



**BUSINESS COUNCIL**  
OF CO-OPERATIVES AND MUTUALS



Seizing the co-operative advantage:  
how member-owned enterprises will  
contribute to the future of work

Submission to the Select Committee on the Future of Work and  
Workers - February 2018

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# 1 Introduction

This submission is made by the Business Council of Co-operatives and Mutuals (BCCM) on behalf of Australia's member-owned business sector.<sup>1</sup> We welcome the opportunity to make a submission to this important inquiry, given the significant role of co-operative and mutual enterprises in providing fair, sustainable and dignified work for Australians. **Co-operatives and mutuals will be critical to preserving the livelihoods of workers in industries undergoing significant change, ensuring the benefits of the new digital economy are shared with workers and, sustainably growing and developing the future workforce in sectors such as health and care services.**

This submission makes a number of recommendations aimed at improving the operating environment for CMEs so that they can do more to benefit Australian workers and consumers as technology and the digital economy transforms work in unprecedented ways. **Our submission responds to terms of reference a, b and c (taken together), and in making recommendations and providing case studies, to terms of reference d and e.**

Eight in ten Australians are members of at least one co-operatively owned business. The sector represented by the BCCM is significant to the Australian economy. From Australia's more-than 2000 co-operatives and mutuals the combined turnover of the top 100 was \$30 billion.<sup>2</sup>

Since its formation in 2013, the BCCM has advocated for a broad-based review of the operating environment for co-operatives and mutuals. On 2 March 2015, the Senate referred the role, importance, and overall performance of co-operative, mutual and member-owned firms in the Australian economy for inquiry. The 17 recommendations handed down by the Senate Economics References Committee in March 2016 provided a blueprint to address existing barriers to innovation and growth for the sector. The Hammond Review<sup>3</sup>, reporting in November 2017 and accepted by the Government, endorsed the Inquiry recommendations relating to access to capital for the sector.

Member-owned businesses offer significant benefits for employees, consumers and small businesses across the nation. Increasingly, sole traders and micro enterprises are turning to collaborative strategies to maximise the efficiencies of their office functions to compete with larger entities. Freelance workers are turning to jointly-owned online businesses as a viable alternative to standard internet business platforms to safeguard working conditions. The Harper Competition Review<sup>4</sup> noted how co-operatives can address unequal bargaining power for workers and small businesses, thereby enhancing competition, including in thin markets such as regional Australia. The McClure Review of Australia's welfare system<sup>5</sup> recommended regulatory support for co-operatives and mutuals, noting that this can generate local employment opportunities and thereby reduce welfare dependency.

The BCCM would welcome the opportunity to provide further information and background to the Committee on the matters raised in this submission.

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<sup>1</sup> A list of BCCM members can be found at: <http://bccm.coop/our-members>

<sup>2</sup> Business Council of Co-operatives and Mutuals (2017) National Mutual Economy Report Incorporating the Top 100 page 20

<sup>3</sup> 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.

<sup>4</sup> Professor Ian Harper et al (March 2015) *The Final Report: Competition Policy Review* <https://www.competitionpolicyreview.gov.au/final-report/>

<sup>5</sup> Australian Government (December 2013) *Review of Australia's Welfare System* <https://www.dss.gov.au/review-of-australias-welfare-system>

## 2 Executive Summary

A widely owned economy, where workers are fairly rewarded for their work, where business owners of small and medium enterprises can compete in markets that favour larger entrants, where consumers and the community can benefit equitably from growth and business prosperity and where the benefits of a technologically enabled economy are shared equitably - will achieve a more sustainable, inclusive and prosperous Australia for all.

The BCCM considers this a worthy goal for this Senate Inquiry to pursue as it considers the future of work in Australia.

Co-operative and mutual enterprises (CMEs) are businesses institutionally recognised as integral to the provision of safe, secure, sustainable and equitable work for people, including vulnerable and marginalised communities. In recognition of co-operatives' proven record of creating and sustaining decent employment, the International Labour Organisation adopted ILO Recommendation 193 in 2002 on the "Promotion of Cooperatives" in public policy<sup>6</sup>.

CMEs promote the fullest participation of people in economic and social development. This has brought the solution of co-operative models into the debate about how to ensure that workers are not disadvantaged in the new sharing economy or its workforce equivalent, the "gig economy".

Technology is changing the way we live and work. This challenge is huge – akin to coping with the large-scale shift from an agricultural work economy to manufacturing that occurred in the early 20<sup>th</sup> Century.<sup>7</sup>

The policy and ethical challenge is how to harness the economic, social and environmental benefits of technological innovations for the betterment of all. Identifying the changes that need to be made in the community and to the Australian economy to facilitate this, is the challenge of this Inquiry.

Based on evidence in Australia and internationally, the Business Council of Co-operatives and Mutuals (BCCM) considers that implementing policies to purposefully grow the Co-operative and Mutual Enterprise (CME) sector in Australia is an important strategy to help ensure the impacts of technology and other changes, work in the interests of all Australians. When people have ownership in an enterprise and derive value from being members, those enterprises are more productive, create better jobs, with higher staff engagement and their staff are more motivated to serve customers with quality service. Member-owned enterprises are also more resilient in economic downturns<sup>8</sup> and compared to other organisation forms, they distribute the benefits of wealth creation more equitably amongst their stakeholders.

Building a stronger CME sector in Australia will add diversity in Australia's economy. This will facilitate greater consumer choice, particularly in the context of increased demand for services. This is especially so in sectors like health and human services where the relationship between a consumer and the service provider is a key driver of success. Hundreds of thousands of new jobs need to be created in these services sectors to support an ageing population and the

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<sup>6</sup> Recommendation concerning Promotion of Cooperatives, Adoption: Geneva, 90th ILC session (20 Jun 2002): [http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_ILO\\_CODE:R193](http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R193)

<sup>7</sup> Pablo Illanes et al (January 2018) *Retraining and re-skilling workers in the age of automation* McKinsey and Company

<sup>8</sup> ILO, Social and Solidarity Economy and the Future of Work (July 2017), 19. [http://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_ent/---coop/documents/publication/wcms\\_573160.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---coop/documents/publication/wcms_573160.pdf)

## National Disability Insurance Scheme (NDIS).

Compelling evidence that CMEs deliver higher satisfaction for service users and lower employee turnover has led to the announcement of Australia's first employee-led mutual to deliver services under the NDIS. Supported by both South Australian and Federal Governments<sup>9</sup>, the \$47 million staff mutual will secure at least 50 allied health jobs in SA and continuity of care for children living with disability.

Co-operatives and mutuals are globally recognised for creating, sustaining and equitably distributing real wealth, understood as access to quality goods and services and dignified work. They are estimated to provide at least 250 million jobs worldwide.

There are at least 2,135 active CMEs in Australia providing direct employment for 146,000 Australians. This belies the flow-on effect each CME has in terms of job creation and sustainable work.

Producer co-operatives (co-operatives that undertake purchasing, processing, marketing or provide other services for members who are small businesses such as farmers, independent retailers or freelancers) support more than 174,000 Australian businesses including more than 13,000 primary production businesses. For example, Capricorn Society supports 18,000 independent Australian automotive repairers. By sharing back office functions and bulk purchasing, independent mechanics can remain competitive in markets that favour larger chains. Reducing the costs of overheads and inputs allows owners to grow their business and workforce.

CMEs have this effect because of their ownership structure, which distinguishes them from both investor-owned firms and not-for-profits. CMEs are locally-owned and embedded in communities so they are more focused on retaining local employment and reinvesting wealth locally. HunterNet sustains more than 200 local manufacturing firms and provides direct employment for thousands of skilled workers in the Hunter and Central Coast of NSW. The timely formation of HunterNet preserved manufacturing jobs in the region in the major economic upheaval caused by the departure of BHP Newcastle in the 1990s. Today, the Hunter is an internationally recognised advanced manufacturing hub.

## About CMEs

CMEs are examples of *hybrid organisations*.<sup>10</sup> This means they have more than one purpose. Hybrid organisations derive a majority of their income from trade (>50%), but with two or three explicitly stated objectives such as producing a surplus, social and/or environmental impact. Unlike other organisational forms, CMEs are designed around the International Co-operative Principles<sup>11</sup> which focus the purpose and intent of the business on delivering benefit to members rather than profit to shareholders.

There are different forms of member-owned organisations. These include worker co-operatives or employee-owned businesses, user (or customer) owned CMEs, and enterprise or producer co-operatives, as well as multi-stakeholder options that represent wider community interests. Where the members are the employees, such as a worker co-operative, the enterprise exists to

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<sup>10</sup> Julian Le Grand (2017) *The Hybrid Economy*. Keynote address to the National Conference of the Governance Institute of Australia. Melbourne. Julian chaired the UK Mutuals Task Force, is an internationally respected economist, having held the Richard Titmuss Chair of Social Policy

<sup>11</sup> [International Co-operative Alliance](#)

provide sustainable, meaningful and productive work. Mondragon in the Basque region of Spain is the world's largest employee owned business comprising a conglomerate of 260 manufacturing firms co-owned by 85,000 employees. During the Global Financial Crisis, Mondragon's unemployment rate was half the national average owing to the focus of the business on sustainable employment<sup>12</sup>.

Albeit on a much smaller scale, Nundah Co-operative in Queensland provides sustainable employment for people with intellectual disability. The twenty worker-owners have been in permanent employment in the real economy for more than a decade, enjoying the benefits of secure work such as long service leave, secure housing and the ability to save for retirement. This model contrasts with the disability job services they experienced that were not employee-owned.

Compared to other countries such as the UK, the proportion of employee-owned enterprises in Australia is very low. Where governments overseas have fostered the right economic and regulatory environment to support the growth of employee-owned enterprises, the evidence shows that productivity has increased.<sup>13 14</sup> This is particularly in higher rates of employee and consumer engagement, lower rates of absenteeism, and resilience during economic downturns.

The CME business model is different to that of model of investor-owned firms. CMEs are Member-owned and exist to achieve a wider purpose for their members than financial return. This feature of member ownership also distinguishes CMEs from traditional not-for-profit organisations and charities where the achievement of a mission can take precedence over commercial discipline and good governance. This can stifle innovation, such as workplace reform, required to adapt to new consumer-directed funding arrangement such as the NDIS.

### Trends affecting work

In this submission, we identify some themes commonly identified as the megatrends affecting the future of work in Australia.<sup>15</sup> CSIRO projects the most likely future is one where people are connected through mobile devices supporting more peer to peer activity and the growth of a new sharing economy. Employment boundaries will become more porous, increasing the scope for entrepreneurial activity and self-employment to grow new markets in Australia and overseas. Automation of many routine jobs will require new and more complex jobs for which people will need appropriate and relevant education and training.

When workers have a stake in the ownership of an enterprise it is possible to create better jobs whilst also improving the quality of services. We observe that the advancements of the "gig" or sharing economy, are often achieved at the expense of lowly paid contractors and this can result in a gradual erosion of workers' rights, sometimes referred to as Uberization. The emergence of a "contingent workforce" in the gig economy is disrupting traditional employment patterns<sup>16</sup> and if this continues, it is likely the benefits of technological advancements will not be shared equitably. Intergenerational repercussions include potential reduction in the retirement savings pool as more and more people are confined to insecure

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<sup>12</sup> <http://theconversation.com/the-mondragon-model-how-a-basque-cooperative-defied-spains-economic-crisis-10193>

<sup>13</sup> [Mutuals Task Force Our Mutual Friends and The Next Steps London: Cabinet Office](#)

<sup>14</sup> [The Next Steps Report](#)

<sup>15</sup> CSIRO (2016) *Tomorrow's Digitally Enabled Workforce: Megatrends and scenarios for jobs and employment in Australia over the coming twenty years*

<sup>16</sup> James Norman (November 13, 2016) *What Kind of Workers is the share economy creating?* in [Sydney Morning Herald](#)

labour markets.

