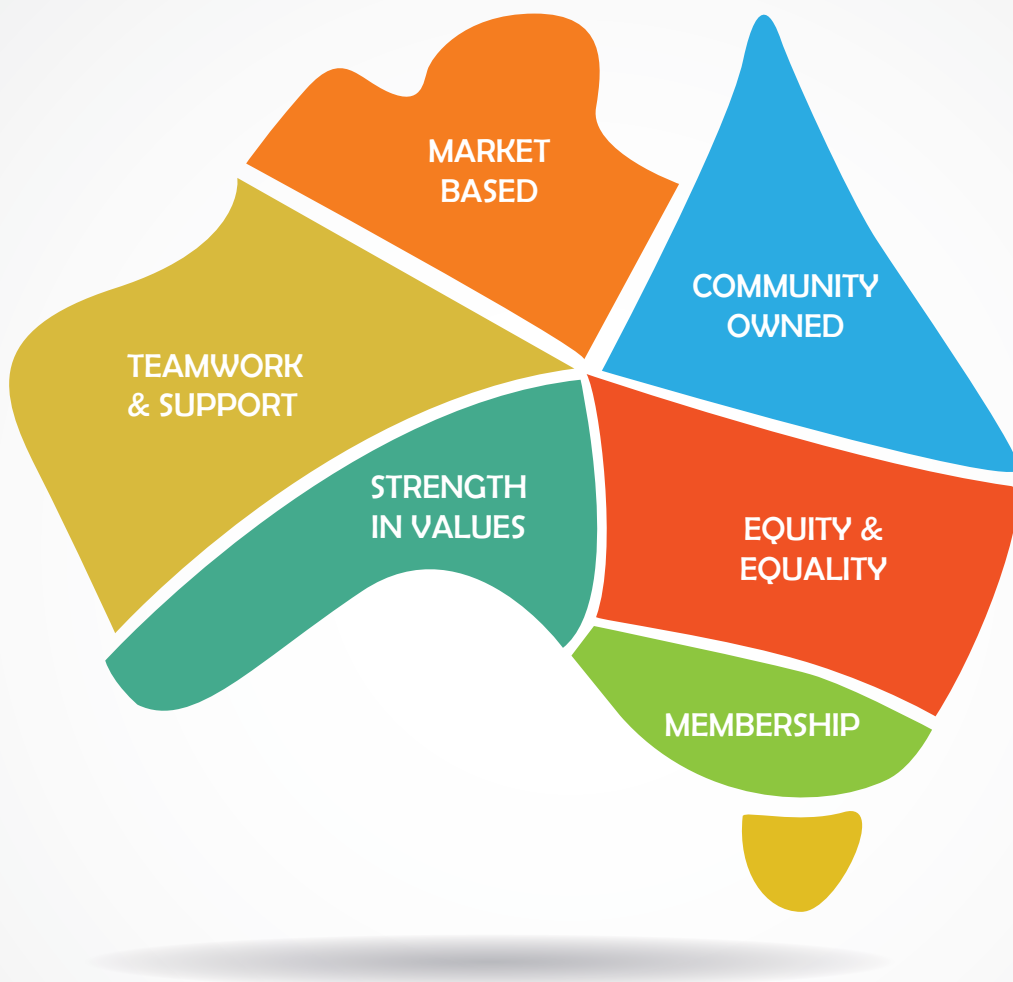


Co-operatives in Australia

A Manual



Understanding the purpose, start-up process, planning and running of a co-operative in Australia

Acknowledgments

Publisher

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Preface

Regional Development Australia - Mid North Coast (RDA Mid North Coast) is one of 55 Regional Development Australia committees of local leaders, formed as a partnership between the Australian, State and Local Governments to strengthen and develop regional communities.

The RDA Mid North Coast region (Taree, Port Macquarie, Kempsey, Nambucca, Bellingen & Coffs Harbour) in NSW has a strong history and a high number of registered co-operatives and mutuals (38 co-operatives and 3 credit unions). The RDA Mid North Coast has identified co-operatives and mutuals as a model for generating and retaining community wealth in the region. The strong support of co-operatives by RDA Mid North Coast is evidenced in its past work and future plans.

2012 was recognised by the United Nations as the International Year for Co-operatives (IYC). This was the first time the UN had acknowledged a corporate governance model with an International Year. This was due primarily to the accepted value and benefits of community ownership inherent for producers and consumers of the model.

The RDA Mid North Coast contributed to the IYC in several programs. It hosted the 2012 IYC National Co-operatives Conference, which attracted over 250 co-operative representatives, to celebrate their achievements, gain further understanding of themselves and their sector, and consider the future of co-operatives in Australia.

RDA Mid North Coast further contributed to the IYC 2012 Year Book, and conducted the first research within its own region of the number, diversity, social and economic value of co-operatives, publishing a snapshot of the significant value co-operatives give to the Mid North Coast region. This research has influenced our future plans for involvement with the regional co-operative sector, including exploring how the co-operative model can work to harness the productive capacity of small land holdings, value-add to local produce, and mitigate the enormous setup costs of new market sectors such as renewable energy.

The IYC national secretariat was particularly interested that the year would lead to a legacy for future co-operative development. One area of significant importance was the introduction of the Co-operatives National Law. Discussions with local co-operative members and co-operative federations in each state identified concern that the sector did not have a current handy resource to explain what co-operatives are, how they are run, and importantly, how they are established. The idea for this manual was spawned.

The RDA Mid North Coast with the support of the Co-operatives Federation of New South Wales prepared this Manual. Special thanks must also be offered to the Victorian Federation of Co-operatives who had previously prepared a start up guide for co-operatives and whose contribution was invaluable.

This manual explains what co-operatives are and how the 2012 Co-operatives National Law affects how they operate in Australia. It also provides help for starting, running and closing co-operatives.

RDA Mid North Coast is pleased to be involved in developing the manual, and is grateful to the Co-operative Federation of NSW – we trust that the information will assist to promote the value of co-operatives and their capacity to maintain and generate community wealth across all regions of Australia.

Peter Tregilgas

Executive Officer, Regional Development Australia - Mid North Coast

Introduction

The history of co-operation goes back at least 120,000 years, when Palaeolithic humans lived in small societies and subsisted by hunting and gathering together. Historians believe they lived in small egalitarian bands formed by several families. Individuals are thought to have been subordinate to the band as a whole, making decisions by communal consensus rather than by appointing permanent chiefs. Rituals were used to strengthen group cohesion and social bonding.

Bands at times joined together into larger bands to acquire mates, share resources and hunt together, rarely engaging in violence between groups and distributing food equally so that everyone had a stable food supply. Evidence exists that Paleolithic bands travelled long distances to trade with other bands for rare commodities, such as ochre.

Co-operatives were first established over 500 years ago and are one of the oldest types of business. The social principles that guide co-operatives are principles that humanity, at its best, have used to survive, share and thrive since early Paleolithic times. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, equality, solidarity and caring for others.

Co-operatives have been called the 'enfants terribles' of economics (Levi and Davis, 2008). Some think they are too social for mainstream business, and too business-like for the not-for-profit sector.

Despite there being over a billion members of co-operatives worldwide, they are not well understood, nor given much attention by academia or the general public.

This is a time of global economic uncertainty, with communities' concerns escalating about the power of large companies that focus on share prices and quick profits rather than the needs of customers and the community. It's also a time when there is a lack of affordable housing in most cities and regions, and country areas need services, employment and a reliable supply of goods to survive.

It is time to support and strengthen a practical and democratic alternative to large corporations and a lack of basic services – socially responsible co-operatives.

This manual follows the life cycle of co-operatives. We have provided sections to help readers: to understand what co-operatives are; start new co-operatives; understand how a co-operative is planned and managed; and how to deal with changes, including ending membership and a co-operative.

Throughout the manual, we have provided readers with information about the Co-operatives National Law; what co-operatives need to do to comply with the Law and Regulations, and how the Law will change the way co-operatives operate across Australia.

Where possible, this manual has been written in plain English to make it an easy read, but, when referring to the provisions of Co-operatives National Law, we have often needed to retain much of the wording of the Law so nothing is missed in translation.

Who should read this manual

This manual is designed to assist anyone who wants to start or join a co-operative, and also increase the understanding of members already involved in co-operatives across Australia.

Co-operatives are usually formed by new groups of people who are interested in working together to achieve a particular goal. They may also be formed when another incorporated body such as an association, a company or an indigenous entity decides that the co-operative structure is better suited to its purpose and membership base.

So this manual is also designed to assist members of other entity types to understand the pros and cons of the co-operative structure (compared with their existing structure).

This manual was prepared on the assumption that the Co-operatives National Law (CNL) or alternative consistent legislation has commenced in a jurisdiction. At the time of writing the CNL or alternative consistent legislation is likely to be commenced in each state and territory sometime in 2013, although the commencement time will vary from jurisdiction to jurisdiction.

The CNL will not apply to certain mutuals such as credit unions, mutual building societies and friendly societies as these organisations are federally regulated. The CNL also does not apply to certain housing co-operatives, including co-operative housing bodies assisting members to achieve home or land ownership under the Co-operative Housing and Starr-Bowkett Societies Act 1998, or similar bodies that are not registered under that Act.

Disclaimer

While we have endeavoured to provide as much information as possible to assist members of new and established general co-operatives, this manual does not, and does not claim to, contain all the information needed to establish and operate a co-operative. The contents of this manual are provided for informational purposes only and do not constitute legal advice.

While all due care was taken, the contributors and the Co-operative Federation of NSW do not give any representation or warranty as to the accuracy, completeness, currency or reliability of the information contained in this manual, and do not accept:

- i. Any responsibility arising in any way for errors or omissions in this manual or for any lack of accuracy, completeness, currency or reliability of this manual, or;
- ii. Any liability for any loss or damage suffered or incurred by the reader or any other person as a result of, or arising from, that person placing any reliance on this manual or its accuracy, completeness, currency or reliability.

Statements made in this manual have been made in good faith and have been obtained from information believed to be reliable as at December 2012. While all care has been taken, this manual could contain inaccuracies, typographical errors and out-of-date information. In no event shall the contributors or the Co-operative Federation of NSW be liable for special, indirect, incidental or consequential damages resulting from or related to the use of this manual.

None of the parties referred to above or their respective officers and advisers accept any responsibility to inform recipients of this manual, or part of it, of any matter arising or coming to their notice which could affect any matter referred to in this manual.

This manual provides a basic guide to Co-operatives National Law 2012, and is intended to be useful in ensuring the structure, rules and operations of new and existing co-operatives comply with this legislation. It is not intended to be a comprehensive statement of Co-operatives National Law. In all cases where there is a variation between the wording in this manual and the wording in the CNL, the wording of the CNL applies.

The Co-operatives National Law template is available at the time of writing at www.legislation.nsw.gov.au.

Each jurisdiction that adopts the CNL will do so with specific application and modifications or under alternative consistent legislation. Persons interested in the legislation as it applies in those jurisdictions should access the relevant legislative database for that jurisdiction. If you are unsure of how the law or regulations apply, we encourage you to seek assistance from the Registrar of Co-operatives in your jurisdiction or obtain independent legal advice.

Part one: Understanding co-operatives

What are co-operatives?

The most important aspect of co-operatives is people. Co-operatives belong to, are operated by, and benefit the people who become members of co-operatives. They also enhance the communities they operate in.

Members are the heart and soul of a co-operative. The main purpose of a co-operative is for all members to join with a group of like-minded people to share in the benefits of co-operation, which are designed to meet the social, economic and cultural needs of its members.

Co-operatives are people-centred and are owned, controlled, used and invested in by their members, who have a responsibility to support their co-operative by being an active member. In return, the co-operative must ethically service the needs of its members.

Their democratic nature means that all members are equal decision makers, with one vote per member, enabling members to determine the decisions their co-operative makes.

Co-operatives promote member development through their participation in governing the organisation, and usually provide local social or economic development, such as providing employment, goods or services that would not otherwise be available or affordable to the members.

A co-operative's size and operations depend on the extent of support from its members, including capital contributed, members' use of the co-operative's goods and services and the involvement and skills of the Board.

Co-operatives are important to our economy and communities, and operate in a wide range of industries. They represent a more socially responsible form of business enterprise because their focus is not on maximising profits for other investors, but on maximising benefits through the provision of goods or services to members. The members may be in a particular geographical community or they may simply have a common business or social interest.

Co-operatives are democratic organisations formed by people with mutual needs and aspirations which can be fulfilled by pooling resources and working together.

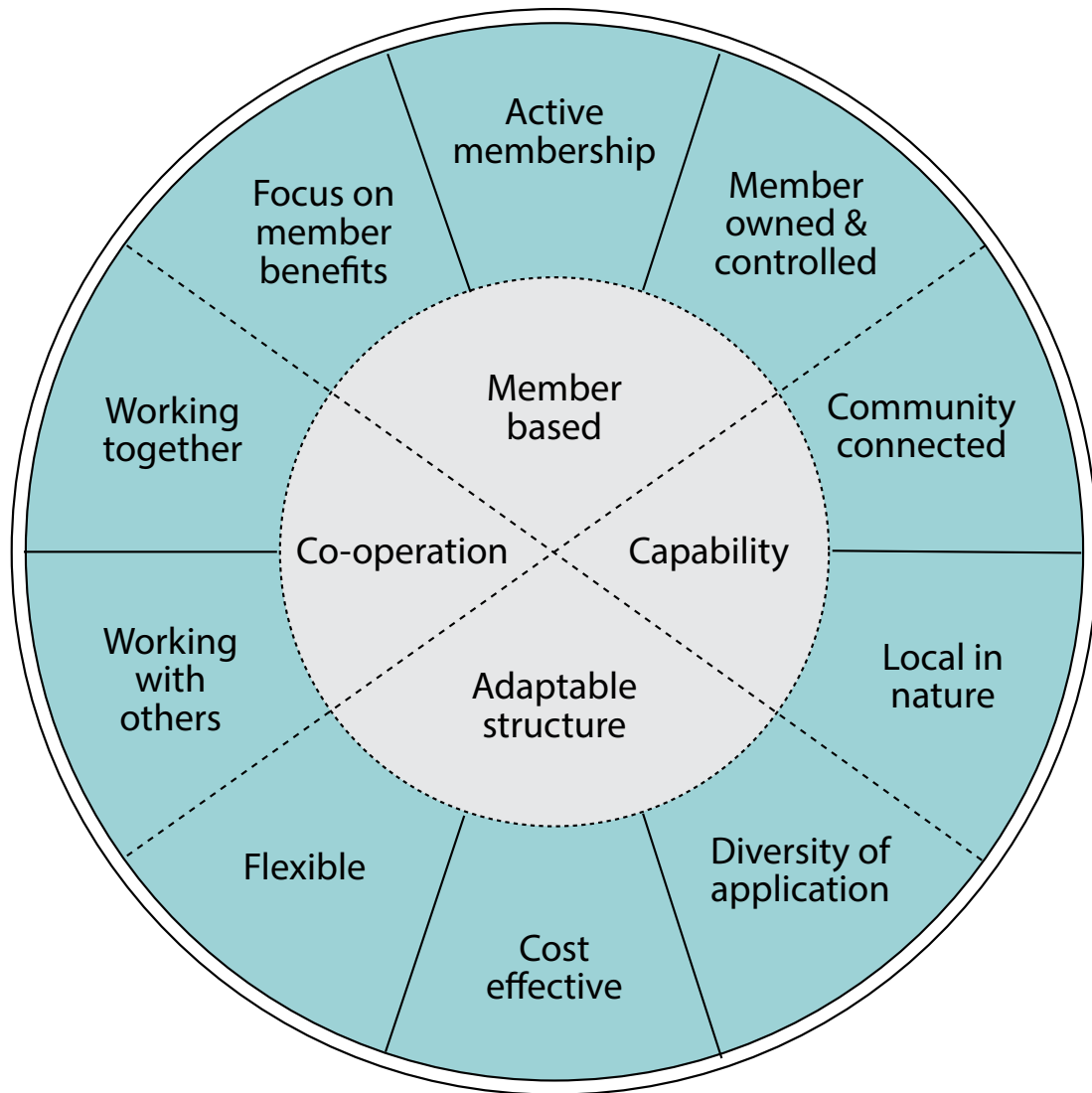
"We are the trustees for assets which others before us created, to which we therefore have no moral entitlement and from which others after us are entitled to benefit no less than ourselves."

Race Mathews
Co-operative economist

The ability of a co-operative to operate with the purpose of making a profit in any market along with the flexibility in how it uses its surplus makes the co-operative adaptable to a broad range of business and social, including charitable, purposes. The democratic control and protections guaranteed by legislation make a co-operative less exposed to takeovers by profit seekers that are not part of the membership or community that the co-operative serves.

The inherent values in the co-operative sector, particularly the value of co-operation amongst co-operatives, means that any co-operative can find support and advice from other co-operatives. By contrast, other corporate entities treat each other merely as competitors seeking profit maximisation.

Competition in a market, and indeed competition between individual members in a co-operative, can result in conflict and an erosion of benefits for a co-operative and its members. Consequently, adherence to the internationally agreed principles for co-operatives is core to the success of a co-operative and the sector to achieve a socially responsible business world.



The Co-operative Circle

Image courtesy of The Mercury Centre (www.mercury.org.au)

How are they different to other businesses and organisations?

In many ways co-operatives are similar to other businesses and organisations. They face similar economic challenges, often have similar physical premises, perform similar services, must have robust business practices and conform to legislation.

There are, however, significant differences which provide special challenges and benefits to its owners. The most unique distinction of co-operatives is The Co-operative Difference, which relates to its structure, philosophy and purpose.

Democracy is a key difference between a co-operative business and a company. This can be strength, as it offers members more control and the ability to make decisions that represent the views of the majority of members. Conversely, however, a decision which provides maximum benefit to members may not always be the best decision for the long term viability of the co-operative as an entity. For example, farmers as members of a co-operative may decide that the co-operative should deliver all of its surplus to members so that individual farmers will achieve the best profit margins for their farms. Such a decision will leave the co-operative without any operating surplus to improve other services such as product handling or development and marketing. As in any business there is a need to make balanced business decisions that consider all the interests within a co-operative. As a co-operative grows it will require increasing amounts of assistance from persons with expertise or knowledge. These people may or may not be members, but they will be the people that will help the co-operative better balance member interests with the ongoing interests of the co-operative.

In a company the decision process is simpler. The decision is made based upon what will give the company the best profit.

Another key difference of a co-operative is the requirement for active membership. Active membership is mandated by the law, and its nature is determined in the co-operative's rules. It is active membership that defines the minimum commitment and support from members to the co-operative to ensure its ongoing operations. Active membership is the 'quid pro quo' for democratic control of the entity. Only active members can vote and control the co-operative and this is what makes the decision making more responsive and dynamic to members' interests or needs.

In a company, members or shareholders vote according to the number of shares they hold. Their interests are satisfied (or not) by dividends. If a member of a company is not satisfied then the member will dispose of his or her shares.

A co-operative is more difficult to form than a company and this is one factor that contributes to the smaller size of the co-operative sector.

The main reason why a co-operative is more difficult to form is because the basis for formation is founded in the agreement amongst a group of people (minimum of five by law) with a similar need or interest who commit to future co-operation. In this way forming a co-operative has some similarities to forming a partnership under a contract. By contrast a company (either public or proprietary) can be formed by a single person. There are many reasons for companies being formed. Because they can be formed by a single person, they are commonly used by sole traders or service providers as a means of managing tax liability or separating personal and business liability from their trading operations. Some companies are formed by groups of people seeking to co-operate to buy or provide cheaper services. As these companies grow, they may do more than provide services to members and if they are successful then they may also be targets for takeover by other companies.

Co-operatives are also different from incorporated associations. An incorporated association by statute must be not for profit. This does not mean that it cannot make a surplus or profit from its activities, rather, it means that it cannot distribute any of that surplus to its members. The broad intention of legislation for the incorporation of an association is to provide a simple, cheap mechanism for social, sporting or charitable groups to

conduct their activities. The legislative framework is not suitable for the conduct of any business enterprise or larger scale operations because there is less statutory requirement for corporate governance and accountability.

Co-operatives can be formed to pursue a not for profit purpose, and generally if that is its primary purpose it will be formed as a non-distributing co-operative without a share capital to meet the definition of not for profit under tax law.

The following table summarises the differences between co-operatives, companies and associations.

