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BCCM Submission to inform the New South Wales Government Small Business Strategy

Via email: smallbusinessstrategy@customerservice.nsw.gov.au

The Business Council of Co-operatives and Mutuals (BCCM) welcomes the opportunity to make this submission to inform the New South Wales Government Small Business Strategy.

The BCCM is the national peak body for co-operative and mutual enterprises (CMEs) in Australia. It is a member driven and funded organisation representing CMEs operating in all industries including agriculture, manufacturing, energy, insurance, banking, mobility, housing, retail, wholesale, health and community services.

Co-operatives and mutuals are key players in the NSW economy, generating high quality employment, maintaining vital supply chains, and securing access to essential services for millions of citizens. There are approximately 750 co-ops and mutuals operating in NSW with over 5.6 million members, and a combined turnover of close to \$12.8bn. Across the State, co-ops and mutuals employ over 22,000 workers directly, and are indispensable to the operations of tens of thousands of NSW small businesses, across a range of retail, wholesale and manufacturing industries.

A strong co-operative sector promotes a positive small business environment

Co-operative and mutuals are a proven model for both conducting small business and for facilitating the operations of small business communities, recognised for delivering sustainable economic development that benefits their members and the wider community. Internationally, co-operatives support the livelihoods of 280 million people, with the majority of this total being sole traders and small producers.

What are co-operatives?

Co-operatives are member-owned enterprises that exist to meet the social, economic and cultural needs of their members and their communities. As owners, it is the members that democratically govern their enterprise.

The members of a co-operative can be consumers, employees, producers (small businesses), a likeminded community or a combination of these stakeholders. By working together, members of a co-operative can benefit from economies of scale, better value or market access that they could not achieve alone.

Co-operatives in Australia are registered under Co-operatives National Law (CNL) in their state or territory. They are corporations, but based on internationally agreed principles of co-operation. Section 10 of the CNL enshrines these international co-operative principles, including Democratic Member Control and Concern for Community.

A co-operative conscious small business strategy can unlock the capacity of co-operatives to conduct small business operations in areas shunned by investor-owned firms, and aid groups of small businesses to thrive and prosper.

Many NSW co-operatives are small businesses

Co-operatives often form as a response to the failure of a market to adequately serve the interests of customers, workers or a community. They are a rational alternative in thin markets or when the objective of maximising returns to shareholders deters investor-owned business.

Common forms of small business set up as co-operatives and mutuals include:

- Consumer-owned (e.g. customer-owned retailers)
- Worker-owned (e.g. worker-owned care service providers or manufacturers)
- Community-owned (e.g. a local clean energy generator)

A co-operative conscious strategy can support small business development

The **Coota District Co-op** formed in response to news of the closure of the regional Target store located in the centre of town. Concerned about the loss of essential services and the wider risk to the economic prosperity of the town, local residents explored the possibility of a consumer-owned retail outlet.

The Coota Co-op has as its objective to provide quality, affordable goods including, clothing, footwear, toys, books, manchester and homewares while encouraging the building of wealth and sustainability for its members and the wider community.

Through the co-operative, the community has raised \$750,000 in member share capital and is now gearing up to commence trading.

The Co-operative Life is as an employee-owned co-operative providing high quality, person centred support care for older people and people living with disability.

As Australia's first employee-owned disability and aged care provider, staff are empowered to build their professional skills and provide a continuity of support that is a vital part of caring for vulnerable people.

Being member-owners gives staff the confidence to focus on what is important, delivering the best possible service to the people in their care.

The success of The Co-operative Life has seen it expand its operations, from its base in Sydney, to the New England region, absorbing a failing business in the area, saving local jobs and ensuring the continuity of essential services.

Goulburn Community Energy Co-operative formed in 2020, is an example of the growing community interest in operating battery systems as part of a community energy project.

The co-operative is an initiative of Community Energy 4 Goulburn, has more than 200 members and [will operate a 1.8mW solar farm and a 800 kWh battery system](#).

Members will benefit from the integration of the battery system alongside the solar farm as a means of managing when power is released onto the grid.

The co-operative exceeded its original capital target, raising over \$2.2 million in shares. Now it is looking to expand the size of the battery by three times and seeking a further \$600,000 of investment from members.

Working together through co-operatives helps small businesses to reduce costs and access markets

Through co-operative structures, small businesses, such as family farms, small manufacturers, sole traders and independent retailers can collaborate to reduce costs of business, share and improve industry expertise (including of digital and e-commerce), and increase profitability. They help smaller

producers to achieve scale, improve productive efficiencies, and make it easier to access wider markets (including Government). As trusted, local businesses, they also promote and empower regional resilience and have played a crucial role in disaster response and recovery across the South Coast, Western Sydney and the Northern Rivers in recent years.

Producer-owned co-operatives undertake a range of activities to benefit their small business members, including group buying to reduce the cost of productive inputs, self-insurance and risk protection (Discretionary Mutual Funds) and energy. They reduce costs by sharing administrative functions or services, through managing a common brand or digital sales platform, processing plant and export services, and providing industry education and training.