A counter trend is the formation of co-operatively owned digital platforms where contract workers come together to develop and own the technology platform that connects them to a market or shared service.<sup>17</sup> Examples are Stocksy, a disruptor to stock image sites like iStock, owned by the photographers, and Loconomics, a platform like TaskRabbit, owned by the people who do the work, the ‘taskers’. Platform co-operatives are forming in markets where the existing workforce is displaced by a colonising technology (e.g. London taxi drivers forming a co-operative to compete with Uber, using similar technology) and where income from work is low or business subsistence is marginal such as home care and domestic work. In Australia, Redgum Cleaning Co-operative was recently formed by contract cleaners using a similar model to US platform co-op, Up & Go. Up & Go is a site that schedules on-demand cleaning services on behalf of several small businesses that are owned by women. Workers earn \$4–5 (USD) more per hour than other cleaning industry workers and retain 95 percent of the income they generate through the platform. The workers can build equity as owners, in addition to earning a fair wage.

CMEs are well placed to deal with externalities (or spillover effects) that lead to market distortions that can result in disadvantage for small firms and other less commercially powerful participants. They also form a foundation for entrepreneurship and innovation. This can offer new ways to deliver goods and services to communities that might not otherwise get them via conventional firms or government channels (Novkovic, 2008)<sup>18</sup>.

### **Characteristics of CMEs that benefit workers and the economy**

Amongst many purposes, CMEs provide services to small businesses, fulfil a social mission, share profits and enable entrepreneurs to become business owners. They can expand in open markets. Interflora, Carpet One, Ocean Spray, KPMG, Arup and Best Western Hotels are all examples of CMEs with global scale. However, ownership is devolved to the local level. The focus on members means that they do not typically close up or relocate during a financial downturn nor do they move production overseas to maintain or increase shareholder value.

Local accountability means surplus stays in the local economy, rather than leaking out to benefit the interests of private ownership.

Research by Ernst & Young in 2014<sup>19</sup> showed that for every \$1 spent in a co-operative enterprise, 76% of value was added to the community. This report “found co-operatives create substantial additional value for the local economy and local businesses as a result of using business revenue to source produce from local suppliers, employing local people and providing rebates to members. The constant recycling of this money within the community by members, employees and suppliers helps to create a resilient and thriving local economy.

CMEs are a stable business model. Research shows co-operatives fail less than other businesses because the rewards and the risks of starting a business are shared with others<sup>20</sup>. For this reason, they are excellent structures for self-employed professionals to support freelance work.

Coopaname is a French co-operative that directly employs members, which mitigates the typical risks of their self-employment, like sick leave and superannuation. Coopaname sits

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<sup>17</sup> <http://www.shareable.net/blog/new-report-platform-cooperativism-as-an-alternative-to-the-for-profit-sharing-economy?utm>

<sup>18</sup> Dr. Sonja Novkovic (2008) The Committee on Co-operative Research (CCR) <https://www.ccr.ca.coop>

<sup>19</sup> EY (2014) Sticky Money: Recognising the total value created by Australian Co-operatives and Mutuals

<sup>20</sup> <http://www.co-oplaw.org/special-topics/worker-cooperatives-performance-and-success-factors/>

within a business and employment co-operatives program supported by the European Social Fund and regional authorities, to incubate self-employment. There are now 72 of these co-operatives across France, employing more than 5,000 entrepreneurs (Conarty et al., 2016).

A similar business and enterprise mutual, SMart, is providing support to 60,000 members across ten offices in Belgium, and has expanded to several other European countries.

Co-operatives are a resilient succession strategy for SMEs. Research in many regions also shows a high survival rate of conversions of conventional companies into employee-owned businesses. In France, there was a three-year survival rate of 80-90% for these co-operatives, converted from “in crisis” or “sound” enterprises, respectively. This compared to a 66% three-year survival rate for all French enterprises.<sup>21</sup>

In Australia, there is an urgent need to provide organisations and business owners with a range of succession options inclusive of transition to employee owners. This is important to meet the projected small business closure rates due to exiting baby-boomers and (especially in human services) to stimulate innovation in new consumer directed markets such as aged care and the NDIS.

There is overwhelming evidence about the economic and social impacts of an ageing population<sup>222324</sup>. This is driving much of the growth in service industries especially in health and other areas of human services such as education, affordable housing, disability and aged care. In these sectors, Australia faces a massive productivity challenge which has been recently reported by the Productivity Commission.<sup>25</sup>

Related to this, is the imperative to find sustainable ways to extend the working lives of older Australians and other under-employed groups such as people with a disability and younger people, who require appropriate vocational training and education to be competitive in the labour market.<sup>26</sup>

A strategic response to these trends will be to consider how to facilitate the emergence of different organisational forms to add choice and diversity in the market. The current binary way of thinking about organisations in the non-Government sector as being either for profit or not for profit, is no longer fit for purpose.

### **The case for reform**

Australia needs to set the policy and regulatory foundations in place to facilitate the growth of more *hybrid organisations* of which CMEs are an example. With their determination to create a better society, the millennial workforce will demand nothing less. Australia’s future depends on these younger people because they are at the core of creativity, the force behind breakthrough innovations, advocates for a fairer society and drivers of economic growth and societal improvement.<sup>27</sup>

Significant barriers still limit the ability of CMEs to innovate, compete and grow in Australia.

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<sup>21</sup> See <http://www.co-oplaw.org/special-topics/worker-cooperatives-performance-and-success-factors/>

<sup>22</sup> Australian Government (2015) Intergenerational Report: Australia in 2055

<sup>23</sup> CSIRO (2015) *Global Megatrends: Seven patterns of change shaping our future* by Stefan Hajkowitz.

<sup>24</sup> CSIRO (2016) *Tomorrow’s Digitally Enabled Workforce: Megatrends and Scenarios for jobs and employment in Australia over the coming twenty years* by Stefan Hajkowitz et al.

<sup>25</sup> Productivity Commission (August 2017) *Shifting the Dial – 5 Year Productivity Review. Inquiry report No. 84.*

<sup>26</sup> [Human Rights Commission \(2016\) Willing to Work: National Inquiry into Employment Discrimination Against older Australians and Australians with Disability.](#)

<sup>27</sup> International Monetary Fund (June 2017) *Millennials and the Future of Work* in Finance and Development

Following the 2016 Senate Inquiry into Co-operative, Mutual and Member-Owned Firms, there has been some progress.<sup>28</sup> The Government's support of all recommendations in the recent Hammond Review on removing barriers to capital raising in CMEs is a significant step<sup>29</sup>.

This Senate Inquiry on the Future of Work presents an opportunity to further inform the policy settings needed to foster the growth of CMEs especially in areas most likely to be impacted by technology.

With planning and foresight, technological change has the potential to increase Australia's productivity and support the growth of new and better jobs. The Productivity Commission's five-year Productivity Review highlights the imperative to lift productivity. It contains recommendations for doing this that focus largely on health and education.<sup>30</sup> These are sectors that align well to member ownership and where CMEs can contribute more.

Australia's economic, social and environmental wellbeing depends on future workforce being digitally enabled. The upside of automation and technological change is increased long-term productivity. However, doing this sustainably is the harder part. Innovative policy responses are needed so that the jobs of the future are better, created in sectors where they are needed and in such a way that the benefits of increased productivity can be distributed equitably.

CMEs help ensure that the benefits of technological and other trends discussed in this submission are equitably distributed and align with quality livelihoods for all Australians. In particular, co-operative ownership should play a role in:

1. Ensuring the growing workforce in the health and care services sector has a stake in quality jobs and quality care;
2. Ensuring the benefits of a technologically enabled economy are shared equitably with workers;
3. Helping people and businesses transition in response to technological and other change, including in manufacturing industries and for small business succession; and
4. Strengthening small businesses to make sure SMEs continue to be a pillar of job creation and local access to goods and services around Australia.

### 3 Summary of Recommendations

The BCCM considers the following recommendations will strengthen and add diversity to the Australian economy in order to positively respond to technological changes.

#### General recommendations – CME Charter

Based on ILO Recommendation 193 on the Promotion of Co-operatives (2002)<sup>31</sup>, this Charter sets out principles for how government should work with the CME sector:

- Co-operatives, mutuals and member-owned businesses should be able to compete freely

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<sup>28</sup> Commonwealth of Australia (2016) *Report of the Senate Economics Reference Committee Inquiry into Cooperative, Mutual and Member-Owned Firms*. Op Cit

<sup>29</sup> 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. Op cit.

<sup>30</sup> Productivity Commission (August 2017) *Shifting the Dial – 5 Year Productivity Review*. Inquiry report No. 84.

<sup>31</sup> Recommendation concerning Promotion of Cooperatives, Adoption: Geneva, 90th ILC session (20 Jun 2002): [http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_ILO\\_CODE:R193](http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R193)

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 policy 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 standards for any business.
- It should be as cost effective and straight forward to set up and run a co-operative, mutual or member-based businesses as any other type of business.

### 3.1 Promoting and raising awareness of member-owned enterprises

The Australian Government's response to the 2016 Senate Economics References Committee report into cooperative, mutual and member-owned firms<sup>32</sup>, noted and supported all 17 Recommendations with the exception of recommendation 3. This recommendation supported the establishment of a program of supports to encourage the establishment of new co-operatives and mutuals.

In its advocacy, the BCCM has consistently said, that a lack of supports for CMEs on an equal basis alongside other business structures, places them at a disadvantage. This is particularly so when it comes to choosing the appropriate structure for an enterprise.

The Federally funded Farm Co-operatives and Collaboration Pilot Program<sup>33</sup> (known as *Farming Together*) is a Government program designed to address the gap in the provision of information and resources on co-operative business structures. The two-year \$14 million program has facilitated more than 60 producer groups co-operating for increased returns and marketplace strength.

To promote and raise awareness of CMEs in other sectors, the BCCM recommends that the Commonwealth Government in association with State/Territory Governments:

- 3.1.1 Conduct an audit of their business support services and websites to make sure co-operatives and mutuals are appropriately included wherever information about business legal models and business formation is provided.
- 3.1.2 Conduct an audit of all government-funded business centres to ascertain the level of expertise of advisory services in relation to CMEs and where there is a lack of qualified expertise, those agencies should engage the BCCM to arrange training and the development of appropriate information and resources.
- 3.1.3 Amend the eligibility criteria of the following business support policies so that co-operatives are not excluded on the basis of legal structure alone:

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<sup>32</sup> See [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Economics/Cooperatives/~/\\_media/Committees/economics\\_ctte/Cooperatives/report.pdf](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Cooperatives/~/_media/Committees/economics_ctte/Cooperatives/report.pdf)

<sup>33</sup> See <https://agworks.com.au/>

- New Enterprise Incentive Scheme<sup>34</sup> (be open to participants using the co-operative legal model and business educators trained in the co-operative option)
  - Indigenous Advancement Strategy grants,<sup>35</sup> and
  - Tourism Partnership grants.<sup>36</sup>
- 3.1.4 As part of Government's commitment to innovation and small business and family enterprises, ensure advisory bodies such as the Australian Small Business and Family Enterprise Ombudsman are funded to provide the same information and advisory services on co-operatives and mutuals as other business legal models for entrepreneurs and start-ups.