	Co-operatives	Companies	Associations
Primary purpose	Meet the common needs of members.	Maximise profit for shareholders.	Meet identified needs of the community.
Organisation Ownership	Owned by the users who benefit from membership.	Shareholders	No ownership, any assets acquired belong to the association and are never distributed to members.
Ownership limit	Member may not hold more than 20% of issued share capital.	Member may hold 100% of issued share capital [substantial shareholding disclosure requirements for public companies, especially listed companies].	N/a
Day to day management control	Board [subject to statutory requirements for member vote on certain issues].	Board	Management Committee
Voting rights	One vote per member.	One vote per share.	One vote per member.
Major Stakeholders	Members who use its services.	Shareholders	Group that it is established to serve.
Share Ownership	Shares can only be acquired by active members.	Shares can be acquired by any person or organisation.	N/a
Capital structure	Share capital from active members – although according to Accounting Standards, share capital must be recorded as a liability in the balance sheet because it is capable of repayment. Debt funding can be comprised of private debt, member loans and publicly issued debt securities such as debentures or CCUs.	Share capital including share capital from public issue of shares – non repayable during the life of the company. Debt funding through private debt, publicly issued debt or hybrid securities.	Membership fees, donations, government funding.
Number of members	Minimum of five members (either individual or corporate).	Minimum of one member, although a public company must have three directors.	Minimum of five members.
Membership	Restricted to persons willing to commit to active membership and are able to utilise the co-operative's services.	No restrictions other than limits on foreign ownership of shares or substantial shareholding requirements.	Anyone who supports the association's purpose.
Active involvement of member	Membership cancelled if active involvement ceases.	Not required	Not required

	Co-operatives	Companies	Associations
Share price	Fixed at par value, although may in some cases be issued at a premium (there are restrictions on what the premium may be used for). No opportunity for capital gain.	Share price varies according to either asset backing or market price, enabling opportunity for capital gain.	No shares
Share disposal	Shares may be repurchased (with limits) for par value or less.	Shares may be sold at an agreed price.	N/a
Benefit distribution	Proportion of surplus shared among members based on use of goods and services or through the declaration of a dividend, (either franked or unfranked) on shares (distributive co-operative only).	Share profits based on share ownership; no limit on share dividend.	Surpluses belong to, and are retained by, the association.
	Surplus utilised to improve services to members (including rebates if goods or services can be provided more cheaply) or to improve/ extend co-operative's activities. Non-distributing co-operatives may elect to donate part or all of a surplus to a charity.	Dividends (franked or unfranked) distributed to investors according to the class of share.	Surpluses cannot be distributed amongst the members.
Liability (unless through wrongdoing)	Limited to unpaid amounts on shares and any other charges payable to the co-operative.	Limited to the value of shares held.	Limited to any outstanding fees owing to the association.
Decisions of entity	Democratic	According to majority shareholder/s.	Democratic
Member involvement	Active involvement of members required.	No requirement for active involvement.	Encouraged

What types of co-operatives are there in Australia?

Practically any type of business can be operated by a co-operative, although general co-operatives are precluded from being banks and other deposit taking enterprises. In Australia, around 1,700 co-operatives are active in a very diverse range of sectors, including agriculture, arts, child and health care, clubs, community services, education, energy, finance, hardware, housing, radio broadcasting, fishing, manufacturing, produce marketing, recycling, respite care, retail, superannuation funds, telecommunications, transport, wholesale, and wine sales.

CO-OPERATIVE BUSINESS ACTIVITIES IN AUSTRALIA



The activities are not necessarily mutually exclusive.

Source: New South Wales Fair Trading. As published in ABS 1301.1, Year Book Australia – No. 92, 2012.

Australian co-operatives are generally classified into four categories:

- Consumer co-operatives, which buy and sell goods to members at a competitive price in a variety of sectors.
- Producer co-operatives, which may process, brand, market and distribute members' goods and services, or supply goods and services needed by their members, or operate businesses which provide employment to members.
- Service co-operatives, which provide a variety of essential services to their members and community.

- Financial co-operatives, including credit unions, mutual building societies and friendly societies, which provide investment, loan and insurance services to their members.

Consumer co-operatives

Retail

There are many retail co-operatives operating in Australia owned by the members, who are also the consumers of the goods sold for personal use by the retail co-operative (see www.coopdevelopment.org.au for links to some retail co-operatives).

Co-operative stores are established to provide goods to their community, often when the community is not well serviced, or when an existing retail shop faces closure and the community joins forces to retain the store.

Retail co-operatives vary in size from small purchasing groups to large supermarkets and department stores.

Some of the sectors in which they operate are:

- Food
- Clothing
- Newsagents and bookstores
- Hardware, building and rural supplies
- Department stores
- Electrical goods
- Plant nurseries
- Art galleries and craft outlets
- Fuel

There are few co-operative supermarkets remaining in Australia today, and in all cases they exist in country areas. In larger regional areas, they struggle to survive competition from newly established chain supermarkets. Retail co-operatives are disadvantaged by the stronger buying power and resources of the chain supermarkets, but often manage to survive due to member loyalty, adaptability and superior service.

Organic food – Alfalfa House

This article was contributed by Alfalfa House to The Australian International Year of Co-operatives Secretariat.

Alfalfa House is a community-based not-for-profit food co-operative in Enmore, NSW. It grew out of a rent strike by a single household in the nearby suburb of Erskineville in 1981. Wholesale bulk grains, cereals, nuts and seeds were purchased from the retained rent monies and sold from the front room of the house. In 1983, the group moved to the Alpha House building on King Street, Newtown and was renamed The Community Food Store.

Alfalfa House was officially registered as a co-operative on December 23 1988. It has since grown to around 3,000 members but remains committed to its original aims. Most of the stock is sold in bulk and unpackaged, thus reducing landfill waste; some is bought directly from farmers and producers. The 'co-op' checks with growers and suppliers to ensure that products meet ethical and environmental standards.

Profits are returned to the members in the form of better services and cheaper goods. All members are entitled to a 10% discount every time they shop, with a 25% discount available to those who also volunteer.

Source: ABS 1301.0, Year Book Australia – No. 92, 2012



Image: Community-based not for profit food co-operative, Alfalfa House, Enmore, NSW.

Wholesale

Wholesale co-operatives have been formed by plumbers, the automotive industry and others to obtain supplies at lower prices due to the power of group buying. Other services may be available to members, including finance, training and travel. Other types of wholesale co-operatives include agricultural, grocery, liquor, seafood, travel agents, furniture, hairdressing, toys and newsagents.

Producer co-operatives

Producer co-operatives may provide a number of services to their members, including processing, branding, marketing or distributing their members' products. They may also supply products or services to their members which are inputs for the members' businesses.

The co-operative is the key market for the members' products, and is owned by the members who sell or buy its products and services.

Producer co-operatives operate in agriculture, arts and crafts, taxi industry, government procurement and fishing.

Murray Goulburn Co-operative Co Ltd, established in 1950, is a supplier of dairy ingredients and retail products, processing over a third of Australia's milk supply. Based in Victoria, Murray Goulburn has 2,580 dairy farmer owners. The Co-operative exports to major markets around the world and has a strong presence in the Australian domestic market.

Agricultural co-operatives

Two of Australia's largest co-operatives are agricultural co-operatives. Agricultural supply co-operatives provide members with supply and storage of inputs for agricultural production, including fertilisers, seeds, fuel, and ploughing or harvesting services. As a member of an agricultural co-operative, a farmer can take advantage of volume discounts.



Agricultural marketing co-operatives are formed by members to process, package, brand, distribute and market farm products.

Both types of agricultural co-operatives seek to maximise the benefits to their farmer members. They are formed where farmers can access markets, services and products more cost-effectively and efficiently collectively rather than individually. An important consideration for farmers in joining a co-operative is that their membership gives them equal ownership of the co-operative, providing them with control of its activities.

Employee-owned co-operatives

Employee-owned co-operatives are formed to provide members with employment by owning a business. The members are both the owners and the employees, and are dedicated to ensuring the co-operative is successful, as the co-operative provides both their jobs and working conditions.

Often employee-owned co-operatives are formed when a business owner wishes to retire or hand the business over to someone else and does not have family members in a position to take over business operations. An option is for the business to be taken over by a co-operative comprising its employees, customers or suppliers, rather than strangers. The business will then be more likely to remain within the community.

Employee-owned co-operatives allow employees to define working conditions, salaries and benefits, and share in surpluses in proportion to salary earned or hours worked. An employee can only be dismissed by the Board of Directors because, of course, the employee is also a member.

Employee-owned co-operatives operate in several business sectors, including arts and entertainment, clothing, construction, education, forestry, food, communications and marketing, manufacturing, home care and nursing.

Service co-operatives

Service co-operatives provide services to their owner-members, whether they are individuals, co-operatives or corporations. Services offered include housing, health care, child care, roadside assistance, electricity, natural gas and wind energy, water supply, community recreation facilities, tourism, community and social services, funeral services, transportation, and communication.

Housing

People living in co-operative housing reside in private houses or units but use shared facilities, which may include kitchens, common dining areas, laundries and recreational areas. Members often also share activities, which may include cooking, eating, gardening and child care.

Housing co-operatives are often established to meet the needs and visions of certain groups of people, such as people from low income households, of specific ethnic or religious background, artistic persuasion, age, sex, sexual preference, disabilities, or environmental awareness.

There are several types of co-operative housing, often called “intentional” housing, including:

- Cohousing, where member residents own their home under separate title but share in community activities.
- Communes, where members buy a share of the co-operative, which owns the land. Members share the property and resources.
- Eco-villages, where members live in individual homes, and share the objective to protect and improve the environment. In many cases eco-villages encourage self-sustainability and may have eco-businesses, such as organic produce.
- Housing co-operatives, which exist in both urban and rural areas. Members have an equal share in all households, with the right to occupy their own unit or house. Housing co-operatives are often leasehold.

In all types of co-operative housing, members commit to co-operation, providing housing, financial and social benefits. Members participate in the day-to-day decision making, and perform landlord and administrative roles. Membership requires active participation and involvement.

While there are instances of dissatisfaction, generally members develop a sense of pride and belonging, help their neighbours, and are supported by a close community of people with shared values. Co-operative housing

addresses many issues arising from Australia's housing crisis, including affordability, environmental impact and a stronger sense of neighbourhood.

Health care

Health care co-operatives are often formed in areas which are poorly served by existing service models and collectively offer a range of services, including GP medical clinics, bulk billing, dental surgeries, allied health services, retirement villages, nursing homes, hostels, bush nursing centres, home-based maternity services, community-based aged care and mental health services, health promotion, health insurance products, pre-paid health care packages, rehabilitation, and private hospitals.

They operate differently from traditional public and private sector health care services, in that they are usually owned by health consumers. Health co-operatives usually have five core features; they are consumer focused, consumer governed, not-for-profit, community based, and their profits are reinvested in development of services.

Child care

Child care co-operatives are community-based not-for-profit services, owned and managed by the parents of children attending the child care centre. Families are encouraged to participate and the centres' philosophies usually emphasise high quality childcare.

Financial co-operatives

Financial co-operatives (credit unions, mutual building societies, friendly societies and now banks) provide financial, investment or loan services to their members. They often also provide other services, including credit cards, insurance and business planning. In 2010, there were 52,945 credit unions auspiced by the World Council of Credit Unions, across 100 countries. In Australia, 4.5 million people are members of financial co-operatives.

The owners of financial co-operatives are the user members, who are the investors and borrowers who belong to a community, organisation, workplace or religion.

Profits are mostly retained within the financial co-operative, with some donated to local organisations. Without distributions to shareholder-investors, credit unions can be competitive with major banks, and often give members a high interest rate for savings, low account fees, and low interest rates on loans. Credit unions are also more likely to tailor products to suit members, make exceptions and understand their member's personal circumstances.



Lanamona Credit Union in Timor Leste (East Timor) is one of many credit unions or financial co-operatives for which CUFA provides support. Lanamona was formed in 2008 by five women in Maliana, a rural district close to the Indonesian border. They each contributed \$5.00 and formed a savings club to help their community rebuild after conflict. At time of writing, Lanamona's membership exceeded 600 and they had raised sufficient institutional capital to pay two staff members, after operating on a voluntary basis until early 2011.

Catherine Drummond, Credit Union Foundation Australia (CUFA)

Source: ABS 1301.0, Year Book Australia No. 92, 2012

Australian credit unions endeavour to operate under the principles of the World Council of Credit Unions, including:

- Open and voluntary membership to all within the group accepted by the credit union.
- Democratic control.
- Non-discrimination.
- Service to members.
- Equitable distribution of surpluses.
- Financial stability.
- Ongoing education to promote thrift and wise use of credit.
- Social responsibility.

According to a bank satisfaction survey of 2500 members conducted in 2011 by Choice, credit unions rank far above the “big four” banks, particularly in customer service. The survey found that credit union customers were very willing to recommend their credit union to family or friends, unlike customers of banks.

Why do people join co-operatives?

The co-operative structure assists individuals to achieve social or economic goals which would not be possible working alone.

Often a number of people share the same aspirations – whether it is a need for affordable housing, energy generation, reliable communications, a market for their product, or even a desire to save their jobs when a business is facing closure.

A co-operative structure gives members an equal voice in attaining the goal, as well as sharing the effort with others of like mind. If a member needs a product or service, they will have the power to determine the characteristics of it, and group buying gives them the capital and quantities to increase buying power and obtain it at a lower cost.

Members of an employee-owned co-operative can be both the boss and worker at the same time. They can partake in determining their wages and benefit entitlements, as well as help to guide the business and share in its profits.

Rural residents join co-operatives to reduce costs, or enhance their lifestyles by accessing services that they would otherwise be unable to attract, be it health care, telecommunications, energy or child care; or to collectively obtain a greater return for their products.

Co-operative identity, values and principles

The International Co-operative Alliance (ICA) has around 267 co-operative members in 96 countries representing around a billion individual members. The ICA, a non-government, independent association, unites and serves co-operatives worldwide, and is accepted as the final authority for defining co-operatives and determining the principles on which co-operatives should be based.

Despite vast differences in cultures and practices across the world, the ICA identified the characteristics which describe the unique identity of co-operatives. The ICA sees them as “inherently practical principles, fashioned as much by generations of experience as by philosophical thought”. These characteristics have largely been considered to be the standards for co-operatives.

The statement of co-operative identity

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise.

Co-operative values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.



Source: *The International Co-Operative Alliance*, www.ica.coop/coop/principles.html

Co-operative principles

1. Voluntary and open membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic member control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (1 member, 1 vote) and co-operatives at other levels are organised in a democratic way.

3. Member economic participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of the capital is usually the common property of the co-operative. They usually receive limited compensation (if any) on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes:

- a) Developing the co-operative, possibly by setting up reserves, part of which at least would be indivisible.
- b) Benefiting members in proportion to their transactions with the co-operative.
- c) Supporting other activities approved by the membership.

4. Autonomy and independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5. Education, training and information

Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operatives.

They inform the general public, particularly young people and opinion leaders, about the nature and benefits of co-operation.

6. Co-operation among co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, regional, national and international structures.

7. Concern for the community

While focusing on member needs, co-operatives work for the sustainable development of their communities through policies accepted by their members.



Source: ABS 1301.0, Year Book Australia No. 92, 2012.

A short history of co-operatives

It is variously believed the first co-operative was established in 1498, with the establishment of The Shore Porters Society in Aberdeen, or in Scotland in the 1760s, when local weavers began to sell oatmeal at a discount and formed the Fenwick Weavers' Society.

Robert Owen (1771 – 1858) though, a Welshman, is often thought to be the founder of the Co-operative movement. Although he was a capitalist who had made a considerable fortune in cotton in Scotland, he believed that if workers were to achieve equality, they needed to first change their attitude. Owen believed that working men needed to understand, believe in and be ready to fight for the cause. Owen instigated the first co-operative store which opened and was successful, and he envisaged establishing "villages of co-operation" where workers could prosper by growing their own food, making their own clothing and become self-governing. Unfortunately the two communities he tried to form in Scotland and the USA both failed.

Others adopted and further developed Owen's ideas. Dr William King founded a monthly periodical in 1828 called "The Co-operator", aimed at the working class, which gave advice on the co-operative philosophy and practical information about operating a shop.

A number of co-operatives were formed in the late eighteenth century, and by 1830 there were several hundred co-operatives. By 1840, most had failed, but the following decade saw some enduring successes.

The Rochdale Pioneers are thought to be the founders of the current Co-operative Movement and the first co-operative upon which modern co-operatives are based.

The Rochdale Equitable Pioneers Society was formed in 1844 by 28 artisans, working in cotton mills in Rochdale, northern England. The Industrial Revolution brought with it low wages and poor working conditions and the weavers could not afford to buy food and other household goods. They decided to pool their meagre funds and buy flour, sugar, butter and oatmeal at lower prices and opened a shop. Having learnt from prior failures, they designed the "Rochdale Principles" to operate their co-operative, expanded their product range and became renowned for selling high quality, unadulterated supplies.

The Co-operative Movement grew, and within six years there were close to 500 retail co-operatives.

Co-operatives also developed across North America, Western Europe and Japan in the mid nineteenth century, and had spread across the world by the early twentieth century.

The International Co-operative Alliance (ICA) was founded in London in 1895 during the first ICA Co-operative Congress. Delegates represented co-operatives from Argentina, Australia, Belgium, England, Denmark, France, Germany, Holland, India, Italy, Switzerland, Serbia, and the USA. The delegates established the ICA's aims to provide information, define and defend the co-operative principles and develop international trade.

The ICA had 54 member organisations by 1900, and was one of the only international organisations to survive both world wars, due to its commitment to peace and democracy and by staying politically neutral.

Australia

Co-operatives have operated in Australia at least since the 1850s, although it is claimed that Friendly Societies were the first co-operatives formed in Australia in the 1830s.

Interest in co-operatives in Australia rises and falls. Many co-operatives have not survived due to a number of reasons, including pressure from non co-operatives, changes in economic conditions, internal turmoil, and changing government and trade union support.

Some co-operatives have managed to adapt and transform themselves to fit a changing environment. The Macleay Regional Co-operative on the NSW Mid North Coast began in 1905 as a dairy product co-operative and over the years has evolved into owning 2 local supermarkets, a fitness centre and a shopping arcade.

Consumer co-operatives

The first registered consumer co-operative was the Brisbane Co-operative Society, established in 1859.

The Adelaide Co-operative Society, a Rochdale consumer co-operative, was established in 1868, and operated successfully for nearly a century.

Rochdale-style consumer co-operatives have been important for the economic vitality of many urban and rural communities in Australia.

Until the end of World War II consumer co-operatives had endured growth and decline, with increased activity after an economic slump when consumers were seeking higher economic security. But circumstances changed, and many did not survive the economic turmoil of the 1970s and 1980s, with increased competition from non co-operative chain supermarkets and shopping centres.

Many consumer co-operatives did not survive in metropolitan areas, and even those that were prolific in coal-mining, fruit-growing and poultry-breeding communities faltered.

In 1912, four NSW consumer co-operatives established The NSW Co-operative Wholesale Society, as a wholesale co-operative to group-buy goods for retailers in an effort to overcome competitor price-cutting and refusal of supply. This co-operative had an important role in advancing the consumer co-operative movement in Australia, but ceased operating 67 years later.

Consumer co-operatives have been in decline since the 1940s, with internal division and little support from the political and industrial arms of the labour movement. Perhaps the most notable collapse was of the Newcastle and Suburban Co-operative, which went from a membership base of 95,000 to closure 3 years later.

Agricultural co-operatives

Agricultural co-operatives were formed in NSW and Victoria in the 1880s. For over a century, agricultural co-operatives have helped rural farmers process and market their products, improving profits for their members.

Financial co-operatives

The Homeowner's Co-operative Credit Society Limited was the first registered credit union in 1945, following the legislation of the NSW Small Loans Facilities Act.

A large number of credit unions were formed and flourished until the 1980s, advantaged by tax incentives and unique legislative requirements. Several changes, including deregulation of the financial services sector, meant increased reporting requirements for credit unions, and several smaller credit unions needed to merge to survive. Credit union numbers fell from 549 in 1983 (Lewis, 2001) to 104 in 2011 (APRA, 2011).

Bankmecu became Australia's first customer owned bank in 2011.

Employee-owned co-operatives

For more than a century, there have been many attempts to form employee-owned co-operatives, particularly during economic downturns. The determination of basic wages in the early 1900s meant that employee-owned co-operatives were not seen as a solution to economic issues by trade unions, and employee-owned co-operatives were not even included in the 1923 NSW Co-operation Act.

Employee-owned co-operatives were formed to operate coal mines, and since the 1930s, a number of employee-owned co-operatives have been formed when business owners sold their businesses to their workers. In the 1980s, the governments of NSW, Victoria and SA successfully introduced programs to facilitate worker buyouts to retain jobs.

The Australian Employee Ownership Association was established in 1986 to assist employee-owned enterprises. Following a strategic review, it was transformed into Employee Ownership Australia and New Zealand in 2011.