Examples of NSW-based producer-owned co-operatives include:

- Norco (dairy and farm input manufacturing, 300 members),
- The Casino Food Co-op (meat processing and hide tanning, 1000 members),
- ILG (liquor retail, 1,500 members),
- HunterNet (defence and engineering, 200 members),
- Go Vita (food retail, 150 members),
- RapidClean (cleaning supplies, 80 members),
- Plumbers Supplies Co-operative (trade supplies retail, 4,900 members).

Co-operatives and mutuals also work to find collaborative solutions to parallel challenges. Notably, the [Northern Rivers Co-operatives Alliance](#), after identifying affordable housing as a substantial contributor to the region's workforce challenges, is exploring co-operative solutions to alleviate housing pressures.

Structuring collaboration through a co-operative delivers the following benefits to small business:

- The corporate structure provides for clear governance requirements.
- A democratic structure permits for equitable participation of smaller and larger businesses (control is democratic, benefits of economic participation are in proportion to size)
- Local ownership and control reduces the leakage of value from regional economies, stimulating a local multiplier and positive flow on effects.
- An open membership structure directs activity toward long-term industry development rather than short-term profits.

Co-operatives are a flexible model for delivering collaborative solutions to shared problems. While playing a strong role in supporting NSW's small businesses already, they remain an underutilised model in many sectors.

A co-operative conscious small business strategy can leverage the benefits of collaboration

HunterNet Co-operative is a joint venture that allows engineering, defence and manufacturing businesses operating around Newcastle to share expertise, access markets that typically favour larger entrants through joint bidding, and to share the costs of research, innovation, employee training and apprentice management.

HunterNet is funded by member subscriptions and through delivery of member services such as its successful group training arm.

HunterNet has 200 members representing 70,000 employees.

Plumbers Suppliers Co-operative (PSC) is a specialist trade supplier to the NSW plumbing and building industry. The co-op provides members with high quality products and services, at fair prices which in turn flow on to reduce costs for end consumers.

The co-operative enables a unified community of trades professionals to share skills, pool resources and in times of rising costs retain control of their economic futures.

Because the co-op is owned by members and not shareholders, the economic and social benefits of its activities stay in the communities where their members are established.

PSC has served its members and their communities for nearly 70 years and is relied upon by 4,900+ small and sole trader businesses.

An enabling policy environment for small businesses to use the co-operative model

Significant potential benefits are available to NSW small business through co-operative structures and there is a rising appetite for co-operative and mutual models throughout the community, as evidenced by the recent establishment of the NSW Parliamentary Friends of Co-operatives and Mutuals. However, significant policy and regulatory barriers persist, which inhibit the full utilisation of the model by small businesses throughout the State.

Lack of awareness

Despite eight in 10 adults in NSW being members of a co-operative or mutual, only three in 10 are aware of this fact. This lack of knowledge and comprehension throughout the community of co-operative and mutual models is mirrored across NSW Government departments and agencies, which often results in co-operatives being inadvertently excluded from business support measures and policies.

A current example is the government-wide buy.nsw procurement platform managed by Procurement NSW and the Department of Customer Service. Although registration will be mandatory from 1 July to supply the Government, co-ops are not listed in the registration form as a structure option, nor are they included in the list of 'business identifiers' despite being a distinct type of locally-owned and ethical business.

Regulation of co-operatives

Co-operatives are registered under Co-operatives National Law (CNL), harmonised legislation enacted in each state and territory (with NSW being the lead State). NSW co-ops are registered with and regulated by Fair Trading. National harmonisation was completed in 2020 and was a positive step for co-operative regulation, significantly reducing red tape for NSW co-ops conducting cross border trading and capital raising.

However, co-operatives regulation needs further modernisation, digitisation and integration with national economic and regulatory policy if New South Wales is to provide a truly fit-for-purpose and world-class regulatory environment for co-ops to form, operate and grow.

Key challenges include:

- Registry processes are still largely paper-based (IT infrastructure for co-op registries is outdated. For example, requesting access to public registers of co-operative documents can be delayed, particularly during COVID, because in some cases only physical files are available in one office).
- Lack of regulatory guidance to co-operatives on matters such as fundraising (unlike ASIC, there is no regulatory guidance for issuing CCUs or debentures in a co-operative).
- Ongoing inconsistency of regulation and administrative approaches between state and territories (for example, states currently differ in approach on online voting in general meetings).
- Lack of regulatory policy capacity, including co-ordination with national regulatory modernisation and digitisation reforms (for example, NSW co-operatives are currently excluded from the Director Identification Number (DIN) system)

BCCM Recommendations

1. NSW Government should conduct a Government-wide audit of all measures, programs and websites to ensure co-operatives are not excluded. Specifically, the NSW Government should immediately include co-operatives in the buy.nsw registration form as a structure option and in the 'business identifier' list.
2. NSW Government should partner with the BCCM in an industry-driven program of education and capacity building in relation to co-operatives across the community and within government, with a focus on the opportunities for small businesses and entrepreneurs to scale through co-operation.

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