



BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

Submission to the Senate Economics References Committee
inquiry into the indicators, and impact of, regional inequality in
Australia

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About the BCCM

Formed in 2013 following the United Nations International Year of Co-operatives¹, the Business Council of Co-operatives and Mutuals (BCCM) is the peak body for Australian co-operatives, mutuals and member-owned enterprises. The BCCM represents a diverse range of enterprises operating in sectors including agriculture, finance and banking, insurance, motoring services, health services, aged care, disability employment, education, indigenous services, social housing and retail.

The BCCM advocates for recognition of the sector and for measures that create a level playing field between co-operatives and other businesses, including implementation of the recommendations of the Senate Economics References Committee report into Cooperative, mutual and member-owned firms², and implementation of the Hammond review into Access to Capital for CMEs.³

¹ See <https://social.un.org/coopsyear/>

² http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Cooperatives/Report

³ <https://treasury.gov.au/publication/p2017-t235882/>

1 Introduction

The Business Council of Co-operatives and Mutuals (BCCM) welcomes the opportunity to make a submission to the Senate Economics References Committee inquiry into the indicators, and impact of, regional inequality in Australia.

Co-operatives exist when groups of individuals or businesses come together to achieve an objective that they could not achieve alone. They are a rational alternative to investor-owned businesses when the objective is different from maximising returns to shareholders. Co-operatives are often formed as a response to the failure of a market to adequately serve the interests of a group of customers, workers or producers – such as goods and services not being provided in the local region. In the case of economic restructuring in Newcastle in the 1990s, HunterNet Co-operative provided a mechanism for small and medium manufacturing and engineering businesses to work together to find new contracts and retain jobs in the region.

The underlying purpose of co-operatives means they can provide a counterweight against regional inequality. The McClure Review of Australia's Welfare System final report noted that 'in developing intergenerational self-reliance, co-operatives help to reduce welfare dependency... provide jobs for local people, offer goods and services and use procurement practices that support local business'⁴ A region where this rings true is the Northern Rivers region of New South Wales, where co-ops like Norco, the Northern Co-operative Meat Company and Summerland Credit Union generate over \$1.1 billion in the local economy and provide more than 2,500 local jobs.

The role of co-operatives in countering inequality (whether within countries or between countries) is acknowledged globally. Ban Ki-moon, former Secretary-General of the United Nations stated that, with more than 1 billion members globally⁵, co-operatives promote 'resilience in all regions and all economic sectors'.⁶ Oxfam has stated that co-operatives are examples of 'companies structured and incentivized to benefit society as whole' and called on policymakers to 'encourag[e] business models that do not provide undue reward to shareholders' as a means of tackling inequality alongside or prior to taxation measures.⁷ Nobel Prize-winning economist Joseph Stiglitz has remarked 'We should learn from co-ops...If we do, we can reshape our economy, reshape globalisation and who we and our children are.'⁸

A strong co-operative sector can complement re-distributive policies designed to reduce inequality across regions. The BCCM therefore believes evaluation of the policy environment for the formation and growth of regional co-operatives is an important consideration for this inquiry.

Our submission responds to term of reference I), any other related matters. We respond by outlining some of the ways co-operatives contribute to reduced regional inequality, and ways in which policy can enable or inhibit co-operatives from playing this role.

⁴ https://www.dss.gov.au/sites/default/files/documents/02_2015/dss001_14_final_report_access_2.pdf, 181.

⁵ For more global co-operative facts and figures see: <https://ica.coop/en/co-op-facts-and-stats>

⁶ <https://www.thenews.coop/39718/sector/ban-ki-moon-co-operatives-build-resilience-time-uncertainty/>

⁷ <https://oxfamlibrary.openrepository.com/oxfam/bitstream/10546/620170/1/bp-economy-for-99-percent-160117-en.pdf>, 31-2

⁸ <https://www.thenews.coop/110090/sector/community/joseph-stiglitz-proposes-co-ops-models-alternative-trickle-economics/>

We have included information about the BCCM and about the co-operative and mutual sector in Australia following our response to the terms of reference.

The BCCM would be happy to attend a hearing to answer any questions the Committee may have.

2 Response to Terms of Reference

(I) any other related matters.