Aboriginal co-operatives

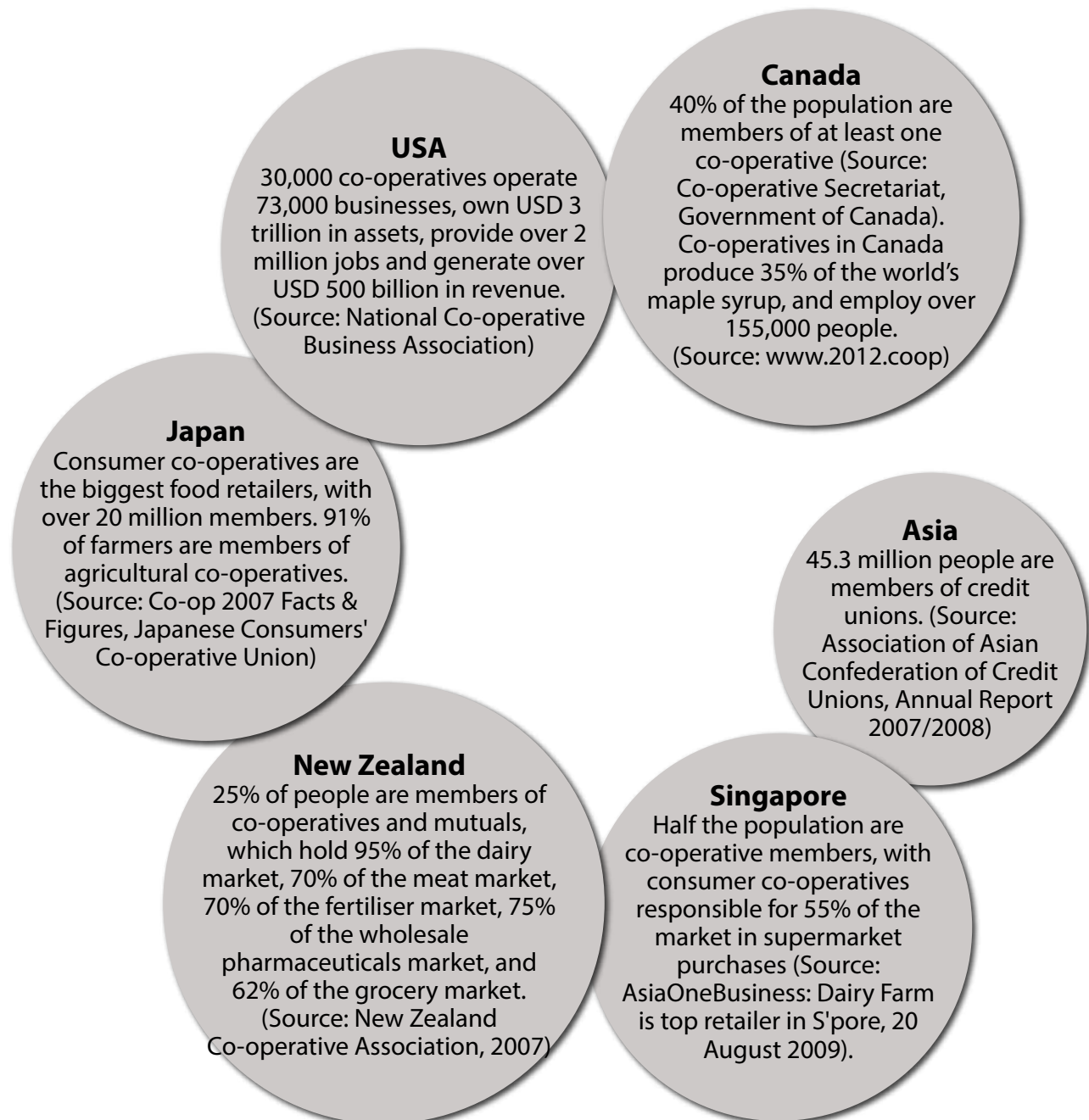
The Reverend Alf Clint developed a strong understanding of the value of co-operatives during his stay in Papuan villages in the 1940s. His belief of encouraging initiative in a culturally consistent way saw him appointed Director of Co-operatives for the Australian Board of Missions in 1953. He helped in the establishment of many Aboriginal co-operatives in north Queensland, Torres Strait and northern NSW. He also established Tranby Cooperative College in Sydney in 1958 which taught people the skills to run their own co-operatives.

Since the 1970s, many Aboriginal and Torres Strait Islander community co-operatives have been formed to provide housing, employment, health, training and outlets for art sales. Aboriginal organisations were able to access a simpler form of incorporation through the 1976 Commonwealth Aboriginal Councils and Associations Act, but many preferred the co-operative model and principles.

According to Joyce Clague MBE: "We choose the co-operative structure because we want to have an equal say, we want to share the responsibility and we want to work together to improve our living conditions and our life chances...".

Co-operatives today

Worldwide, co-operatives remain strong social and economic forces, with the ICA reporting over 1 billion people are members of co-operatives, providing over 100 million jobs. Co-operatives improve the livelihood of nearly 3 billion people. To put that into perspective, 328 million people own shares traded on stock markets (Co-operatives UK, 2012).



In Australia, it is difficult to get reliable statistics on the co-operative sector. The Australian Business Register categorises many co-operatives as other types of entities, and other entities as co-operatives. Many organisations that embrace co-operative principles are registered under the Corporations Act rather than state-based Co-operatives Acts.

The Australian Institute cites that eight in every ten Australians are members of a co-operatively or mutually

owned enterprise – an estimated 13.5 million members.

It is estimated that there are around 1,700 general co-operatives registered in states and territories in Australia, compared to 2,350 in 2000 (NSW Fair Trading). The fall in co-operative numbers in Australia is curious, given the growth of the co-operative movement overseas. It is thought to be partly due to restrictions and additional compliance costs in the regulatory environment causing a decline in new co-operatives being formed, and larger co-operatives and mutuals becoming companies to access external capital. Also contributing to the decline may be a lack of grassroots understanding and support for linkages, a low commitment to co-operation among co-operatives, the requirement to have at least 5 members, a lack of training in the sector, and the lack of a strong voice from co-operatives to develop a higher profile with the Australian public and governments.

The new Co-operatives National Law, adopted in NSW and with all other states and territories committed to applying the same law, or alternative, consistent law, will enable co-operatives to issue co-operative capital units which may enable co-operatives to access external capital without compromising member democratic control. It is also intended that it will address the disadvantages that co-operatives endure as opposed to companies under the Corporations Act.

Co-operatives Australia estimated that the 'top 100' co-operatives, credit unions and mutuals had a combined annual turnover of \$17.8 billion in the 2010-2011 financial year, with nearly 13 million members and 29,957 employees. The agricultural sector was responsible for 42% of the turnover.

The state with the highest annual turnover was W.A. (\$5.99 billion), followed by NSW (\$5.14 billion). *Source: www.australia.coop.*

Co-operatives are considered a small but important part of the Australian economy. The co-operative rural sector contributes most in terms of GDP. The top two co-operatives in Australia in 2011 in terms of turnover were agricultural co-operatives – Co-operative Bulk Handling Ltd in Western Australia and Murray Goulburn Co-operative Co Limited, Victoria (Co-operatives Australia, August 2012).

In 1999, credit unions, friendly societies and building societies became companies governed by the Corporations Law. Through amalgamations and uptake of new technologies, they are a viable alternative today to Australia's four major banks and remain very competitive. As at March 2012, Australia's mutual sector had 90 credit unions, 6 mutual banks and 7 mutual building societies, collectively holding \$83 billion in assets and serving 4.5 million members (Abacus Australian Mutuals Ltd).

Many consumer co-operatives have survived and grown in several regional locations across Australia, particularly where they are strong links with the local community and good management.

Co-operatives Australia reports that in recent years:

- Large co-operatives are growing organically and through mergers.
- Losses have occurred due to mergers and demutualisation.
- There is an emergence of new fledgling co-operatives.
- There are low levels of understanding and teaching with regard to the co-operative business model.
- As a consequence of an ageing and diminishing membership, a number of co-operatives have demutualised in recent years. Strong balance sheet growth sometimes fuels demutualisation, with members persuaded to give up ownership and control in return for a one-off cash or cash/investor share offer.
- Some co-operatives have defied the trends, growing through innovative organic growth, mergers and joint ventures. New co-operatives have also emerged in recent years, demonstrating that member ownership and control remains a viable business model.

Co-operatives received worldwide attention in 2012. The United Nations proclaimed 2012 as the International Year of Co-operatives (IYC) in recognition that the co-operative business model is "a major factor in realising economic and social development".

The Macleay Regional Co-operative (MRC)

Co-operative (MRC) was initially formed in Kempsey in 1905 as the Macleay River Co-operative Dairying Company Limited, with a share capital of under £5000. It processed, distributed and marketed products for its dairy farmer members.

By the end of the 1940s, MRC had operated a number of businesses, including a butter, cheese, milk and ice cream factory, a general store and produce store in Kempsey, and the Telegraph Point general store and nearby butter factory. It also sold eggs, ice and icy poles.

MRC had good years, and bad, facing changing regulations, consumer and supplier demands, wars, shortages, droughts, floods, fires and competition. It survives 107 years later due to its ability to diversify to suit the market and keep members' interests first.

MRC currently owns and operates a supermarket, liquor shop and fitness centre, and also owns a shopping arcade.

MRC's supermarket now competes with Coles, Woolworths, Aldi and BiLo in a community of 28,000.

MRC will survive, and keep changing – it always has.

The goals of IYC were to:

- Increase public awareness about co-operatives and their contributions to socio-economic development and the achievement of the Millennium Development Goals.
- Promote the formation and growth of co-operatives.
- Encourage Governments to establish policies, laws and regulations conducive to the formation, growth and stability of co-operatives.

Why co-operatives succeed

Co-operatives succeed mostly because of the input of their members, their strong understanding of co-operative principles and values, and the product or service offered meets the needs of their market.

Successful co-operatives have:

- ☑ Clear common objectives to achieve both its social purpose and operate as a sustainable commercial entity.
- ☑ A strong understanding of, and adherence to, co-operative principles and values.
- ☑ Involved members, who are kept informed and educated, are committed to success and encourage other members.
- ☑ Competent management, which communicates well with the Board and members.
- ☑ Sound business planning and the ability to plan for change.
- ☑ Looked to serve a broader market beyond their immediate community, or, alternatively, focused strongly on their local community.
- ☑ A positive attitude, and the belief of their members that they can make a difference.
- ☑ Met the needs of their members and markets.
- ☑ Become large enough to receive fair treatment from buyers of their produce or suppliers of their inputs.
- ☑ Increased community bonds, self-help, awareness, involvement, capacity and vitality.
- ☑ Provided a service or product at a price that an investor-owned business can't compete with.
- ☑ A viable business opportunity and a realistic focus.
- ☑ Engaged skilled advisors when necessary.
- ☑ Forged links with other co-operatives.
- ☑ Business-like meetings, open and inviting to members, who can speak freely and raise questions.
- ☑ Clearly defined marketing agreements and returns to members.
- ☑ Members who are loyal to the co-operative and understand both their own interest and the interests of the group.

- ☑ Constructive members with a commitment to integrity and honesty, and ability to delegate authority.
- ☑ Sufficient capital.
- ☑ The patience to grow slowly.

Why they can fail

When co-operatives fail, often it is due to the lack of commitment and unity of members, or the economic environment in which they operate. Around half of newly formed co-operatives do not survive the first five years. Failure can be the result of:

- ☒ Inability to balance benefits to members with retaining/ raising sufficient capital to invest in the business.
- ☒ Low returns, poor market, or poor product or service.
- ☒ Idealistic, impractical, poorly stated or conflicting objectives.
- ☒ Inadequate planning or research.
- ☒ Inability of members to co-operate or offer sufficient support.
- ☒ Large users who seek more control.
- ☒ Lack of communication and co-operative education.
- ☒ Failure to use and control competent consultants or management.
- ☒ Hijacking by management or some of the membership.
- ☒ Directors not comprehending the needs and motivation of members.
- ☒ Ignorance of legislation and legal obligations.

Legislation

There are to be positive changes in legislation for co-operatives in Australia. Until now, co-operatives have contended with inconsistent state and territory legislation and competitive disadvantages in comparison to entities that operate under the Corporations Act 2001.

The previous state-based legislation included outdated corporate governance provisions and non-risk based financial reporting requirements, imposed additional compliance costs on co-operatives that wanted to trade across state and territory borders, and made inconsistent provision for access to capital markets to enable co-operatives to access external funding for expansion. It is believed the regulatory environment was a disincentive to the formation of new co-operatives, and many larger co-operatives transferred incorporation to become companies because of a need to access external capital not available to co-operatives.

In 2001, states referred their power to make laws to regulate the formation and activities of companies, but not co-operatives, to the Commonwealth, resulting in the Corporations Act 2001. Co-operatives (except for financial co-operatives) were still governed by the legislation of the state or territory in which they operated. Inconsistencies meant that legislation differed in each state and territory.

In 2007, State and Territory Ministers agreed, via the Ministerial Council on Consumer Affairs (MCCA), to implement nationally uniform legislation to address the inconsistencies and competitive disadvantages that the previous legislations gave to co-operatives compared to entities operating under the Corporations Act 2001.

Proposed Co-operatives National Law

In May 2012, the NSW Parliament was the lead jurisdiction to pass the Co-operatives (Adoption of National Law) Bill 2012. The other states and territories are committed to applying the same laws, or alternative, consistent laws, in their jurisdiction by May 2014. A co-operative which was registered under a repealed Act is taken to be registered under the CNL.

The CNL does not make any conceptual changes to the nature of a co-operative, nor does it make any changes to the existing regulatory environment under Commonwealth legislative responsibility, but it does remove variations between jurisdictions and updates some provisions. It intends to make it easier for co-operatives to set up and conduct business. The New South Wales Fair Trading Minister, Anthony Roberts, said the legislation would empower co-operatives, slash red tape and reduce costs.

The processes in the CNL are designed to be fair, uphold co-operative principles, be good for business, and provide guidelines for day-to-day operation. It is in a co-operative's best interests to follow the processes set out in the CNL and Regulations.

In essence, the Co-operatives National Law:

- Allows co-operatives to have the freedom to operate on a national basis. Co-operatives registered in a jurisdiction that adopts the CNL or passes consistent co-operatives legislation have reduced compliance costs and are automatically able to carry on business in other states and territories that adopt the CNL or pass consistent co-operative legislation. Previously co-operatives, unlike companies, were prohibited from carrying on business across a state or territory border unless they were registered as a "foreign co-operative" in the other jurisdiction, which was costly and involved annual obligations in each jurisdiction.
- Provides co-operatives with better access to external capital funding. Access to capital markets by co-operatives has long been a problem, as shares in a co-operative were not permitted to be quoted on a stock exchange and could only be acquired by active members. Co-operatives can now issue a hybrid security, co-operative capital units (CCUs), to access external capital without compromising member democratic control. CCUs can be issued to non-members anywhere in Australia.
- Distinguishes and more clearly defines the reporting obligations of small and large co-operatives. It will remove the requirement for small co-operatives to lodge audited financial reports and enable simplified financial reporting and the ability to choose to have a review or an audit.
- Puts the statutory duties of Directors and Officers of a co-operative in line with corporate governance standards under the Corporations Act 2001. The new civil penalty regime will ensure compliance with duties that aren't considered criminal in nature. As in the Corporations Act, there is a business judgement rule defence for Directors and Officers facing proceedings for breach of their duty of care, taking into account co-operative principles. A Director or Officer will face liability where there is a clear link between the Officer's responsibility and action or inaction and the contravention. It has been clarified that liability for contraventions of compliance matters (e.g. lodgement or annual reports) lies with Officers with a clear duty to ensure compliance. The role of the Secretary is more clearly defined and is linked to the requirement to lodge specified particulars or documents.

The CNL was written to help co-operatives but the legislation is very extensive and detailed. Parts 2, 3 and 4 of this manual incorporate CNL. If you are reading this manual before the legislation is passed, refer to your state government for applicable laws. For more information about the new CNL and how it affects co-operatives, please contact the government registry of co-operatives in your state.

Co-operatives National Regulations 2012

The Co-operative National Regulations 2012 (CNR) support the Co-operatives National Law (CNL), the new uniform national template legislation to regulate co-operatives, passed by the NSW Parliament on 9 May 2012.

Before the CNL can commence, the supporting regulations need to be ready to start at the same time. This is because these regulations provide additional information necessary for the operation of the CNL laws.

There will be two types of regulations under the CNL:

- National Regulations will provide additional information about CNL laws which are uniform across all the states and territories, for example, what are the minimum annual financial reporting requirements for a small co-operative.
- Local regulations will deal with matters that may vary between the states and territories. Local regulations will cover limited matters that are necessarily different in each jurisdiction, such as local administrative officials, fees and court processes.

Each state or territory may then apply the NSW template National Regulations in their own jurisdiction, or alternatively, may make their own legislation which is consistent with the template.

The Co-operatives National Regulations (NSW) 2012 and local regulations will come into effect when the CNL is commenced.

Many matters to be dealt with under the CNR are already dealt with in a uniform manner in existing regulations. However, matters such as special provisions for small co-operatives and financial reporting are new, and were therefore the subject of preliminary public consultation during late 2011, with the release of a Discussion Paper on 'Financial Reporting Obligations for Small Co-operatives'. The Paper sought comment on thresholds for defining small co-operatives and what constituted an appropriate basic level of member reporting for small co-operatives. Comments and suggestions received from this process were examined and incorporated into the draft of the Co-operatives National Regulations (NSW) 2012, which was open for public comment until 7 January 2013.

A key matter dealt with in the CNR is Model Rules, as the CNL makes provision for model rules to be used by co-operatives. Model rules are a set of rules that are compliant with the law and provide a basic model of good governance for a co-operative. Model rules are not compulsory but they were drafted as part of the National Regulations and may be used in whole or in part by new or existing co-operatives. Existing co-operative legislation already makes provision for model rules, however, not every jurisdiction has specified model rules.

The proposed Regulations can be broken into 3 main components:

- Provisions that define small co-operatives and their reporting obligations.
These new regulatory provisions are expected to deliver compliance savings to a significant portion of the co-operatives sector.
- Provisions that impact upon the internal governance and responsibility of Officers of the co-operative.
A mix of new and existing provisions relating to internal rules and the specification of the responsibilities of the Secretary of a co-operative.
- Provisions that assist in the general operation and administration of the CNL.
These are largely the same as existing regulations and continue to operate under the CNL. Some provisions are also technical requirements to assist in the articulation of each state law into the nationally uniform scheme.

Part two: Forming a co-operative

Is a co-operative model best for you?

This section is aimed at people considering forming or joining small to medium sized co-operatives. The responsibilities, and often the financial contributions, of individual members of smaller co-operatives are far greater than those of large consumer co-operatives and credit unions, where most members do little more than contribute a nominal joining fee and use the co-operative's products or services.

If you want to be a member of a smaller co-operative, you must be able to work with the other members. You must be committed to the principle of one member, one vote. You must have the capacity to make decisions with others, communicate well, share, discuss, listen and find solutions to problems which are acceptable to all.

You must also be prepared to share the risks, responsibilities and control. You must decide what you can offer the co-operative, and then deliver.

You must have the time, drive and commitment to want the co-operative to succeed. You must provide capital. You must use the co-operative's services. You must be able to allow, and participate in, the co-operative's growth, and try even harder to save it if it falters.

Is a co-operative model best for your business?

People form co-operative businesses for a number of reasons:

- To provide a service that is not available.
- To increase their power in the marketplace, or decrease the power of others.
- To keep profits and control of a business within a community.
- To keep a community or business alive.

It is important to consider carefully whether the co-operative model is the right vehicle for what you plan to do. There are a number of other options, including partnerships, incorporated associations and limited liability companies. These options should also be explored.

Co-operatives have similarities to other businesses, but have special challenges because they are owned and controlled by the users and the benefits flow back to the users. It is their principles, collective dedicated effort and group decision-making that give direction to the business.

While distributing co-operatives do give profits back to their members, non-distributing co-operatives don't, so consider what the members expect back from their co-operative when choosing a co-operative model for your business.

The first steps

Once you decide the co-operative model is right for your business, there are a number of important steps to get it off the ground. This will all take a lot of your time, many meetings and no financial return while the co-operative is being established.

Your first task will be to find the right people to work with you, who have similar ideas and interests, a mutual need, and are just as committed to the success of the co-operative as you are. The more people supportive of the co-operative the better.

It is crucial to ensure that the people who are considering forming a co-operative have a strong understanding of what a co-operative is, how it is governed, and are committed to actively contribute to it.

Starting any business, and especially a co-operative, can be challenging, but can also give you a great sense of achievement. Working with others of like mind will give you support and successfully getting through the start-up phase together will bode well for the co-operative's future. You will share breakthroughs and frustrations together, and the reward of accomplishing something good for you and your community.

Always keep in mind that a co-operative is both a business and an organisation of people, and both areas will need strong foundations for the co-operative to be successful. While hundreds of thousands of co-operatives have been successfully launched and thrive today, many do not survive the first five years, often due to insufficient planning, resources, co-operation and knowledge.

It is important to get the co-operative incorporated for a number of reasons. The co-operative will be liable for the debts of the co-operative, not the individual members. The co-operative will have legal recognition, credibility, can continue regardless of changes in membership, enter into loans and contracts and sell and purchase property on its own behalf, may do by law all acts and things that corporations can do, and have on-going affiliation and support from co-operative organisations and federations.

There are obligations attached to incorporating a co-operative. Directors have similar responsibilities (and face similar penalties) to company Directors, the co-operative must keep proper financial records, membership records and registers, can be sue or be sued in its corporate name, and decisions must be approved by members if they have a significant impact on the co-operative.

You will need to conduct a feasibility study to get some level of assurance that the business can work successfully, develop rules for governance, get the co-operative incorporated, be able to raise sufficient capital to get the co-operative started and running, and also develop a strong business plan. A co-operative that is well-organised from the start will operate more efficiently and encourage member participation and support.

