

# 2021-22 Budget Submission:

## A National Centre for Co-operative Business Growth

Delivering Co-operative Business Growth and Deregulation



# Summary

**This submission urges the Commonwealth Government to support industry-led efforts to promote growth among Australian-owned co-operative and mutual businesses through the provision of \$7 million for business growth services and industry deregulation.**

The purpose of this proposal is to support Australians and Australian SMEs to contribute to Australia's economic recovery by:

- Supporting new investment in Australian businesses
- Supporting new markets for Australian products through scaling SMEs and value adding
- Prioritising business owned by Australians, for Australians
- Building regional economic growth through local business co-operative consortia
- Expanding competition and choice for Australian consumers
- Helping linkup supply chains, onshore jobs and rebuild local manufacturing

This would be achieved through Federal support to accelerate industry-led activity and establish a National Centre for Co-operative Business Growth which would have a dual focus:

1. To support the development of more and larger co-operative and mutual businesses
2. To co-ordinate a Co-operative and Mutual Deregulation Taskforce

Co-operatives and mutuals have a great deal to contribute to the economic and social recovery following COVID-19.

They are able to drive growth, create and maintain quality jobs, facilitate export earnings, provide supply chain and food security, enable value added manufacturing and the reassertion of domestic production capability, and deliver competition and choice for consumers.

This business sector, covering multiple industries and across all of Australia's regions, is making a major contribution and, if properly supported, can do more.

## How co-operatives and mutuals are critical to the recovery

They are:

- Employers and job creators across all of Australia and especially in the regions
- Australian-owned enterprises – ensuring that decision-making and value stays local
- Domestic taxpayers and significant export earners
- Critical to supply chain sovereignty including food security
- Value adding businesses, especially in manufacturing
- Driving competition and consumer choice in concentrated markets

## Why co-operatives and mutual businesses can deliver broad economic benefits

Co-operative and mutual enterprises, or CMEs, operate in a diverse range of sectors of the economy including agriculture, manufacturing, finance and banking, insurance, mobility services, health services, aged care, disability, employment, education, Aboriginal services, housing, retail and wholesale.

Co-operative and mutual enterprises are owned by members rather than shareholders. Their members can be their customers, as in the case of a mutual bank, their policy holders, such as a mutual health insurer, their suppliers, as in a farmer owned co-operative or their members can be small or medium enterprises themselves, as in buying groups.

They are shared business ventures that enable individual entrepreneurs or businesses to work together for a common purpose. As a collaborative business vehicle, co-ops and mutuals facilitate the pooling of capital and business expertise so their members (individuals or SMEs) can work together to compete in markets suited to larger entrants. They enable bulk purchasing and group marketing activities, collectively invest in infrastructure and R&D, promote education, training and skills development and bring independent businesses together for business acceleration and scale. Because of their shared local ownership, CMEs are domiciled in Australia, distribute wages and profit back into their community and are taxed in Australia.

The top 100 Australian co-operative and mutual enterprises (CMEs) alone have a turnover of **\$31.9 billion**<sup>1</sup> and they contribute significantly to the diversity of Australian businesses and the resilience of the Australian economy.

- **CMEs are longer lasting:** In Australia, the average age of an ASX top 50 firm is 65 years. By comparison, the average age of a top 50 Australian CME is 82 years, a full 17 years and 25% longer.<sup>2</sup>
- **CMEs provide competition and choice for consumers in a range of markets:** Their presence means that there is a permanent competitive pressure on profit maximising firms, keeping prices lower for consumers.
- **CMEs are businesses that plan for the long term rather than short term:** Without the need to respond to short term share market pressures, CMEs are stable, reliable businesses able to adopt longer term business strategies.
- **CMEs are businesses that treat customers fairly and honestly:** Research consistently shows that the public trusts CMEs more than other types of business. They can concentrate on running the business in a way that best meets the needs of their customers, whether that is through lower costs or better/more diverse service offerings.

<sup>1</sup> BCCM, 2020 National Mutual Economy Report. <https://bccm.coop/what-we-do/research-reports/nme-report/>

<sup>2</sup> BCCM, Leading the Resilience Report. <https://bccm.coop/what-we-do/research-reports/leading-the-resilience-report/>

- **CMEs share the benefits of business and wealth throughout the country:** They share their profits through lower prices to customers and dividends to members so that more people can benefit. They provide employment opportunities across the country and are good for small business, bringing equity and fairness to supply chains, more local employment and enhanced local procurement.
- **CMEs reinvest 100 per cent of their surpluses back to members and the broader community:** From the onset of the pandemic, as they have done in previous periods of crisis, CMEs invested in employee and customer wellbeing and mental health programs from their own balance sheet.<sup>3</sup>

## **What support do co-operatives and mutuals need from Government?**

The business model has not been well recognised in Australia and regulation of the sector is poorly co-ordinated and under-resourced across State and Federal governments.

