

## Parliament of Australia

### Senate Economics Reference Committee

**The role, importance, and overall performance of Co-operative, mutual and member-owned firms in the Australian economy inquiry.**

**Public Hearings – Sydney 29 October 2015**

**Submission prepared by Peter Tregilgas & Garry Cronan on behalf of:**

- **Mercury Centre Co-operative Limited**
  - **Social Enterprise Services Australia**
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#### **Witnesses:**

- **Peter Tregilgas:**
    - Chair, The Mercury Centre Co-operative Limited &
    - Principal, Social Enterprise Service
  - **Garry Cronan:**
    - Board Member,
    - Consultant - Third Sector Strategist, Researcher and Policy Specialist
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The Mercury Centre Co-operative Ltd thanks the Senate Economics Reference Committee and Senators present for the opportunity to appear at this Public Hearing today. This is an important inquiry, which has attracted a significant level of quality submissions from a variety of sources and reflects the interest in co-operatives and mutuals at this time. Co-operatives and Mutuals have a long and significant history of contribution to the Australian economy and this inquiry is indeed historic and has the capacity to shape the Australia social economy.

I am the recently elected Chair of The Mercury Centre Co-operative Limited and along with my Board colleague (Garry Cronan – who will speak briefly following my introduction) we seek to answer questions, highlight issues and expand briefly on our Submission 43 received by this committee.

I have a personal history and connection with member based Co-operatives/Mutuals which commenced in 1980 when as the Adelaide Festival Fringe Administrator/Director our first major corporate sponsor was the SA Association of Credit Unions. I remain a proud Credit Union member today. My wife Anne became the manager for the Credit Union Christmas Pageant in 1996 when John Martins/David Jones withdrew from that iconic Adelaide hallmark event. In 2000 I was engaged as the Social Enterprise manager for Uniting Care Wesley Adelaide (formerly Adelaide Central Mission) where I authored a definitive publication “Social Enterprise in Australia”. I further co-authored the publication “Co-operatives in Australia – a Manual” and co-convened the National Co-operatives Conference held in Port Macquarie as the Executive Officer for Regional Development Australia Mid North Coast as a contribution to the 2012 UN International Year for Co-operatives.

The Mercury Centre broadly endorse the thrust of all the submissions to the inquiry and note there are no negative detractors in the submissions. We particularly endorse the Business Council for Co-operatives & Mutuals (BCCM) Submission No3. for its quality and clarity, identifying key issues of the sector.

Mercury Centre Co-operative Ltd is a non-distributive co-operative focused on providing services to the small to medium Co-operatives and related agencies. The Mercury Centre prepared a brief but broad submission referencing many but not all the Term of Reference of the Inquiry Guidelines. The submission provided:

- Section 1: a brief introduction to the role of the Mercury Centre Co-operative Ltd.
- Section 2: Services and modus operandi of the Mercury Centre as the Submitting Organisation
- Section 3: A broad outline of identified issues and options for improvement together with recommendations including :
  - Organisational Structures and
  - Governance and Capacity Building.

**It is Section 3 and the Recommendations that my colleague and I will expand on today.**

This Senate Inquiry's 1st Term of Reference is "the role, importance, and overall performance of Co-operative, mutual and member-owned firms in the Australian economy" - BCCM research indicates that co-operative and mutual businesses make a positive impact to both the society and the economy; contributing 7% (per cent) of GDP.

The Mercury Centre concurs with the BCCM that "it makes sense for governments to encourage their growth". Cooperatives & Mutuals satisfy the dual goal of community engagement and economic participation. Consequently the Mercury Centre has added a further recommendation: That the Federal Government set a target to **Double** the contribution of this community owned and active form of market based social trading to 14% of GDP within a 10 Year timeframe (2015).

The 2<sup>nd</sup> Terms of Reference requested a multi focus including Economic contribution, Barriers to innovation & growth and comparison between mutual ownership and private sale of publicly held assets.