There are plenty of resources available for people to learn about co-operatives and enterprise development. A good starting point is this manual, and the resources listed at Appendix A. It is also highly recommended that you talk to your state's co-operative federation as they are likely to know of resources, people and other co-operatives and associations in your community that may help you.

Talk to members of other co-operatives, as they have already been through the process. The 6th principle of co-operatives is "co-operation among co-operatives", and you will find that members of other co-operatives will be willing to help you, as they have a strong commitment to the co-operative movement and desire to see it grow. Most local councils have an economic development unit which can be a great source of local information and contacts.

What is your product or service?

Often someone has a “eureka!” moment, seeing a novel way to address a need, provide a service or supply a product, spawning the idea for a co-operative business. At other times, an opportunity arises when a local business is to be put up for sale, or when someone hears of an inspirational co-operative somewhere else.

It is useful to discuss the idea with friends or colleagues who may identify flaws or think of how the idea might be improved. The idea will be abandoned, adopted or further developed.

In developing the idea, you should consider what your motivation is, what exactly you are going to do, whether anyone else is doing it, whether it could work, and whether anyone else should be involved at this stage.

It is essential that the member-owners have a clear economic or service need that a co-operative can be established to meet, and that a co-operative structure is a suitable vehicle to service those needs.

It is also crucial that the co-operative can efficiently produce the product or deliver the service at a competitive price to sufficient people.

The co-operative must be able provide better prices, better quality or better services than the potential members could get elsewhere.

If potential members have not been involved in the type of business or service the co-operative is intended to provide, it is essential to research and learn all facets of the product, business or service and other businesses in the sector. It would also be helpful to contact members of co-operatives which provide a similar service to see how they are run. Look for workshops and seminars which offer training on how to run that type of business.

What type of structure do you need?

There are two types of co-operatives – distributing co-operatives and non-distributing co-operatives. Before the introduction of Co-operatives National Law the two types were often called trading and non-trading co-operatives. The following table describes the attributes of each.

	Distributing Co-operative	Non-distributing co-operative
Share capital	Share capital required.	May choose to have, or not have, share capital.
Additional capital from members	Members may have to purchase more shares or provide loans.	Members cannot be required to acquire more shares but may be required to lend to the co-operative.
Members	5 or more people or corporations to be active members (or 2 or more co-operatives or other entities for group co-operative) unless a lesser number is approved by the Registrar.	5 or more people or corporations to be active members (or 2 or more co-operatives or other entities for group co-operative) unless a lesser number is approved by the Registrar.
Active member	Member must support an activity associated with the co-operative’s primary activity.	Member must maintain relationship with co-operative’s primary activity or pay a regular subscription.
Upper limit of members	No upper limit on number of members.	No upper limit on number of members.

	Distributing Co-operative	Non-distributing co-operative
Aim	Maximise returns to individual members; undertake commercial activities beyond the means of an individual person; members share in asset growth.	Undertake activities collectively, reducing the costs and increasing services to individuals.
Sectors	Usually economic. Includes wholesale, retail, transport, agriculture, manufacturing, property services, fish marketing, forestry services, community enterprises.	Usually social. Includes agricultural produce handling, consumer, cultural or sporting clubs, professional organisations, child care, community services.
Able to make profit	Yes	Yes
Surplus	Maintain proportion to build capital of co-operative and share any remaining surplus among members depending on use.	Cannot make distributions to members; surplus used to further the activities of the co-operative and/or donated to a charitable organisation.
Shares	Shares may be issued at a premium.	Shares may not be issued at a premium.
Bonus shares	Bonus shares may be issued to members from profits or on revaluation or sale of asset.	Bonus shares cannot be issued from asset revaluation or sale, or from profits.
Benefits to members	Dividends, rebates, reduced costs, enhanced services.	Lower charges for, or access to, services or products, shared equipment and business services.
Members	Active	Active
Legal capacity	Same as natural person, in every state and territory.	Same as natural person, in every state and territory.
Disclosure statement	Disclosure statement required for formation and issuing shares and CCUs.	No disclosure statement at formation, unless required by Registrar.
Return to members on winding up	Share in assets; surplus funds distributed in proportion to share capital held.	Members may receive nominal value of shares; surplus funds distributed to another similar not-for-profit organisation approved by members.

Who will be the first members?

A co-operative (other than a group co-operative) must have at least 5 people or corporations to be members. The Registrar may give approval to vary the number of active members required. Unless prohibited by the rules, two or more people may share a single membership.

A co-operative group can be formed by co-operatives and/or other incorporated or registered bodies becoming the members, if the rules allow and the Board of the co-operative group is of the opinion the body is designed to abide by co-operative principles.

A person aged under 18 years may become a member of a co-operative unless the rules state otherwise. Minors may not hold office in a co-operative, and may only vote if they are in a joint membership where all the joint members are not minors.

A corporation that is a co-operative member appoints a person admissible under the rules who is not already a member of the co-operative or a representative of another corporation member to represent its membership. An unlisted corporation can only appoint an officer, member or employee of the company.

Consider who can benefit from the services of the co-operative, and what relationship they will have with the co-operative – whether they are customers, suppliers, employees, users or a mixture of these. The members should satisfy any requirements for membership in the proposed rules, including the level of activity the member is required to have with the co-operative to be an active member. The members have to use or support at least one of the co-operative's primary activities and contribute any required share of capital. If a member becomes inactive, or can't be found for 3 years (or less if stated in the co-operative's rules), their membership must be cancelled.

Choose members wisely. Membership means that person will have equal ownership and control in the co-operative. Seek people who are positive, dedicated, can communicate well with other members, and will contribute to the co-operative's success.

Before committing to include a member, ensure they are willing to learn what a co-operative is, how it works, and their rights and responsibilities as a member. The success of a new co-operative depends on all of the members understanding the values and principles that make co-operatives unique, not just a few.

Have a vision of how the members will be involved with, and participate in, the co-operative. The members will need to develop a strong membership culture, enabling the co-operative to survive through later changes in membership and leadership.

If it is a small co-operative, it is essential that members are willing to take the responsibilities of membership seriously, and will take on a fair share of the duties. Make sure that individuals do not undertake too much work or responsibility. Sharing the duties makes tasks more likely to be achieved and gives the group ownership of the results. Ensure each member has clear tasks and roles during the development of the co-operative, and are willing and capable of carrying out those duties.

If it is a larger co-operative, perhaps not all potential members will need to be involved in planning at this early stage, as it could be difficult to consider every aspect and detail of the start-up in large meetings. It may be a good idea to create smaller working groups which focus on one particular aspect, such as registration or finance.

A steering group, comprised of representatives of working groups, might oversee the whole start-up process, organising meetings of the whole prospective membership to report on progress and to continue the planning process. The steering group may also co-ordinate and monitor the progress of the working groups, and often becomes the first Directors of the co-operative.

No matter how this initial stage is co-ordinated, it is important that people know where they, and the others, fit into the process. Consider seeking help if in doubt.

What capital and finance can you get?

A co-operative needs capital to get established, and cash flow to keep it running until its income is sufficient to cover costs. The feasibility study should give you a good indication how much you will need for premises, equipment, staff, products, licences, fees and other expenses.

Once you determine how much needs to be raised, and when, consider if the co-operative is to have share capital, how much the co-operative will charge its members for their shares, and how many members there are likely to be initially and within the first three years. There is likely to be a gap between capital raised from membership and the expected capital needs of the co-operative.

Depending on the purpose of the co-operative, it may be wise to start small and finance the expansion from the profits of the mini-enterprise.

There are many ways to finance a co-operative; the sources of finance will depend on what type of co-operative you have, what the co-operative does, and whether the co-operative is likely to be able to repay the finance.

Be prepared; you will be unlikely to raise finance unless you can convince the sources of the finance that the co-operative will be viable and worthy of their funds.

Pre-registration contracts and acceptance of money for a proposed co-operative

If finance needs to be raised before the co-operative is registered, a person can enter into a pre-registration contract on behalf of or for the benefit of a proposed co-operative. The co-operative becomes bound by the contract if it is registered within a reasonable time and ratifies the contract or enters into a substitute contract. If it doesn't, or fails to perform all or part of the contract, the person who entered into the contract may be liable to pay damages to the other parties of the contract.

The funds raised must be held in trust until the co-operative is registered. The money is refundable if the proposed co-operative is not registered within 3 months of accepting the money.

When shares are offered under a disclosure statement to people who are not shareholders in the co-operative, the person who offers the shares must hold all application money or other money paid on account of the shares in trust until the shares are issued or transferred, or the money is returned to the applicants. If a disclosure statement states there needs to be a minimum number of applications for shares or a minimum amount raised, the shares cannot be issued or transferred until that condition is met. The money will be repaid if the condition is not satisfied within 4 months of the issue of the disclosure statement.

Shares in the co-operative

A share or other interest in a co-operative is personal property, can only be issued to a member, is transferable (if permitted through the Law or rules) and can be bequeathed in a will (if permitted in the rules).

A co-operative with share capital must state in its rules the minimum shareholding of members. The rules may state that members who use the co-operative more may be required to purchase additional shares.

Unless approved by the Registrar, one member cannot have a relevant interest in more than 20% of the nominal value of the issued share capital of the co-operative.

The fixed cost of a share must be stated in the rules. While shares cannot be issued at a discount, a distributing co-operative can issue shares at a premium to their nominal value. For example, a co-operative may issue shares to foundation members for \$1000 each. The foundation members have invested in the co-operative and accepted the risk that the co-operative may not be successful. Later, when the co-operative is operating and

making a profit, others might be keen to buy shares. As the risk has been reduced, the co-operative can issue the shares at \$1000 with a \$150 premium.

The premium may be either cash or other valuable consideration. The co-operative transfers an amount equivalent to the value of the premiums to a share premium account, which can be used in a variety of ways, including to pay off preliminary expenses, pay dividends, and pay up the balance unpaid on previously issued shares.

A distributing co-operative may, by special resolution, require members to buy additional shares. Payment for additional shares may be deducted from amounts payable to members for dealings with the co-operative. A registered disclosure statement must accompany the proposal, showing the number of shares to be issued and explaining how the raised funds are to be used, as well as a statement to advise that the member may choose to resign if they do not wish to participate.

If shares are issued partly paid, the co-operative has the flexibility to call on members for capital as it is needed, and may not need to issue additional shares. At least 10% of the share value needs to be paid up front; the rules should state a minimum timeframe between calls for the balance.

A distributing co-operative may approve by special resolution the issue of bonus shares to members if assets, not acquired for resale, have been sold at a profit or have been revalued at a higher value. The shares will be issued as fully paid-up shares with no payment required.

A co-operative may have more than one class of shares, as long as the shareholding and the rights of shareholders comply with co-operative principles.

Entry fees and regular subscriptions

The rules of a co-operative may require members to pay entry fees and regular subscriptions. The value of the regular subscription might be determined by the value of business the member does with the co-operative or the profits a co-operative earns through doing business with the member.

The co-operative must give the person applying to be a member written notice of the fees or subscriptions payable. The rules may stipulate that the entry fees and subscriptions will be repaid if the person is no longer a member.

Debentures

A co-operative can issue debentures to its members and employees. A disclosure statement must be approved by the Registrar, containing "information that is reasonably necessary to enable a person to make an informed assessment of the financial prospects of the co-operative".

A co-operative may also issue debentures to people who are not members and employees if it meets the requirements of the Corporations Act 2001 provisions in relation to the issue of debentures. In some situations a Board may issue debentures to extinguish debts owing to past members.

Co-operative capital units (CCUs)

CCUs can be issued to members or non-members of a co-operative, giving them an interest in the capital (not the share capital) of the co-operative. In this way, a co-operative can obtain finance from non-members while retaining member control of the co-operative, as required by co-operative principles. In some situations a Board may issue CCUs to extinguish debts owing to past members.

The CCU holder has none of the rights or entitlements of a co-operative member, but they are entitled to receive notice of all meetings of the co-operative and all other documents in the same manner as the holder of a debenture of the co-operative.

CCUs may be either secured or unsecured and are transferable, subject to the terms of issue, the rules and Co-operatives National Law.

The Co-operatives National Law states that terms of issue of CCUs must be approved by a special resolution of members and by the Registrar, and a disclosure statement approved by the Registrar must be included with the offer, setting out the terms of the issue, the rights of holders of CCUs, the entitlement to interest, the terms of redemption, the limit of total CCU holdings held by persons who are not members of the co-operative and the manner of transferability.

The rules of a co-operative issuing CCUs may either give each holder of a CCU one vote per CCU held at a meeting of CCU holders, or vary the rights of CCU holders to the extent allowed by their terms of issue with the consent of 75% of CCU holders.

The redemption of CCUs is not a reduction in a co-operative's share capital. CCUs can only be redeemed out of profits, the proceeds from a new issue of shares, or an approved issue of CCUs. Any premium payable on redemption can only be from profits or the share premium account.

If a co-operative redeems CCUs held by an active member, it can, if within the terms of issue of the CCUs, issue shares or pay up amounts unpaid on shares up to the nominal value of the CCUs held by the member rather than redeem the CCU for cash.

Loans

A co-operative may borrow from financial institutions, members, or venture capitalists. This may be in the form of a loan, overdraft or line of credit, and interest rates and time to repay will vary widely. The repayment of the loan and interest needs to be factored into the costs of the co-operative for the term of the loan.

As credit unions, friendly societies, mutuals (and a couple of banks) are also co-operatives, if your co-operative requires a loan, consider borrowing from a co-operative. They must still consider the risk before offering the loan, but are familiar with co-operative principles and care for their customer-members.

If a co-operative requires a secured loan, there will be a security charge over assets of the co-operative or person who took out the loan, giving the lender priority over unsecured debtors, and the ability to take possession of the asset if they are concerned they may not be paid if the co-operative experiences financial difficulties. The lender or another interested party may register the charge over the asset with The Personal Property Securities Register (www.ppsr.gov.au).

A co-operative may require its members to provide secured or unsecured loans, depending upon the rules of the co-operative. The proposal must be approved by a special resolution of the co-operative, passed by a special postal ballot, and not allow the loan term to be longer than permitted under the Co-operatives National Law and Regulations. The notice of the special resolution must be accompanied by a disclosure statement approved by the Registrar, explaining the purpose and value of the loan/s. The proposal for loans from members must be accompanied by the disclosure statement, clearly show the total amount of the loan and how the loan amount from each member is calculated, and a statement informing members that they may choose to resign if they do not wish to participate.

Debentures

A debenture is a promise to repay money borrowed from an investor. A co-operative can issue a debenture and commit to pay interest for a defined term and then repay the loan. A debenture is usually unsecured.

The Co-operatives National Law provides legislation on debentures of a co-operative issued to members and/or employees, as well as people who become inactive members that have their share capital converted to debt.

Before issuing debentures to that person, the co-operative must inform the person in writing that the person

is entitled to receive a disclosure statement, approved by the Registrar, and then provide the disclosure statement if requested.

The Corporations Act 2001 legislates the issue of debentures to non-members.

Grants

A co-operative may be eligible to apply for non-repayable government (local, state or federal) and non-government grants from community welfare and philanthropic organisations. Grants may assist with establishment expenses, including equipment and planning. As grants and guidelines often change frequently, check with www.grantslink.gov.au.

At the time of writing, the Victorian Government provides funding through the Food and Fibre Marketing Co-operatives Grants program to assist new and recently established food and fibre marketing co-operatives. Grants of up to a total of \$50,000 are available on a 50:50 cost share basis to co-operatives that have at least 3 primary producer members. Up to \$15,000 assistance may be provided for each activity to be funded, including business plans, feasibility studies, incorporation legal costs, business advice, market research and capability development.

Surpluses

The Board of a co-operative may decide to keep all or some of a surplus it has in a year for the benefit of the co-operative. The Board may also decide to donate part of the surplus for a charitable purpose.

A distributing co-operative may use part of a surplus to support an activity approved by the co-operative.

The rules of the co-operative will limit the amount it will donate or use to support its activities to a proportion of the surplus.

A distributing co-operative may use part of its surplus or reserves to:

- Provide members with a rebate in proportion to the value of business done by each member, or the profits earned by the co-operative on business done by each member.
- Issue bonus shares in proportion to the value of business done by each member, the profits earned by the co-operative on business done by each member or shares held by the member.
- Issue a limited dividend for shares held by members.
- Pay bonuses to employees.

Non-distributing co-operatives are only permitted to retain a part or all of a surplus for the benefit of the co-operative, or for donation for a charitable purpose. They are not permitted to provide member rebates, issue bonus shares or pay limited dividends.

Suppliers

Suppliers of the goods and services that a co-operative needs often don't require payment for 30 days or more after the goods or services are received, so can also be regarded as a source of short-term finance.

Meeting the people - initial meetings

You will need to build relationships with potential members, suppliers and customers of the proposed co-operative. Whoever you are talking with, you need to be clear in explaining what the co-operative will be offering and be able to manage expectations.

Customers and suppliers

Your community will include customers or suppliers, who may or may not be potential members.

Even if the customers are not part of the organisation, you will need to engage with them and explain what the co-operative will be offering, as the co-operative will need a sufficient number of customers willing to pay for the product or service for the co-operative to be able to break even.

Your community will also need suppliers to provide the input for the product or service the co-operative is going to offer. It is important to know who the suppliers will be, if they can offer inputs at a competitive price, and provide reasonable credit terms.

The Members

This is an important stage of starting the co-operative, as the members will own the co-operative and probably provide finance for start-up and operational costs. This is virtually a public offer of investment, and has issues of risk and accountability. Be very clear to prospective members what the risks are and their likely returns.

In your early meetings you'll need to identify and agree on the needs to be met and how the business will operate. You'll need to also clearly explain the co-operative values and principles and the importance of active membership. Decide on whether the co-operative is to be a distributing or non-distributing co-operative.

Talk about the professional help you might need to launch the business. If your members do not have the necessary skills, you will need to consider whether you need a legal consultant, co-operative developer, accounting and financial advisor, or a consultant skilled in developing feasibility studies and business plans for co-operatives.

Maintain communication with prospective members so that everyone knows what is happening, what is about to happen, and how they can be a part of the process. Effective communication and democracy in the early stages will build a culture which can be carried into the operational co-operative, making it a more effective and sustainable organisation.

Plan ahead. Make sure there is plenty of time for discussion so that everyone can present their views or ask questions. Ensure everyone is clear on what the process is, what the needs to be met are, what direction is being taken and that there is a common goal to be achieved.

It may take a few meetings to make the decision on whether or not to proceed with the co-operative. Thoroughly explore the motivations and expectations of the proposed members to ensure there is a common purpose and whether everyone wants to achieve the same thing.

If the decision is to proceed, appoint a steering committee and decide who should be in it, what it should do and when it will report its progress to another meeting. Among other duties, a steering committee should survey and consider potential members, and develop an application form for membership. It is a good idea to include in the application form that once a person is a member, they will abide by the co-operative's rules.

Define the name of the co-operative, where it will be located, and the co-operative's objectives and purpose.

The co-operative must have a registered office where it publicly and conspicuously displays a notice stating the name of the co-operative and identifying the premises as its registered office.

The co-operative's name may consist of words, numbers or a combination of both. The name must include the word "Co-operative" or "Cooperative" or "Co-op" or "Coop". The word "Limited" or "Ltd" must be the last word in the name, unless the Registrar approves the omission provided the co-operative's rules prohibit it from making distributions to members and paying fees to its Directors, and require the Directors to approve all other payments the co-operative makes to its Directors.

The name must appear in legible characters on each seal of the co-operative, in all notices, advertisements and other official publications, and in all of the co-operative's business documents.

Early consideration should be given about who will be on the first Board of Directors, given the importance of the role.

The co-operative's rules will need to be decided upon. They guide the activities and governance of the co-operative (see Making the Rules).

Proposed distributing co-operatives must have a formation disclosure statement. Proposed non-distributing co-operatives only require one if requested by the Registrar.

The rules and formation disclosure statement, along with a written notice of intention to apply for registration as a co-operative, must be sent to the Registrar, and once approved, a formation meeting can be held. Each state and territory has a statutory officer created under the Register of Co-operatives. For information concerning the Registrar in your state or territory, go to: www.coopdevelopment.org.au

Can it work?

The Feasibility Study and Business Plan

Feasibility Study

After you have a few people interested in the proposed products and services to be delivered, and keen to become members, it is important to carry out a feasibility study to determine whether the activities of the co-operative will enable the co-operative to be viable.

The feasibility study will take time to develop, so share the work among several of your proposed members; this will be another test to see if you can work together to start and operate your co-operative. Consider getting help from a consultant experienced in developing feasibility studies for co-operatives.

The feasibility study is not the same as a business plan, but it should be developed first and be the basis for one. The size and cost of the feasibility study will depend upon the complexity of the operations the co-operative plans to undertake.

You might consider dividing the work into two stages, by conducting a pre-feasibility study first to look at:

- Whether the co-operative model is suitable, and, if so, whether the type of co-operative proposed is appropriate.
- How many members are expected to join the co-operative.
- How receptive the local community is to the co-operative business.
- What the benefits to co-operative members are expected to be.
- The market the co-operative intends to operate in, whether the market is large enough, whether it will pay enough, and whether it needs the products and services the co-operative proposes offering.
- The availability and cost of technical and financial assistance.