- State-based Co-operative Registrars are unable to perform their duties proactively, to a basic standard due to a lack of resources and expertise. In 2020, they fell short of the pandemic 'stress test' failing to nationally coordinate the flow on to the states of Federal relief measures such as the relaxation of insolvency provisions.
- Poor visibility and recognition of the business model has led to co-operative and mutual businesses being unable to access a number of government programs.

The industry itself has demonstrated leadership to improve regulation and promote growth for all businesses across the sector. Australia's leading CMEs have contributed from their balance sheet to build educational resources, improve the capital options for CMEs, develop new investment markets, support regulators to understand the model and to commission research on international best practice for CME regulation and growth.

**The Business Council of Co-operatives and Mutuals (BCCM) is now requesting Government support for an industry partnership to accelerate and scale the necessary activity that will underpin business growth in CMEs.**

A focus on supporting the growth of co-operatives and mutuals is an underutilised policy tool that can stimulate private sector growth.

Support should drive enhanced recognition of the sector among regulators and policy measures that create a level playing field between CMEs and other business.

<sup>3</sup>*Ibid.*

## National Centre for Co-operative Business Growth

The Federal government has demonstrated its commitment to enabling co-operatives and mutuals over the last three years by legislating to improve the business environment and by supporting BCCM's work to strengthen the agricultural co-operative sector.

The creation of a National Centre for Co-operative Business Growth would be a practical extension of this support focused on achieving increased business growth over the next three years and establishing a formal legacy body to build upon these achievements for the long term.

The BCCM was formed by Australian co-operative and mutual businesses in 2013 as a voice for the sector. BCCM has provided the initial resources for data collection and research on the sector and a focal point for co-operative management experience and business expertise.

The BCCM is now seeking a partnership with the Commonwealth Government to scale and expand the provision of co-operative and mutual business expertise and services to a national market of small businesses and entrepreneurs as well as existing co-operatives and mutuals.

BCCM is requesting \$7 million over three years to support it in establishing a **National Centre for Co-operative Business Growth**. This funding will match the industry co-investment in the BCCM's business services over the period.

The focus of the National Centre's work would be on enabling successful co-operative businesses to help deliver its purpose: to support Australians and Australian SMEs to contribute to Australia's economic recovery by:

1. Supporting the development of more and larger co-operative and mutual businesses
2. Co-ordinating a Co-operative and Mutual Deregulation Taskforce

## Developing more and larger co-operative and mutual businesses

The National Centre will:

1. Enhance and scale industry advisory services to support existing co-operatives to grow and facilitate SMEs to build new co-operative business ventures
2. Establish a world class capital investment regime for co-operatives and mutuals including a permissive legal and market framework for new and existing investment instruments<sup>4</sup>; business preparedness among co-operative and mutual enterprises and; increased market understanding and acceptance of the new securities
3. Engage investors, businesses and industry groups to take advantage of new investment options with CMEs
4. Work with education and professional service providers to support co-operative business education
5. Support the development of regional business clusters around groups of strong co-operatives and mutuals
6. Grow medium and larger-sized co-operative firms, particularly in manufacturing and finance
7. Assist SMEs to be more profitable and competitive through existing and new co-operatives

<sup>4</sup> Building on the Treasury Laws Amendment (Mutual Reforms) Act 2019

## Co-operative and Mutual (CME) Deregulation Taskforce

Working with industry to improve the business environment for CMEs should be a priority for the Government's Deregulation Agenda and its focus on cross-jurisdictional regulatory burdens.

A CME Deregulation Taskforce should be formed in the National Centre for Co-operative Business Growth to identify and address inconsistent, duplicative, antiquated and paper-based, and poorly implemented regulation of CMEs across all industry sectors.

Regulation of the sector is poorly co-ordinated and under-resourced across government. This was identified as an issue in the Senate Economics References Committee inquiry into the sector in 2016,<sup>5</sup> which recommended that 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'
- 'liaise with its state and territory counterparts to ensure that the regulatory burden for small and medium sized co-operative and mutual enterprises aligns with the needs of these organisations and ensures they are not disadvantaged relative to companies of a similar size.'
- '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 mutuals enterprises are not excluded on the basis of their business structure.'

