Ways Forward, Manchester,16 May 2014

Patrick Gray, President, Midcounties Co-operative

Good Morning.

We have, as I see it two reasons to be here today. First, just by taking part, to challenge the neo-conservative consensus which attacks the rationale for the very existence of co-operatives. And, second, to give our support to appropriate reform of the governance of the Co-operative Group.

Do we stumble on towards a capitalist mono-culture, where all important decisions are taken by a privileged elite? Or do we aspire to live in a society where people grow strong taking decisions about their own lives and their own communities? If so, co-operatives are right in the front line and our efforts to embed a wider understanding of what co-operation stands for should inspire our response to the current crisis.

With regard to the Group, I would like to talk about three things:

> First, the system of governance in Midcounties, which is successful and different both from the existing system in Group, and from the alternative proposed by Lord Myners.
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> Second, Midcounties' position on his proposals, and the Resolution tabled by the Group Board for tomorrow's Special Meeting.
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> And third, the strong and weak points of the recommendations contained in Lord Myners' Report.

With 480,000 members and a turnover of £1.2 billion, Midcounties is the UK's second largest co-operative. We focus on areas where sustainability, trust and the relationship with customers are central. We run two hundred and forty food stores. We sell electricity and gas through Co-operative Energy, and medicines and healthcare products through Co-operative Healthcare. We run Co-operative Travel, and operate nurseries through Co-operative Childcare and, in our area, The Co-operative Funeralcare.

We have always been totally opposed to the nightmare of a single national society and aim to stay close to our members, cooperating with other societies in a democratic and plural Co-operative Movement. Prudent concern for sustainability and the protection of the long term interests of our members and customers is at the core of our strategy - not risk taking or growth for growth's sake.

Member control exercised through directors directly elected by secret postal ballot has, over many years, protected our independence and has consistently produced a Board which provides rigorous challenge to management. It would certainly never have allowed a hundred million pounds of members' capital to be spent building a prestige head office while neglecting essential upgrades, or sold the Co-op name to Thomas Cook. It may be of interest too that our direct democracy has produced a Board of which more than half the members are women.

But we are also very aware of the need to constantly improve our governance. We have refined our electoral system in each of the last two years and are working to ensure that our Society represents best practice as a business and in terms of engagement with members.

On my **second point**, Midcounties's response to Lord Myners, it is important to stress that our Society strongly supports the Group. Our public profile is tied together through the Co-operative Brand. We purchase together through the Co-operative Retail Trading Group. And historically, we have shared a strong commitment to promoting the wider aims of co-operation.-

While the vast majority of our customers have remained steadfastly loyal, we cannot escape the impact of the succession of crises that have hit the Group. For straightforward commercial reasons, it is of the utmost importance to us that the Group puts its house in order as quickly as possible.

But six weeks ago, when Lord Myners published his interim report, we were deeply worried by three things.

> First, he offered no clear channel by which individual members could play an appropriate part in running their Society. A co-operative is not just a business that does good things. It is a specific type of structure, defined by the International Co-operative Alliance as an organisation which is both owned and controlled by its members. If it is not controlled by its members it is not a co-operative and if it is not a co-operative it is far from clear what purpose its continued existence would serve.

> Second, he made only passing reference to the interests of the Independent Societies which originally created the Group, which, along with the Group's individual members, own it - and which are entitled to share in its profits.

> Third, Lord Myners gave no explanation as to how his recommendations would actually be implemented. We were convinced that an effective, co-operative, mechanism would be needed to shape any recommendations for change and to oversee their implementation.

Because of these issues, our Board resolved that, while we strongly support the objective of fundamental reform, we could not support Lord Myners' recommendations unless they were enhanced to take account of these concerns.

In early April, the Group Board took the crucial step of agreeing the Resolution which will be submitted to the Special Meeting tomorrow. This includes four broad statements expressing a commitment to hard headed governance reform within a framework of co-operative principles.

And in early May, Lord Myners published his Report, which now clearly addresses the interests of the Independent Societies and, crucially, the future of the Cooperative Retail Trading Group. It also provides strengthened rights for members and an implementation mechanism.