## 3.2 Simplifying the legal and policy settings for member-owned enterprises

The BCCM recommends that the Commonwealth Government, in association with State/Territory Governments implement contemporary, fit for purpose legislation for co-operative enterprises in Australia, in particular:

- 3.2.1 Undertake a regular review, including as this relates to the supervision by the COAG forum on Consumer Affairs, of the Co-operatives National Law to determine if it is fit for purpose in providing an efficient regime to support the growth of co-operatives in Australia.

## 3.3 Increasing the resources available to support the development of member-owned enterprises

The BCCM recommends that the Commonwealth Government:

- 3.3.1 Sets up an Ownership Commission<sup>37</sup>, to examine the plurality of business ownership in the Australian economy and examine 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 as a result of digital disruption and new technology.
- 3.3.2 Such a Commission could be conducted along the lines of the 2012 UK report, "Sharing Success: the Nuttall Review of Employee Ownership"<sup>38</sup>, with a broader brief to consider all forms of member ownership including employee mutuals, as has occurred as a result of the UK Mutuals Task Force.

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<sup>34</sup> 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.

<sup>35</sup> Co-operatives must, on the basis of their legal form, seek an exemption to attain funding of over \$500,000 under the IAS

<sup>36</sup> Despite this being a grant to encourage collaboration among businesses, co-operatives are not eligible. This is currently true of other AusIndustry grants.

<sup>37</sup> 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>

<sup>38</sup> See <https://www.gov.uk/government/publications/nuttall-review-of-employee-ownership>

3.3.3 Partners with the BCCM and State/Territory Governments to develop regulatory online tools and resources, like the Co-op Builder developed for Farming Together.<sup>39</sup> This is a form of “*reg-tech*” and it reduces the time and cost of co-operative business formation and capital raisings. These resources should apply beyond the farming sector. Noting the Productivity Commission’s 5-year Productivity Review on health and education, the BCCM considers a specific focus on developing “*reg-tech*” tools is also needed in these sectors of the economy.

### 3.4 Overcoming the barriers faced by member-owned enterprises in accessing capital

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

The BCCM recommends that the Federal Government:

- 3.4.1 Fully implement the recommendations of the Hammond Review within 12 months of the recommendations being supported by Government (November 2017).
- 3.4.2 Develops a one-off package of supports and information to establish and grow the CME investment market. This could be like the package to support the development of the Social Impact Investing market.<sup>40</sup> Such a package could support investment in CMEs from members, intra-sector investors and institutional investors and include information on using Co-operative Capital Units (CCUs).

### 3.5 Implementation issues

To co-ordinate this package of recommendations, the BCCM recommends that the Commonwealth Government, through the Minister for Jobs and Innovation:

- 3.5.1 Establishes an expert advisory panel to work with the BCCM and the sector having oversight of these recommendations and to report to the Parliament.
- 3.5.2 Draws on the experience and lessons learned from overseas countries that have reached a higher level of maturity around the sustainable development and growth of member-owned enterprises.

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<sup>39</sup> See <http://co-opbuilder.agworks.com.au/>

<sup>40</sup> See <http://sim.ministers.treasury.gov.au/media-release/068-2017/>

## 3.6 Actions for industry

- 3.6.1 Positively influence governance, professional and advisory bodies such as the Australian Institute of Company Directors to enhance understanding and competency in relation to the CME sector.
- 3.6.2 Positively influence education and training providers in the secondary and tertiary sectors to make sure member-owned business structures are included in the curriculum, particularly in tertiary legal, accounting and commerce courses.

## 4 Structure of this submission

The BCCM welcomes an opportunity to engage further with the Inquiry about the impact of technological and other change on the future of work and workers in Australia.

Our submission that follows includes supporting information that has been structured to cover the following areas:

- Section 5: About Co-operative and Mutual Enterprises and the BCCM
- Section 6: Evidence, megatrends and possible scenarios shaping the future of work and workers
- Section 7: The benefits of mutual ownership and why this matters for workers and the economy
- Section 8: Seizing the Co-operative Advantage: what role can co-operative and mutual enterprise play in a fair future of work?
- Section 9: Case studies
- Section 10: Background to the BCCM's recommendations - what needs to be done to overcome the barriers to achieving sustainable growth of co-operatives and mutuals in Australia
- Section 11: Key References

## 5 About Co-operative and Mutual Enterprises and the BCCM

### 5.1 The BCCM and its role

The BCCM is the peak body for Australian co-operatives, mutuals and member-owned businesses. The BCCM represents a diverse range of businesses 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 formed in 2013 as a legacy of the United Nations International Year of Co-operatives to promote the role of co-operatives and mutuals in the economy.

- The BCCM exists to promote awareness of co-operative and mutual business models and to foster business diversity
- The members of BCCM believe that an economy with a higher incidence of co-operative and mutual businesses will help build a more inclusive, prosperous and sustainable Australia
- Members of BCCM also recognise the role of business in showing leadership and promoting informed national discussion on important issues.

## 5.2 About Co-operative and Mutual Enterprises

Co-operative and mutual enterprises (CMEs) are a significant contributor to the Australian economy. More than 8 in 10 Australians are members of at least one CME. The combined membership of all Australian CMEs is estimated at more than 29 million. Total value added by the CME sector is \$140 billion or 8.3% of GDP. Excluding mutual superfunds, the total revenue of the top 100 CMEs in Australia is \$30 billion.<sup>41</sup>

There are at least 2,135 active CMEs in Australia. They operate in all parts of the Australian economy, including agriculture, banking, finance, insurance, retail, manufacturing, education, housing, education, motoring, health and human services.

Regardless of what legal form they use, the distinguishing feature of all CMEs, is that they are owned by their members and operate to create value for their members. Member benefit can mean a wider range of social or non-financial benefits as distinct from the financial returns enjoyed by an investor. Membership is tied to being an active member, usually in the form of contributing to or making use of the CME. This ensures the CME is made up of people who share its common purpose.

The vast majority of CMEs are incorporated and regulated under one of two legislative regimes: the State/Territory-based Co-operatives National Law (the CNL)<sup>42</sup> or the *Corporations Act 2001* (Cth). Whether a company under the *Corporations Act* is a co-operative or mutual will depend on its constitution.

### Key features of a co-operative registered under the Co-operatives National Law:

- A form of corporation
- Limited liability for members
- Directors duties are based on those in the Commonwealth *Corporations Act*
- Financial reporting requirements like those in the Commonwealth *Corporations Act*
- Able to use the word 'co-operative' in its name
- Must adhere to the seven co-operative principles

CMEs make an important contribution to creating and sustaining dignified livelihoods in Australia and around the world.

In Australia, CMEs employ an estimated 146,000 people. This is nearly 1.5% of Australia's private sector employment. While the number of CMEs in Australia is much less than the

<sup>41</sup> Business Council of Co-operatives and Mutuals, *National Mutual Economy Report 2017*, <http://bccm.coop/wp/wp-content/uploads/2017/11/BCCM-2017-NME-Report.pdf>, 20.

<sup>42</sup> Co-operatives National Law, adopted in all States and Territories except Queensland. Western Australia has adopted consistent legislation.

number of investor-owned firms, this belies the important flow-on effect each co-operative has in terms of job creation and core support for small businesses. For example, enterprise co-operatives (co-operatives that undertake purchasing, processing, marketing or provide other services for members who are small businesses such as farmers, independent retailers or freelancers) support more than 174,000 Australian businesses including more than 13,000 primary production businesses.

### 5.3 International perspectives on the contribution of co-operatives and mutuals

CICOPA, the global peak body for industrial and service co-operatives, has published research demonstrating that more than 250 million self-employed producers rely on co-operatives worldwide.<sup>43</sup> Co-operatives also directly employ more than 27 million people. The global impact of co-operatives in securing livelihoods for employees and self-employed far outstrips that of multi-national corporations.

The unique potential of co-operatives to contribute to fair work and sustainable economic development is also understood by the United Nations.<sup>44</sup> In 2016, the International Co-operative Alliance agreed to support the implementation of the United Nations Sustainable Development Goals (SDGs). Co-operatives around the world, including Australia's CBH Group and National Health Co-operative, have made pledges on how they will contribute to the SDGs.<sup>45</sup> The SDGs include goals that are of relevance to this inquiry, for example: Goal 8, Decent work and economic growth and Goal 10, reduced inequalities.

### 5.4 Types of employee ownership

The BCCM considers that fostering the growth of more employee-owned *hybrid organisations* such as worker co-operatives would create better jobs and is more likely to distribute the benefits of the "gig" economy equally. In the UK, specific policy initiatives have fostered the growth of employee ownership including employee mutuals.<sup>46 47</sup> Worker and employee co-operatives are a form of producer co-operative where the members of the co-operative contribute their labour. In a co-operative, the employee-members own the organisation and have control of the organisation on a one-member, one-vote basis.

There are other models of employee ownership alongside worker co-operatives. This includes various types of employee share ownership plans (ESOP). Some ESOPs give part-ownership to employees, others give full ownership, some will be arranged through a trust, giving employees beneficial rights but no legal ownership rights in the business. The peak body for employee ownership is Employee Ownership Australia, who advocate for an enabling environment for all forms of employee ownership.

CME members can also be consumers (service users) or enterprises (other organisations and

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<sup>43</sup> [http://www.cicopa.coop/IMG/pdf/report\\_v07\\_2p\\_preview\\_2.pdf](http://www.cicopa.coop/IMG/pdf/report_v07_2p_preview_2.pdf)

<sup>44</sup> Further to this point, co-operatives are the only form of enterprise to have been given a celebratory year by the UN (in 2012).

<sup>45</sup> <http://www.coopsfor2030.coop/en/the-pledges>

<sup>46</sup> UK Government (July 2012) Sharing Success: The Nuttall Review of Employee ownership

<sup>47</sup> Op cit [Mutuals Task Force Our Mutual Friends and The Next Steps London: Cabinet Office](#)

small business) and in some cases, depending on the purpose for forming the CME, multi-stakeholder membership models can also apply.

## 6 Evidence, megatrends and possible scenarios shaping the future of work and workers

### 6.1 Understanding the trends shaping the future of work is important in predicting the impact of technological and other changes.

The analysis of the megatrends outlined in the CSIRO report, *'Tomorrow's Digitally Enabled Workforce'* is a solid base for the development of future focused strategies to enable people and organisations to take advantage of emerging opportunities – including promoting entrepreneurship, facilitating participation in the online community, and encouraging the development of new business models.<sup>48</sup> The CSIRO uses strategic foresight methodology, including data trends, concepts of megatrends and scenarios to describe plausible futures. This provides an important foundation on which to try to predict and understand the impact of technological and other change on the future of work and workers in Australia.