The following table provides an overview of the main regulators for CMEs:

	Co-operative	Mutual company
Corporate Regulation	State/Territory Registrars. Co-operatives National Law. Imports some parts of Corporations Act.	ASIC. Corporations Act.
Australian Business Number	ABR	
Charity regulation	ACNC Dual reporting required to ACNC and State Registrar.	ACNC
Income tax	ATO. Tax definition of 'co-operative company', 'mutuality principle'. Not-for-profit exemptions may apply.	
Accounting standards	AASB. Treatment of co-operative shares as debt.	
Competition	ACCC	
Business buying and marketing groups	ACCC Collective bargaining provisions, Franchising Code	
Agricultural co-operatives	ACCC Collective bargaining provisions, Dairy Code Federal and state licensing for agriculture, manufacturing, export	
Health insurance mutuals	n/a	APRA + health insurance legislation
Banking mutuals		APRA + banking legislation
Superannuation mutuals		APRA + superannuation legislation
Insurance mutuals		APRA + insurance legislation
Housing co-operatives	State regulation of community housing	

<sup>5</sup> Report of the Senate Economics References Committee inquiry into cooperative, mutual and member-owned firms. [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Economics/Cooperatives/Report](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Cooperatives/Report)

A dedicated and accountable Taskforce with industry representation and a whole-of-government mandate is needed to identify, scope and drive the establishment of a modern regulatory system for CMEs.

The BCCM proposes the following priority areas for this Deregulation Taskforce that will reduce administrative burden and drive new growth and job creation in CMEs:

<b>CME Deregulation Taskforce priority</b>	<b>Activities</b>	<b>Benefits</b>
Convene a Council on Federal Financial Relations forum to deliver on the policy goals of the Australian Uniform Co-operative Laws Agreement <sup>6</sup>	Streamline co-operative administration and regulation across jurisdictions	Increased investment by co-operatives due to clearer and streamlined investment processes.
Extend the rollout of the Modernising Business Registers programme to co-operatives	Streamline and centralise paper-based registry functions for co-operatives and include co-operatives in the Director Identification Number system	Reduced time and cost of administration for co-operatives. Improved information for policymakers and the public about co-operatives and their directors (DINs)
Ensure CMEs are eligible for existing government programs where there is no clear policy intent to exclude them	Parity of treatment for co-operatives and mutuals	Co-operatives and mutuals able to pursue business growth opportunities intended through existing government programmes

The Taskforce could also review the economic impact of CMEs, address the lack of data collection on CMEs, consider the effectiveness, efficiency and resourcing of the existing Federal regulatory framework and develop guidance for future policy development to support co-operative and mutual business development

## Budget

This budget estimates the costs of each of the deliverable items in the workstream document.

The total estimated cost of this proposal is **\$7,000,000** over three years.

<b>Support the development of more and larger co-operative and mutual businesses</b>	<ul style="list-style-type: none"> <li>CME co-ordination and industry engagement;</li> <li>building the capital investment market;</li> <li>business growth research, business development and facilitation</li> </ul>	<b>\$5 million</b> 21-22 \$2 million 22-23 \$1.5 million 23-24 \$1.5 million
<b>Deregulation Taskforce</b>	<ul style="list-style-type: none"> <li>CME co-ordination and industry engagement;</li> <li>Research and Policy</li> </ul>	<b>\$2 million</b> 21-22 \$1 million 22-23 \$500,000 23-24 \$500,000

<sup>6</sup>[https://www.fairtrading.nsw.gov.au/\\_\\_data/assets/pdf\\_file/0020/370433/Australian\\_uniform\\_cooperative\\_laws\\_agreement\\_signed.pdf](https://www.fairtrading.nsw.gov.au/__data/assets/pdf_file/0020/370433/Australian_uniform_cooperative_laws_agreement_signed.pdf)



## About the BCCM

The Business Council of Co-operatives and Mutuals (BCCM) is the peak body for Australia's member-owned firms across all industries.

The members of the BCCM collectively have 11.5 million members. They represent the leading co-operative and mutual firms operating in the Australian economy. The BCCM advocates for recognition of the sector and for measures that create a level playing field between CMEs and other business models, including implementation of the recommendations of the Senate Economics References Committee report into "Co-operative, mutual and member-owned firms", and the Hammond Review recommendations to improve access to capital for co-ops and mutuals.

From 2016-2019 the BCCM coordinated industry action to work with Government to bring forward the first enabling legislation for co-operatives and mutuals in 18 years.

### **BCCM Contact and further information**

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