



BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

Select Committee on Regional Development and Decentralisation

PO Box 6021
Parliament House
CANBERRA ACT 2600

18 September 2017

Dear Committee

Submission to the Select Committee on Regional Development and Decentralisation inquiry into regional development and decentralisation

The Business Council of Co-operatives and Mutuals (BCCM) welcomes the opportunity to make a submission to the above inquiry.

The BCCM is supportive of the policy goals behind decentralisation and regional development, including: sustaining regional populations; wide sharing of the benefits of economic growth; cohesive regional communities; and the leveraging of long-term private investment. We believe that these goals are consistent with the goals of our sector, the co-operative and mutual sector. Co-operatives can be part of the picture of a resilient and dynamic regional Australia that captures more of the economic value it contributes to the Australian economy.

Co-operative and mutual enterprises (CMEs) are vital contributors to the economic, social and cultural life of regional Australia; in many cases a co-operative or a mutual is the keystone institution of a regional community. Thousands of Australian farm businesses are enabled by participation in co-operative logistics, processing and marketing enterprises such as Co-operative Bulk Handling and Norco. Customer-owned insurers and financial service providers, such as Heritage Bank, Queensland Country Credit Union and Westfund, are committed to providing credit and protection to regional communities. Customer or producer-owned retailers like The Co-op (Nurioopta), Yenda Producers Co-operative Society and Yolla Co-operative are integral to their regions.

Our submission broadly addresses Terms of Reference a and c. In relation to Term of Reference a, we provide case studies of Australian and international co-operative regional development that we believe meet many of the outcomes outlined in Term of Reference a. We respond to Term of Reference c by suggesting ways in which the formation and growth of regional co-operatives can be encouraged.

Our submission is set out as follows:

1. About the BCCM
2. About Co-operatives and Mutuals

3. Co-operatives are a proven regional development strategy in Australia and internationally (term of reference a)
4. The BCCM supports a diversity of regional startups and improved capital raising options for co-operatives and mutuals (term of reference c)
5. Recommendations
6. Appendix A: relevant BCCM submissions
7. Appendix B: Extract from *Co-operative Entrepreneurship: Co-operative for Growth*

The BCCM welcomes the opportunity to provide additional information or comment on any aspect of this submission at any further hearings the Committee may hold as part of this inquiry.

Yours faithfully

Melina Morrison
CEO
Business Council of Co-operatives and Mutuals

1. About the BCCM

The BCCM is the peak body for Australian co-operatives, mutuals and member-owned enterprises. The BCCM represents a diverse range of enterprises operating in sectors including agriculture, finance and banking, insurance, superannuation, motoring services, health services, aged care, disability employment, education, indigenous services, social housing and retail.

The BCCM advocates for recognition of the sector and for measures that create a level playing field between co-operatives and other businesses, including implementation of the recommendations of the Senate Economics References Committee report into Cooperative, mutual and member-owned firms.¹

2. About co-operative and mutual enterprises

Co-operative and mutual enterprises (CMEs) are important Australian owned businesses: 8 in 10 Australians are members of at least one CME and annual turnover of the top 100 CMEs (excluding mutual superannuation funds) reached \$30.5 billion in FY2014/2015.² Together with mutual superannuation, it is estimated that the CME sector contributes 6 per cent of GDP. It is estimated the co-operatives deliver 17% of Australia's agricultural production value.

The distinguishing feature of all CMEs, regardless of what legal form they use, is that they are owned by their members and operate for member benefit. Member benefit can mean a wider range of social or non-financial benefits compared with the financial returns enjoyed by a shareholder. Membership is tied to contributing to or making use of the CME; this ensures the CME is made up of people who share its common purpose.

The objective of producer-owned co-operatives is the viability of small businesses in markets that would otherwise be dominated by large investor-owned firms. Co-operatives enable small primary producers to combine their efforts to compete. Well known examples of producer co-operatives are Co-operative Bulk Handling (CBH Group), Capricorn Society and Murray Goulburn.

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)³ or the Commonwealth Corporations Act. A company under the Corporations Act is a co-operative or mutual if it adopts a co-operative or mutual constitution.