While Australia's workforce is continually changing, the current period in history is characterised by a combination of forces likely to be associated with greater, faster and different transitions than previously experienced. The CSIRO suggests there are several factors creating unique conditions – *'a perfect storm'* – at this point in our history:

- The full impact of exponential and/or steep growth in computing power, device connectivity, data volumes and artificial intelligence is yet to be felt within Australia's labour market. The CSIRO expects Australia reach the steeper sections of this exponential growth curve some time beyond 2020. This will be a time when many existing jobs are likely to be automated and many new jobs created.
- The recent ascendancy of the peer-to-peer (P2P) marketplace (e.g. Upwork, Freelancer, Kaggle, TaskRabbit etc.) and the rise of platform economics in a more globalised labour market characterised by entrepreneurial activity, is likely to change traditional employment models. Many P2P models and employment platforms are in the early phases of development and showing signs of rapid growth. Most of the sharing platforms are tightly controlled and profit driven, and often externalise the costs and risks to users e.g. Uber drivers and Airbnb hosts. New business models are in their infancy that place ownership of distributed services into the hands of its users, who are its members. This is called a *Platform Co-operative*<sup>49</sup>.
- The ageing population, cultural diversification, retirement pressures and health and wellbeing drivers are set to change the demographic of Australia's workforce. In the next decade, Australia's workforce will be older and more culturally diversified.<sup>50</sup>

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<sup>48</sup> CSIRO (January 2016) *Tomorrow's Digitally Enabled Workforce: Megatrends and scenarios for jobs and employment in Australia over the coming twenty years* written by Stefan Hajkowicz et al quoting Ms Renee Leon PSM, Secretary, Department of Employment.

<sup>49</sup> Maira Sutton, Cat Johnson and Neal Gorenflo (16 August, 2016) *A Shareable Explainer: What is Platform Co-operativism?* in [Shareable Newsletter](#)

<sup>50</sup> CSIRO (January 2016) *Tomorrow's Digitally Enabled Workforce: Megatrends and scenarios for jobs and employment in Australia over the coming twenty years* written by Stefan Hajkowicz et al quoting Ms Renee Leon PSM, Secretary, Department of Employment. Page 7

**The Future of Work and Workers**

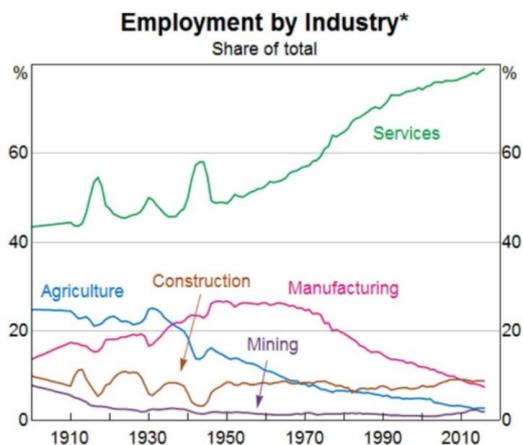
Submission from the Business Council of Co-operatives and Mutuals

- Australia is entering the post-mining boom era of its economic development and is positioned for diversification into services, knowledge and innovation exports. This is being fueled by a changing world economy, as Australia's trading partners in Asia transition from the industrialization phase of development into advanced sector economies.

The picture on the future of work is far from clear. There are many possibilities about the changes which could transpire and the policy levers and actions to achieve improved outcomes. The BCCM considers that part of the solution is to foster the growth of new business models that provide diversity in the market. Member-owned enterprises like co-operatives and mutuals are one of these alternatives that will help balance the negative impacts of technology and other change by creating better jobs and distributing the wealth of the sharing economy to benefit the community. These new business models also need to support the emergence of Platform Co-operatives.

## 6.2 The rise of services

The most significant long-term trend in the structure of the Australian economy is the actual and projected growth of the services sector. The CSIRO predicts that employment in the health care and social assistance sector will grow at 19% over the next five years, followed by education and training at 16%.



SOURCE: ABS; RBA; Withers, Endres and Perry (1985)

The Federal Government's 2013 National Workforce Development Strategy, *'Future Focus'*, predicted that the largest growth sectors to 2025 will be health care and social assistance, professional, scientific and technical services and education and training.<sup>51</sup> The Australian Jobs 2016 report also predicted that 'the industries projected to grow most strongly (in percentage terms) are Health Care and Social Assistance (up by 16.4%), Professional, Scientific and Technical Services (14.8%) and Education and Training (13.0%).'<sup>52</sup>

<sup>51</sup> <https://docs.education.gov.au/system/files/doc/other/futurefocus2013nwds-2013.pdf> , 39.

<sup>52</sup> <https://cica.org.au/wp-content/uploads/Australian-Jobs-2016.pdf> , 34. See also <https://docs.jobs.gov.au/system/files/doc/other/australianjobs2017.pdf>

Recent reports of growth in full-time employment are also likely caused by increases in health and care employment in the NDIS.<sup>53</sup>

It will be important that the development of new business models are supported in these service industries, which the BCCM considers are well-suited to member-ownership.

### 6.3 Millennials and the future of work

Millennials – also known as Generation Y - were born between the early 1980s to early 2000. Millennials are often the children of baby boomers and for the first time in history, their wealth accumulation trajectory is well below that of other generations at comparable ages. Millennials are reaching adulthood in an era of lower growth than that of previous generations and this may explain differences in their financial habits and how they think about work.<sup>54</sup>

The digital economy will sharply erode the traditional-employer-employee relationship. This means for today's millennials, the future of work may be more uncertain than ever.

A confluence of two digital forces will dramatically change the workplaces of the future. New platforms allow economic activity to be organised in ways that shift what was traditionally done by full-time workers within an organisation to a crowd of individual entrepreneurs and on-demand workers. The result is an economy that increasingly relies on short-term freelance relationships rather than on full time employment. At the same time, artificial intelligence and robotics-enabled technologies are getting increasingly better at the cognitive and physical tasks that comprise much of today's work.

The confluence of these two factors leads to a labour market in which full-time jobs are broken up into tasks and projects leading to what has been called *crowd-based capitalism*<sup>55</sup> where most of the workforce shifts from a full-time job as a talent or labour provider to running a business of one or a few. This may result in a shift from large organisations that own capital associated with economic activity toward a system of tiny businesses that mix labour, talent and capital inputs where some of these inputs come from the individuals themselves as well as on-demand digital platforms.<sup>56</sup>

These trends are causing job dislocation everywhere in the world, especially baby boomers with lower-medium skill levels. However, these are trends that affect all working-age groups including millennials. A worrying world-wide trend is that between 1991 and 2014, the share of income going to labour – as opposed to the owners of capital – declined in 29 of the largest 50 economies.<sup>57</sup>

Millennials have a fierce determination to achieve a better and fairer society. They care about the quality of the work they do and value being able to contribute to making the world a more equal and fairer place.

The most typical organisation forms where capital is owned by a few and the benefits of

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<sup>53</sup> See <http://www.theaustralian.com.au/national-affairs/ndis-hiring-generates-job-growth/news-story/42bde07af6ebdc5eda50840f0c9ee05d>

<sup>54</sup> Lisa Dettling and Joanne W. Hsu (June 2017) *Playing Catch-up: Youth Today are not building wealth the way their parents did* in Millennials and the Future of Work in *Journal of Finance and Development*. International Monetary Fund.

<sup>55</sup> Arun Sundararajan (June 2017) *The Future of Work: The digital economy will sharply erode the traditional employer-employee relationship*. In Millennials and the Future of Work *Journal of Finance and Development*. International Monetary Fund.

<sup>56</sup> *Ibid* page 10

<sup>57</sup> International Monetary Fund (April 2017) *World Economic Outlook*

technology and automation are shared only by a few may become *unfit for public purpose*.<sup>58</sup> “Fit for purpose organisational structures are more likely to be smaller, homogenous and as a consequence, the social safety net is stronger and the mesh a lot finer so that fewer people fall through it”.<sup>59</sup>

The BCCM considers that with traditional work facing such an uncertain future, one way forward is to fill the missing piece in Australia’s economy by developing and growing a larger co-operative and mutual sector. Co-operatives and mutuals have fit for purpose organisational structures designed around the international co-operative principles that facilitate decent work, enhancing social protection and prompting social dialogue on work related issues.<sup>60</sup>

## 6.4 Casualisation and the ‘gig economy’

Unlike growth projections in the service sector, the most recent statistics on total employment, the split between full-time, part-time and other employment and wage growth, do not provide as clear a trend. Importantly, the exact nature of the casual and contract workforce is hard to determine from official statistics and this makes discussion of the impact of the ‘gig economy’ difficult. The statistics suggest a slow rise in casual work but not one that could be called dramatic.<sup>61</sup>

Casualisation of the workforce intersects with new technology in digital platform and peer-to-peer business models such as Uber and Airtasker. The problems of “*platform capitalism*” are well-publicised, however less so on the actual and likely extent of this occurring in the gig economy.<sup>62</sup> Similarly, the relationship between the emergence of technology-based gig-economy platforms and underlying economic conditions (particularly low wage growth) could be explored further.

Significantly, casualisation is prevalent in care and health and education and training, the sectors with the highest projected employment growth.<sup>63</sup>

## 6.5 The impact of an ageing population on the future of work

Alongside the move towards services in the Australian economy, the clearest trend is that Australia has an ageing population.<sup>64</sup> That people are living longer is a success, especially the advancements in medical technology and health care that have enabled this. Older people receive the most health and aged care services in the last two years of life supporting the

<sup>58</sup> Art Kleiner (February 6 2018) *Unfit for Public Purpose: The Problem with Institutions Today* in Strategy and Business

<sup>59</sup> Ibid page 3

<sup>60</sup> Anca Voinea (November 2015) *How can co-operatives contribute to the future of work?* <https://www.thenews.coop>

<sup>61</sup> Full-time employment rose by 308,000 persons over the year to November 2017, accounting for the majority of the 371,000 net increase in total employment. ABS data also shows that the proportion of employees without paid leave entitlements rose from 19.9% to 20.8%, suggesting a slow rise in the casualisation of the work force. Perhaps surprisingly, there is evidence that the most likely demographic to choose casual and contract working arrangements are Baby Boomers. As at November 2017, 31.5% of employees were part-time (ABS), also demonstrating a steady increase in the medium term. As has been well publicised, wage growth is at very low levels. <http://mccrindle.com.au/the-mccrindle-blog/the-gig-economy>

<sup>62</sup> See <https://theconversation.com/how-zero-hours-contracts-could-be-making-you-ill-77998>

<https://theconversation.com/the-way-they-manipulate-people-is-really-saddening-study-shows-the-trade-offs-in-gig-work-79042> :

<https://pursuit.unimelb.edu.au/articles/5-challenges-that-will-make-or-break-the-gig-economy>

<sup>63</sup> See <http://mccrindle.com.au/the-mccrindle-blog/the-gig-economy>

<sup>64</sup> Commonwealth of Australia (2015) Inter-generational Report

proposition that health and care services will continue to be the most significant area of employment growth. Government policy is towards some de-regulation especially on the demand side of aged care, where older people (and their carers) have increased choice and control about the services they receive and the settings in which care is delivered.<sup>65</sup>

In response to these policy changes and community expectations, new business models (e.g. Better Caring and Careseekers) are emerging that use peer to peer platforms to connect a service user with a support worker. This innovation extends to worker co-operatives where care workers are the owners of the enterprise (e.g. Co-operative Life). In the UK, the government has actively supported the growth of employee-owned mutuals and most have developed in areas like aged care and disability services.<sup>66</sup>

The other major impact of an ageing population is the reduced participation of older people in the work force as they enter retirement. Government policies are gradually adjusting to this change with the pension age increasing to 70. In Australia, the prevalence of age discrimination in employment is unacceptably high. There is a correlation between active participation in work and health. When people are willing, yet unable to work because of discrimination, they are more likely to rely on social welfare benefits and incur increased health costs. This is unsustainable especially in the context of an ageing population. A major national inquiry into employment discrimination against older Australians provided evidence of this discrimination and made recommendations about strategies to increase employment opportunities for older people and people with disabilities.<sup>67</sup> Older people are less connected to the internet than younger people and when they are, they use the internet for different purposes.<sup>68</sup> These trends underlie the importance of inclusive policies that make it possible for all Australians, regardless of age, disability or where they live, to have access to appropriate education and re-training so they are employable and better equipped to share the benefits of technology.

