



BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

PO Box 6021
Parliament House
Canberra
Canberra ACT 2600

1 August 2017

Dear Sir/Madam

Submission to the inquiry into the Australian Government's role in the development of cities

The Business Council of Co-operatives and Mutuals (BCCM) welcomes the opportunity to make a submission to the Standing Committee on Infrastructure, Transport and Cities inquiry into the Australian Government's role in the development of cities.

The BCCM submission responds to the second sub-inquiry, into growing new and transitioning existing sustainable regional cities and towns. For a long time co-operatives have boosted the income of primary producers, provided steady local employment in regional centres and addressed market failures that arise in "thin" regional markets, particularly in relation to infrastructure provision. Co-operatives are now also at the forefront of innovation: the co-operative model is increasingly being applied to data, digital platforms and the "gig economy" labour market. In other words, co-operatives are a way of attracting sustained private investment in a diverse range of sectors in Australia's regions. Therefore, **one role the Commonwealth Government can play in encouraging long-term private investment in regional cities is ensuring that there is an enabling policy and regulatory environment for co-operatives.**

The submission is set out as follows:

1. About the BCCM
2. About co-operatives and mutual enterprises
3. Response to terms of reference
4. Recommendations
5. Appendix: Senate Economics References Committee recommendations

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

Yours faithfully

Melina Morrison
CEO

1. About the BCCM

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 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-operatives and Mutual Enterprises

Co-operative and mutual enterprises (CMEs) are a significant contributor to the Australian economy: 8 in 10 Australians are members of at least one CME and annual turnover of the top 100 CMEs (excluding member-owned superannuation funds) reached \$30.5 billion in FY2014/2015.² Together with mutual superfunds, it is estimated that the CME sector contributes 7 per cent of Australia's GDP. There are 15 million individual members of CMEs in Australia.

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 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. Whether a company under the Corporations Act is a co-operative or mutual will depend on its constitution.

3. Response to Terms of Reference

The BCCM responds to the following term of reference:

2) *Growing new and transitioning existing sustainable regional cities and towns*

- *Promoting private investment in regional centres and regional infrastructure*

3.1 Co-operatives facilitate long-term private investment in regional centres and regional infrastructure

Co-operatives may not be what first comes to mind when the words 'private investment' are uttered. However, co-operatives have a proven track record in contributing to regional development and they have done so by facilitating long-term private investment.

Investment in co-operatives is primarily undertaken by the members of the co-operative, whether those members are consumers, employees or enterprises (e.g. farm businesses), but has flow on social and economic benefits for the community where the co-operative operates. Although the classic method of investment for co-operatives is to use retained surpluses built up from trade with members, co-operatives have a wide range of capital

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.

³ <http://bccm.coop/wp/wp-content/uploads/2016/11/BCCM-NME-Report-2016.pdf>

³ CNL, adopted in all States and Territories except Queensland. Western Australia has adopted consistent legislation.

raising options. Co-operatives may also raise capital through shares (held by members), debentures or Co-operative Capital Units (flexible investment instruments open to members and external investors).

We refer the Committee to the attached guide to *Community Investment for Australian Co-operatives* for further information on the capital raising options open to co-operatives.

The following are just a few contemporary examples of the ways in which co-operatives are facilitating long-term private investment in regions and regional centres. In the process many of them are “anchor” employers in regional towns and cities and/or significant investors in local infrastructure.

- The Co-op, Nurioopta⁴

The Co-op is featured in EY's 2014 report *Sticky Money*, which highlights the way co-operatives add value to local economies. EY found that for every dollar spent in The Co-op's Foodland outlet in Nurioopta, an additional 76 cents of total value is created in the Nurioopta region. We have attached a copy of the *Sticky Money* report for the information of the Committee.

- bHive, Bendigo⁵

bHive is an innovative start-up platform co-operative that aims to develop a community owned sharing economy app for the Bendigo region. The co-operative has raised funds from the community to take it through the formation process.

- CBH Group, Western Australia⁶

Australia's largest co-operative owns and manages significant railway and port infrastructure for the export of the grain of its 4200 grower-members. It is currently part-way through a five year \$750 million infrastructure investment program.

- Northern Co-operative Meat Company, Casino⁷

Northern Co-operative Meat Company is the anchor employer in Casino in the Northern Rivers region of New South Wales and is one of the last producer-owned meat processors in Australia. In 2016 it invested millions of dollars on upgrades to its processing plant in Casino.

- Hepburn Community Wind Park Co-operative, Daylesford⁸

2000 Hepburn Wind members invested \$9.8 million, supplemented by bank loans of \$3.1 million and Victorian Government grants of \$1.725 million, to develop a 4.1MW wind farm. The members and community are benefiting from new local employment for managing the wind turbines, dividends from power sales, and community grants.

- Harvey Water, Swan Coast Plain⁹

Harvey Water is a co-operative of water users in Western Australia. The co-operative has two entities, one for undertaking the large capital works involved in irrigation funded by levies on members, and the other for selling water to members and other customers.