3. Co-operatives are a proven 'bottom-up' regional development strategy in Australia and internationally (Term of Reference a)

Co-operatives provide a 'bottom-up', people-focused approach to regional development that achieves many, if not all, of the regional development outcomes that have been outlined in Term of Reference a. In particular, co-operatives are a 'place-based approach that considers local circumstances, competitive advantages and involves collective governance.' The Discussion Paper further notes that the

¹http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Cooperatives/Report

² Business Council of Co-operatives and Mutuals, National Mutual Economy Report 2016, 17.
<http://bccm.coop/wp/wp-content/uploads/2016/11/BCCM-NME-Report-2016.pdf>

³ Co-operatives National Law has been adopted in all States and Territories except Queensland. Western Australia has adopted consistent legislation.

bottom-up approaches to development tend to focus on the 'development of local industries, based on local resources and closely tied to the local community'; the BCCM is of the view that this is exactly what regionally-based co-operatives exist to do.

Kerry Anderson has suggested that co-operatives in regional Australia develop for two key reasons: 'to meet a gap in a local service...everything from the local pub to the supermarket', and, 'when primary producers seek to maximize profits by getting more control over the distribution and sale of their raw product.'⁴ Co-operatives also 'create employment opportunities...[and] are a great opportunity for rural people to develop valuable skills whether it be governance, customer service, cash handling or stock control. And the children of co-op members also have access to that same skills development...'⁵

Co-operatives like CBH Group, which handles most of the grain produced in Western Australia, can play a keystone role in their industry or regional economy, maintain the health of the business "ecosystem".⁶ CBH Group offers its small business members stability, bargaining power, leadership, access to markets, resources and quality information that could not be gained by small businesses operating independently.

The co-operative business model has been acknowledged by the United Nations for its ongoing contribution to the social, economic and cultural development of the estimated one billion co-operative members and their communities globally. The global peak body for co-operatives, the International Co-operative Alliance, has pledged the co-operative movement's support for the UN's Sustainable Development Goals.⁷

Australian case study: the Co-operative Community Store, Nurioopta

The Co-operative Community Store (known simply as "The Co-op"), in Nurioopta, was the focus of a study undertaken by EY in 2014 entitled *Sticky Money*.⁸ We refer the Committee to this study as an example of the economic and social value co-operatives create for regional communities.

EY estimated that for every dollar spent in the Co-op's Foodland outlet in Nurioopta, an additional 76c of value was created in the local economy. Paul Amos from The Co-op explains the purpose of the co-operative: 'we are stopping escape spend out of the region, which buys [our] community more prosperity'⁹ This is what The Co-op's mission statement, to be 'the Heart of the Barossa', is about.

The EY study also demonstrated how the value created by a co-operative is not always recorded on the co-operative's balance sheet. The Co-op adds value to the community by stocking 40% local produce, by stocking value-added products from

⁴ Kerry Anderson, *Entrepreneurship It's Everybody's Business: Practical ideas to strengthen rural businesses and communities* (Kerry Anderson, 2016), 80-81

⁵ *Ibid.*, 81.

⁶ See http://bccm.coop/wp/wp-content/uploads/2014/05/BCCM-submission-to-SBO_FIN.pdf, 23

⁷ <https://www.thenews.coop/106853/sector/health/co-ops-commit-un-sustainable-development-goals/>

⁸ http://bccm.coop/wp/wp-content/uploads/2014/12/Sticky-Money-Report_EY-2014.pdf

⁹ Private communication

local small businesses (who have gone on to supply other supermarkets and employ more staff), donating more than \$100,000 to community groups and clubs (FY16/17), and returning value to members through rebates on patronage and dividends on shareholding.

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

International case study: electricity co-operatives in the United States

An international example of co-operative regional development is electricity co-operatives in rural United States.

Before the development of electricity co-operatives, 90% of households in rural United States were without power. As a result, farm productivity was low, agricultural processing and marketing enterprises tended to be located in large cities, reducing the value-added benefit of agriculture to local communities, and hampering the development of local manufacturing.

As part of the New Deal, government loans were offered to established investor-owned utility companies to electrify rural areas. However, there was little interest from these companies; the bulk of applications came from farmer co-operatives. Subsequently the government adjusted policy to support the development of electricity co-operatives.¹⁰

Electricity co-operatives played a significant role in the modernisation of rural United States, contributing significantly to the productivity gains and economic development that underpins strong, independent rural communities. Co-operatives currently own and maintain 42 per cent, or almost 4.2 million kilometres, of electricity distribution lines in the United States.¹¹ They own poles and wires across 75 per cent of the United States. Many electricity co-operatives are now rolling out broadband for their members¹² and are an important contributor to regional community cohesion and solidarity.¹³

4. The BCCM supports a diversity of regional startups and improved capital raising options for co-operatives and mutuals (Term of Reference c)

Co-operatives are an effective method of facilitating long-term private investment in regional communities. The Discussion Paper states that '[e]ntities that operate on a profits based business model are likely to establish and retain a presence in those areas where its operations and profits can be maximised. For most private sector companies, this is in the populated metropolitan cities.' Though co-operatives may

¹⁰ See <https://www.electric.coop/our-organization/history/> or for further detail: Tucket et al, *Affordable Electricity and Economic Development: The Role of Electric Cooperatives in the 21st Century*, https://www.sommetinter.coop/fr/cdn/farfuture/8YF8VvTbd5sS54NIESJM0n-S9-OxqHGAh8FZMsmw-WI/mtime%3A1435677684/sites/default/files/etude/files/report_nreca.pdf, 4-5.