Other impacts of an ageing population that should not be forgotten are the likely changes in employment patterns and development and the impact on regional areas. It is worth noting that health and care work is distributed fairly evenly between urban and regional Australia, with 33% of jobs currently in regional areas.<sup>69</sup>

## 6.6 Rising political dissatisfaction

There is rising dissatisfaction with political systems globally.<sup>70</sup> There is a tangible desire among young people for democratic, values-based institutions. Low wage growth (or austerity more generally) and growing inequality are clearly factors leading to dissatisfaction. While Australia may not have suffered the same economic and political turmoil as the United States or the United Kingdom, we would argue similar political trends are evident in Australia and need to be addressed in economic and employment policies that aim to facilitate the distribution of wealth and power equitably.<sup>71</sup>

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<sup>65</sup> Commonwealth of Australia (2017) Legislated Review of Aged Care conducted by David Tune AO PSM.

<sup>66</sup> [Possibilities Social Adventures](#)

<sup>67</sup> Australian Human Rights Commission (May 2016) Willing to Work National Inquiry into Employment Discrimination Against Older Australians and Australians with Disability.

<sup>68</sup> Commonwealth of Australia (2009) Use of digital media and communications by Senior Australians.

<sup>69</sup> <https://docs.jobs.gov.au/system/files/doc/other/australianjobs2017.pdf> , 18.

<sup>70</sup> ILO employment outlook 2017, <http://www.ilo.org/global/research/global-reports/weso/2017/lang--en/index.htm>

<sup>71</sup> See generally, Oxfam International (2018), Reward Work, Not Wealth: <https://www.oxfam.org.au/wp-content/uploads/2018/01/bp-reward-work-not-wealth-220118-summ-en-EMBARGO.pdf>

## 6.7 Technological change

The impact of technological trends on work and workers is less clear than the demographic and economic trends. For example, it is not clear whether automation will lead to net job losses in the future. A report commissioned by CEDA in 2015 predicts that '40 percent of jobs in Australia have a high probability of being susceptible to computerisation and automation in the next 10 to 15 years.'<sup>72</sup> At the same time, the report acknowledges it includes no prediction of the job-creation potential of the same computerisation and automation.<sup>73</sup>

Even so, many communities may undergo structural change because of automation. Regional communities reliant on a particular industry may be particularly affected.<sup>74</sup> A policy environment that gives affected workers the opportunity to share in the benefits of technological development and change will therefore be crucial. Alongside its contribution to job creation and preservation, co-operative ownership can play a role in equitably distributing wealth generated from technological improvements and investment in machines.

The Foundation for Young Australians has suggested that automation is likely to lead to greater ongoing learning during employment.<sup>75</sup> This supports the proposition that education and training will be important areas of work in the future with a focus on education for life.<sup>76</sup>

## 6.8 Low wage growth and the declining share of income to labour

There is a general economic argument that workers' wages should grow in line with productivity growth and in doing so, improve everyone's living standards. Despite overwhelming data about the economic surpluses from automation, recent evidence indicates that the growth of productivity and the growth of worker's wages are not actually linked.<sup>77</sup> In Australia, the share of national income going to labour is at record lows.<sup>78</sup> Average productivity growth is much higher than average wage growth in most sectors of the Australian economy during 2012-16. This suggests the profits from productivity gains have been going to capital rather than labour, reflecting income inequality in general.

The BCCM believes policies and new business models that facilitate a wider ownership of wealth, particularly of the businesses that we contribute to through our work or those we rely on for services, will be important in ensuring dignified livelihoods for all Australians. One way to respond to these trends, and the challenges associated with them, is to foster the spirit of mutualism and the growth of business models where citizens, through their membership, are owners of the business and therefore economically engaged in production.

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<sup>72</sup> [https://www.ceda.com.au/CEDA/media/ResearchCatalogueDocuments/Research%20and%20Policy/PDF/26792-Futureworkforce\\_June2015.pdf](https://www.ceda.com.au/CEDA/media/ResearchCatalogueDocuments/Research%20and%20Policy/PDF/26792-Futureworkforce_June2015.pdf), 60.

<sup>73</sup> See also <http://www.afr.com/technology/future-work-living-with-automation-20171114-gzkukr#ixzz4ySJHVsfH>

<sup>74</sup> States from PC or elsewhere on automation levels in different regions

<sup>75</sup> [https://www.fya.org.au/wp-content/uploads/2017/07/FYA\\_TheNewWorkSmarts\\_July2017.pdf](https://www.fya.org.au/wp-content/uploads/2017/07/FYA_TheNewWorkSmarts_July2017.pdf)

<sup>76</sup> Nagwa Riad (June 2017) Education for Life: Labour markets are changing, and millennials must prepare and adjust in Journal of Finance and Development. International Monetary Fund

<sup>77</sup> Shahid Shahiduzzaman et al (5 February 2018) Why it's unlikely the benefits of job automation will be shared equally in the Conversation

<sup>78</sup> [http://www.futurework.org.au/record\\_low\\_labour\\_compensation\\_as\\_share\\_gdp](http://www.futurework.org.au/record_low_labour_compensation_as_share_gdp)

## 7 The benefits of mutual ownership and why this matters for workers and the economy

CMEs achieve higher rates of consumer and employee engagement which are key drivers of quality and productivity<sup>79</sup>. They are also more resilient through turbulent economic times. In Australia, CMEs make a significant contribution to the sustainability of regional communities. Agricultural CMEs account for \$8.6b in annual turnover, and support over 13,000 primary producers in Australia.<sup>80</sup> The impact of CMEs in regional Australia extends beyond agriculture to include banking, retail, health, aged care and the NDIS.

In December 2017, the BCCM sponsored a visit to Australia by Professor Julian Le Grand from the London School of Economics. Professor Le Grand has extensive experience in the development of *hybrid organisations* such as CMEs and he was appointed by the UK Government to Chair the Mutuals Task Force. This initiative saw the growth of over 100 new employee mutuals where workers in certain areas of the UK Public Service were given the opportunity to form new employee-led mutuals. Enabling legislation supported the formation of these employee-led mutuals. This included a modest Mutual Development Fund that provided business advice in helping the new mutuals to develop sustainable business models and to form as independent corporations. These employee-owned mutuals usually also had government representation on the board and they continued to deliver public services under contract to the government. Most of the new mutuals delivered services in the health and human services sectors.

Virginie Perotin (2014)<sup>81</sup><sup>82</sup> in ground breaking research, has compared the performance over time of worker co-operatives internationally with conventional businesses, including reviewing statistical studies on the firm's productivity survival, investment and responsiveness.

This research found that worker co-operatives represent a serious business alternative and bring significant benefits to their employees and to the economy. The main findings from the research were:

- Worker co-operatives are generally larger than conventional businesses and not necessarily less capital intensive
- Worker co-operatives survive at least as long as other businesses and have more stable employment
- Worker co-operatives are more productive than conventional businesses, with staff working "better and smarter" and production organised more efficiently
- Worker co-operatives retain a larger share of their profits than other business models
- Executive and non-executive pay differentials are much narrower in worker co-operatives than other firms.

Reinforcing this evidence base from Virginie Perotin and other papers from the UK Public

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<sup>79</sup> BCCM (2014) Public Service Mutuals: A third way for delivering public services in Australia. White Paper.

<sup>80</sup> BCCM (2017) National Mutual Economy Report Incorporating the Top 100 page 15 op cit

<sup>81</sup> Perotin, Virginie (2014) "Worker Co-operatives: Good, Sustainable Jobs in the Community", Journal of Entrepreneurial and Organisational Diversity, 2 (2), 2014, p34-47

<sup>82</sup> Perotin, Virginie "What do we really know about worker co-operatives?" in a publication for Co-Operatives UK

Service Mutuals Task Force<sup>83</sup>, Professor Le Grand made the case for why mutual and co-operative organisation forms should be considered as a preferred delivery model in human services<sup>84</sup>:

*“In most contestable markets for human services, if the aim is for higher quality, greater user and worker well-being, more community involvement, greater accountability at an efficient price, then the best kind of organisations are mutuals of some kind. The type of mutual might differ in different markets, sometimes user-owned, sometimes employee-owned, and sometimes multi-stakeholder. But if the design is right, again both theory and evidence suggest that they will generally perform better on almost any criteria (including productivity) than the alternatives<sup>85</sup>. So, if the Productivity Commission is committed to introducing choice and contestability in public services, of which human services are a very large part, it should remove the barriers to mutual formation in human services and perhaps also introduce some positive incentives”.*

## 7.1 The co-operative difference

CMEs play a set of roles in market economies, based on the co-operative values and principles that are rarely documented in the economic literature. The difference to investor-owned and other organisation forms, is that CMEs internalise market externalities to serve as laboratories for social innovation, to espouse social entrepreneurship, to promote commercially sustainable business practices and to aid in development.<sup>87</sup> The member focus, ownership and democratic governance structure is often seen as the point of difference between CMEs and other organisation forms. However, the principles of co-operation provide additional insights in addressing questions why CMEs may thrive in areas of low labour mobility, prevalent market failures, oligopoly markets, and labour intensive industries.

The international co-operative values are<sup>88</sup>:

- Self Help – In co-operatives, people help each other whilst helping themselves by working for mutual benefit
- Self-responsibility - Individuals within co-operatives act responsibly and play full part as active members of the organisation
- Democracy – A co-operative will be structured so that members have control over the organisation – one member, one vote
- Equality – Each member will have equal rights and benefits (according to their contribution)
- Equity – Members will be treated justly and fairly
- Solidarity – Members support each other and other co-operatives.

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<sup>83</sup> Le Grand, Julian Public Service Mutuals: The Next Steps A Mutuals Task Force Report

<sup>84</sup> Business Council of co-operatives and Mutuals (July 2016) Getting Mutual in Human Services. Submission to the Productivity Commission on Human Services. Page 16.

<sup>85</sup> Professor Le Grand referred the co-authors to the highly credible work of Virginie Perotin and other evidence from the UK Public Service Mutuals Task Force.

<sup>86</sup> Perotin, Virginie (2012) “The Performance of Workers’ Co-operatives” in P. Battilani and H Schroeter (eds) A Special Kind of Business: The Co-operative Movement 1950 – 2010...and Beyond, Cambridge University Press.

<sup>87</sup> Sonja Novkovic (2008) Defining the co-operative difference in the Journal of Socio-economics 37 2168-2177

<sup>88</sup> [International Co-operative Values and Principles](#)

**The Future of Work and Workers**

Submission from the Business Council of Co-operatives and Mutuals

The international co-operative principles are:

- Voluntary open membership
- Democratic member control
- Member economic participation
- Autonomy and independence
- Education, training and information
- Co-operation among co-operatives
- Concern for community

Technological change is rendering many traditional business models obsolete. Innovation is essential if we are to improve people's lives and lift productivity in Australia's economy and distribute the benefits of this equitably.

We have reached a stage where reform and driving the resultant change should be undertaken as a partnership between government, the market and citizens. The co-operative and mutual sector in Australia can play an important part in this collaboration on behalf of civil society.