⁴ <http://barossa.coop/>

⁵ <http://www.bhive.coop/>

⁶ <https://www.cbh.com.au/>

⁷ <http://ncmc-co.com.au/>

⁸ <https://www.hepburnwind.com.au/>

⁹ http://www.harveywater.com.au/about_us_main.asp

- HunterNet Co-operative, Newcastle¹⁰

With the departure of major local contractors like BHP, the manufacturing base of the Hunter could have dissipated. However, the formation of HunterNet with \$30,000 Commonwealth Government seed funding has seen Newcastle's manufacturing and engineering SMEs find strength in adversity. Newcastle is now envied for its strong manufacturing cluster, which is a world leader in defence, infrastructure management, energy and resources and advanced manufacturing.

- Almondco, South Australia and New South Wales¹¹

Almondco, owned by 85% of Australia's almond growers, recently opened a new processing plant in Griffith with the help of a \$25 million New South Wales T-corp loan. It is estimated that this investment in new plant stimulated three times as much on-farm private investment by Almondco growers.

These examples demonstrate the breadth of sectors where community or key stakeholder investment can be facilitated through a co-operative.

3.2 There are barriers to the greater uptake of the co-operative model in Australia that the Commonwealth Government can play a role in addressing

While the above examples demonstrate the diversity of ways in which co-operatives can facilitate sustained investment in regional centres, there are a number of barriers that make starting or operating a co-operative unnecessarily difficult. These are barriers in the regulatory and broader policy environment.

In March 2016, the Senate Economics References Committee (the SERC) handed down 17 recommendations in the inquiry into cooperative, mutual and member-owned firms (included as an appendix).¹² The SERC recommendations are across three key areas where improvements are needed to make starting and operating a co-operative easier:

- Recognition
- Regulation
- Education and information

To provide a few examples, co-operatives are not currently included on the "choose a business structure" page of the Commonwealth Government's business portal.¹³ Co-operatives are often excluded from grants or government business support programs. For example, co-operative start-ups are ineligible for the New Enterprise Incentive Scheme.¹⁴ Co-operative registration currently takes at least 28 days, while a company can be registered in a matter of hours.¹⁵ The primary reasons for this is the lack of investment in "reg-tech" in the State and Territory-based co-operative registries. The registries are not currently

¹⁰ <http://hunternet.com.au/about-us/>

¹¹ <https://www.almondco.com.au/>

¹² See http://www.apf.gov.au/Parliamentary_Business/Committees/Senate/Economics/Cooperatives

¹³ See <https://www.business.gov.au/Info/Plan-and-Start/Start-your-business/Business-structure>

¹⁴ See <https://www.employment.gov.au/who-can-participate-neis#what-sort-of-business-is-allowed>

The scheme is limited to businesses with a maximum of two business partners. A co-operative requires at least five members. The BCCM has received feedback on these matters from start-up co-operatives and can provide further information if needed. The exclusion of co-operatives is unfortunate, given that worker co-operatives are particularly aligned to the job creation objective of the Scheme. Worker co-operatives are generally for-profit enterprises and exist first and foremost to create employment for the members of the co-operative.

¹⁵ For example, see

http://www.fairtrading.nsw.gov.au/ftw/About_us/Our_services/Forms/Cooperatives_forms.page?#Form_C1_-_Application_to_approve_co-operative_rules_and_formation_disclosure_statement

resourced to provide a high level of information and guidance to prospective co-operatives. The BCCM notes that the latest Federal budget has allocated \$300 million towards improved State regulation of small business; streamlined regulation of co-operatives should be first priority for this funding.

4. Recommendations

- 4.1 The BCCM recommends that co-operatives are recognised and included in regional development policies as a proven means of facilitating long-term private investment in regional centres and for developing regional infrastructure.
- 4.2 In order to facilitate the increased uptake of co-operative in regional Australia the BCCM recommends that the Commonwealth Government remove all policy and regulatory barriers to starting and operating a co-operative as outlined by the SERC report into cooperative, mutual and member-owned firms. In particular the Commonwealth Government should:
 - 4.2.1 Allocate funds from the 2017-18 Federal Budget for the National Partnership on Regulatory Reform¹⁶ towards cutting of red tape in State and Territory co-operative registries through the development of “reg-tech”, development of nationally consistent regulatory processes and nationally consistent information on co-operatives.
 - 4.2.2 Work with the BCCM to develop information on co-operatives for business.gov.au
 - 4.2.3 Review the ineligibility of start-up co-operatives for certain Commonwealth-funded programs designed to boost employment and support business including the New Enterprise Incentive Scheme.

¹⁶ See Budget Measures, Budget Paper No.2 2017-18, 168.

Appendix: Senate Economics Reference Committee recommendations

Recommendation 1

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

Recommendation 2

3.28 The committee recommends that co-operative and mutuals sector be better represented in government policy discussions, and is actively promoted as a possible option for service delivery particularly where community based initiatives are being considered.

Recommendation 3

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

Recommendation 4

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

Recommendation 5

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

Recommendation 6

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

Recommendation 7

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

Recommendation 8

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

Recommendation 9

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

Recommendation 10

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

Recommendation 11

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

Recommendation 12

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

Recommendation 13

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

Recommendation 14

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

Recommendation 15

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

Recommendation 16

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

Recommendation 17

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