If the pre-feasibility study casts doubt over the potential viability of the business idea, re-evaluate the idea. If the study shows that the business idea has merit, develop a complete feasibility study.

A complete feasibility study requires careful research of the products, services and markets, planning and involvement of other people outside of your proposed co-operative. The feasibility study should at least provide a clear view of:

- The business structure: including the type of co-operative, the members, the size and location, and strategic objectives.
- What the products or services are.
- How products will be made, and who will make them; how services will be delivered, and who will deliver them.
- How much it will cost to produce the products or deliver the services.
- Who will be the buyers/users of the products and services? Where are the customers? How much will they buy? How much will they pay?
- What are the risks, benefits, strengths, opportunities, weaknesses and threats?
- Identifying if there are competitors that offer the same or related products and service, what they sell them for, and will you, and they, survive? Could you complement each other?
- What it will cost to set up and operate the business, including premises, equipment, staff, insurance and operating costs.
- How much money will need to be raised to make the co-operative viable, where will it come from, and when.

- How much the co-operative expects to earn and when that money will be received.
- Projected cash flow budget.
- Taking everything into account, is it viable?

If the feasibility study indicates that the co-operative's business ideas aren't viable, consider whether those activities can be reworked, or perhaps the venture shouldn't proceed at all.

If, however, the feasibility study does suggest the business ideas are sound and are likely to be viable, the next step should be to develop a business plan.

Business Plan

OK. So you have a great idea and the best group of supporters and your feasibility study looks positive. Well, that's a good start. But how are you going to get your idea to work? Not many successful co-operatives are based solely on a new idea, a feasibility study and great people.

How are you going to get a bank, prospective members or customers to back your idea with their money? It's harder to sell a new idea than an old one. How are you going to convince them that you are serious about it, have thought through how it will work, that your members have the abilities to make it happen, and there is a strong chance that you will be successful? And how are you going to plan and control the launch of the co-operative, and monitor and manage the activities required to make the co-operative a success?

You need a business plan; a practical and clear guide of, and for, your co-operative. It's a bit like a GPS. It describes where you are, where you want to get to and the roads to take to get there. Successful co-operatives have a clear business plan outlining what they want to achieve, giving a strong vision of where the co-operative will be at a particular point in time, and planning the directions to steer the co-operative's actions to get there. They use the plan to monitor and manage all the steps along the way to achieve their goals.

A business plan is more detailed than a feasibility study. How detailed it is will depend on the complexity of the activities the co-operative will undertake, and the effort of the writers. It may be written by members, or by a professional business planner. It might look like a glossy 100 page book, or a plain 20 page hand written document. Whatever the case, it is the input, depth of thinking, agreement, ownership and ongoing management of the plan by the members and staff that will make this tool work for you.

The business plan should describe in detail the co-operative's products or services and their delivery, details of management and the organisation, the results of market research and marketing plans, the people involved, and the equipment, material and finance needed.

Developing the business plan will help you to consider most of the issues you will face when starting the co-operative, and help you to face most problems before they happen, giving you the power to deal with them quickly and more effectively. Of course, you won't be able to anticipate everything you will face, but planning for most eventualities will give you more time later to deal with any unexpected surprises.

A business plan should be viewed as a work-in-progress. A co-operative's first business plan should look at developing the opportunities for the identified primary activity or activities. With growth, a co-operative will need to change the plan to cater for changing or extending its range of products, services, and markets.

A co-operative, like any other business, has a product or service to sell in a competitive environment. The business plan needs to clearly and quickly show how the co-operative's product will be delivered, how it fits into the market in competition with other products, and why the market will want that product.

Usually business plans look ahead at the actions required for the co-operative to meet its goals for the following year; but they are best designed if they are written as the first stage of a three to five year plan. In that way, not only can you check progress against the co-operative's aims as the year progresses, and look back at the end of the year to ensure the goals are achieved, but also use it as a step in achieving long term, greater goals.

If the members decide to develop their own business plan, there are lots of resources to help beyond this manual. There are millions of websites and also software programs and industry research readily available to help you with the process. For a start, take a look at:

www.business.gov.au

www.sa.gov.au

coopzone.coop

www.smallbiz.nsw.gov.au

www.bplans.com

www.business.vic.gov.au

bestentrepreneur.murdoch.edu.au

www.nab.com.au

www.smallbusiness.wa.gov.au

Appendix B of this manual will give you step-by-step guidance in building your business plan, but we can't write it for you. Take the time to make it a document that creates a good first impression; poor grammar and spelling, numbers that don't add up, and a plan that is all over the place will spoil the impact.

Make it easy to read, and let it be easy for someone to understand the plan quickly and catch your enthusiasm. Avoid using jargon that people will struggle to understand, don't ramble on, and don't make statements that are vague or can't be substantiated.

You may need to write a second business plan – the first for your co-operative, the second for investors, whose needs will be different to yours. Decide what information will be in the plan, and who you are writing it for.

Don't write it alone; share the job with other members and staff so that everyone owns it, contributes, identifies priorities, and knows what they need to do to steer the co-operative to success. Include dates that particular responsibilities are to be completed by. Name the people who are responsible for each of the activities. Demonstrate the skills of your team to manage and market the co-operative.

Highlight the advantages and strengths of your structure; members are customers, and also have a higher degree of input and support of management, operations and products than most other business structures.

Make it clear in the plan that your business is user-owned, user-controlled and user-benefited, and that strong social values and principles are behind every decision and component of the co-operative's business plan. (see Appendix B: Business Plan model).

Making the rules

A co-operative's rules are its most important document, being the foundation for the way in which a co-operative operates, and a contract between the co-operative and its members, who must all obey the rules. The rules are also a contract between the co-operative and each Director, the CEO and the Secretary of the co-operative, and between each member.

Not all general co-operatives have the same rules, as not all co-operatives have the same activities and active membership requirements.

Once the rules are registered, they can only be changed by a special resolution passed by the members (or a resolution of the Board if only to comply with CNL) and by obtaining the Registrar's approval, so it is important to take the time to think them through and get them right from the start.

Model Rules

Model rules will be available from the Registrar of Co-operatives in your state or territory once the CNL is enacted, and will be useful to assist in drafting rules which comply with the Co-operatives National Regulations. Different sets of model rules will be available for each type of general co-operative – distributing,

non-distributing with share capital and non-distributing without share capital.

The model rules will suit many co-operatives with only a few changes, e.g., co-operative name, share allocation, number of Directors, primary activities, and membership provisions.

You do not have to use the model rules, but using them as a basis for your own co-operative's rules will save a lot of time and help ensure your rules comply with the legislation. If you make your own rules, remember that the rules must cover all the matters that are listed in Chapter 2 of the Co-operatives National Law and the Co-operatives National Regulations.

You can choose to use the model rules and make them static, meaning that the model rules as adopted will not change unless the co-operative makes a change in the manner authorised under the CNL. Or, you can adopt the model rules as they are from time to time. This means any change to the model rules contained in the Co-operatives National Regulations will automatically change your co-operative's rules, so you don't need to amend your rules if the model rules change.

What the rules contain

The rules include information on a number of matters, including:

- The co-operative's name.
- Primary activity/activities of the co-operative.
- What a member must do to establish and maintain an active membership.
- Procedures to admit new members, any entry fee to be paid, and the shares to be acquired.
- The charges or regular subscriptions payable by a member.
- Qualifications for membership and Directors, the number of Directors, method to elect, remunerate and remove Directors and fill a vacancy, the period Directors hold office, delegation, the holding of annual elections, other committees, and the Chairperson's role and election.
- Chief Executive Officer's appointment and entitlements.
- The restrictions on the powers of the co-operative and its Board.
- Procedures for calling general and special meetings, quorum, attendance and business to be conducted.
- The rights of members in voting, the way to vote, the majority required to pass a resolution, proxy votes, any special majority required for specific resolutions, minutes, and notices to members.
- The rights and liabilities of members, the estates of deceased members and representatives of members under bankruptcy or mental incapacity.
- The circumstances in which membership ceases or shares are forfeited or cancelled.
- How members may resign, be expelled or suspended, and their rights and liabilities.
- The maximum amount of a fine a member may pay for breaking the rules (it must be no more than \$1000).
- Grievance procedures for settling disputes between the co-operative and any of its members, and between a member and another member.
- How funds are to be managed, including accounts, the drawing and signing of cheques, drafts, bills of exchange, promissory notes and other negotiable instruments, electronic accounts.
- The device, custody and use of the seal of the co-operative.
- The custody of securities belonging to the co-operative.
- How debentures may be transferred and CCUs issued and transferred.
- How shares and fundraising (if any) will be handled.
- The ways surplus funds can be used.
- How rules may be changed.
- Financial reporting requirements, including the basic minimum financial statements required to be given to

members of a small co-operative and whether or how the reports will be audited or reviewed.

- The date the financial year ends.
- How a loss from transactions is to be provided for.
- How a co-operative may be wound up.
- Any other matters that appear necessary or desirable to the co-operative.

Additional rules need to be included for co-operatives with share capital, depending on whether the co-operative is distributing or non-distributing:

- The nominal value of each share and periodic subscriptions to pay for shares.
- The forfeiture, repurchase, sale or transfer of shares.
- How capital is raised; the value and quantity of shares, calls and amounts payable.
- The amount of contingent liability (if any) attached to shares.
- The terms on which all shares except bonus shares are to be issued.
- How a surplus of a distributing co-operative can be distributed.
- How a deficiency will be allocated if the co-operative is wound up.

Additional rules are also required for non-distributing co-operatives:

- Confirmation that there will be no return or distribution of surpluses or share capital to members other than the nominal value of shares (if any) at winding up.
- How surplus property will be distributed to another entity, that also prevents distribution to its members, at winding up.

If the co-operative plans to access tax concessions available to non-profit organisations, the rules should include two statements to indicate its non-profit character:

1. Non-profit clause

The assets and income of the organisation shall be applied solely in the furtherance of its above-mentioned objects and no portion shall be distributed directly or indirectly to the members of the organisation except as bona fide compensation for services rendered or expenses incurred on behalf of the organisation.

2. Dissolution clause

In the event of the organisation being dissolved, the amount that remains after such dissolution and the satisfaction of all debts and liabilities shall be transferred to another organisation with similar purposes which is not carried on for the profit or gain of its members.

What follows is more information on some of the sections of the co-operative rules.

Primary activity

One or more primary activities must be included in the rules. Not every activity of a co-operative is necessarily a primary activity, and an act of the co-operative is not invalid just because it is different to the activities in the rules.

The primary activity/activities need to form the basic purpose of the co-operative, and the co-operative must carry on its primary activity, or be likely to do so, within 2 years of formation. The primary activity must also make a significant contribution to the co-operative's business; contributing at least 10% of the co-operative's turnover, income, expenses or surplus. If the co-operative didn't conduct that activity, its business would be reduced by 10%.

Section 273 of the CNL, and Regulation 3.20 impose provisions regarding the purchase and sale of assets if they are related to the primary activity.

Members must approve any change to a co-operative's primary activity.

Membership

The model rules state that every application for membership must be considered by the Board, and the Board does not have to give reasons for rejection of an application. Consider if this needs to be changed in your co-operative's rules. Keep in mind the first co-operative principle of voluntary and open membership and the obligations under the Equal Opportunity Act 1984.

Active membership

The rules must state the level and type of active participation a member must have in relation to a primary activity of the co-operative.

Active membership provisions in the rules must state:

- Which activities of the co-operative are primary activities.
- The way and extent a member must use or support an activity of, or keep a relationship or arrangement with the co-operative for carrying out a primary activity, to be able to establish they are an active member of the co-operative.

The way and extent of the required utilisation, support, relationship or arrangement should be reasonable in comparison to the entire activities of the co-operative.

The only active membership provisions allowed in a distributing co-operative's rules are provisions requiring a member to use an activity of the co-operative for carrying on a primary activity to establish active membership, or any other active membership provisions the Registrar may approve. An "active membership provision" usually states what level of participation is required of members, and over what period of time, for members to retain membership. The rules must also define the consequences for not being an active member. The Regulations stipulate that if a member is inactive for 3 years, that member's membership is to be cancelled. The co-operative's rules may stipulate a shorter period than 3 years.

Active membership provisions for a non-distributing co-operative may include a provision that the payment of a regular subscription by a member be applied to a primary activity of the co-operative and be enough to establish active membership.

Drafting and submitting rules

Ensure the proposed members are involved in designing the draft rules and accept the rules, including the active membership provisions, and at least two-thirds of potential members are likely to adopt them at the formation meeting, otherwise the rules will need to be changed and approved by the Registrar before the formation meeting can reconvene. Ensure all prospective members have a copy of the proposed rules. It would be worthwhile to hold a pre-formation meeting to ensure consensus.

The proposed rules are to be submitted to the Registrar of Co-operatives, to ensure they comply with the CNL, before the formation meeting, as well as a written notice of intention to apply for registration as a co-operative.

If the co-operative is to be a distributing co-operative, the draft formation disclosure statement will be submitted at the same time. The Registrar will return an approved copy of the rules for the formation meeting. If the rules are not approved the Registrar can approve different rules to those submitted, or refuse to approve the rules altogether. The person who submitted the rules will be notified in writing of the Registrar's decision.

Rules that have been approved by the Registrar are called approved rules; once adopted at the formation meeting and officially registered they are called registered rules.

Altering the rules

At times, co-operatives find that the rules no longer suit the co-operative. This may be because the rules aren't working, are out of date or the co-operative membership or primary activities have changed.

To change the rules, a draft of the proposed amendment must be drawn up and approved by a special resolution of members.

A resolution to amend the rules can be passed by the Board rather than by a special resolution of members only if the amendment relates to a requirement, direction, restriction or prohibition imposed or given under the authority of the CNL. If approval to amend the rules is given by the Board, the members must be notified in writing as soon as possible after the amendment takes effect, and at least by the day when notice of the next annual general meeting is given to members.

If a proposed rule involves changing the active membership provision, the Registrar must give formal pre-approval to the rule before it is approved by members.

If a proposed rule change involves specifying the manner in which the Board is elected, the Registrar must approve the manner of electing the Directors. It would be prudent, although not a pre-requisite, to seek the prior approval of the Registrar before proposing an amendment to this rule.

Once approved by the members, the amendment of the rules does not take effect unless, and until, it is approved by and registered by the Registrar.

The proposed amendment must comply with the requirements of what is necessary to be contained within the rules.

The application for registration of the amendment must be made in the approved form, be accompanied by a statement explaining the reasons for the amendment, made within 28 days after the amendment is made (unless a different timeframe is given by the Regulations), and be sent with a consolidated copy of the rules which includes the amendment.

The Registrar may require further information before approving the amendment, approving a different

Checklist: Amending the Rules

Draft the amendment	<input type="checkbox"/>
If the amendment changes the active membership provision, obtain pre-approval from the Registrar	<input type="checkbox"/>
If the amendment changes the manner in which the Board is elected, consider seeking prior approval from the Registrar	<input type="checkbox"/>
Give notice of a special resolution to members (unless the amendment can be made by a Board resolution)	<input type="checkbox"/>
Pass special resolution	<input type="checkbox"/>
Apply to Registrar for registration of amendment within 28 days: send application form, amendment, reasons for amendment and revised rules	<input type="checkbox"/>
Receive certificate of registration of amendment	<input type="checkbox"/>

amendment, or refusing to approve the amendment.

The Registrar will register the amendment and provide a certificate of registration of an amendment of the rules unless it is considered contrary to CNL, or the Registrar has another reasonable cause to refuse to register the amendment.

The Registrar is taken to have approved the amendment as submitted after 28 days unless, before the end of that time, the Registrar gives written notice to advise that a different amendment has been approved to that submitted, the Registrar is still considering the amendment, or refuses to approve the proposed amendment.

Drafting the disclosure statement

Prospective members of the co-operative will need to know how much they are committed to contribute financially and what they will be liable to pay in the future. An offer or intended offer of shares in a distributing co-operative cannot be advertised nor have statements published without a current formation disclosure statement relating to the shares having been approved or registered by the Registrar, if the shares are offered, or the invitation is made, to people who are not shareholders in the co-operative.

Distributing co-operatives must have a disclosure statement drawn up, approved by the Registrar and then presented at the formation meeting. The Registrar may exempt a co-operative if compliance would be inappropriate or impose an unreasonable burden.

The draft formation disclosure statement must have enough information to ensure prospective members are aware of their financial involvement or liability as a member, including, where applicable:

- The estimated costs of the co-operative formation.
- The active membership provisions, including the type and minimum level of activity of members.
- The capital the co-operative needs at the time for formation.
- The rights and liabilities attached to holding shares.
- The co-operative's projected income and expenditure for the first year of operation (if it's a small co-operative, cash flow estimates are sufficient).
- Information about any pre-registration contractual obligations that were entered into.

If a non-distributing co-operative is required by the Registrar to have a disclosure statement, it must contain whatever information is required by the Registrar.

The draft disclosure statement must be submitted to the Registrar with the co-operative's rules, and written notice of intention to apply for registration as a co-operative before the formation meeting is held.

If the draft disclosure statement for a non-distributing co-operative was not provided to the Registrar, and the Registrar gives written notice that one is required to be presented to the formation meeting, the notice will specify the time by which the draft disclosure statement must be submitted to the Registrar.

The Registrar is taken to have approved the formation disclosure statement at the end of the period of 28 days after it was submitted to the Registrar, unless, before then, the Registrar gives written notice that the Registrar has approved a different formation disclosure statement, is still considering the matter, or refuses to approve it.

Anyone who is not already a shareholder and who intends to buy shares in a co-operative must be given a current disclosure statement.

A new disclosure statement must be registered within 14 days if there is a change in the rights or liabilities attached to any class of shares, or there is a significant change in the financial position or prospects of a co-operative.

Checklist: Applying to be a co-operative: before the formation meeting

Draft the rules or adopt model rules	<input type="checkbox"/>
Draft disclosure statement (if required)	<input type="checkbox"/>
Ensure proposed members accept rules and disclosure statement	<input type="checkbox"/>
Submit proposed rules, proposed disclosure statement and written notice of intention to apply for registration as a co-operative to the Registrar	<input type="checkbox"/>
Receive advice that the Registrar approves of the documents	<input type="checkbox"/>
Organise to hold the formation meeting with at least 5 prospective members within 6 months	<input type="checkbox"/>
Prepare two copies of the approved rules and one copy of the disclosure statement to be signed at the meeting	<input type="checkbox"/>
Have the application for registration form ready to be signed at the meeting	<input type="checkbox"/>
Make copies of the rules for everyone at the meeting or advise them how to get them	<input type="checkbox"/>
Copy the application for membership form for the prospective members to complete	<input type="checkbox"/>

Meeting the members - formation meeting

A proposed co-operative must have a formation meeting before it can be registered. At least 5 prospective members (unless the Registrar approves a smaller number) must attend who are eligible to join the co-operative as active members.

The formation meeting must be held within 6 months of the Registrar's approval of the proposed rules. A Chairperson will be elected to run the formation meeting, and a Secretary elected to write a record of the meeting.

The approved proposed rules will be discussed and officially adopted at the formation meeting by a two-thirds majority vote by the proposed inaugural members attending the formation meeting. A resolution should be moved that the co-operative be formed and approved rules be adopted.

A two-thirds majority vote at the meeting is also required to authorise the application for registration of the co-operative. The application must be in the approved form. All proposed members sign an application for membership.

The proposed members will elect their first Board of Directors according to the proposed rules, who will

A co-operative group requires a representative of each of at least 2 co-operatives which are qualified to be members to attend a formation meeting.

serve until the co-operative holds its first annual general meeting. They may also elect members of any other committees, such as planning committees and training committees.

The proposed members will also authorise a person to apply for registration of the proposed co-operative and to do anything necessary to have the proposed co-operative registered. The co-operative's business plan should be adopted, approval given if the co-operative is to be a member of a co-operative federation, and an external auditor appointed.

A distributing co-operative, or non-distributing co-operative required by the Registrar, must present the approved formation disclosure statement to the meeting.

Within 2 months of the meeting, the following must be forwarded to the Registrar:

- The completed application for registration form signed by at least 5 of the proposed members, including 2 of the elected Directors, attending the formation meeting (unless fewer are approved by the Registrar).
- 2 copies of the approved proposed rules and (if required) the disclosure statement, both certified in writing by the Chairperson and Secretary of the formation meeting.
- A statement of the particulars of the Directors elected at the meeting on the specified form.
- A statement of the address of the co-operative's proposed registered office.
- The registration fee.

Currently the fees for applying for registration in NSW are \$140 for a non-distributing co-operative and \$212 for a distributing co-operative. The application for approval of a disclosure statement is \$283. The Registrar will return a registration certificate, a copy of the registered rules and (if applicable) the approved disclosure statement.