This requires highly networked non-linear approaches to problem solving across multiple portfolios allowing problems to be addressed holistically around people. Relationships become critical supported by public investments designed to deliver sustainable outcomes, improve people's lives and represent value for taxpayers.



*We know that networks of co-operation work better than geniuses acting alone or groups bent on destroying each other."*

Bill Clinton, Former U.S. President



*This business model, built on inclusion and sustainability, offers a pathway toward economic, social and political justice for all."*

Ban Ki-moon, former Secretary-General, United Nations



*The co-operative creates a new type of economy that allows people to grow in all their potential, socially and professionally, as well as in responsibility, hope and co-operation."*

Pope Francis

## 8 Seizing the Co-operative Advantage: what role can co-operative and mutual enterprises play in a fair future of work?

The previous sections have outlined the key trends that are likely to affect the future of work and the advantages of mutual ownership of enterprise. This section identifies four areas where there the “co-operative advantage” has the potential to deliver positive outcomes for Australian workers and the community.

### 8.1 Quality work and quality service in the growing health and care sectors

The most important trend we identified in Section 5, is the growth of the services sector and the importance of health and human services in meeting the needs of an ageing population and people with a disability.<sup>89</sup> Health and human services have traditionally been provided by communities and families, by the public sector and by mutual organisations (including as a precursor and model for contemporary social insurance/welfare systems). The health and care sectors have a number of important characteristics. These characteristics are both why health will be an important growth sector and why it presents certain policy difficulties:

- Resistant to automation
- High labour costs
- Tendency to information asymmetries between users and service providers
- Low profitability
- Prevalence of casual, informal or familial/community work in some parts of the sector

It is the first two of these characteristics (which are complementary) that mean health and care services will be a significant area of job growth into the future. However, the latter three characteristics present challenges for delivering quality services to consumers while ensuring quality working conditions and therefore prompt more detailed policymaking consideration.

### 8.2 Sharing the benefits of the digital economy

While the extent to which digital platform technologies used to facilitate markets will have a long-term impact on work and workers is debatable, the possibility of the spread of Uber-style ‘gig economy’ working conditions to larger parts of the economy should be of concern. By Uber-style working conditions, we mean the classification of its workers as independent contractors and the low income and poor working conditions experienced by these workers. Furthermore, we also point to the fact that Uber is not yet profitable, and it is not proven that it has a viable business model as an investor-owned firm.

An emerging alternative to investor-owned platforms is the global platform cooperativism

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<sup>89</sup> [Jobs boom driven by NDIS injection of taxpayer billions](#)

movement.<sup>90</sup> Platform co-operatives are co-operatively owned enterprises that use a protocol, website or mobile application to facilitate provision of goods and services. Platforms owned by workers or consumers aim to provide quality work and quality services to their members. As mentioned in the section above, care services are often prone to casualisation or informal work relations, including when facilitated through digital applications. Platform co-operatives can take the benefits that digital technology undoubtedly brings in co-ordinating the provision of these care services, for example, but do so in way that brings more of the benefit to workers and care recipients.

Online applications of co-operatives have gained momentum. Taxi drivers<sup>91</sup>, domestic workers<sup>92</sup> and freelance photographers<sup>93</sup> are examples. In 2017, there was a campaign among co-operative researchers, campaigners and Twitter<sup>94</sup> shareholders to convert Twitter to a co-operative owned by its users. This proposal was voted on during an annual shareholders meeting of the company, capturing support of five per cent of the company's stock<sup>95</sup> held by eligible shareholders. The resolution will likely be brought forward again in the next shareholder meeting in 2018.

Ownership and participation in digital platforms has the potential to engage young people in civil society and in enterprise, strengthening our democracy and our economy. The International Organisation of Industrial, Artisanal and Service Producers' Cooperatives (CICOPA), the global body for worker co-operatives, is organising a campaign entitled 'We Own It' to promote the co-operatives model as means for young people to take control of the future of work.<sup>96</sup>

Research is needed to better understand the implications of platform co-operatives on working conditions, the organisation of work, production and the governance of work.

### 8.3 Resilient local economies through employee and community ownership

Employee ownership and community ownership give workers and communities the chance to reduce the negative impact of technological, demographic and other changes on their local economy and community. Moreover, co-operative ownership can and should be understood as an appropriate option for consideration at all stages in the life cycle of a business (start-up, growth, succession or buyout).

The BCCM believes that it will be increasingly important for there to be a conducive environment for employee ownership and community ownership in response to our ageing population and structural changes in our economy that may hit certain regions or industries disproportionately. Co-operative ownership has been important in the development and ongoing resilience of regional Australia. The Co-op in Nuriootpa started as a community buyout in 1944 and is now an anchor employer in the region, while more recently Sea Lake locals saved

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<sup>90</sup> <https://platform.coop/>

<sup>91</sup> See examples [Green Taxi Co-op \(Denver\)](#) ; [Taxiapp \(London\)](#) ; [COOP Taxi \(South Korea\)](#)

<sup>92</sup> <https://www.upandgo.coop/>

<sup>93</sup> <https://www.stocksy.com/service/about/>

<sup>94</sup> [https://about.twitter.com/en\\_us.html](https://about.twitter.com/en_us.html)

<sup>95</sup> <https://www.salon.com/2017/06/04/meet-the-tech-activists-who-want-to-turn-twitter-into-a-user-owned-co-op/>

<sup>96</sup> <http://www.we-own-it.coop/home.php>

their hardware shop and jobs by forming a co-operative and Earthworker Co-operative has been supporting the development of a new manufacturing jobs for displaced workers in the Latrobe Valley.<sup>97</sup> Local communities around Australia should be given every opportunity to apply co-operative ownership to local industries, services and infrastructure if they so wish.

## 8.4 “Reverse franchising” for a strong SME sector

Australia has a vibrant enterprise co-operative sector which supports small business owners including farmers, mechanics, butchers, hairdressers and travel agents. The enterprise co-operative model, which exists to increase the sustainability and competitiveness of its small business members, is a bottom-up version of franchising.

The co-operative model allows small businesses to gain efficiencies through group buying, back office support, marketing and insurance policies while retaining independence and local identity. When supported through membership of a co-operative, these small businesses remain locally-owned and can circulate more money, jobs and services in our communities.

The enterprise co-operative model should be understood in the Australian community as an ethical and sustainable alternative to franchising. From a policy point of view, enterprise co-operatives also contribute to diversity of ownership in our economy by strengthening small and family-owned businesses.

### **The ‘keystone’ role of CMEs**

Small businesses, including farmers, are the drivers of the Australian economy. They account for 99.7 per cent of all businesses, 70.5 per cent of all employment, and 57.8 per cent of all value added (DIISR, 2011).

Small businesses are vital to achieving increased employment. They provide anchors in society, support training and career paths and provide entries to work for young people (The Ownership Commission, 2012).

The primary type of co-operative that supports small and medium enterprises (SMEs) is the producer owned co-operative. Table 1 (below) lists common producer co-operatives found in agriculture, fishing and forestry, as well as retailing, professional services and employment or labour co-operatives.

Unlike conventional firms the CME is there to protect the interests of the niche players who are its members. It is a reason why the United States gave anti-trust exemptions to agricultural co-operatives in the 1920s because they were not deemed to be predatory in nature and existed for both an economic and social purpose (Anderson, 1982). They keep the business ecosystem healthy and the presence of a large and successful co-operative or mutual enterprise will generally offer better pricing and greater opportunities for small businesses than if they were not present.

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<sup>97</sup> For further information see the case study section.

**Table 1. Producer owned co-operatives that support SMEs**

Type	Industry sectors	Activities
Primary producer owned co-operative	Farming, fishing, forestry	Supply, storage & handling, marketing, processing & distribution
Retailer-owned co-operative	Supermarkets, hardware, pharmacy	Wholesaling, marketing, financing
Shared services co-operative	Taxi co-ops, retailers, artists and professionals	Collective facilities, services, marketing
Labour co-operative	Simple to complex	Employee share-ownership and worker co-partnering

Source: Birchall (2011)

## 9 Case Studies

### 9.1 Care and Health Service Co-operatives

#### Cooperative Home Care Associates (United States)

Cooperative Home Care Associates (CHCA) is committed to delivering quality care by creating quality jobs. They are recognised as the leading home care worker co-operative in the US. CHCA has around 875 workers who are owners of the co-operative, making it the largest worker co-operative in the US. They opened in the 1980s in economically deprived areas in the Bronx.

As a co-operative, CHCA is able to look long-term. It invests its surpluses in intensive training for workers, while keeping senior management salaries 2.5 times below the industry average in New York State. It also endeavours to raise wages as much as possible and actively encourages worker membership through a payroll deduction service. Opportunities to participate in management and career progression are additional benefits for many workers. These policies result in reduced turnover and higher quality and more personalised service for clients. Turnover rates in the US are 40% industry-wide, and 15% in CHCA.

It has been difficult to replicate the model in the US due to lowering of the reimbursement rate for non-nursing services, which has reduced funds available to state governments to support these services.

#### National Health Co-operative

The National Health Co-operative (NHC) is an example of the role consumer-owned co-operatives can play in the creation of quality jobs. NHC opened its first bulk billing clinic in the West Belconnen region of Canberra in 2010 in response to a lack of local bulk billing clinics.

NHC now employs over 90 medical and administrative employees and serves approximately 10% of the Canberra population. Patient ownership and not-for-profit status mean NHC is an ideal working environment for doctors who want to deliver quality service for their patients.

NHC, as its name suggest, aspires to have a national presence. It recently has expanded to Yass and will maintain its focus on providing bulk billing in regional areas where this is lacking.

## Supporting Independent Living Co-operative

The Supporting Independent Living Co-operative (SILC) was registered in 2016 and received NDIS accreditation for housing services in 2017. SILC's was formed to provide back office and development support to individual disability housing co-ops. One aim of SILC is to pool resources including when hiring support workers. SILC therefore has the potential to facilitate better quality support for consumers while also providing steadier employment for care workers. Parents and support workers can also join the co-operative and participate in governance.

The SILC model demonstrates the potential contribution of consumer or multi-stakeholder co-operation to better working conditions for care workers.

## The Co-operative Life

The Co-operative Life (TCL) is a worker co-operative formed in suburban Sydney in 2013. It provides aged care and disability services to people wanting to live independently in the community.

TCL chose the co-op model to counteract low staff morale in the care service sector by giving staff a real stake in the business. Employees have shares in the co-operative and can potentially earn a dividend on top of their wage. TCL is enjoying low staff turnover and better relationships with customers, important when a service is so much about human connection.

Since 2013, TCL has grown steadily. It started with 5 employee-members and expects to reach 50 employee-members this year. The greatest challenges for TCL have been finding start-up capital and accessing appropriate professional business advice as their co-operative formed and developed.

## Nundah Community Enterprises Co-operative

Nundah Community Enterprises Co-operative (NCEC) was established in 1998 and provides meaningful employment for people with intellectual disabilities and mental health issues in the Brisbane area. Using the co-operative model of business, the not-for-profit provides its worker members with opportunities to work in garden maintenance and catering with the support of local businesses, community and local government.

Today, NCEC has over 20 member workers generating 5000 hours of work annually. The success of the NCEC is due to its ability to harness the different resources – financial, human and intellectual, relationship and operational. Most of these 20 workers have been productively employed on above award wages for over ten years, demonstrating a significant social and financial benefit not only in terms of avoided costs of pension payments, however more importantly, in providing sustained long term meaningful employment. The co-operative is not reliant on government funding to create employment for its members.

