Retail Co-operative Society Accounts

David Hutton

About 150 years ago a radical approach to Society gave birth to a retail co-operative movement which envisaged the progression of a local grocery shop into a Co-operative Commonwealth. It was not to be. Largely confined to the retail sector, it reached its peak in the 1950's with a market share of 12% of retail trade; thereafter there has been a relentless decline to the 4% market share prevailing today. Still substantial, but no longer fuelling the hope of a new Jerusalem.

The fierce competitive pressure on co-operative management has affected the objectivity of the accounting statistics presented to the members of co-operative societies. In the same way as the government sometimes seeks to hide unpalatable short term changes in the economic state of the country from its constituent electors, so does business seek to fudge the changes in their accounts to shareholders.

When private business manipulates the presentation of financial reports by creative accounting, those principally affected are the shareholders who are the beneficiaries of changes in the value of the business, who could be judged capable of looking after their own substantial interests. Furthermore, there are professional advisers to the instutional investors, who make a living by guiding their customers through the labyrinth of accounts, and the financial press has a vested interest in disclosure and comment.

None of this help is normally available to the innocent co-operator, who has subsidised her society over many years by subscribing to shares bearing a fixed and nominal rate of interest without benefitting from any increase in profitability or capital gain. She has mainly a shopper's interest in her society's success: seeing her local shop thrive. She gives principled support to the concept of democratic control. If the accounts are massaged or ill presented the co-operative shareholder is on her own, having to interpret figures often made available to her at the beginning of a meeting of shareholders at which they have to be formally approved. It is the duty of those who feel more at home with the figures to try to help these lay people.

An examination of the accounts of some of the largest societies shows that the co-operative member has to try to cope with variations in the valuation of

property (usually valued at historic cost but sometimes at current values); variations in the rate of depreciation on buildings; capitalisation of the interest charges on new developments; hiving off of redundancy payments and closure costs and other "exceptional" or "extraordinary" expenditure "below the line", and even treating surplusses on the scale of assets as part of the operating surplus for the year. These entries are treated differently from society to society, and even from year to year within the same society. No authority seems to have the power to enforce consistency.

What difference do the definitions make? They make a considerable difference to the relative profitability of co-operative societies, as the figures for the seven largest independent societies show. (These seven societies account for well over half the sales of all independent co-operative societies in the year ended January 1990).

PLATE 4 The consultation (3)

Year ended January 1990

Surplus

Sales £m	Society	Published Definition	As published £m	As published % of Sales		Standardised £m	Standardised % of Sales	
1157.2	C.R.S.	Before Distribution	29.3	2.53	1	17.5	1.52	4
329.7	North Eastern	Surplus before exceptional items	4.0	1.20	6	3.5	1.05	6
306.4	Gr.Nottingham	Surplus before taxation	6.0	1.95	3	4.4	1.42	5
304.8	United	Surplus derived from ordinary activities	7.0	2.28	2	5.2	1.70	3
261.3	Central Midlands	Profit for year	4.1	1.56	4	5.2	2.00	2
192.0	Leicestershire	Surplus from ordinary activities before tax	0.2	0.11	7	(-1.0)	(-0.55)	7
181.9	Norwest	Surplus before distributions	2.8	1.55	5	4.2	2.29	1

The standard columns treat depreciation of buildings, dividend stamps, on the sale of assets, share interest, redundancy and other closure costs, and the capitalisation of interest costs on developments consistently one society with another. It will be seen that on a comparable basis Norwest comes out top of the list with Central Midlands second, whereas C.R.S. drops from first place to fourth. This is quite different order from that suggested by the societies' own published accounts.

This is not to suggest that each society's idiosyncratic accounting policies are in any way inappropriate for that society taken alone - it is just that they distort the comparisons between societies (and sometimes between years for the same society). But is has to be said that those policies which tend to

sustain the above the line profit figures are more likely to be practised by societies under pressure than those which are thriving on an upward trend.

If co-operative shareholders do not have a direct financial interest in the success of their societies, who does? The answer is that the directors of these societies need success to ensure their re-election at regular intervals, and the chief officers and their immediate supporting staff need success to maintain their salaries or even their posts. It is not the size of the profits which matter, so much as how the profits compare one year with the next. The published accounts give an incomplete indication of change as the following table shows:

PLATE 5 The examination. The physician is thought to be William Cullen

Surplus

< £ million (rounded)>

	as published			Standardised		
Year ended January	1989	1990	change	1989	1990	change
C.R.S.	25.5	29.3	+8.8	20.0	17.5	-2.5
North Eastern [1]	3.7	4.0	+0.3	3.4	3.5	+0.1
Gr Nottingham	7.1	*6.0	-1.1	6.1	4.4	-1.7
United [1]	4.0	7.0	+3.0	2.3	5.2	+2.9
Central Midlands	3.4	@4.1	+0.7	3.8	5.2	+1.4
Leicestershire [1]	2.5	0.2	-2.3	(-0.1)	(-1.1)	-0.1
Norwest	3.3	2.8	-0.5	4.4	4.2	-0.2

1 Buildings not depreciated in published accounts for either year.

* Buildings not depreciated in published accounts for year ending January 1990.

@ Buildings used for investment not depreciated in published accounts for year ending January 1990.

Co-operative Union Statistics

Each autumn the Co-operative Union - the trade association to which the great majority of co-operative societies belong - publishes "Co-operative Statistics" which is a summary of society accounts for the financial years ending between September of the previous year and January of the current year. This statistical volume has a limited circulation: one copy to each affiliated society and additional copies to societies at £10 each, with the price to the public of £60. This publication has only a limited market because it is regarded as too esoteric and too expensive by the ordinary co-operative activist. Invaluable as it is, it has a number of limitations.

Firstly, although it attempts to standardise returns, it is dependent on what societies choose to portray. This means that when some societies depreciate

their buildings and others do not, no attention is drawn to the distinction in the tables. Likewise, if some societies revalue their assets at current prices and others stick to historic costs they are not distinguished in the tables. All exceptional and extraordinary items are ignored, whether they should be or not. If some societies choose to capitalise the interest costs of new developments and others do not, no mention is made of this accounting policy. Similarly, some societies weed out the dead wood from their membership rolls, whereas the rolls of others contain the names of people who have long since died or moved to other parts of the Kingdom: they are all added together to produce a near meaningless membership total.

When an examination is made of the tables one finds that there are a number of percentages, without absolute figures being given, based on net assets which are valued by different societies in different ways - at historic cost or current values or a mixture of the two. This makes figures of gearing, for instance, very misleading. More than a quarter of the columns of indices are invalidated for this reason. Because of the different mix of turnover e.g. non-foods, petrol, dairy and funeral furnishing, the figures of average stock turn in individual societies are difficult to interpret.

Secondly, the volume lacks information about the square footage of selling areas and net investment or disinvestment in property; such figures would have greatly added to the value of the publication without adding much to the burden on contributors.

Thirdly, the volume fails to provide statistics for the retail undertakings of the Co-operative Wholesale Society on a base comparable with that given for retail co-operatives. The takeover by the C.W.S of an increasing number of retail co-operatives is the key issue of the day. It is therefore imperative for co-operative members to be in a position to judge the trading success of the C.W.S.' retail arm relative to other retail societies. This is not provided. Information about the contribution of productive activities to the financial success of the C.W.S. is also no longer provided either.

It will be seen that the ordinary co-operator is very much in need of help from radical numerate people willing to devote some of their time to exploit this rich mine of statistics which has remained under developed for so long. This brave effort to maintain a form of social ownership will be strengthened when more people involve themselves in the work.

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