Co-operatives *distribute* wealth equitably. Therefore, the BCCM is of the view that an enabling policy, regulatory and legislative environment for the growth of co-operatives is an important complement to re-distributive policies that are designed to reduce regional inequality.

How do co-operatives distribute wealth equitably?

The purpose and ownership structure of co-operative and mutual enterprises means they can help reduce regional inequality in the following ways:

- Because they are owned by local people or businesses and exist to provide them a service, co-operatives don't move essential services and employment out of town based on profitability alone⁹
- Co-operatives distribute benefits equitably to members based on level of patronage of the co-operative's services, not shareholding¹⁰
- Co-operatives put large proportions of their surplus toward community and charitable activities¹¹
- Co-operatives are open membership organisations that give big and small players a fair go¹²
- Co-operatives have a 'sticky money' effect in local economies – for every \$1 spent at a regional retail co-op, 76c of value is created in the local economy¹³
- Co-operatives can enhance the competitiveness of local small businesses, including increasing bargaining power and opening up export markets, as noted in the Harper Review of Competition Policy¹⁴

Examples of co-operative responses to regional inequality

- Bank Australia has committed to retaining its call centre workforce in regional Victoria, investing \$2.6 million in a new office in Moe.¹⁵
- Regional Australia Bank is working with members and the community in Guyra, Bingara and other towns to increase its branch opening hours while other banks leave.¹⁶

⁹ See <https://www.inverelltimes.com.au/story/5347189/happy-ending-in-sight-for-bingaras-bank-drama/>

¹⁰ For example, on average mutual health insurers pay more back in benefits than non-mutuals. <https://www.smh.com.au/business/consumer-affairs/new-figures-show-notforprofit-health-fund-members-get-more-for-their-money-20170329-gv8ymv.html>

¹¹ For example, Teachers Mutual Bank invests 6.9% of pre-tax profits into community activities, 23 times the average for the financial services sector. <https://www.tmbank.com.au/community/being-a-responsible-business>

¹² Almondco has 85% of Australian almond growers in membership across all sizes of supply. <http://www.almondco.com.au/>

¹³ http://bccm.coop/wp/wp-content/uploads/2014/12/Sticky-Money-Report_EY-2014.pdf

¹⁴ Co-operatives can 'potentially strengthen the bargaining position of small businesses dealing with large businesses', Competition Policy Review, Final Report (Harper Review)

¹⁵ <https://bankaust.com.au/about-us/news/corporate2/growing-bank-australias-future-in-moe/>

¹⁶ <https://www.inverelltimes.com.au/story/5347189/happy-ending-in-sight-for-bingaras-bank-drama/>

- The Northern Rivers Region of New South Wales has a co-operative economy worth more than \$1.1 billion, with 30,000 members and more than 2,500 jobs. Key co-op employers include Norco, Northern Co-operative Meat Company, Oz Group, Macadamia Processing Company, Clarence River Fishermen's Co-operative, Ballina Fishermen's Co-operative and Summerland Credit Union. Norco, owned by more than 300 local dairy farmers, was the first Australian dairy processor to export fresh milk to China.¹⁷
- Small and medium manufacturing and engineering firms in and around Newcastle came together to form HunterNet Co-operative to increase their access to contracts, increase their standards and reduce their reliance on BHP for contracts (BHP soon after exited Newcastle). Out of potential adversity, Newcastle is now envied for its strong manufacturing cluster, which is a world leader in defence, infrastructure management, energy and resources and advanced manufacturing.¹⁸
- The Sea Lake community re-opened the town's hardware store by forming a co-op to operate the store.¹⁹
- Patient-owned National Health Co-operative is expanding to towns such as Yass where there is a need for quality bulk billing medical clinics.²⁰

The keystone role of regional co-operatives: The Co-op, Nuriootpa

The Co-operative Community Store (known simply as "The Co-op"), in Nuriootpa, was the focus of a study undertaken by EY in 2014 entitled *Sticky Money* that demonstrates the social and economic value generated by 'keystone' regional co-operatives. EY estimated that for every dollar spent in the Co-op's Foodland outlet in Nuriootpa, an additional 76c of value was created in the local economy. Paul Amos from The Co-op explains the purpose of the co-operative: 'we are stopping escape spend out of the region, which buys [our] community more prosperity'. This is what The Co-op's mission statement, to be 'the Heart of the Barossa', is about.