In 2015, NCEC won the Social Enterprise Award, sponsored through Social Traders.

## 9.2 Platform Co-operatives

### Stocksy (Canada)

Stocksy is a global platform co-operative of stock image photographers and the employees of the platform.

Stocksy's founders were dissatisfied with the low returns per image and high-volume, low-quality work demanded by large stock image firms. Stocksy has addressed both these issues for its members. Its members receive between 50 and 75 cents in the dollar of sales, a much higher rate than at investor-owned stock image firms. Furthermore, Stocksy takes pride in producing a smaller selection of high quality stock images and responding to client demand for certain types of images. The slogan of Stocksy is 'Raising the bar – and the industry's expectations – of stock photography'. Another slogan of the co-op is 'sustainable stock photography'. These slogans demonstrate that the objective of the co-op encompasses but is not limited to increasing returns to producers, it is also about shaping qualitative aspects of the market they operate in.

### **Up & Go (United States)**

Up & Go is a platform for booking cleaning services owned by several worker co-operatives in New York. It has been developed with the support of worker-owned digital agency CoLab, The Center for Family Life's worker co-operative development program and the broader worker co-operative sector in New York.

Workers providing services through the Up & Go platform earn \$4-5 more than they otherwise would through investor-owned alternatives. On top of this, as owners of the businesses using Up & Go, workers have the chance to receive bonuses based on their equity. The community benefits from more wealth being circulated in the local economy and a greater commitment to quality service from worker-owners with a real stake in long-term success.

## **9.3 Employee and Community Start-ups, Successions and Buy-outs**

### **The policy environment for worker buyouts in Italy<sup>98</sup>**

Co-operatives feature strongly in Italian economy, society and law. Indeed, the social role of co-operatives is recognised in the Italian Constitution. Co-operatives contribute approximately 8% of Italy's GDP and have over 12 million members. Like Australia, Italy has an ageing population, so health and care services have been a recent focus of co-operatives.

Policy settings that support worker co-operative buyouts in Italy are well-developed:

- Co-operatives are required to contribute 3% of their annual surplus into a co-operative sector fund to support development of the sector.
- Legislation allows redundant workers to put an equivalent of up to three years of unemployment benefits towards capitalisation of a business. The amount is repayable if the business fails.
- Legislation gives workers first right to buy during business closure.
- Worker buyouts can access loan funding from the government-funded Cooperazione Finanze Impresa (CFI) revolving loan fund and co-operative sector development funds.
- The co-operative sector provides expertise to determine feasibility, undertake business planning and undertake structuring.

An example of a worker buyout is Italstick. Italstick produces self-adhesive materials and coatings. In the GFC, the business, which was managed by a sole proprietor began to struggle

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<sup>98</sup> For further information on this and other European case studies in this submission see BCCM's European Study Report (2017), available on request.

and eventually closed. 24 of the 82 employees, realising that the business was fundamentally sound but had suffered poor management, decided to buy out the factory. They worked with Legacoop, one of the co-operative peak bodies, and their third bid to buy the adhesives division of the business was successful. The buyout was funded using member contributions and loan funding from the CFI and co-operative sector development funds. Workers at Italstick believe the initial buyout stage is most difficult because time is of the essence: an offer, backed by funding and a belief that the business is viable, needs to be organised before the business is sold elsewhere or assets sold off.

A comparison of Australian and Italian co-operative legislation can be found in the opening chapters of Jensen, Patmore and Tortia (eds), *Cooperative Enterprises in Australia and Italy* (Firenze University Press, 2015).

### **Financing worker co-operatives in France**

France has a well-developed legal framework for worker and multi-stakeholder co-operatives (which must include workers), backed by a range of funding options that facilitate the development of new worker co-operatives. These co-operatives have been shown to have a higher five-year survival rate than non-co-operative start-ups (65% compared with 50%).

There are approximately 2900 worker and multi-stakeholder co-operatives in France. The primary sectors for worker co-ops are construction, health and care, education, transport, energy and commerce.

The legislation for worker co-operatives applies an asset lock to the assets of co-operative but allows distributions in a given year from the surplus to workers and other stakeholders (within prescribed limits). Co-operatives that operate under this framework have a range of supports to finance start-up. Les Scop, the federation of such worker co-operative provides:

- Guarantees on up to 25% of loans (the co-op then later makes a contribution to the fund that backs these guarantees)
- Loans to workers purchasing equity in the worker co-operative
- Purchase of non-preferential equity stakes in start-up worker co-operatives

Les Scop is also increasing its use of crowdfunding as a source of financing by partnering with two platforms that support donation, debt and equity raising.

### **Policy support for community ownership in the United Kingdom**

Community ownership of pubs, stores and other essential economic, social and culture service providers is on the rise in the UK. Local governments have increasingly been adopting 'community wealth building' strategies, most famously known as the Preston Model<sup>99</sup>, that involve:

- reviewing procurement policies to increase spending with locally-owned small businesses, co-operatives and social enterprises.
- promoting the formation of co-operatives and consortia by workers and/or small businesses to deliver services to anchor institution that are currently imported from outside the local economy.
- encouraging growth and formation of co-operatives through local patient capital funds to supplement member investment

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<sup>99</sup> <https://cles.org.uk/tag/the-preston-model/>

- encouraging community development and buyouts of essential infrastructure, goods and services (energy, housing, transport, pubs and stores)

The policy environment to back community ownership includes:

- The Localism Act, passed in 2011, introduced a community “right to bid” for privately-owned assets put up for sale which the local government has identified as of value to the community such as pubs, stores and post offices.
- Development of Community Share offers and Community Share Offer online platform

While the co-operative sector has identified refinements that are needed to these policies, they have allowed more communities to take ownership of pubs, small-scale renewable energy projects and stores.

### **Sea Lake and District Co-operative**

Sea Lake is a town of just over 600 people in western Victoria. In 2015, the local community formed a co-operative in order to re-open the hardware store.

Members raised \$200,000 to open the store for trading. When a plan to lease the premises fell through, members pitched in with further investment and acting as guarantors to purchase the store.

The co-operative model was suitable because the community have a dual social and economic purpose in re-opening the local hardware store. The social purpose is to preserve and strengthen the local community by ensuring that goods, services and employment are easily accessible, while members may directly need hardware at a reasonable price and may get a modest return on capital as an investor in the co-operative.

### **The Co-operative Community Store (Nuriootpa)**

The Co-operative Community Store in Nuriootpa, known simply as ‘The Co-op’, began as a community buyout of a closing grocery store in 1944. Locals put together the £7,500 needed to purchase the store that now has 18,000 members and owns the local supermarket and shopping centre.

The Co-op’s mission is to the ‘the Heart of the Barossa’, reflecting its combined social, economic and cultural purpose. Some examples of how The Co-op meet this purpose include:

- Providing more than \$1.5 million in discounts, rebates and dividends to members annually.
- Employs more than 350 people, with a commitment to training and development. The Co-op is a major employer of youth within the region and provides many school leavers with their first job.
- Commitment to local suppliers, with 40% of supermarket stock locally sourced.
- Over \$100,000 in donations annually to local sporting, school and community organisations.
- \$36 million invested in the redevelopment of its shopping centre, which required more than 150 construction workers, who were local where possible. The redeveloped centre will create 140 new ongoing jobs.

EY’s 2014 *Sticky Money* report found that for every \$1 spent at a Co-op outlet, another 76c of value was created in the local economy.<sup>100</sup> The Co-op demonstrates the power of the co-

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<sup>100</sup> EY (2014) *Sticky Money*: Recognising the total value created by Australian Co-operatives and Mutuals.

operative model to create resilient local economies.

### **Community buyouts of pubs in the United Kingdom**

Co-operatives, which aim to provide social, economic and cultural value to members are the perfect vehicle for pub ownership. As of November 2017, there were 52 co-operative pubs operating around the United Kingdom. The first co-operative pub began operations in 2004 and there has yet to be a closure of a co-operative pub.

The Plunkett Foundation, an organisation which supports rural co-operative development of stores and pubs, is leading a specialised £3.5 million, two-year Community Pub program in partnership with government and other community and co-operative development organisations.

The White Hart is a community-owned pub in the village of Alton, in northern England. Locals raised £270,000 of donations, share purchases and loans in order to purchase the pub when it was closed and put up for sale. The community was spurred to action when it was revealed the other bidder for the pub intended to change the use. The White Hart markets itself as a community ‘hub’, emphasising its social and cultural importance for the community.<sup>101</sup>

### **Bank Australia**

Bank Australia is a customer-owned bank with 140,000 members around Australia, but with strong roots in Victoria. Bank Australia has a “no offshoring” commitment, with its main call centre located in Moe in the Latrobe Valley. A third of Bank Australia’s workforce reside in the Latrobe Valley, making it an important source of sustainable employment in a region transitioning from the fossil fuel industry. Bank Australia has invested \$2.6 million in refurbishing this call centre in late 2017.

### **Earthworker Co-operative**

Formed in 2011, Earthworker’s goal is to support the creation of sustainable jobs through the worker co-operative structure. It has a focus on creating work in the Latrobe Valley as a strategic response to the closure of the traditional major employers in the region: coal-fired power plants. To date Earthworker has supported the formation of a solar manufacturing worker co-operative in Morwell, and a worker-owned cleaning co-operative in Melbourne.

Earthworker has encountered many policy barriers in undertaking co-operative development. The unemployed workers who went on to form the cleaning co-operative found that the New Enterprise Incentive Scheme did not allow them to work together as a group of unemployed people to create their own jobs. Rather, the Scheme is focused heavily on individual entrepreneurship and business models that fit within a Pty Ltd company legal structure.

## **9.4 Enterprise Co-operatives**

### **HunterNet**

HunterNet is a co-operative of more than 200 manufacturing, engineering and other specialist SMEs in the Hunter and Central Coast regions of New South Wales. It is an example of how enterprise co-operatives can increase the resilience of local economies during periods of

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<sup>101</sup> For more information see <https://www.plunkett.co.uk/co-operative-pubs> and <http://www.altonwhitehart.co.uk/aboutus.php>

structural change.

The co-operative was formed in 1992 and is one of the most successful examples of an industry “cluster” in Australia. The impetus for formation was the need for small manufactures in Newcastle to improve their standards and collaborate to grow their markets (as there was an overreliance on BHP Newcastle for contracts). Members can engage in business development and joint bids that individual businesses are too small to engage in.

HunterNet has been crucial to the maintenance of a strong manufacturing base in the region following the departure of BHP.

### **CBH Group**

CBH is Australia’s largest co-operative and also one of Australia’s largest privately-held businesses. Its 4200 members are Western Australian grain growers. CBH exists to develop and support growers and the grain industry.

Grain is an increasingly competitive global commodity so CBH has a crucial role in keeping its members competitive in export markets. CBH undertakes transport, storage, marketing and processing of its members grain. It also invests millions of dollars into research and development and local community projects. CBH plays a keystone role in the development of successful small grain growing businesses (and surrounding communities) in Western Australia. The efficiencies it provides down the supply chain benefit family farmers, distributing wealth to local businesses and the local communities where they operate.

### **Capricorn Society**

Capricorn Society started in the early 1970s when 12 Golden Fleece business owners in Western Australia decided to start a buying group for parts. Today, Capricorn is a co-operative of more than 18,000 Australian and New Zealand independent mechanics and crash repairers. Its core purpose is to achieve efficiencies for members through bulk purchasing of parts but it now offers many other services to members including risk and insurance services.