Checklist: Formation meeting and registration

Elect Chairman and Secretary	<input type="checkbox"/>
Two-thirds majority of proposed members adopt approved rules (and disclosure statement if required)	<input type="checkbox"/>
Two-thirds majority of proposed members resolve to form a co-operative and authorise application for registration of the co-operative	<input type="checkbox"/>
All proposed members sign application for registration of the co-operative	<input type="checkbox"/>
Proposed members elect Board of Directors and members of any other committees	<input type="checkbox"/>
Proposed members authorise a person to apply for registration of the proposed co-operative and to be a contact person	<input type="checkbox"/>
Proposed members adopt business plan and appoint external auditor	<input type="checkbox"/>
Within 2 months, submit application for registration, 2 copies of the certified approved proposed rules, (the approved proposed disclosure statement if required), the statement of particulars of Directors, a statement of the co-operative's proposed registered address and the registration fee to Registrar	<input type="checkbox"/>
Receive registration certificate, a copy of the registered rules (and approved disclosure statement if applicable) from Registrar	<input type="checkbox"/>

Who are the other stakeholders?

The stakeholders of a co-operative go far beyond its members, and co-operatives generally have a closer relationship with their customers, suppliers, employees and community than companies do.

The Board and management of a co-operative need to not only have strong business skills, they also need to be able to communicate well with all stakeholders.

Community

The 7th principle of co-operatives is concern for the community.

Communities and co-operatives have a lot to give each other. A community can offer strength and support to a co-operative, and a co-operative can help a community build skills, economic and social relationships and a sense of well being.

Employees

Those who work for a co-operative are its key resource, and are often the “face” that customers deal with. Their commitment to the co-operative model and positive involvement in its business are vital. Employees should be able to contribute their ideas and feel valued.

Customers

To survive, a co-operative must satisfy its customers’ needs and interests. Consider credit unions - they have a strong customer base because their level of customer satisfaction is usually higher than major banks. It is important for a co-operative to have sound business principles balanced with strong social purposes.

Suppliers

Good relationships with suppliers and contractors that provide quality products and services at a competitive price are essential to a co-operative’s operations. Dealing with local suppliers also builds the local community’s economic capacity, trust and commitment to the co-operative.

Investors and financiers

Financial co-operatives may be the ideal source of finance and insurance solutions to co-operatives, as they share the same values and are likely to be interested in helping a co-operative succeed. No matter who supplies the finance, it is crucial to maintain good relations with them, as there may come a time when a financier is asked to be flexible if the co-operative struggles with repayments.

Regulators

Co-operatives not only need to comply with the Co-operatives National Law and Regulations, they must also comply with laws and regulations in relation to their staff, environment and activities. Co-operatives need to be mindful of their legal responsibilities, and keep up to date with changes in legislation. Don’t be afraid to contact regulators if in doubt about how legislation affects your co-operative.

Advisors

There are a number of resources available to co-operatives to help them to grow (see Help! and Appendix A).

When using the services of mainstream advisors and consultants, ensure they have the skills and experience to understand the unique objectives of a co-operative.

Partners

At times, a co-operative may need to develop a partnership with another organisation to provide its services or products. Be certain the partner organisation is socially responsible and its operations and marketing strategies are compatible with the co-operative's principles.

Other co-operatives

Remember the 6th principle of co-operatives? Co-operation among co-operatives.

"Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures."

Get to know the other co-operatives in your region, and others with similar products or services. Their help and advice will be invaluable, and there may be opportunities to work together to achieve your aims. Join your State Federation of Co-operatives. Not only will your co-operative benefit, other co-operatives will benefit too.

More on registrations - and the tax man

Business Name

The business name differentiates the co-operative from other businesses and identifies it to its customers; enabling them to make an emotional connection to the co-operative. A co-operative only needs to register a business or trading name with Australian Securities and Investment Commission (ASIC) if it wishes to conduct its business or a particular undertaking under a name different to its registered name.

The business name can be registered rather quickly online with ASIC at www.asic.gov.au. You can check online to see if a name is available for registration or if it is identical or similar to a registered trademark. You may also check with ASIC to see if there are any state or territory licences you may need to use a name or operate a particular type of business.

To register a business name, enter the co-operative's ABN, proposed business name, registration period and co-operative details. Confirm eligibility to hold a business name, and submit. That's it – except for the fee – currently \$30 for one year or \$70 for 3 years.

If you would also like to register a domain name, you can check to see if the domain name is available at www.auda.org.au.

ABN and TFN

All trading entities are required to register for an Australian Business Number (ABN), which is a number that identifies the entity and is used when dealing with other businesses and the government. Having an ABN will make it easier to register for GST and other tax registrations. You can apply for an ABN and business Tax File Number (TFN) online at www.abr.gov.au.

The ABN application form will also allow you to register for GST, WET, LCT, PAYG withholding and FBT at the same time.

GST

Goods and services tax (GST) is a tax on consumption that is charged on the supply of both goods and services. GST, currently 10% of the sale value, is charged by the supplier on most goods and services and regularly remitted to the Australian Taxation Office (ATO).

On the same application form as ABN registration, in most circumstances the co-operative may choose to register for GST if it has a GST turnover of less than \$75,000, or \$150,000 for not-for-profit organisations. It is mandatory for entities with higher turnovers to be registered for GST.

Being registered for GST means that the co-operative needs to issue tax invoices and keep records of GST it charges its customers and GST it pays to suppliers, and submit a Business Activity Statement (BAS) quarterly to the ATO, or monthly if the entity has a high turnover. If the GST collected is more than the GST paid, the entity pays the difference to the ATO when the BAS is due. If the GST paid is higher than the GST collected, the entity receives a refund from the ATO.

Not all supplies are subject to GST. Many health supplies and foods are GST free. More information is available at www.ato.gov.au.

An entity with a turnover below the threshold may elect not to be GST registered, meaning it does not collect GST from customers but still pays it to suppliers, and does not need to submit a BAS. Reducing paperwork may suit a small co-operative, at the cost of not being able to claim the GST paid, except as a tax deduction if the co-operative pays tax.

Income tax

For-profit co-operatives will need to pay income tax on a percentage of their profits. Budgeting for the total amount of income tax you are likely to pay is especially important in the first year of trading, as the co-operative will not pay income tax until sometime after the end of the financial year. The co-operative may elect to make voluntary payments to the ATO throughout the year, or retain the expected tax amount in a bank account until due. You can use the ATO's tax tables to work out how much tax you will need to put aside.

Not all not-for-profit co-operatives are income tax exempt; commercial activities that do not directly further a NFP's altruistic purposes may be taxable and not have access to tax exemptions, rebates and concessions in relation to those activities. The ATO's website provides information and a checklist to help you determine if your co-operative and its activities are tax exempt.

PAYG withholding

A co-operative will need to register for PAYG withholding when applying for an ABN if it makes payments it needs to withhold tax from, such as payments of wages to employees. The amount withheld from payments is reported on an activity statement or BAS and an annual payment summary statement.

FBT

A co-operative will need to register for Fringe Benefits Tax (FBT) if it provides benefits to employees which are liable for FBT. Some common fringe benefits are private use of a work car and paying private expense for an employee or Director. You may need to lodge an annual FBT return, pay instalments and submit FBT with activity statements. Many not-for-profit and charitable entities are entitled to rebates and exemptions from FBT. Check with the ATO.

Superannuation

You don't need to register to pay superannuation, but generally if the co-operative has an employee or

Director who earns over \$450 per month, it will need to pay a percentage of their ordinary time earnings to the employee's or Director's superannuation fund. From July 2013, the superannuation rate is 9.25% of ordinary time earnings, and will rise annually until it reaches 12% in 2019.

Not-for-profits and charities

Non-distributing co-operatives are sometimes either charities, income tax exempt funds (ITEFs) or other not-for-profit co-operatives. Concessions are available from the Australian Taxation Office depending on what type of not-for-profit entity the co-operative is (see following table). Some not-for-profit co-operatives, such as sports clubs, community service groups and recreational clubs are neither charities nor income tax exempt funds.

If your co-operative's activity is for a charitable purpose, it may be eligible to be registered as a charity.

Examples of charitable organisations are ones that promote health, provide community facilities (e.g. halls, migrant resource centres, community radio), promote art and culture, provide emergency services, relieve distress caused by natural disasters, provide social welfare (e.g. child care, counselling), assist the unemployed, advance scientific, commerce, agriculture or industry research, protect animals or preserve historic buildings.

Charities need to be registered by the Australian Charities and Not-for-profits Commission to be exempt from income tax. The ATO decides which entities are eligible for Commonwealth tax benefits and concessions. The online application form at www.acnc.gov.au can be used to register and apply for charity tax concessions and endorsement as a deductible gift recipient.

Summary of tax concessions for non-profit organisations as at 4-Dec-2012

Tax concessions	Types of non-profit organisations			
	Registered public benevolent institutions and Registered health promotion charities	Registered charities	Income tax exempt funds	Other non-profit organisations
Income tax exemption	✓ 1	✓ 1	✓ 1	✓ Certain types only 2
FBT exemption (subject to capping threshold)	✓ 1			✓ Certain types only 3
FBT rebate		✓ 8		✓ Certain types only 4
GST concessions for charities and gift deductible entities	✓ 1	✓ 1	✓ 5	✓ Certain types only 5
GST concessions for non-profit organisations	✓	✓		✓
Deductible gift recipients	✓ 6	✓ Certain types only 6	✓ 6	✓ Certain types only 6
Refunds of franking credits	✓ 7	✓ 7	✓ 7	✓ Certain types only 7

Source: Australian Taxation Office, current as at December 2012.

Notes to table

1. The organisation must be endorsed to access this concession
2. Only certain types of non-profit organisations are exempt from income tax. Many non-profit organisations are taxable, but may be entitled to special rules for calculating taxable income, lodging income tax returns and special rates of tax.
3. Public and non-profit hospitals and public ambulance services are eligible for this concession.
4. Certain non-government non-profit organisations are eligible for this concession.
5. The organisation must be a deductible gift recipient to access this concession.
6. The organisation must be endorsed as a deductible gift recipient to access this concession. The only organisations that do not need to be endorsed are those listed by name in tax law.
7. The organisation must be an entity that is endorsed as exempt from income tax or a deductible gift recipient to access this concession.
8. The organisation must be endorsed to access this concession. Not all registered charities are eligible for this concession.

Checklist: Registrations with the Australian Government

Business name (if required)	<input type="checkbox"/>
Australian Business Number	<input type="checkbox"/>
GST registration (if required)	<input type="checkbox"/>
Business Tax File Number	<input type="checkbox"/>
PAYG (if required)	<input type="checkbox"/>
Fringe Benefits Tax (if required)	<input type="checkbox"/>
Tax concessions (if desired)	<input type="checkbox"/>

Help!

The formation and running of a co-operative can be daunting and complicated, even if you have an enthusiastic group of members eager to help. There are plenty of resources out there to help – you are not alone!

Find out where you can get professional advice and what it would cost. It may be expensive, inexpensive or even cost nothing, as advice to co-operatives is sometimes subsidised or provided free.

Here are a few important links to get you started:

Co-operative peak bodies and associations

Co-operative federations operate in NSW, Queensland, Victoria, Western Australia and South Australia. The federations are the peak representative bodies for co-operatives in each state. (Refer to Appendix A for links)

Co-operative federations generally facilitate and provide assistance and services, represent and help co-operatives in their dealings with government, promote the exchange of information between co-operatives, increase understanding and public awareness of co-operative structures, and work with other co-operative organisations across Australia and the world.

Many federations assist in the establishment of co-operatives and provide educational programs, conferences and workshops; subjects include Board training, financial management, legislation and government relations. Some programs are offered free to members.

Many co-operatives are members of federations. Joining a co-operative federation strengthens the co-operative sector.

State federations are members of Co-operatives Australia (CA) and regularly meet to discuss issues affecting co-operatives. CA is apolitical, advocates the co-operative option and publishes the list of Australia's Top 100 Co-operatives, Credit Unions and Mutuals. The Top 100 annually demonstrates the economic and social impact of these co-operatives. CA's website www.australia.coop is a great source of information, including news,

events, links and resources.

Abacus Australian Mutuals Ltd is the official industry body for the Australian mutual financial services sector. With 120 members, Abacus provides a strong voice on behalf of its members to governments, regulators, the media, the public and other stakeholders, as well as providing advice and support services to members. Abacus's website is www.abacus.org.au.

Co-operative development organisations

Social Business Australia (SBA) helps social businesses such as co-operatives, employee-owned enterprises and social entrepreneurs to develop and grow. SBA provides opportunities to share knowledge, skills and best practice through communication, industry talks, case studies, advocacy and international speakers. SBA also provides access to training and education for social business, and encourages finance providers and industry super funds to invest in social business. (www.socialbusiness.coop)

The Mercury Centre is a NSW organisation which offers, for a fee, a range of services in formation and ongoing support for co-operatives. The Mercury Centre can help new groups to form co-operatives, assist with disclosure statements, rules development, membership strategies, active membership provisions and liaison with the government. The Mercury Centre also assists existing co-operatives to revise rules, hold elections, and increase membership and member participation; and communities and companies to change a business structure to a co-operative. (www.mercury.org.au)

Co-operative Development Services Ltd is a Victorian based co-operative which also charges for its services, and specialises in the formation of co-operatives. Its website, www.coopdevelopment.org.au, has links to over 600 Australian co-operatives and 200 national and international co-operative-related organisations.

There are also a number of organisations which assist member co-operatives within specific sectors, including housing, finance, child care, estate agents, and allied health services. Links can be found at Appendix A.

Government

State and territory governments register and regulate all co-operatives, co-operative housing & Starr-Bowkett societies, except for financial co-operatives. They usually assist with establishment and registration, and provide information on rights, responsibilities and legal frameworks. Website addresses are provided at Appendix A.

Professional Advice

Consultants can assist with anything related to launching a co-operative, including feasibility studies, business planning, co-operative development and accounting, financial and legal issues.

Identify what type of help you need, and be prepared to pay for good professional advice instead of relying totally on volunteers. Seek the services of organisations that have a strong knowledge of co-operatives.

Prepare a brief for the advisor, describing the structure, aims and activities of the co-operative. Describe the issue to be addressed, any time restraints, budget limitations, and payment terms.

Interview and seek resumes from a number of consultants, and determine who has the relevant business experience, understanding of the co-operative's requirements, is affordable, has strong communication skills and can deliver on time.

When you have decided to engage an advisor, prepare a written contract, clearly specifying the terms and conditions of engagement, including commencement and finishing dates, payment schedule, the duties to be undertaken and a procedure for dispute resolution.

Part three:

Running a co-operative

Staying on track: the Directors

Once the co-operative is operating, it is essential to ensure it continuously meets its aims. It is crucial that members elect a competent Board of Directors to oversee the management of the co-operative and ensure its success. The members need to trust the Board to act in their best interests. Directors should meet at least once a month in the first 18 months, and at least once every three months once the co-operative is established.

Officers

The Board of Directors will have a number of Officers which will include the Directors, Chairperson and Secretary, and perhaps Vice-Chairperson, Treasurer and General Manager.

Legislation also includes as Officers, people who make or participate in making decisions that affect a substantial part of the business of a co-operative, can significantly affect the co-operative's financial standing, who provide instructions that the Directors are accustomed to follow (with some exceptions), or others, including administrators, receivers, liquidators and trustees.

Choosing Directors

It is important to have a diverse Board of Directors - include people of different ages, skills, gender, and personal values. The Board should respond to the needs and wants of members, keep the members informed, allow members to participate in the co-operative's affairs, and make members feel that their participation is meaningful.

A nomination for appointment or election of a Director must provide details of the person's qualifications and experience. Members should elect Directors who reflect the membership and are prepared to undergo training.

Avoid excluding members who would make good Directors by organising meeting dates and times which don't conflict with a potential Director's work or family commitments, and at places which are accessible. Encourage experienced Directors to remain on the Board, but also support new people to be elected to give the Board a change in outlook and skills.

Depending on the size of the co-operative and its rules, there may be 3 Directors on the Board, or many more. At least 2 Directors must be ordinarily resident in Australia and all must be aged 18 or older. The majority of Directors must be member Directors, but an employee or another non-member who may have special skills in management or other technical expertise, may also be a Director of a co-operative (independent Director).

There are people who are not permitted to be Directors, including:

- The auditor of the co-operative and any employer, employee or partner of the auditor.
- Undischarged bankrupts.
- A person who has been convicted of a criminal offence.
- A person disqualified from managing corporations under the Corporations Act 2001.
- A person disqualified from managing co-operatives under co-operatives law during the first 5 years after the conviction or release from prison.

Penalties of up to \$24,000 or 2 years imprisonment, or both, may be imposed for contravention.

Electing Directors

The rules determine how positions on the Board are filled, including how the Chairperson is elected, holds office, retires or is removed.

The rules usually also allow the Directors to elect their Chairperson, but may permit the Chairperson to be elected at a general meeting. The Secretary is elected by the Directors. The rules may allow appointment of a person to fill a casual vacancy of Director until the next Annual General Meeting. The Board may also appoint a person to act as an alternate for a Director in the Director's absence.

The rules may allow the Board to delegate the Board's functions to a Director, committee of 2 or more Directors, or a committee of members and others.

A co-operative must notify the Registrar within 28 days of the appointment, resignation or removal from office of a Director, CEO or Secretary. Information required for an appointment includes: the name of the co-operative, the name and position of the person giving notice, and details about the appointees, including full name, any former names, address, date and place of birth, office held and date appointed.

The Registrar must also be advised if a Director, CEO or Secretary changes their name or address.

Directors – their power and duties

The rules and Co-operatives National Law determine the Directors' powers and duties.

While it is important that the day to day operations of the co-operative are efficient, and often a CEO is hired to do this, the Directors need to direct; taking a strategic long term view. They need to monitor whether the co-operative is meeting or exceeding cash flow and profit and loss forecasts and paying its bills on time. They also need to make sure the co-operative is meeting its objectives, sticking to the rules and meeting legal requirements.

Directors may not be experts, but they must serve to the best of their ability, represent the interests of members impartially and put members' interests first, be accountable for financial management, and ensure members are informed while not disclosing confidential information.

The direction and prosperity of a co-operative is highly dependent on the strategic ability of Directors, who decide:

- To review operating results and decide if existing policies are working.
- If there are enough members and who will be new members.
- Whether to issue shares and declare dividends.
- Whether to hire or fire the CEO, whom the Board supervises.
- To liaise between the CEO and members.
- What the strategic objectives are.
- Production and sales policies.
- The guidelines for control of business activities.
- Plans for expansion.
- What debt level is appropriate.
- Which assets to dispose of or acquire.
- To propose the amount of dividends to be distributed to members, or donations to other organisations.
- To call special meetings when required.
- To ensure Board policies are implemented by management.

Directors also undertake a more general business role:

- Renewing or changing contracts.
- Approving salary and human resource management policies.
- Preparing and submitting an annual report of activities to the general meeting.
- Budgeting for the co-operative's operations.
- Arranging for handling of funds and deciding who the cheque signatories are.
- Ensuring appropriate bookkeeping systems are maintained.
- Ensuring audits (if required) are undertaken and financial reports provided.
- Ensuring complete and accurate minutes are kept of meetings.
- Implementing policies and procedures in line with the co-operative's objectives.

If a Director holds an office or has an interest in property that could conflict with the Director's duties, in most cases it must be declared at a meeting of the Board of Directors. The Director cannot be present while the Board deliberates on the matter or take part in the Board's decision on the matter.

The Secretary

The Secretary of a co-operative has an important role and many responsibilities. These usually include calling meetings, keeping minutes and documents, maintaining registers and being the returning officer for postal ballots if another person is not appointed.

Co-operatives National Regulations also lists the following duties as the responsibility of the Secretary:

- Ensuring the co-operative's name appears in legible characters on each seal of the co-operative; in all notices, advertisements and other official publications of the co-operative; and in all its business documents.
- Ensuring the co-operative has a registered office which has a publicly and conspicuously displayed notice of the co-operative's name and the fact that the premises is the co-operatives registered office, and providing the Registrar with written notice of a new address within 28 days.
- Lodging notice within 28 days of the appointment or cessation of appointment of Directors and Officers with the Registrar.
- Filing with the Registrar, within 28 days, a notice of the address at which registers are kept after the register is moved or held at an office that is not the co-operative's registered office.
- Retaining financial records for 7 years after transactions are completed.
- Lodging annual reports with the Registrar (large co-operatives).
- Lodging annual returns with the Registrar (small co-operatives).
- Lodging half year reports with the Registrar (disclosing entities).
- Relodging financial statements or Directors' reports to the Registrar if they are amended after lodgment, and notifying members of the amendments.
- Notifying the Registrar of the appointment of an auditor.

If the co-operative contravenes any of the listed requirements, the Secretary is also held responsible for the contravention.

Directors' remuneration

Directors cannot receive remuneration for their services, except for fees, concessions and other benefits approved at a general meeting; travelling and other expenses properly incurred to attend co-operative meetings.

Directors and their associates must not receive financial accommodation from the co-operative unless it is

approved at a meeting of the Board by a two-thirds majority or provided on terms no more favourable than they would be at arm's length.

Co-operative Officers, who are not Directors, can only receive financial accommodation from the co-operative with the approval of a majority of Directors.