The EY study also demonstrated how the value created by a co-operative is not always recorded on the co-operative's balance sheet. The Co-op adds value to the community by stocking 40% local produce, by stocking value-added products from local small businesses (who have gone on to supply other supermarkets and employ more staff), donating more than \$100,000 to community groups and clubs (FY16/17), and returning value to its 18,000 members through rebates on patronage and modest dividends on shareholding. The Co-op employs over 300 people, and often provides locals with their first job.

The co-operative structure, with its focus on creation of social, cultural and economic value for members and the community, is what allows The Co-op to achieve its mission of prosperity for the local region.

An enabling policy, regulatory and legislative environment for co-operatives

Co-operatives need a level playing field with other forms of enterprise if they are to form and grow, as was recognised by this Committee in its report from the inquiry into cooperative, mutual and member-owned firms (recommendations provided as an appendix).²¹ The implementation of the

¹⁷ <http://www.afr.com/business/agriculture/norco-corners-fresh-milk-niche-in-china-20140914-jeok3>

¹⁸ <https://hunternet.com.au/>

¹⁹ <http://www.kerryanderson.com.au/blog/2016/7/17/co-ops-up-close-and-personal>

²⁰ <https://www.nhc.coop/yass-clinic-opening>

²¹ Commonwealth of Australia (2016) *Report of the Senate Economics Reference Committee Inquiry into Cooperative, Mutual and Member- Owned Firms*.

recommendations arising from that inquiry is the basis for co-operatives being able to contribute more to Australian community and economic life into the future.

The Government's adoption of all recommendations in the recent Hammond Review on removing barriers to capital raising in co-operatives and mutuals is a great start.²² The \$15 million Farm Co-operatives and Collaboration Pilot Program has helped spur the development of online tools to assist groups to form co-operatives and kickstart innovative agricultural co-operatives including data co-operatives, land investment co-operatives and co-ops for niche products such as truffles.²³ However, much more needs to be done for co-ops and mutuals to reach their potential in areas such as community buyouts, infrastructure management and the opening up of export markets for regional small businesses. In the next section we provide our recommendations for priority policy actions.

3 Recommendations

In the following, we provide references to the relevant recommendations of this Committee's report into cooperative, mutual and member-owned firms in brackets.

General recommendation – A CME Charter

Based on ILO Recommendation 193 on the "Promotion of Co-operatives"²⁴ this Charter sets out the principles for how government should work with the co-operative and mutual sector to promote its growth. The BCCM encourages adoption of the Charter by all political parties:

- Co-operatives, mutual and member-owned businesses should be able to compete freely and on fair terms with all types of business
- Government should champion these business forms on an equal basis alongside other types of corporate ownership
- Government should recognise the value of these businesses and provide appropriate incentives for their creation and development
- Legislation and regulation for these firms should match the best practice for any business, and
- It should be cost effective and straight forward to set up and run co-operative, mutual or member-based businesses as any other type of business.

1. Amend the eligibility criteria for business support policies, grants and incentives so that co-operatives and mutual are not excluded on the basis of legal structure alone

(Recommendations 10, 11 and 12), inclusive of the following examples:

- New Enterprise Incentive Scheme²⁵ (be open to participants using the co-operative legal model and business educators trained in the co-operative model);
- Indigenous Advancement Strategy grants;²⁶ and

²² Greg Hammond OAM (July 2017) *Review on Report on Reforms for Cooperatives, Mutuals and Member-Owned Firms* undertaken by an independent facilitator appointed by the Commonwealth Treasurer, the Hon. Scott Morrison.

²³ <https://agworks.com.au/>

²⁴ Recommendation concerning Promotion of Co-operatives, Adoption: Geneva, 90th ILC Session (20 June 2002) http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R193

²⁵ The NEIS requires that the participant have a controlling interest in their start-up business, precluding a group of participants forming, for example, a five-member worker co-operative.

²⁶ Co-operatives must, on the basis of their legal form, seek an exemption to attain funding of over \$500,000 under

- Tourism Partnership grants.²⁷

In order to achieve the above, we recommend that Government:

- (a) Conduct a one-off audit of business support policies, grants and incentives to ascertain whether co-operatives and mutuals are excluded on the basis of legal structure alone; and
- (b) Ensure that co-operatives and mutuals are considered when government is preparing a Regulatory Impact Statement to accompany new regulatory policies.