Capricorn combines dual economic and social purposes. It allows small businesses to collaborate for mutual benefit, providing ease and stability to small businesses, thus contributing to their resilience. This flows on to local employment stability. The small businesses are the owners of the co-operative and therefore the company prioritises their needs, not the competing needs of investor-only shareholders. The Capricorn model represents an alternative to top-down franchising arrangements where less wealth remains with local franchisees and their communities.

## 10 Background to the BCCM's recommendations - what needs to be done to remove the barriers to achieving sustainable growth of co-operatives and mutuals in Australia?

In 2015, the Senate Economics Reference Committee (SERC) conducted an inquiry into Co-operative and Mutual and member-owned firms. The inquiry highlighted the significance of CMEs to the Australian economy. The Inquiry also acknowledged the legal, regulatory and policy barriers that the CME sector faces if it is to grow and serve Australians in emerging sectors of the economy.

The SERC report outlined the key policy reforms that are needed to ensure an enabling environment for CMEs.

In 2017, the Government launched a review of the recommendations relating to the access of mutuals to capital (the Hammond Review). The Government subsequently endorsed the findings of that review, including that the Corporations Act should be amended to provide a definition of a mutual company, and allow such companies to raise capital using a mutual capital instrument. These reforms have received bipartisan support.

These are extremely positive steps for the CME sector and should enhance the role consumer-owned co-operatives and mutuals play providing competition and choice in various sectors including banking.

Nevertheless, there is more work to be done by governments, the CME sector and the BCCM to enable growth of mutuals and co-operatives in Australia. This is essential if the CME sector is to play its role in securing a fair future of work for all Australians.

### 10.1 What the CME sector will do through the BCCM

As the peak body for co-operative and mutual enterprises in Australia, the BCCM is funded entirely by member contributions. Our members fund the development and growth of the CME sector as a whole through the provision of research, development of resources and education courses to support CMEs at all stages of their development. In particular, through the BCCM our members have:

- Partnered with Monash University in funding a \$1.1 million project to develop a Mutual Value Measurement framework for all CMEs in Australia
- Funded the development and ongoing improvement of the [Get Mutual Website](#) with resources for starting and running a co-operative or mutual enterprise
- Partnered with the Federal Government Farming Together program to develop the first “reg-tech” solution for co-operatives, the Co-op Builder tool
- Developed a referral service to professional advisors who understand the CME model, as well as providing targeted support to many start-up CMEs in emerging sectors
- Provided advisory and consultancy services to individuals, government and other organisations interested in exploring the CME business model

Many advisors have limited knowledge of CMEs and will either be unable to provide advice or they charge more for what should be basic advice. To address these skills/knowledge gaps, CMEs need to be included in the curriculums of business, law and accounting courses to ensure professional advisors have a basic understanding of the differences and similarities of CMEs and other businesses from legal, accounting, tax and organisational perspectives. Therefore, the BCCM undertakes to:

- 10.1.1 Positively influence governance and advisory bodies such as the Australian Institute of Company Directors to enhance their understanding and competency in relation to the CME sector.
- 10.1.2 Positively influence education and training providers in the secondary and tertiary sectors to make sure member-owned business structures are included in the curriculum, particularly in tertiary legal, accounting and commerce courses.

## 10.2 What governments can do

The BCCM considers there are three broad priority areas where the Commonwealth Government, working with State/Territory Governments, can assist in supporting the sustainable growth of the CME sector in Australia.

### **Establish a level legislative, regulatory and policy playing field for CMEs**

Governments need to make sure CMEs face no disadvantage compared to other organisational forms in legal, regulatory or other related policy settings. The Senate Inquiry highlighted the areas where CMEs are not treated on a level playing field with other corporate forms. Further work is required to remove these barriers. This is especially so in clearly defining mutuals in the Corporations Act and strengthening the Co-operatives National Law, which is currently administered by States and Territories.

The Hammond Review included a recommendation to include a definition of mutuals and a mutual capital instrument to improve the legislative framework for CMEs registered under the Corporations Act.

The adoption of the Co-operatives National Law (or consistent legislation) by all jurisdictions except Queensland, has made the co-operative a more attractive form for national organisations. However, the most pressing legislative issue for the CME sector is to see the adoption of Co-operatives National Law in Queensland.

Regardless, the BCCM's experience is that because inconsistency remains between States/Territory co-operative registries and the formation process tends to be slow and bureaucratic, consideration needs to be given to co-operatives being regulated by the Commonwealth Government. This would also overcome inconsistencies and duplications that occur when co-operatives operate across State/Territory borders.

The BCCM recommends that the Commonwealth Government:

- 10.2.1 Undertake a regular review, including as this relates to the supervision by the COAG forum on Consumer Affairs, of the Co-operatives National Law to determine if it is fit for purpose in providing an efficient regime to support the growth of co-operatives in Australia.

10.2.2 Conduct an audit of their business support services and websites to make sure co-operatives and mutuals are appropriately included wherever information about business legal models and business formation is provided.

10.2.3 Conduct an audit of all government-funded business centres to ascertain the level of expertise of advisory services in relation to CMEs and where there is a lack of qualified expertise, those agencies should engage the BCCM to arrange training and the development of appropriate information and resources.

10.2.4 Amend the eligibility criteria of the following business support policies so that co-operatives are not excluded on the basis of legal structure alone:

- New Enterprise Incentive Scheme<sup>102</sup> (be open to participants using the co-operative legal model and business educators trained in the co-operative option)
- Indigenous Advancement Strategy grants,<sup>103</sup> and
- Tourism Partnership grants.<sup>104</sup>

10.2.5 As part of Government's commitment to innovation and small business and family enterprises, ensure advisory bodies such as the Australian Small Business and Family Enterprise Ombudsman are funded to provide the same information and advisory services on co-operatives and mutuals as other business legal models for entrepreneurs and start-ups.

10.2.6 Sets up an Ownership Commission<sup>105</sup>, to examine the plurality of business ownership in the Australian economy and examine 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 as a result of digital disruption and new technology.

10.2.7 Such a Commission could be conducted along the lines of the 2012 UK report, "Sharing Success: the Nuttall Review of Employee Ownership"<sup>106</sup>, with a broader brief to consider all forms of member ownership including employee mutuals, as has occurred as a result of the UK Mutuals Task Force.

### **Removing barriers CMEs experience in accessing capital**

The BCCM commends the Commonwealth Government for its leadership and policy initiatives to support increased access to capital in the CME sector. We are committed to continuing to work closely with the Government to support the effective implementation of the reforms. The BCCM recommends that the Commonwealth Government:

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<sup>102</sup> 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.

<sup>103</sup> Co-operatives must, on the basis of their legal form, currently must seek an exemption to attain funding of over \$500,000 under the IAS.

<sup>104</sup> Despite this being a grant to encourage collaboration among businesses, co-operatives are not eligible. This is currently true of other AusIndustry grants.

<sup>105</sup> 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>

<sup>106</sup> <https://www.gov.uk/government/publications/nuttall-review-of-employee-ownership>

10.2.8 Fully implement the recommendations of the Hammond Review.

10.2.9 Develops a one-off package of supports and information to establish and grow the CME investment market. This could be like the package to support the development of the Social Impact Investing market.<sup>107</sup> Such a package could support investment in CMEs from members, intra-sector investors and institutional investors and include information on using Co-operative Capital Units (CCUs).

### **Doing more to encourage the development and growth of employee ownership especially in health and human services**

Australia lags behind many jurisdictions in its policy settings to encourage employee ownership at all stages of business development (i.e. formation, succession, and buyout). This includes worker owned co-operatives and mutuals.

The South Australian and Commonwealth Governments have recently endorsed the formation of what will be Australia's first employee-led mutual to form from a government agency,<sup>108</sup> which will operate in the NDIS.

In a recent visit to Australia, Professor Sir Julian Le Grand, who chaired the UK Mutuals Task Force<sup>109</sup>, observed that Australia seems not to have the concentration of employee led mutuals as occurs in the UK and Europe. For example, in countries such as Italy, France and the United Kingdom, where co-operatives and mutuals are more mature, there are a range of policies that facilitate employee buy outs, succession and start-ups.

In the UK, a major review was commissioned by the UK Government which has resulted in very significant reforms that have enabled legislation around employee ownership.<sup>110</sup>

In addition to this, in the last decade, as a result of the work of the UK Mutuals Task Force, over 100 new employee-led mutuals have formed, mostly in health and social care. Early evaluations and case studies have documented that these employee-led mutuals have higher rates of employee and consumer engagement. They are also resilient in economic downturns. Importantly, the staff who have participated in these new employee-led mutuals, attribute their improved productivity to the ownership model that gives them more control and flexibility to respond to the needs of their customers compared to when the service was delivered in government.<sup>111</sup>

The BCCM considers that the policy frameworks in these jurisdictions should be considered carefully by the Commonwealth and State/Territory governments and adapted for the local context. In particular, the lessons learned from employee led mutuals in the UK suggests this could be an innovative public policy initiative to help develop a more sustainable future workforce especially in areas such as the NDIS, aged care and mental health.

The BCCM recommends that the Commonwealth Government:

10.2.10 Develop bespoke information and advisory resources to encourage the development and sustainable growth of CMEs, especially in health and human services

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<sup>107</sup> <http://sjm.ministers.treasury.gov.au/media-release/068-2017/>

<sup>108</sup> \$47 million for Early Childhood Early Intervention Services in South Australia

<sup>109</sup> Op cit Mutuals Task Force Our Mutual Friends and The Next Steps London: Cabinet Office

<sup>110</sup> Graeme Nuttall (July 2012) *Sharing Success: The Nuttall Review of Employee Ownership* UK Government

<sup>111</sup> CIPFA (February 2017) op cit *Research into the Public Service Mutuals* The Chartered Institute of Public Finance and Accountancy

**The Future of Work and Workers**

Submission from the Business Council of Co-operatives and Mutuals

The process of forming a co-operative and complying with ongoing regulatory requirements, including for capital raisings, can be streamlined with increased use of regulatory technology (“reg-tech”). Through the *Farm Co-operatives and Collaboration pilot program*, the BCCM was funded by the Commonwealth Government to develop a website and the *Co-op Builder tool*<sup>112</sup>. This is the first piece of “reg-tech” for Australian co-operatives. The tool has been accepted by the State/Territory government co-operative registries around Australia and can be used to develop a set of rules and a disclosure statement for a start-up distributing co-operative. In the near future, the tool will be extended to non-distributing co-operatives.

This is an excellent first step. The BCCM commends the Commonwealth Government and the State/Territory Government registries for their support in developing this tool.

However, lodgment of formation documents, other compliance documents and documentation for capital raising (using the various types of security available to co-operatives: shares, debentures, Co-operative Capital Units) also need to be streamlined.

Co-operative formation is a longer process than company formation because it usually requires a greater level of engagement and consultation with prospective members. However, the time involved in the administrative and regulatory aspects of co-operative formation can be reduced and is a barrier to selecting the CME legal form.

The BCCM recommends that the Commonwealth Government:

10.2.11 Establishes an expert advisory panel to work with the BCCM and the sector having oversight of these recommendations and to report to the Parliament.

10.2.12 Draws on the experience and lessons learned from overseas countries that have reached a higher level of maturity around the sustainable development and growth of member-owned enterprises.

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<sup>112</sup> [The Co-op Builder Tool](#)

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