Finally, in the last few days, Ursula Lidbetter, the Chair of Group, has made it clear that, notwithstanding the earlier suggestion that the Report should be swallowed whole, adoption of Lord Myner's recommendations would in fact be subject to a proper process of discussion, involving, it is understood, experienced co-operators.

On this basis, we recommended to our members last Saturday that our Society should vote in favour of the Special Resolution and, after discussion, those present – almost five hundred in all - voted unanimously that we should.

It is a matter of the utmost urgency that the Group lifts the very real threat from its creditors by paying down its debt, and provides the reassurance that its bankers demand that in the nearest future it will be run by a board which is competent, cohesive and capable of taking business decisions in an informed and decisive manner.

It is equally important that the Group, as part of far-reaching reform, becomes substantially and democratically controlled by its members – and so remains, in letter and in spirit, a genuine co-operative.

~~Finally, I would like to make some observations on the analysis and recommendations in Lord Myners' Report.~~

Lord Myners has done the Group a very important service in bringing the debate on governance to a head. All retail cooperatives, and not just the Group, are paying a price in terms of public confidence, but this will have been worthwhile in the long term if the problem of the flawed constitution of 2001, can be resolved.

There is much that is positive in Lord Myners' Report:

The adoption of a straightforward system of one member one vote is to be to be strongly welcomed

The idea of a two tier structure, based on a Board and a National Member Council, and provision for nominations to the Board from the membership, deserves serious consideration as a possible solution to a fairly intractable problem.

The central role he posits for the proposed Nominations Committee, rightly focuses on people and competence as the key to resolving the central problems facing the Group.

And his full recognition of the need to separate the buying group, CRTG, out from the Group, turning it into a federal structure, is absolutely right.

In terms of the more controversial elements:

My first concern is that senior management is part of governance but he hardly mentions it. The obvious explanation of the disastrous events of the last decade is not that lay members of the Board were too powerful, but that the merger between United and CWS in 2004 left an ambitious Chief Executive virtually unchecked. In these circumstances it seems paradoxical that the changes Lord Myners proposes would greatly strengthen the position of the Chief Executive by giving him or her, and the Chief Financial Officer, voting rights on a small board made up entirely of individuals from a similar background.

My second concern is that Lord Myners is not proposing to replace a complicated system with a simpler one, but to replace one highly engineered system by another. Simply sweeping away a whole tier of local representation is not self-evidently a sensible thing to do in the present circumstances. And the creation of a two tier system of governance at national level could open the way to damaging conflicts between the different levels.

My third concern is that Lord Myners believes that the only way to save the Group is for power to be handed over to the sort of people that sit on the boards of the country's largest private retail companies. But then, to inject an element of co-operation into his Board, he boldly asserts that candidates will also be required to have a deep understanding of, and commitment to, co-operation. Whether such paragons really exist must, I am afraid, be open to question.

My fourth concern is that it is not clear what Lord Myners is proposing when he claims that Board members will be selected by a Nominations Committee and then elected by members. Will these elections involve any sort of choice? If they do, will the business leaders Lord Myners aspires to attract be willing to put themselves forward? And if they do not, can they really be seen as representing any kind of meaningful democracy?

Finally, it is important to remember that Group in future will not be running a bank, nor if we are to believe the media, pharmacies or farms or, probably, insurance. The challenge will be to turn around a large business which essentially sells groceries and organises funerals. With an open electoral process and a strong nominations committee, it should not be impossible to find a small number of effective lay Board members to represent members' concerns alongside experienced management professionals on a streamlined Board.

Personally, I think that this would be clearer and less potentially contentious than depending upon an elaborate new structure with thirty separate constituencies, and its own dynamics, secretariat and timetable. And if it is felt that the new Group will still be too large to be entrusted to a Board that includes a few carefully chosen lay members, then perhaps Group should consider allowing some of its regions to hive off and become independent societies, within a federal framework - with their own members' capital, and taking their share of the remaining debt with them. Better three or four genuinely democratic co-operatives, than one behemoth with only a fig leaf of member control.

Thank you!