¹¹ NRECA, *America's Electric Cooperatives: 2017 Fact Sheet*, <https://www.electric.coop/electric-cooperative-fact-sheet/>

¹² For example see <http://www.newstribune.com/news/local/story/2017/aug/06/some-rural-co-ops-investing-to-bring-broadband-to-rural-areas-just-as-they-did-electricity/685280/>

¹³ For example see <https://www.electric.coop/hurricane-irma-electric-cooperatives-mobilize/>

distribute surpluses to members (and in that sense, may be 'profit based'), they are ultimately people-focused businesses. This is what allows them to focus on serving the economic, social and cultural needs of their members and communities in circumstances where this would be considered uncommercial from the point of view of an investor-owned business.

The BCCM supports a diversity of business structures in the economy, including in regional Australia. After the global financial crisis, there has been greater recognition among policymakers that a diverse economy is more resilient during downturns. A vibrant economy requires businesses of all types to be able to compete, regardless of corporate form. This means that appropriate legislative, regulatory and policy frameworks are required that do not restrict particular types of firm from being able to access the support and capital needed for startup or for growth.

4.1 The BCCM supports full business structure optionality for regional entrepreneurs and startups

We refer the Committee to our recent submission to the New South Wales Legislative Assembly inquiry into Starts-ups in Regional New South Wales.¹⁴ The relevant points we made in that submission are as follows:

- Regional entrepreneurs and startups should have full optionality when choosing a business structure for a startup enterprise, including the co-operative business structure;
- To ensure this optionality, government business websites, grants and tenders should not exclude co-operatives and co-operative entrepreneurship;
- Government business advice or education programs should include co-operatives and co-operative entrepreneurship on an equal footing with other business structures and approaches to entrepreneurship;
- Co-operatives are emerging in new sectors relevant to regional Australia such as data and platform ownership, care services, disability services and community energy; and
- The New South Wales co-operative loans scheme has been effective in catalysing private investment in regional economies.

We also refer the Committee to our recent submission to the Productivity Commission inquiry into Transitioning Regional Economies.¹⁵ The relevant points are as follows:

- A poor regulatory and policy environment has reduced the uptake of co-operative business models in transitioning regions, despite on-the-ground interest in the co-operative option; and
- Start-up co-operatives are ineligible for the New Enterprise Incentive Scheme.

The BCCM acknowledges the work of the Commonwealth Government to promote co-operative entrepreneurship in agriculture through the two year, \$13.8 million Farm Co-operatives and Collaboration Pilot Program.¹⁶ The Program was introduced in

¹⁴ <https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-submission-details.aspx?pk=%2058582>

¹⁵ http://www.pc.gov.au/data/assets/pdf_file/0004/220486/subdr069-transitioning-regions.pdf

¹⁶ <https://agworks.com.au/>

recognition that '[t]he most successful rural organisations in Australia are co-operatives. It allows people the capacity to reach further down the supply chain.'¹⁷

Innovative co-operatives are being formed through the Program, such as ORICoop (an organic farm investment co-operative) and a grower data co-operative. New regulatory tools to reduce the time and cost of co-operative formation such as the online Co-op Builder¹⁸ have been launched.

The BCCM notes the recent report of the Senate Economics References Committee inquiry into the Dairy Industry, which recommended that the Government reduce regulatory burden for co-operatives and support programs to facilitate the establishment of new co-operatives.¹⁹

4.2 Co-operatives and mutuals need improved access to capital to thrive

The BCCM refers the Committee to the recently-concluded review of the Senate Economics References Committee inquiry into cooperatives, mutuals and member-owned firms undertaken by Mr Greg Hammond OAM.²⁰

The review considered reforms to make it easier for CME companies to access capital. The proposed reforms consist of introducing a definition of 'mutual' into the Corporations Act and allowing companies that fit the statutory definition of a mutual to access capital through a "mutual capital instrument" that will allow CMEs to increase their working capital without undermining their purpose as member-owned enterprises. Reforms to allow access to capital for CME companies are needed to put established co-operatives and mutual on a level playing field with their investor-owned competitors.

