given under the contract. The reviews will include outcomes of support, customer satisfaction and use of Support Deliver processes developed by Development.Coop.

Objectives

By the end of 2018

- secure commitments from stakeholders in at least four locations supporting delivery of either replication, incubator or CDB development ('projects').

- raise risk finance sufficient to launch the business

- allocate contracts (both cash and sweat equity) to members for implementation of work plan

- monitor and report on volunteer contribution

- amend rules to enable risk investment within co-operative governance, annual impact reporting and an asset lock consistent with the expectations of grant making bodies

By 30 June 2019

- first progress report to investors delivered

- two tenders or funding applications submitted

- delivery track record of DC enhanced by involvement in a large scale funded project

- work begun on first round of projects

- stakeholder commmitments for two further projects

By end 2019

- further tenders / applications submitted with a total value of £900k

- second progress report to investors delivered

- net increase over the year in member CDB membership and non-exec directors

- 90% of community owned CDBs in membership

- six projects in development with more to follow

Funding and finance

Co-operative development is a professional practice and requires adequate capitalisation as much as any other sector. We will seek social investment from our community of interest, and we will recognise the risk involved in backing for an early stage business by securing appropriate tax reliefs for investors. We will mitigate those risks by ensuring that all clients are bound by rigorous and enforceable contracts; by seeking funding that enables full cost recovery; by developing business models based on an evidence base rather than wishful thinking; and by ensuring that any service proposed for delivery is subjected to scrutiny and criticism by members that will not be involved in that delivery.

Projects and tenders will usually be negative in cash flow terms with project launches taking place a year or more after our early stage interventions. Similarly, funding bids will take months to develop and up to six months between submission and release of funds. This can only be supported with an initial issue of share capital with SEIS tax relief up to the £150,000 limit. We will work with funding platforms and networks such as shares.coop, SCS Co-op Angels and Ethex to reach the widest possible range of social investors around the country. In general, it will suit experienced and high net worth investors who belong to our community of interest.

Pay rates and conditions

Whether paid in cash or as sweat equity, pay should follow simple scales that balance value for money against the need to secure and retain skilled people. However, payments in sweat equity should come with an immediate bonus reflecting (a) the cost of the delay in realising the value of the shares, and (b) the probability that when the shares are finally withdrawn, DC rates of pay will have significantly improved.

The main distinction to be made is between three types of work carried out in DC: administration, work to a bounded specification, and critical planning (in the sense of problem solving in an unprecedented situation, or requiring strategic analysis); we refer to these as A, B, and C rates. The hourly rates should be set somewhere between PAYE and consultancy rates – much though we might want to provide CDBs with the profit margin that they need to market, plan and develop their services, DC is only just moving up to paying its members and must walk before it can run. We will aim to improve these rates over time.

A: £25 / hr All plus 5% markup if sweat equity

B: £30 / hr

C: £35 / hr

Our aim is to allow sweat equity to be withdrawn, with interest, from six quarters after it was invested; subject to a cap of 20% of issued share capital each quarter. On this basis, we would project that while almost half of work done will be sweat equity, most of this will be withdrawn within eighteen months of issue at a rate of £1.13 for each £1 worth of work.

Applying for grants and contracts

Grant fundraising: a number of foundations, charities and government bodies have funding streams that we could apply to for projects that are beyond the scope of a single CDB. The inherent uncertainty of funding applications means that it is hard to project income streams, but we assume that with two or three applications a year there will be at least some successes.

It is also the case that no profits can be generated from funds given for a specific social purpose. However, DC will benefit where the grant funded work creates products that can be monetised after the end of the grant funded project; the grant funding includes fundraising for follow-on work; or the grant funding pays outright for facilities that DC or its members would otherwise have had to pay for. There is also a benefit in building the turnover of DC and being able to fund a portion of fixed overheads..

Tendering: in recent years, DC has built up some experience with tendering, although with no success as yet. A typical tender will cost around £2,800 to prepare (with all members time valued commercially) and will result in a contract perhaps fifty times the size. Assuming a target profit margin of 25%, and a success rate of one in four, it would be rational to invest in doing this work – but enough applications need to be prepared to offset the inevitable failures, and get the benefit from material shared between multiple bids.