Directors' Insurance

The co-operative may consider obtaining insurance to cover the liability of its Directors and Officers if sued for actions they have taken while carrying out their duties. The insurance will not protect Directors and Officers who have failed to meet a minimum standard of care, have committed a wilful breach of duty or have authorised illegal acts. Co-operatives cannot exempt an Officer or auditor from a liability to the co-operative or a related organisation, or a liability owed to someone else that did not arise out of conduct in good faith, apart from a liability for legal costs (in some cases).

More meetings

Meetings of the Board of Directors

The Board of Directors meet to exercise all the powers of a co-operative that are not required by law or the rules to be exercised by the co-operative members in a general meeting.

The Board needs to meet at least once every three months, and it can be a regular meeting or one called for a special purpose, or by one Director notifying each other Director. The Board meeting can be called or held using any technology that the Directors agree upon.

The Board can do any of its business outside of meetings by circulating papers by hand, fax, email or other method among all of the Directors. Decisions outside of meetings are made by a majority of Directors approving, in writing, a resolution. The approved resolution is to be recorded in the minutes of the meetings of the Board within 28 days of the approval of the resolution.

A quorum at a Board of Directors meeting is 50% of the Directors, or more if specified in the rules. The member Directors must outnumber the non-member Directors by one, or more if required by the rules. No decisions can be made at a meeting without a quorum being present.

Annual General Meeting

The Annual General Meeting (AGM) is an important yearly event where the co-operative's leaders report to the entire membership on the previous year's activities and give details of their plans for the upcoming year. The co-operative's rules will determine what information the members will receive at the meeting.

The first AGM is to be held within 18 months of registration. In ensuing years, AGMs are to be held within 5 months of the end of the co-operative's financial year.

The main business activities usually conducted at an AGM are to elect members of the Board of Directors and other committees, inform members of co-operative activities, appoint the external auditor (if required), amend the rules, decide to join a co-operative federation or other inter-co-operative organisation, set the fees of Directors, or decide to merge with another co-operative or wind up the co-operative.

At an AGM, large co-operatives must confirm the minutes of the last annual or special meeting, provide the financial report, Directors' report, and auditor's report for the last financial year that ended before the AGM, and provide a report on the state of affairs of the co-operative.

Small co-operatives must confirm the minutes of the last annual or special meeting, provide a report on the state of affairs of the co-operative, provide a Directors' solvency resolution stating the co-operative can and will be able to pay its debts when due and payable, but only need to provide basic minimum financial statements. Other reports must be provided if directed by 5% or more members or the Registrar.

It is essential that members understand, and discuss, the direction the co-operative is taking. Members must be able to ask questions, make comments on management, receive information and feel they are an important part of the co-operative.

The rules usually decide the number or percentage of members that is required to make a quorum at an AGM.

General Meetings

The AGM should not be the only time that members meet together.

General meetings should be held regularly so that members and Directors maintain an understanding of the progress towards goals and the direction the co-operative is taking.

20% or more of active members entitled to vote (unless the rules reduce the percentage required) can requisition a meeting. The requisition to hold the meeting must state the reason for the meeting, be signed by the members requesting the meeting, and be filed at the registered office of the co-operative. The Board should call and hold the meeting as soon as practicable, and no longer than 63 days from the date of the requisition.

If the Board fails to convene the meeting, the requisitioning members may convene the meeting within 91 days of the requisition.

General meetings and special general meetings can be held at other times as required, with 14 days notice given to members. If members are required to vote on a special resolution at the meeting, they must be given at least 21 days notice of the special resolution.

Minutes

The minutes of each meeting must be entered into the appropriate books by the Secretary within 28 days of the meeting. Either the Chairperson who attended the meeting or the Chairperson of the next meeting must sign the minutes within a reasonable time.

Voting

The right to vote is attached to the membership, not the shareholding. Each active member of a co-operative has one vote at a meeting, except for when the votes are tied, and the Chairperson can cast a deciding vote if permitted under the rules.

Where there is joint membership, the joint members have one vote between them; the rules decide which one is entitled to vote. If shares are held jointly by 2 or more members and it isn't a joint membership, each member holding the shares can vote.

The number of votes per member of a co-operative group may be up to 5 if the rules allow.

Voting at a general meeting of a co-operative can either be by a show of hands or a poll. A poll is needed if required by the Chairman or 5 members who are at the meeting or represented by proxy.

Proxy voting is permitted at general meetings under Co-operatives National Law, if the rules allow it. A person who is a proxy for one or more members must be an active member (or entitled to represent a member of a co-operative group), can only cast one vote in voting by a show of hands, but more than one vote in a poll, unless declared otherwise in the rules.

The rules can limit the number of members a person can act as proxy for on the same question.

A co-operative that has a primary activity of the operation, maintenance or carrying on of a club and holds a club licence under the Liquor Act 2007 can allow by its rules for different classes of membership and restrict the voting rights of the different classes.

Resolutions

A decision made by a vote of members is called a resolution. The two types of resolutions are special and ordinary.

An ordinary resolution is passed by a majority of votes at a general meeting or in a postal ballot. A special resolution is passed by a two-thirds majority at a general meeting and in a postal ballot, or by a three-quarters majority in a special postal ballot.

Postal Ballot

Directors could decide to conduct a postal ballot, if the rules allow, and as prescribed by the rules; particularly if they are concerned that they may not get a quorum at a general meeting.

The Board is required to provide a statement of the details of the proposal on which the ballot is to be held and fix dates for forwarding ballots to members and closing the ballot. A returning officer is appointed by the Board. The returning officer cannot be a Director, but may be the Secretary if no returning officer is appointed. The returning officer prepares a roll of the names, addresses and voting rights of members, marks or codes ballot papers as genuine, and delivers the ballot papers and the Board's statement to every member entitled to vote at least 21 days before the date the ballot closes.

Members vote by marking the ballot papers according to the instructions given, and sending the ballot papers to the returning officer within the time specified. The Board decides if a postal ballot is to be a secret ballot, and may be sent and returned by mail or electronic transmission.

After a postal ballot is held, the returning officer counts the votes, declares the result, and forwards the declaration to the Chairperson. The co-operative notifies the members in writing of the result as soon as practicable, and the Chairperson announces the result at the next general meeting. The Secretary makes an entry in the minutes to show the number of formal votes cast for and against the proposal, as well as the number of informal votes.

Resolution for a co-operative with less than 50 members

If the rules allow, and a co-operative has less than 50 members, and all the members have signed a document (or several identical documents) which sets out the terms of a resolution and states the members are in favour of the resolution, the resolution is taken to have been passed at a general meeting, and the document is taken to be a minute of the general meeting.

Special postal ballots and special resolutions

WARNING! The following section is pretty heavy reading – it is best reserved for a time when a co-operative needs to make major decisions.

A number of decisions need a special postal ballot to be valid. They include:

- Changing the rules.
- Changing a distributing co-operative to a non-distributing co-operative, or vice versa.
- Changing a co-operative with share capital to a co-operative without share capital, or vice versa.
- A special resolution requiring members to lend money or acquire additional shares.

- Acquisition of certain assets from, or disposal to, a Director, employee or relative.
- A special resolution on the requisition of members.
- The maximum permissible level of share interest in a co-operative.
- Acquisition of a large asset if its purchase would mean the co-operative would commence an activity that is not one of its primary activities.
- Disposal of an asset which would substantially impair or stop the co-operative from carrying on a primary activity.
- The sale or lease of the undertaking of the co-operative as a going concern.
- The sale or lease of a part of the undertaking that relates to the primary activities.
- Certain share offers.
- A merger.
- A transfer of engagements.
- A transfer of incorporation.
- A compromise or arrangement between a co-operative and its members.
- A members' voluntary winding up.

28 days notice must be given before a special postal ballot. Each member receives a disclosure statement approved by the Registrar which explains the financial position of the co-operative, the interests of the Directors in the proposal, any compensation or consideration which is to be paid to Officers or members in connection with the proposal and any other matters as directed by the Registrar. The Registrar may also require an approved independent report to accompany the disclosure statement.

A special resolution is passed by a two-thirds majority of members at a general meeting or in a postal ballot (if permitted in the rules and Law). An exception is a special postal ballot, which requires a three-quarters majority and must be registered with the Registrar before it takes effect. The rules may require higher majorities in postal or special postal ballots.

A special resolution may be used to convert a co-operative, amend the rules, require members to take up additional shares or provide loans, issue bonus shares, repurchase shares, allow a Director of a housing co-operative to sell land to the co-operative, enter into a management contract, change the co-operative's name, appoint an auditor, have a voluntary winding up, decide on terms of issue of CCUs, sell or lease part or all of the undertaking of a co-operative, increase a member's share interest above 20%, transfer incorporation, or enter into a compromise or arrangement with creditors.



To pass a special resolution, 21 days notice must be given to members, which states the special resolution is intended to be proposed, why it is, and what the effect will be of it being passed. If passed, the special resolution takes effect immediately, unless it is to amend the rules.

Unless the rules state a lesser percentage, 20% of active voting members can requisition a postal ballot or special postal ballot be held for a special resolution. The requisition must state the resolution, the reasons for making it, and the effect of it. The requisition must be signed by the requisitioning members, be served on the co-operative by being filed at its registered office, and conducted within 2 months after the requisition is served. If the special resolution for which the requisitioned postal ballot is conducted is not passed, the co-operative may recover the expenses of the postal ballot from the members who requisitioned it.

Members' rights and responsibilities and liabilities

Members' rights

Members can exercise rights of membership once their names are in the register of members and the members have paid the co-operative for membership, or acquired shares or interests according to the rules. Only active members can exercise voting rights.

The Board of a co-operative must give each person who intends or applies to be a member a copy of the rules, a copy of special resolutions which would apply to the prospective member, and a copy of the last financial information reported to members.

Co-operative members do have democratic rights. Effective communication with the Board and the Board's clear communication with members can have a positive effect on the way a co-operative operates and activates the membership. The Board can deal with issues it has been authorised to control under the rules and Law, but members should be involved in all major decisions and actions affecting the co-operative.

Members' responsibilities to a co-operative

The rules of a co-operative may require a member to have a certain level of dealings with a co-operative for a fixed period. The member may be required to pay membership fees and annual contributions, sell products through or to the co-operative, obtain supplies or services through or from the co-operative, or pay liquidated damages for failure to comply. A member must be an active member as described in the co-operative's rules, or the Regulations, which state that a member is inactive if he or she has not been an active member for 3 years.

To enable a co-operative to operate to its fullest potential, a member should also:

- Patronise and support the co-operative.
- Invest equity as required.
- Be involved with its affairs.
- Consider serving on the Board or committees.
- Vote effectively.
- Support and communicate with the Board of Directors.
- Keep informed.

Members' liability to a co-operative

Co-operative members have limited liability for the co-operative's debts, (unless the member is in a position to cause the debts recklessly, negligently, or fraudulently) and are not under any personal liability to the co-operative except for the following:

- A member of a co-operative with share capital is liable to the co-operative for the amount (if any) unpaid on the shares held by the member together with any charges payable by the member to the co-operative as required by the rules.
- A member of a co-operative without share capital is liable to the co-operative for any charges payable by the member to the co-operative as required by the rules.

If provided for in the rules, a co-operative may impose a fine of up to \$1000 on a member for an infringement of the rules. The co-operative must give notice to the member that it intends to impose the fine, give

the reason for the fine, and give the member the opportunity to tell the Board why the fine should not be imposed.

Dispute resolution

At times, disputes do arise, even in cohesive and friendly co-operatives.

The rules must be comprehensive in describing grievance procedures for dealing with disputes between members, and members and their co-operative. A co-operative should also have a code of conduct that clearly describes the kind of behaviour expected of members.

A member is permitted to appoint someone else to act on their behalf in a grievance procedure, and the procedure must allow for natural justice to be applied, meaning that all parties involved in the dispute should understand all the facts of the situation, be heard by an unbiased party, and be allowed the right to reply to an accusation.

A member or the co-operative can apply to a tribunal for an order to declare and enforce the rights or obligations of members between themselves, or between the co-operative and members.

Oppressive conduct of affairs

The Registrar or a member can apply to the Supreme Court for an order if they believe the affairs of the co-operative are being conducted in a way that is:

- Oppressive or unfairly prejudicial to, or unfairly discriminatory against, a member, or,
- Contrary to the interests of the members as a whole.

A member can apply for an order if they believe an act or omission, or a proposed act or omission, by or on behalf of the co-operative; or a resolution, or a proposed resolution, of members, was or would be oppressive or unfairly prejudicial to, or unfairly discriminatory against, a member, or contrary to the interests of the members as a whole.

The Supreme Court can make an order:

- To regulate the future conduct of affairs of the co-operative.
- For the purchase of a member's shares and repayment of share capital.
- Requiring a person to do an act or thing.
- Amending the rules of the co-operative.
- Directing the co-operative to institute, prosecute, defend or stop proceedings.
- Authorising a member or members to institute, prosecute, defend or stop proceedings in the name of and on behalf of the co-operative.
- To restrain a person from engaging in conduct or from doing an act or thing.
- For the Registrar to appoint an administrator of the co-operative.
- That the co-operative be wound up.
- To appoint a receiver or receiver and manager of the property of the co-operative.
- Directing a co-operative to become registered as a company.
- For costs.

Active membership resolution

If an active membership resolution is to be made at a meeting, at least 21 days notice must be given to members stating whether the member is eligible to vote on the resolution and the full text of the proposed

resolution, and containing a copy of Section 156 of Co-operatives National Law.

If the Board is meeting to consider a proposal to submit an active membership resolution, all Directors are eligible to vote on the proposal.

If the rules of the co-operative do not have active membership provisions, the only members eligible to vote are those who would be active members if the resolution had already taken effect.

Paperwork

Financial Records

A co-operative must keep written (or computerised) financial records that correctly record and explain transactions, its financial position and performance, and would enable true and fair financial statements to be prepared.

The co-operative may decide where to keep the financial records, as long as there is enough information kept within its state or territory to allow true and fair financial statements to be prepared.

The financial records must be kept for 7 years after the transactions in the records are completed.

Annual Information Statement by charities

Registered charities need to report annually to the Australian Charities and Not-for-profits Commission within 6 months of the end of their reporting period.

All charities need to report basic non-financial information from 1 July 2013. Larger charities will also need to provide financial information from 1 July 2014.

Reporting obligations apply differently for some charities, including aged care providers, large childcare centres and non-government schools.

Annual financial report, Directors' report and Concise report

Large co-operatives must prepare all of these reports each financial year, and also organise an auditor's report of the financial report.

Small co-operatives only need to prepare these reports if directed to produce the reports by 5% of voting members or the Registrar. The Regulations do require small co-operatives to provide members with a report containing an income and expenditure statement, balance sheet, statement of changes in equity, cash flow statement and statement of significant accounting policies. Each of the financial reports must include comparative figures for the previous financial year and comply with relevant accounting standards. The cash flow statement is not required if the small co-operative has consolidated revenue of less than \$750,000, and consolidated gross assets of less than \$250,000 in a financial year.

The rules may require a co-operative to prepare more financial reports than required by the Regulations. 5% of members of small co-operatives may direct the financial reports to be audited or reviewed.

The annual financial report will include the financial statements for the year and their notes and any other information to give a true and fair view of the financial position and performance of the co-operative. The financial reports of large co-operatives must comply with accounting standards. The financial reports of small co-operatives do not need to comply with particular accounting standards if the direction to report specifies that the report does not have to comply with those accounting standards.

The Directors' declaration about the financial statements and notes state that it is their opinion that there are reasonable grounds to believe that the co-operative will be able to pay its debts as and when they become due and payable. The declaration also states whether, in the Directors' opinion, the financial statements and notes are in accordance with the Co-operatives National Law, and if the co-operative has quoted securities, that the Directors have been given the declarations required by the Corporations Act.

The Directors' report must also contain information about the co-operative's operations, affairs, activities, dividends, Directors, auditors, debentures, options and more; the list is far too extensive to include here. Divisions 3, 4, 5 and 6 of the Co-operatives National Law list the inclusions of Directors' reports.

The concise report of a large co-operative consists of a concise financial report, the Directors' report, a statement by the auditor, and a statement that the report is a concise report and a member may request the full reports.

The full reports or concise reports are to be sent within 5 months after the end of the financial year, free of charge, to members in hard copy, electronic copy, or made available to be viewed on a website.

If the reports are required to be lodged with the Registrar, a disclosing entity must lodge them within 3 months of the end of the financial year, and within 5 months for any other co-operative. A co-operative that is a disclosing entity must also provide a half-year financial report and Directors' report.

Annual Return

A small co-operative is not required to lodge annual financial reports or Directors' reports to the Registrar. Instead they must lodge an annual return with the Registrar within 5 months after the end of each financial year, unless the Registrar directs a longer period for lodgement for a specified financial year.

The annual return confirms such matters as continuity of operation, membership and fees, any changes to name, Officers or registered office, whether members have required additional financial reports, the date of the next AGM, and that the Board has resolved that the co-operative is solvent and is satisfied it is a small co-operative for the financial year.

Execution of Documents

Documents should be signed or sealed by 2 people; either 2 Directors, or a Director and a Secretary.

Contracts

If permitted by the rules, an individual acting with the authority of the co-operative may make, vary, ratify or discharge a contract on behalf of a co-operative.

Registers

A co-operative must keep a number of registers at its registered office or principal place of business or office in written or electronic form, including registers of:

- Directors: including the name, former name, date of birth and residential address of each Director; the date of the Director's election or appointment, whether the Director is a member Director or non-member Director, and the date and mode of termination of office (if applicable).
- Members: including the name and address of each member, the date they were admitted to the co-operative, the folio reference to the minute evidencing admittance, the date and circumstances of cessation of membership (if applicable). If the co-operative has share capital, the register must contain details of each member's shareholding, the share identifying number, the date the shares were allotted and the amount paid or considered paid on the shares. Further information is required in the members' register if the co-op-

erative purchased a member's shares, if shares were forfeited or if there was a conversion to a co-operative without share capital.

- Loans to, securities given by, debentures issued by, deposits received: this register requires the names of the people who have provided loans, the amount of the loan, the date the loan was received, the folio reference to the minute evidencing the Board's acceptance of the loan, a reference identifying the account created for the loan, the date and amount of repayments, and details of security given. For each debenture issued or deposit received, similar detailed information is required (refer CNR Chapter 8, Schedule 1).
- Names of persons who have given loans or deposits to or hold securities or debentures given or issued by co-operative: this register must contain the full and former names of the person, their address, and whether the person has given a loan or deposit, or holds securities or debentures, and a reference to the relevant entry in the "Loans to." register above.
- Fixed assets: details include a short description of each asset, method of financing if leased, location, date purchased or installed, how depreciation is calculated, annual percentage and amount of depreciation or amortisation, total amount of depreciation or amortisation, revaluation increment, sale price and date sold.
- Loans made by or guaranteed by co-operative and securities taken by co-operative: refer to Co-operatives National Regulations Chapter 8, Schedule 1 for details required in this register and those that follow.
- CCUs.
- Subordinated debt.
- Memberships cancelled under Part 2.6 of the Law: details are required of members whose membership has been cancelled as they were no longer active members.

The co-operative must notify the Registrar within 28 days if there is any change to the location of the registers.

Inspection of books, registers and other documents

A member of a co-operative may be authorised by the Board, or apply to the Supreme Court for an order authorising the member or their representative to inspect and copy the books of the co-operative.

A co-operative must be helpful, and make available for inspection (or copy) by a member free of charge during reasonable hours, a copy of the Co-operatives National Law, the Co-operatives National Regulations, local regulations, the rules and attachments, minutes of each general meeting, the last annual report, and the first 7 registers listed above. The rules will state whether minutes of Board and subcommittee meetings are also available to members.

A co-operative must have available for inspection, by any person, the rules and attachments required by CNL, the register of Directors, and a copy of the last annual return or report.

Directors have the right to access financial records at all reasonable times.

Offences and penalties

Directors' legal duties

The Directors, other Officers and employees are required to be honest and act in good faith, and:

- Not to use information acquired in their duties or to use their position recklessly or with intent for personal gain or for personal or indirect advantage or to the detriment of the co-operative.
- To declare the nature and extent of any interest in proposed or current contracts.
- To exercise a reasonable degree of care and diligence.
- Make a business judgement in good faith for a proper purpose, without a material personal interest; inform

themselves to an extent they feel is appropriate and rationally believe the judgement is in the best interests of the co-operative.

Criminal penalties of up to \$200,000 or 5 years in prison, or both, may apply for serious breaches of duties.

Persons not permitted to be Directors

There are people who are not permitted to be Directors, including:

- The auditor of the co-operative and any employer, employee or partner of the auditor.
- Undischarged bankrupts.
- A person who has been convicted of a criminal offence.
- A person disqualified from managing corporations under the Corporations Act 2001.
- A person disqualified from managing co-operatives under co-operatives law during the first 5 years after the conviction or release from prison.

Penalties of up to \$24,000 or 2 years imprisonment, or both, may apply.