The Co-operative model offers an agility for "ordinary people to become engaged in local innovative community equity projects. A key issue for cooperatives is the principles, values and common bond that must occur between members. 90% of the success of a cooperative is in the organising, not in the registration process. Metaphorically a Propriety Limited can be organised with a couple of people over a few beers any night of the week ... establishing a Co-operative requires time, collaboration, agreement and communication. In other words perhaps a 100 beers, in several pubs over several weeks.

A BCCM summary of the numerous submission indicates that in general, co-operatives and mutuals are resilient and profitable, yet they are experiencing barriers to innovation, growth and free competition. The BCCM summary identifies that the key barriers are in the areas of recognition, education and regulation. The Mercury Centre concurs with this assessment particularly in the context of Government Recognition as discussed briefly above and addressed in our

recommendations. However the Mercury Centre considers that further issues of importance include:

- 1/ Structural efficiency and organisational capacity
- 2/ Measurement & impact
- 3/ Community & Public Asset/Ownership

In the interest of time, I ask to table a further brief Supplementary Submission regarding the above 3 issues. However these are summarized as follows:

- 1/ Structural efficiency and organisational capacity
  - Recognition that Co-operative/Mutual governance models are included within the broad definition of Social Enterprise
  - Recognition that Co-operative models for governance of Social Enterprises may offer greater incentive to sustainable community business trading
  - Identified need for Government assistance for Co-operative Business services
- 2/ Measurement & impact
  - Identified need for research on Social and Economic impact of Co-operatives/Mutuals
- 3/ Community & Public Asset/Ownership
  - Acknowledgement of Co-operatives as a governance model for community participation in Community Investment/Community Shares
  - The Distributing Co-operative model provides a platform for to build Community Investment through “community shares” or non-transferable withdrawable share capital.

## **Mercury Centre Recommendations**

Mercury Centre Co-operative wish to commend the Recommendations provided in Submission 43 - in summary:

### **Organisational Structures & Governance**

- Co-operative National Legislation
  - Implement consistent national (& cross border trading) legislation in all States & Territories.
- Community Shares
  - Effective capacity and non-onerous requirements for Co-operatives to generate capital through community shares offers for the purchase and management of community assets.
- Shelf Co-operatives
  - Simplified procedure, approvals and reporting (specifically for Non Distributive Cooperatives) equivalent to other NFP governance structures. Cooperative are still required to satisfy the principal of shared values and the common bond.

### **Capacity building**

- Co-operative Business Development Panel
  - Establish a panel of experts for effective industry development, accreditation and capacity building.
- Training and Education
  - Establish a Co-operative and Mutual Societies Training Business Development Panel.

*In consideration of this additional witness presentation The Mercury Centre Co-operative Ltd take this opportunity to further recommend:*

- Government and Bureaucratic recognition:
  - The Federal Government commit to a target of doubling the Co-operative/Mutual share of GDP with a 10 Year timeframe (to 2025).
  - The Federal Government commits resources to effectively build the Co-operative/Mutual sector in partnership and co-design to achieve measurable social Co-operative/mutual engagement and outcomes.
  - The Federal Government establish a Unit within the appropriate Ministry to recognise the role of Co-operatives and Mutuals in the Australian Economy and facilitate the development with COAG partners.

To achieve this target the Government is encouraged to undertake a key initiative:

- Recognise the contribution to both society and the economy of Co-operatives/Mutuals and establish a responsibility within Government and Bureaucracy with key targets:
- Effective measurement of Co-operatives and Mutuals contribution to both society and the economy.
- Establishing and resourcing a Co-operative/Mutual Business Panel in co-design with the Sector to advise Government and support Co-operative/Mutual business initiatives including:
  - Training and Education for Industry including Accountants, Lawyers and Management.
  - Start-up and development of new Co-operative/Mutual ventures.
  - Accreditation of Co-operative business services.
  - Active & visible promotion of Co-operative/Mutuals as a governance model for Social & Community Enterprise.
  - Assist and advice Community and Local Government to establish Community Investment & Community Share Projects where community assets and initiatives are retained and/or developed by local communities.