2. Include information about CMEs on all government business websites, including business.gov.au (Recommendation 6)

In order to achieve the above, we recommend that Government:

- (a) Conduct a one-off audit of government business websites to ascertain where information about co-operatives and mutuals is not included alongside other models; and
- (b) Work with the BCCM as the co-operative and mutual apex body to provide appropriate information on government business websites.

3. Improve access to capital for CMEs (Recommendations 4, 15, 16 and 17)

The Federal Government has committed to implementing the 11 recommendations of the independent review into access to capital for co-operatives, mutual and member-owned firms (Hammond Review). The BCCM and wider sector looks forward to the soonest implementation of the reforms to provide co-operatives and mutuals with equitable access to capital for growth, innovation and competition.

The BCCM recommends that the Commonwealth Government:

- (a) Fully implement the recommendations of the Hammond Review as committed to in the hand down of the Review in November 2017.
- (b) Develops a one-off package of supports and information to establish and grow the CME investment market. This could be much like the package that was developed to support the development of the Social Impact Investing market.²⁸ Such a package could support increased investment in co-operatives and mutuals from members, intra-sector investors and institutional investors and include information on using Co-operative Capital Units (CCUs).

4. Remove any dual regulation of state-registered co-operatives (Recommendation 13)

For example, examine whether co-operatives are impacted by the requirements of the new Corporations Act equity-crowdfunding regime.

5. Enhance knowledge of the impact of forms of ownership (Recommendation 1)

The BCCM recommends that Government give consideration the extent to which ownership supports or inhibits successful, long-term value creation by business, especially in those sectors where there is scope to increase productivity because of digital disruption, new technology and

the IAS.

²⁷ Despite this being a grant to encourage collaboration among businesses, co-operatives are not eligible. This is currently true of other AusIndustry grants.

²⁸ <http://sjm.ministers.treasury.gov.au/media-release/068-2017/>

demographic change. This could be achieved by setting up an Ownership Commission²⁹ that examines the plurality and actual diversity of business ownership in the Australian economy.

Such a Commission could be conducted along the lines of the 2012 UK report, “Sharing Success: the Nuttall Review on Employee Ownership”³⁰ with a broader brief to consider all forms of member ownership including employee mutuals.

²⁹ The UK Labor Government established an Ownership Commission in 2010:
<https://www.bitc.org.uk/resources/tools-frameworks/leadership-insight/plurality-stewardship-engagement-ownership-commission>

³⁰ <https://www.gov.uk/government/publications/nuttall-review-of-employee-ownership>

4 Appendix A: what are co-operative and mutual enterprises (CMEs)?

Co-operative and mutual enterprises (CMEs) are businesses owned by or on behalf of their customers, employees, a group of like-minded producers or a combination of these.

CMEs are self-help enterprises that form to meet the common economic and social needs of a group of people or businesses. Often the group's needs are not being met due to various kinds of market failure.

There are 1.2 billion members of co-operatives globally.³¹ In Australia there are more than 2,000 co-operatives and mutuals with a combined membership base of more than 14.8 million.³²

Co-operatives are guided by seven internationally-agreed principles (incorporated into Australian law through the Co-operatives National Law³³):

1. 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.

2. 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.

3. 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 by 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.

4. 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.

³¹ For this and other global statistics about the co-operative movement, see <https://ica.coop/en/facts-and-figures>

³² <http://bccm.coop/wp/wp-content/uploads/2017/11/BCCM-2017-NME-Report.pdf>

³³

http://www.fairtrading.nsw.gov.au/ftw/Cooperatives_and_associations/About_cooperatives/Cooperatives_national_law.page

5. 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.

6. 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.

7. Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Broadly speaking, there are three types of co-operative and mutual enterprise – customer owned, worker owned and producer owned - that deliver sustainable production of goods and services to the key stakeholders

Customer owned: The objective is service quality and price, rather than profit maximisation. Australian examples including customer-owned banks (e.g. CUA, Bank Australia), health insurance (HCF, RT Health), food retail (The Co-op - Barossa), primary health (National Health Co-operative) and motoring clubs (RACQ, NRMA).