5. Recommendations

5.1 The BCCM recommends that the Commonwealth Government facilitate full optionality for regional entrepreneurs by taking the following steps:

- Include the co-operative structure on business.gov.au and other government websites;
- Allow co-operative startups to access the New Enterprise Incentive Scheme and review other government programs to ensure co-operatives are not ineligible by way of legal structure alone;
- Work with the co-operative sector to ensure that business advisors and educators in government business programs have an adequate understanding of the co-operative structure to give participants in programs full optionality; and
- Continue to support programs such as Farming Together that are facilitating co-operative entrepreneurship and reducing regulatory burden for co-operatives.

¹⁷ <http://www.abc.net.au/news/rural/2014-10-20/nrn-ag-green-paper/5825626>

¹⁸ <http://co-opbuilder.agworks.com.au/>

¹⁹ Recommendation 9,

http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Dairyindustry/Report/c06

²⁰ <https://treasury.gov.au/consultation/reforms-for-cooperatives-mutuals-and-member-owned-firms/>

5.2 The BCCM recommends that the reforms being considered by the Treasury to improve access to capital for co-operative and mutual companies are implemented

Appendix A: relevant BCCM submissions

Submission to the Small Business and Family Enterprise Ombudsman,
http://bccm.coop/wp/wp-content/uploads/2014/05/BCCM-submission-to-SBO_FIN.pdf

Submission on the Agricultural Competitiveness Green Paper,
<http://bccm.coop/wp/wp-content/uploads/2014/05/BCCM-Submission-Green-Ag-Paper.pdf>

Submission on the Agricultural Competitiveness White Paper,
http://bccm.coop/wp/wp-content/uploads/2014/04/BCCM_Submission_AgriculturalCompetition_bccmfin.pdf

Submission to the New South Wales Legislative Assembly Committee on Investment, Industry and Regional Development inquiry into Support for Start-ups in Regional New South Wales,
<https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-submission-details.aspx?pk=%2058582>

Submission to the House of Representatives Standing Committee on Infrastructure, Transport and Cities inquiry into the Australian Government's role in the development of cities,
http://www.aph.gov.au/Parliamentary_Business/Committees/House/ITC/DevelopmentofCities/Submissions

Submission to the South Australian Parliament Economic and Finance Committee inquiry into Retail Supply Issues Faced by South Australian Primary Producers,
<http://bccm.coop/wp/wp-content/uploads/2017/03/7.-Submission-from-BCCM-2017-02-03-2.pdf>

Submission to the Productivity Commission inquiry into Transitioning Regional Economies, http://www.pc.gov.au/data/assets/pdf_file/0004/220486/subdr069-transitioning-regions.pdf

Appendix B: Extract from *Co-operative Entrepreneurship: Co-operate for Growth*²¹

Co-operative entrepreneurship

Co-operative entrepreneurship is a form of joint entrepreneurship. Broadly speaking this means that there is more than one entrepreneur involved in the creation of a new venture.

²¹ <http://www.employeeownership.com.au/wp-content/uploads/2015/05/coop-entrepreneurship.pdf>

A more accurate definition of co-operative entrepreneurship is the establishment of a co-operative enterprise. That is what this text is all about. Co-operative entrepreneurship has a number of advantages which will be explained in the following pages. Perhaps the greatest advantage is the ability of the participating entrepreneurs to combine different skills and competencies. Central to the success of co-operative entrepreneurship is the relationship between the entrepreneurs.

What do you need to be a co-op entrepreneur?

Co-operative entrepreneurs set up businesses. To do this they require many of the same characteristics which other non co-op entrepreneurs tend to possess naturally or to develop by engaging in business activity. For example, most entrepreneurs display determination, a capacity to innovate and 'think outside the box', a willingness to take risks, and good communication skills to promote their ideas to others. Owing to the unique characteristics of co-operative enterprises, co-op entrepreneurs also need to possess a few specific traits and attributes to be able to establish these types of businesses:

- A commitment to working democratically and for the good of the collective, rather than purely for personal gain;
- A willingness to share risks and rewards with other members;
- An understanding of and commitment to the co-operative values and principles;
- An understanding of how co-operation adds value to the business.

Co-operative entrepreneurship becomes possible when there is a group of likeminded individuals who have a need that is not being met by other companies. Cooperative entrepreneurs work together, not in isolation.