

Co-operative Capital

A REPORT ARISING FROM THE DISCUSSIONS UNDERTAKEN BY THE WESTERN
REGION WORKING PARTY

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The Working Party commenced its deliberations upon the growing problem of Co-operative Capital fully aware that whilst a particularly serious situation was existing in the Western Section the solutions were not only to be found by examining the special social and economic problems of Wales. The discussions did however highlight a number of regional issues having a direct influence upon the decline of Capital holding.

The Working Party commenced its discussions with an examination of a substantial number of Society balance sheets covering a two-year period. This showed that during the period 1963-1968 there had been significant losses in share and loan capital and small savings with a quickening of the process in the latter part of the period.

It was concluded from the evidence submitted by members of the Committee that the reasons for the rapid decline in capital holding in the Western Section could be summarised as follows:

- 1 Lower dividend rates and thus less to leave undrawn in members' share balance.
- 2 The fact that investment in a Co-operative society is no longer the main family nest egg.
- 3 An extension of the openings for capital:
 - (a) Building Societies
 - (b) Range of National Savings including Premium Bonds
 - (c) Unit trusts

These three are general to the movement along with others having a greater relevance to the Western Section.

- 4 Loss of confidence.
- 5 Adverse publicity.
- 6 Temporary measures to restrict withdrawals. This has exaggerated withdrawals in other societies.

In order to ascertain the effectiveness of other competitors in the investment market an examination was undertaken of the major openings for the ordinary investor.

Statistics available for a five year period in respect of the major Government Securities showed that with the possible exception of Development Bonds

and Post Office Savings Accounts the State was not being particularly successful in attracting the savings of the small investor despite increases in holding allowances. Premium Bonds were beginning to show some gains since the introduction of more attractive prizes. Nevertheless the net results do show increases with the exceptions of P.O. National Savings and Defence Bonds. In both these latter cases the low interest rates of $2\frac{1}{2}$ per cent and 3 per cent seem to indicate transfers to other securities and private sources.

Information available for private sources show the Building Societies now attracting nearly 50 per cent of all available personal saving capacity. A number of factors account for this:

- 1 Increase in the number of people wishing to purchase their own property.
- 2 Favourable interest rates (tax paid).
- 3 Ease of withdrawal.

The two other major private sources being Insurance Companies and Unit Trusts; the latter showing considerable gains in recent months. The Committee noted with interest that although the prevailing economic conditions normally have a great influence upon such investments this does not seem to be the case with Unit Trusts at present.

Insurance Companies have shown a steady and substantial rise in recent years and this tended to dispel the view that small long-term investments were declining. The full effect of devaluation upon the small investor's approach to such investments was still to be seen.

The Working Party made a thorough investigation into rates of interest offered by Government securities and private investments. Experience of Co-operative societies in the Section offering higher interest rates for loan capital were exchanged but statistics available showed no significant inflow of capital although the position was being held steady.

The Working Party concluded that higher interest rates appeared particularly successful when combined with ease of withdrawal as in the case of building societies.

Finally the Working Party examined changes in trading methods and the effect upon societies' capital. It was felt that the introduction of cash and carry/Krazy Kuts and Instant Dividend provided for little return to capital funds. Whilst these forms of trading were boosting sales they presented a further barrier to retaining capital as well as having the concept of membership.

Some of these forms of trading could offset the decline in capital by increasing the reserve funds as a result of greater profitability and when the trading method no longer necessitates a dividend payment.

To conclude the Working Party felt that a quick realisation of the Regional Plan is a desirable step since it would conserve capital and may even release liquid funds by the disposal of surplus assets.

There are, however, certain questions worthy of consideration prior to the regionalisation move.

- How to attract further capital to societies.
- How to reduce the capital commitment of societies.
- How to best deploy present and future capital holdings.

THE ATTRACTION OF NEW CAPITAL

- 1 The sale of surplus properties.
- 2 Capital from trading operations. Christmas/Holiday Clubs etc.
- 3 Increased allocations to reserves.
- 4 Further efforts to attract new capital by providing competitive interest rates with special loan certificates or bonds.

REDUCING THE CAPITAL COMMITMENT

- 1 Release of capital by "sale and lease back".
- 2 Release of capital by utilising outside finance houses for Hire Purchase etc.
- 3 Relieving Society of responsibility for finance via Provident and Premier cheques.
- 4 Sale of surplus properties and disposal of uneconomic units.
- 5 Closer consideration of stock holding.

HOW BEST TO DEPLOY CAPITAL

- 1 Economising on capital via increased stock-turnover.
- 2 Economising on capital via debt control.
- 3 Realistic assessment of new projects for early profitability.