**1/ Structural efficiency and organisational capacity**

Co-operatives and Mutuals have a long and significant history of contribution to the Australian economy. Formed as legal entities to build a collective capacity of the members. Co-operatives and Mutuals were traditionally based on shared values and a common bond with a clear market and trading focus. Clearly the Co-operatives and Mutuals were the forerunner for what is commonly known today as Social Enterprise.

Social Enterprise has become a current fashionable term for values based community activities with a trading operation. The publication Social Enterprise in Australia included Co-operatives/Mutuals in the definition and stated that the “creation of wealth and opportunity for community benefit can only be done through sound commercial practices”. A key issue is that while Social Enterprise performs a valuable role in promoting community engagement, current governance entities are generally confined to the “Not for Profit” or charity governance models, such as Incorporated Associations. Many NFP trading organisations are based on a democratic values but rely on governance models that promote a grant based, charity emphasis which encourages philanthropy but restricts investment.

Several submissions discuss issues related to regulation and the difficulty for general reporting in a community governance volunteer environment. It is the opinion of the Mercury Centre that the Co-operative model offers a more innovative governance approach where the values of the promoters are enshrined, but the organisation is capable of building sustainable market based trading and potentially able to attract investment. Therefore community ventures being directed in government programs to governance models that do not necessarily encourage incentive to act outside the welfare reliant charity models and therefore continuing to lock government into some programs that promote a disincentive to labour market engagement and other welfare reforms.

Business assistance to Co-operatives from Government services (State & Federal) has been limited particularly for the smaller operators and often excluded due to eligibility criteria. Business assistance should be available to all forms of trading operations who employ staff.

**2/ Measurement & impact**

Measurement is a key to the understanding and promotion of Co-operative and Mutuals benefits as a governance model. Measurement models need to identify the “multiplier effect” and an indicator of the effectiveness of the project over time in a local economy and incorporate the social outcomes. The “Total Value Creation” Framework as identified in the EY Publication “Sticky Money” offers an approach to measuring the success of social enterprise development in a local economy and social impacts.

Social measurement systems are further applicable and vary depending on the size and capacity of the organisation. Social Return on Investment (SROI) and Social Accounting and Audit (SAA) are both approaches recognise that the true social, economic and environmental value achieved by organisations. SROI is consultant driven and therefore may be costly while the SAA encourages small and medium organisation to self-evaluate.

Research is costly but an imperative. Resources need to be identified and partnership established between Economic, Accountancy, Law and Social Science faculties along with legitimate research institutes to advance the key agendas of Economic & Social impact.

### 3/ Community & Public Asset/Ownership

The Co-operative governance model is similar to other business organisations, being market focussed and subject to economic challenges. The “Co-operative Difference” however provides a unique distinction for co-operatives via its structure, philosophy and purpose. The democratic structure of one vote per member rather than share held is a key difference. This can provide a confidence that Community Assets funded via a Community Shares offer will be retained in perpetuity rather than traded for an opportunity profit.

The Distributing Co-operative model provides a platform for to build Community Investment through “community shares” or non-transferable withdrawable share capital. In the UK this model has proven highly successful as a form of community engagement and promoting ownership of community assets. A way for communities to invest in enterprises serving a community purpose.

This model may have further application in the Australian context as a tool for financial and community motivation. Community shares and co-operative community benefit legislation in the UK has established a preferred legal form for the business model underpinning community shares and community share initiatives. This required additional investigation.

The Co-operative model offers an agility for “ordinary people to become engaged in local innovative community equity projects - anecdotally the concept of establishing a Pty Ltd can be organised with a couple of people over a few beers any night of the week ... the concept of a establishing a Co-operative requires collaboration, agreement and communication. In other words perhaps a 100 beers, in several pubs over several weeks.

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#### Contacts

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