We will seek to invest £21,000 in capacity and submission of tenders over the first two years, but of this more than half will be paid in sweat equity or conditional on a successful outcome. There is no guarantee of any turnover resulting from this but it would not be unreasonable to think that at least one grant or tender will be awarded to DC within the first year. Our forecasting is based on the assumption that a typical / average tender is £225,000 over eighteen months.

Project development

Replicated co-ops: a key goal for us is to analyse the success factors behind some of the most promising co-operatives in the UK, and seek to recruit participants to replicating these models elsewhere.

Incubators: there is growing evidence that investment in shared workspace, with specialist advice on hand and access to investment networks, are a robust basis for co-operative development and (being based on fixed assets) a sound investment. We will learn from the experience of existing incubators and pro-actively engage in communities where they can be established.

CDB launches: there is no doubt that no replicable business model for a CDB yet exists. However, DC will make it a priority to develop exactly such a template so that areas lacking CDB support can establish autonomous and self-sustaining CDBs accountable to the local co-op movement.

The market for these services is well understood by us, and by engaging with suitable communities and using contacts within existing organisations we can expect to develop an average of six or seven projects a year. A typical intervention of this sort will involve committing labour worth £14,000 over six months before a go / no go decision is reached – and at this point we must assume that a fifth will progress no further.

To recover this investment a higher profit margin will be required (for example a 60% markup to make a day rate of £400) , and each project should lead to further work of around £40,000 over a further six months (this might still amount to less than a tenth of the launch costs, as many of these projects will need capitalisation of £500k or more).

However, we must also allow for the possibility that in some cases – say 10% - a substantial amount of the consultancy carried out will be lost as the project fails to launch. This cost can be managed by funding the management and coordination of projects partly through sweat equity.

Internal management

The board will have the main responsibility for day to day decision making and oversight, and defined roles will be allocated to ensure clear accountability for the main areas of work and information flows.

However, a set of contracts will be issued to DC members intended to provide the bedrock of effort for organisational maintenance and support and coordination for both tenders and projects. These will employ a mix of work at different pay grades, with varying degrees of sweat equity, as follows:

Rate	Task	Sweat %	Days/qtr
B	Member Services	50.00%	2.5
C	Sector analysis	100.00%	2
B	Tender coordination	25.00%	5
B	Fundraising coordination	75.00%	4
B	Replication coordination	25.00%	7.5
C	Incubator coordination	25.00%	6
C	New CDB coordination	75.00%	3
C	Certification and CPD	100.00%	3
B	Co-op investor relations	75.00%	10
A	Treasurer	25.00%	2
A	Secretary	25.00%	1
B	External relations	100.00%	4

Returns and forecasts

We will pay 4% interest on shares in both classes. This provides an internal rate of return of 18.25% for an investor who puts funds in in 2019, and withdraws them progressively in stages between 2022 and 2025. With investor churn, it may be possible for investors to withdraw all their funds in 2022 in which case the rate of return will be significantly improved.

P&L and balance sheet

	2019	2020	2021	2022
Turnover				
Grants /contracts	0	75,000	225,000	262,500
Projects	0	204,224	264,224	305,280
Subscriptions	1,450	1,850	2,250	2,650
Total	**1,450**	**281,074**	**491,474**	**570,430**
Cost of sales	**0**	**135,000**	**292,500**	**335,000**
Gross profit	**1,450**	**146,074**	**198,974**	**235,430**
Overheads				
Administration	49,217	45,612	50,588	53,026
Fundraising	9,542	11,791	14,739	14,739
Project dev.	37,908	77,728	89,417	79,208
Interest	5,276	8,813	10,682	10,459
Bad debts	0	0	20,422	26,422
Total	**101,942**	**143,944**	**185,848**	**183,855**
Net Profit	**(100,492)**	**2,130**	**13,126**	**51,575**
Reserves	**(97,492)**	**(95,362)**	**(82,237)**	**(30,661)**
Cash balance	105,859	1,283	25,900	9,937
Class 1 shares	46,299	90,595	116,505	104,421
Class 2 shares	154,545	160,820	167,350	82,336