Worker owned: The objective is high quality employment that incentivises employees, provides work place democracy and shares wealth, often whilst pursuing social goals like high quality social care and environmental health. Australian examples are non-residential aged care provider, The Co-operative Life, and refuse shop operator, Resource Work Cooperative.

Producer owned: The objective is to enable groups of small businesses to work together to operate in markets that they could not enter alone or would otherwise be dominated by large investor owned firms. Many such co-ops exist in agricultural production, where co-ops enable smaller producers to combine their efforts to compete. Well known examples are Co-operative Bulk Handling (CBH) and dairy-farmer owned Norco Co-operative, and in automotive purchasing, Capricorn Society.

5 Appendix B: Recommendations of the Senate Economics References Committee inquiry into cooperative, mutual and member-owned firms

Recommendation 1

The committee recommends that the Commonwealth Government ensures that a national collection of statistics and data is undertaken to provide an accurate picture of the scale and extent of the co-operative and mutual sector.

Recommendation 2

The committee recommends that co-operative and mutuals sector be better represented in

government policy discussions, and is actively promoted as a possible option for service delivery particularly where community based initiatives are being considered.

Recommendation 3

The committee recommends the Commonwealth Government work with states and territories to develop a program of supports to encourage the establishment of new co-operatives and mutual enterprises.

Recommendation 4

The committee recommends that a mutual enterprise is explicitly defined in the Corporations Act 2001, and its associated regulations.

Recommendation 5

The committee recommends that the role of directors in mutual enterprises is defined in the Corporations Regulations to align with the proposed definition of a mutual enterprise in the Corporations Act.

Recommendation 6

The committee recommends the Commonwealth Government work with states and territories to ensure the continual improvement to advice, guidance and information provided at all stages in the establishment, governance and regulation of co-operatives.

Recommendation 7

The committee recommends that the Commonwealth Government to work with all relevant stakeholders to undertake a program of education and training to inform them about the role of co-operatives and mutuals.

Recommendation 8

The committee recommends that the Commonwealth Government examine ways in which it can improve the recognition and understanding of the co-operative and mutual sector in the national secondary school curriculum and that tertiary institutions consider the inclusion of co-operative and mutuals in accounting, business, commerce, economics and law degrees.

Recommendation 9

The Committee recommends that professional accreditation bodies, such as the Law Society and Institute of Chartered Accountants, require a demonstrated knowledge of the co-operatives and mutual structure before it will licence its members to practice accounting or law.

Recommendation 10

The committee recommends that the Commonwealth Government amend the Indigenous Advancement Strategy to allow registered co-operatives the same access to allow levels of grant funding as other entities.

Recommendation 11

The committee recommends that the Commonwealth Government review, and where necessary amend the eligibility criteria for grants and funds across all of government grants and program guidelines to ensure that co-operatives and mutual enterprises are not excluded on the basis of

their business structure.

Recommendation 12

The committee recommends that the co-operative and mutual sector be considered when the government is preparing a Regulatory Impact Statement that accompanies new regulatory policies.

Recommendation 13

The committee recommends that the Commonwealth Government liaise with its state and territory counterparts to ensure that the regulatory burden for small and medium sized co-operative and mutual enterprise aligns with the needs of these organisations and ensures they are not disadvantaged relative to companies of a similar size.

Recommendation 14

The committee recommends that the Commonwealth Government closely monitor the progress of the International Accounting Standards Board in developing solutions to bring co-operative shares under the definition of capital under AASB 132, and, where possible, facilitate equivalent amendments as expeditiously as possible.

Recommendation 15

The committee recommends that Commonwealth and State Governments support the formalisation of some of innovative market-based approaches to raising capital for small and medium sized co-operative and mutual enterprises, in the form of advice and information, as they become available.

Recommendation 16

The committee recommends that APRA set a target date for the outcome of discussions with the co-operative and mutuals sector on issues of capital raising and bring those discussions to a timely conclusion.

Recommendation 17

The committee recommends that the Commonwealth Government examine proposals to amend the Corporations Act 2001 to provide co-operative and mutual enterprises with a mechanism to enable them access to a broader range of capital raising and investment opportunities.