Concealment, destruction, mutilation or falsification

Current and former Officers, employees and members who engage in conduct that results in the concealment, destruction, mutilation or falsification of any securities of or belonging to the co-operative; or any books affecting or relating to affairs of the co-operative; or any record required to be sent, kept or delivered under Co-operatives National Law is guilty of an offence and may be penalised \$10,000 or imprisoned for 2 years, or both.

Falsification and failure to record

Similar penalties apply to current and former Officers, employees and members who are guilty of falsification of books or computerised records, when the person knows they will be false or misleading, or fails to record or store information when they have a duty to, with the intent to falsify an entry or render false or misleading information affecting or relating to affairs of a co-operative. It is a defence if the defendant proves that they acted honestly and that in the circumstances the offence should be excused.

Fraud or misappropriation

A person may not, by false representation or imposition, obtain possession of property of a co-operative or, if property of a co-operative is in his possession, withhold or misapply it or wilfully apply part of it to purposes not authorised by the rules or Law. A penalty of up to \$6,000 applies.

Offering or paying commission

A person must not offer or pay commission, fee or reward to an Officer of a co-operative in relation to a transaction or proposed transaction between the person and the co-operative. The Officer must not accept such a commission, fee or reward. A penalty of up to \$6,000 or 6 months imprisonment, or both, applies. An Officer found guilty is also liable to pay the co-operative double the value or amount of the commission, fee or reward.

False or misleading statements

False or misleading statements in relation to an application, request, or demand for money made to or from

a co-operative can attract a penalty of up to \$6,000 or 6 months imprisonment, or both. A person must not knowingly give false or misleading information or statements in a material particular, or provide information or statements by another person knowing it to be false or misleading in a material particular, to a co-operative or its Officer, employee or agent.

A person must not make or authorise the making of a statement in a document for the purposes of Co-operatives National Law or filed with the Registrar knowing it to be false or misleading in a material particular, or omit, or authorise the omission of, anything knowing that the omission makes the document false or misleading in a material particular, unless it is proven that the person had taken all reasonable precautions to avoid the making of authorising of false or misleading statements, or omissions.

Notice of conviction for an offence

If a co-operative or Officer is convicted of an offence against the Co-operatives National Law or corresponding law, the co-operative must give each member notice of the conviction, the penalty imposed and the nature of the offence within 28 days of the conviction.

Auditors – who needs them?

The preparation, presentation and content of financial reports are ultimately the responsibility of the Directors of a co-operative.

A large co-operative must have annual financial reports audited by a registered company auditor and obtain the auditor's report. A small co-operative that was directed by members or the Registrar to prepare a financial report does not need the report audited if it was not a requirement of the direction.

It is a good idea to talk to people involved in other organisations for recommendations of a competent auditor, and search the auditors' register at www.asic.gov.au for details of registered auditors.

To review or audit?

An auditor's report provides an opinion as to whether the applicable financial reporting framework has been applied in the preparation of the report, whether it is free from material misstatement and whether it shows a true and fair view of the operating results, financial position and cash flows of the entity. An auditor uses procedures in an audit to detect material misstatements and to reduce the risk of fraud.

The members of a small co-operative may require the financial reports to be reviewed rather than audited. A review is cheaper than an audit, and less detailed. The co-operative receives limited assurance that there are no material changes that need to be made to an entity's financial statements for them to conform with the applicable financial reporting framework, and the reviewer does not require an understanding of internal control, assess fraud risk or give an opinion as to whether the financial report gives a true and fair view, or is presented fairly, in all material respects.

Audits and reviews must meet the standards set by the Australian Auditing and Assurance Standards Board.

Auditors at meetings

Co-operatives that require an auditor must give the auditor notice of general meetings and any communications related to the meeting. The auditor or their representative is entitled to attend and be heard on any business of the meeting that concerns the auditor. If an auditor or their representative attends the AGM, the members must be allowed a reasonable opportunity to ask questions of the auditor.

Appointment and office

Members of a small co-operative may appoint an auditor at a general meeting or the Directors may appoint one.

Similarly, members of a large co-operative may appoint an auditor at a general meeting or the Directors may appoint one. The auditor must be appointed within one month after the day the large co-operative was registered.

Unless the previous auditor was removed from office at the AGM, an auditor is nominated to be appointed by a member giving the co-operative written notice of the nomination before the meeting is convened, or not less than 21 days before the meeting. A copy of the notice of nomination is sent to the nominated auditor, the current auditor and anyone entitled to receive notice of the general meetings.

The auditor must provide consent to be the auditor before being appointed. The Registrar must be notified of the auditor's appointment within 28 days.

The Registrar may appoint an auditor if an auditor is removed but not replaced, the co-operative does not appoint an auditor when required by Law to do so, or a member of the co-operative applies to the Registrar in writing for the appointment of an auditor.

The auditor holds office until the co-operative's next AGM. Any vacancy on the office of auditor is to be filled at each AGM by a special resolution. The auditor holds office until he dies, is removed or resigns from office, ceases to be an auditor or ceases to be capable of acting as auditor due to a conflict of interest.

The reasonable fees and expenses of an auditor are payable by the co-operative.

Removal and resignation

An auditor can be removed from office by resolution at a general meeting, with notice of intention to move the resolution given to the co-operative at least 2 months before the meeting is held, unless a meeting is called after the notice of intention is given. The notice must as soon as possible be sent to the auditor and lodged with the Registrar.

Within 7 days the auditor may write to the co-operative and request that the auditor's representations be sent to every member before the meeting and read out at the meeting.

An auditor of a large co-operative may resign if the auditor has the consent of the Registrar to resign. The Registrar's consent is not required for the resignation of an auditor of a small co-operative.

Within 14 days of removal or notice of resignation, the co-operative must lodge the notice with the Registrar.

An auditor ceases to hold office if a co-operative is to be wound up.

The Chief Executive Officer

Many co-operatives are too large to be operated by members, and need to engage a CEO and staff. Careful selection of the management team is crucial to ensure the co-operative remains viable, meets its objectives and can compete in the marketplace.

The day-to-day management of an employing co-operative is not the role of the Board. The CEO's duties include ensuring the co-operative operates according to its business plan, rules, strategies, policies and principles; understanding the co-operative's objectives and achieving them; giving the Board information and suggesting new objectives; choosing, training, supervising and helping staff, and ensuring the co-operative operates on a sound financial basis.

A co-operative needs to have a management contract approved by special resolution for a person who: is not an Officer of the co-operative and will perform a large part of the functions of the co-operative, or, who directs the co-operative to perform its functions in a particular way, before engaging that person.

Education for life

Ongoing education of owners (and staff) of any business is important, but especially so in a co-operative. The unique democratic nature of a co-operative means that all the member-owners need to be informed, educated and involved to make the right decisions for their co-operative and community.

Members of a small non-employing co-operative will need to learn the skills required to manage the operations of the co-operative. Larger co-operatives often have so many members that they can rely on a core group to be knowledgeable and active in decision-making. All the members of small co-operatives need to be educated about the values and principles of co-operatives and how they translate into good business practices.

Those involved in the formation of the co-operative should not be the only ones with the co-operative knowledge, as it is important that the co-operative culture and identity is maintained throughout the life of the co-operative and doesn't end if the formation members leave. Members can forget the value of being part of a co-operative; continuous learning is essential for a co-operative to flourish.

The co-operative education of members should cover the obligations between members, Directors and members, between members and the co-operative, and the co-operative and its community. Teach the members the value of being an active member; the value of the co-operative advantage, the value of doing business through the co-operative, how to co-operate, the value of reciprocity and interdependence, how to deal with egos, selfishness and the desire for power, how to be an effective Director, and how to market products, services and merits of co-operation to those outside of the co-operative.

Provide a copy of this manual to new members and staff. Plan to have regular ongoing education, and make inquiries about courses, seminars, conferences or workshops available through a co-operative federation, co-operative organisation, training facility or government. If appropriate education isn't available, seek the services of a co-operative consultant or a training facility with an understanding of co-operatives to tailor a course for the co-operative or a group of local co-operatives.

Co-operatives are businesses, even not-for-profit co-operatives, and members should be educated to run that business effectively. The general education of members and staff could include managing resources, conflict resolution, negotiation skills, creative solutions, marketing, planning, business processes, grant applications, finance, financial reporting, strategic decision-making, product and service development, and monitoring and evaluating performance.

Challenges and growth

Co-operatives, as with other organisations, will always face the challenges of survival and growth. Every co-operative that grows experiences growing pains. The members' enthusiasm at the start may falter when the day-to-day management duties become the focus of activities.

The co-operative will continuously need to provide quality and affordable services and products that the market and members want. It will need to find ways to grow financially and build member equity, attract finance, and attract and maintain membership.

People can become attached to old ways of doing things, which can create problems when a co-operative needs to change. It is therefore important that members are kept abreast of impending changes in the market

and co-operative, so that change can be anticipated and planned.

To grow and meet constant challenges, a co-operative needs to maintain a strong, experienced and diverse Board and competent management and staff. It will need clear lines of responsibility and accountability, have the appropriate systems in place to provide timely and accurate financial and operational information, keep abreast of changes in legislation and industry, commit to member and employee education, work with other co-operatives, and maintain (or change) its primary objectives. The co-operative may need to consider whether the current structure or operating procedures are still relevant and allowing the co-operative to grow.

Co-operatives across borders

Until the passing of Co-operatives National Law, co-operatives have endured additional compliance costs to trade across state and territory borders, putting them at a competitive disadvantage to companies. Co-operatives were required to have multiple registrations to have cross-border trade, except for “foreign co-operatives” which traded in Victoria.

Australia is a national market, and there has been an enormous increase in trade being conducted over the Internet. Co-operatives National Law gives “participating co-operatives” the freedom to operate nationally, giving them greater opportunities to respond creatively and quickly to opportunities or threats to access services, products and capital to develop and provide services to their members and communities.

Participating co-operatives (PCs) are bodies that are registered and incorporated under a corresponding co-operatives law of a state or territory, and carries on business in a different state by soliciting for members, seeking share capital, taking deposits or offers other securities, such as debentures and CCUs in a different state.

Authorisation and restrictions

A PC is authorised by Co-operatives National Law to carry on business as a co-operative in another state or territory unless it ceases to be authorised. The authorisation for a PC to carry on business in another state or territory is subject to the same conditions or restrictions that apply under its registration.

A PC carrying on business in another state or territory must do so under a name that is not likely to be confused with the name of a body corporate or a registered business name.

A PC must ensure its name, the jurisdiction of its registration and any other information prescribed by Chapter 5 of the Co-operatives National Regulations appear in legible characters on each seal of the co-operative, and in all notices, advertisements and other official publications of the PC and in all its business documents.

A person must not advertise or publish a statement that directly or indirectly refers to an offer or intended offer of shares in a distributing PC (if the shares are offered or the invitation made to persons who are not shareholders of the PC), or debentures or CCUs, unless a current relevant disclosure statement is lodged or registered with the Registrar for the other jurisdiction, and any other requirements prescribed in Chapter 5 of the Co-operatives National Regulations are complied with.

Authority to carry on business in another state or territory will cease if a PC is deregistered or ceases to be a co-operative under the laws of the place where it is registered, incorporated or formed; or its authorisation to carry on business in another state is withdrawn by the Registrar because the name of the co-operative does not comply with the Act; or it has failed to comply with provisions of co-operatives law or its rules; or has failed to comply with the Registrar’s direction as to the way in which it is to exercise its functions in relation to the activities of the co-operative in obtaining financial accommodation in another state or territory.

A PC may be wound up in another state even if it has been wound up or deregistered or ceased to exist where it was registered, incorporated or formed.

Part four:

Changing and leaving co-operatives

Changing a co-operative

Conversion of a co-operative

By amending its rules, a co-operative may convert from a co-operative with share capital to a co-operative without share capital, or vice versa; or a distributing co-operative to a non-distributing co-operative, or vice versa. The conversion from a non-distributing to a distributing co-operative requires the Registrar's approval.

Demutualisation: a co-operative becoming a company

At times co-operative members decide to change the co-operative's structure and incorporate it as a company. In fact, there has been quite a number of co-operatives demutualising since the mid 1980s. The six companies in Australia with the largest number of shareholders have all recently privatised or demutualised.

Often demutualisation has occurred to separate the legal roles of the customer and owner; to maximise the return to owners instead of customers; to take the focus from customer services to profits; to obtain external finance; to expand or diversify activities; to gain a windfall for members; to broaden a membership base; to trade freely across state borders or to compete more effectively with publicly listed companies in the market. Sometimes the profit motive outweighs co-operative values.

Decisions to demutualise have often been driven by the regulatory framework. It is hoped many of the reasons that co-operatives demutualise will be removed once Co-operatives National Law is in place.

A co-operative may apply to become registered, incorporated or otherwise established as a company under the Corporations Act, or a corporation prescribed by the National Regulations or local regulations. The members must, by special resolution passed by a special postal ballot, approve the proposed application, decide on a new name and adopt constituent documents. The transfer must result in all persons who were members of the co-operative at the date of transfer becoming members of the new body.

A co-operative without share capital must publish the proposal to transfer in a local newspaper, and if the new body will have share capital, all the members will have an equal shareholding. The application needs to be approved by the Registrar.

In the case of a transfer of a co-operative having share capital to a new body having share capital, the transfer must result in every member of the co-operative at the date of transfer who held shares in the co-operative being the holder of shares in the capital of the new body equal in number and nominal value to the shares held by the member as a member of the co-operative.

Mutualisation: a corporation becoming a co-operative

Many companies operate under co-operative principles, but have opted to be a corporation to be able to trade across state borders, reduce costs and obtain external finance. Changes in the legislation of co-operatives may see many companies becoming co-operatives, making it obvious to customers that they operate with co-operative values and principles.

A corporation which operates under co-operative principles may convert to a co-operative. The conversion

must not prejudice any right of a member to any shares held. The change of registration and incorporation does not affect the identity of the corporation.

Before applying to the Registrar, a formation meeting must be held where a resolution must approve the proposed registration, amendments to existing constituent documents to enable the corporation to comply with Co-operatives National Law, a formation disclosure statement (if required, and passed by a two-thirds majority) and the proposed rules of the proposed co-operative.

An association becoming a co-operative

An association may choose to become a co-operative if the scale of its activities has grown, it finds that the Co-operatives National Law provides more protection for its assets and member's rights, it requires alternative options for fundraising, or it finds co-operative principles and values better suit the association's ideals.

The association can apply to the Registrar to transfer registration to a co-operative using an available form, changing its name and rules, passing a special resolution, providing a statement that the new co-operative will prohibit the distribution of profits to members, and demonstrating that any funding bodies have been advised of the proposed transfer of registration.

Running into trouble

Mergers and transfer of engagements

Two co-operatives can apply for approval to consolidate all or any assets, liabilities, and undertakings through merger or transfer of engagements. This needs to be approved by each co-operative's members by special resolution or resolution of the Board, and an approved disclosure statement needs to be provided to members, if required by the Registrar. The Registrar may, with necessary grounds, direct a co-operative to transfer its engagements to another co-operative.

The effect of the merger or transfer is that the successor co-operative gains the members, rights and liabilities, pending proceedings, and the assets of the original co-operative without the need for any conveyance, transfer, assignment or assurance. A co-operative that has transferred its engagements to another co-operative ceases to exist.

Compromises and arrangements

A co-operative may have trouble paying its debts, and face insolvency. A compromise or arrangement may be arranged between a co-operative and its creditors, or a co-operative and its members, to allow the co-operative to settle its debts at a percentage of their value, allowing it to remain trading.

A compromise or arrangement is binding only if it is approved by order of the Supreme Court. If it is between a co-operative and its creditors, the majority of creditors present and voting at a court ordered meeting, whose debts or claims comprise at least 75% of the total debts and claims of all creditors who are present and voting, can agree to the co-operative repaying the debts at a lesser value. If the compromise or arrangement is between the co-operative and any members, the members concerned can agree to reduce the debt owed by the co-operative to them by special resolution passed by a special postal ballot.

Administrator

An administrator may be appointed if a co-operative runs into financial difficulties. The administrator's roles are to investigate the co-operative's activities and report to creditors. The administrator's actions are aimed at

improving the co-operative's chances of survival or giving a better return to creditors.

Where a co-operative is or is likely to be insolvent, the co-operative's Board of Directors has the primary responsibility to take action to appoint an administrator.

In serious cases, where there is no other option, the Registrar may appoint a person as an administrator to conduct the affairs of the co-operative if the Registrar is of the opinion that the co-operative is insolvent or likely to become insolvent at some future time.

An administrator of a co-operative has the functions of the Board of the co-operative. On the appointment of an administrator, the Directors of the co-operative cease to hold office; all contracts for the provision of secretarial or administrative services for the co-operative are terminated; and the administrator may terminate any contract of employment with the co-operative or any contract for providing other services to the co-operative.

Ending membership

Membership of a co-operative will cease if:

- Active membership provisions in the rules or Regulations are not met.
- A member is expelled or resigns in accordance with the rules.
- A member becomes bankrupt, or an administrator has control over the member's property.
- A member dies.
- Membership is rescinded on the grounds of misrepresentation or mistake.
- The member is a corporation that has become deregistered or insolvent (unless the rules state otherwise).

If a co-operative has share capital, membership will also cease if all of the member's shares are:

- Transferred to another registered member according to the rules.
- Forfeited according to the Law or rules.
- Sold by the co-operative to another member under the rules.
- Purchased by the co-operative as permitted under the Law.
- Or if the amount paid up on the member's shares is repaid to the member according to the rules.

A co-operative's rules may also state that a member can be expelled by special resolution and secret ballot if the member has:

- Seriously or repetitively failed to discharge the member's obligations.
- Acted in a way which prevented or hindered the co-operative in carrying out one of more of its primary activities.
- Brought the co-operative into disrepute.
- Been contrary to one or more of the co-operative's principles and has caused the co-operative harm.

Written notice of the proposed special resolution must be given to the member at least 28 days before the date of the meeting, and the member must have the right to be heard and call witnesses at the meeting.

A member of a co-operative that has sold, transferred or disposed of the beneficial interest in all of their shares, or agreed to do so, is no longer entitled to vote.

Sale or transfer of shares

A share in a co-operative can only be sold or transferred, subject to the rules, on the death of a member; to an administrator who administers the estate of a member who, through mental or physical infirmity, is incapable

of managing their affairs; or with the consent of the Board, if they believe the acquirer will be an active member.

Purchase and repayment of shares

The rules may authorise the co-operative to purchase a member's share at the request of the member, and repay to the member, with the member's consent, all or part of the amount paid up on shares when the amount repaid is not required for the activities of the co-operative. The amount paid by a co-operative for purchasing and repaying the amount paid up on shares, or both, cannot be more than 5% of the nominal value of the issued share capital immediately before the start of the financial year, and the amount of any additional share capital of the co-operative subscribed for within that year.

The Board may decide to pay less than the nominal value of the share if the books of the co-operative show that the amount paid is the net shareholder's equity per share in the business of the co-operative, or under the rules of the co-operative.

A co-operative cannot purchase shares or repay amounts paid up on shares if the co-operative is likely to become insolvent because of the repurchase of the shares or because of the repayment of amounts paid up on the shares, or the co-operative is already insolvent.

If a co-operative repurchases a share of a member, the co-operative may, instead of paying the purchase price to the member, allot or issue debentures or CCUs of the co-operative to the member in satisfaction of the amount. A deposit-taking co-operative can apply the amount as an interest-bearing deposit by the member with the co-operative. This only applies if the Board considers payment of the repurchase price would adversely affect the financial position of the co-operative, or the Board and the member both agree.

The deposit, debenture or CCU must be repaid to the member as soon as repayment would not adversely affect the financial position of the co-operative, and must in any case be repaid within 10 years (or within any shorter period the rules of the co-operative require) after the repurchase of the shares.

Repayment to expelled or resigned member

If a member is expelled or resigns, within one year the co-operative must repay to the former member the amount paid up on the member's shares, less any amount owed by the member to the co-operative. If the Board feels repayment would adversely affect the financial position of the co-operative, or the Board and former member agree, the co-operative can take the amount as a donation (with written consent), apply the amount as a deposit (deposit-taking co-operatives only), or allot or issue debentures or CCUs. If the last balance sheet of the co-operative showed a loss, there will be a proportionate reduction in the amount repaid to the member. Shares for which capital has been repaid must be cancelled.

Deceased member's share

On the death of a member of a co-operative, the Board must transfer the deceased member's share or interest in the co-operative to the personal representative of the deceased member or one or more persons that the deceased's personal representative specifies in an application for transfer made to the co-operative within 3 months after the death of the member, unless the Board reasonably believes the only transferee or each transferee will not be an active member of the co-operative. The Board must not give its consent to the transfer of a share if, because of the transfer, the nominal value of the shares held by the transferee would be more than 20% of the nominal value of the share capital of the co-operative; or a lower percentage if specified in the rules of the co-operative.

Cancelling membership of inactive members

The Board must declare the membership of a member cancelled if:

- The whereabouts of the member is unknown, and has not been known for a required period (3 years, or a shorter period if stated in the rules).
- The member is not currently an active member and has been a member, but not an active member, during the required period.

The Board must give the member at least 28 days notice of its intention to declare the member's membership cancelled, unless the member's whereabouts is unknown and the amount to be repaid to the member is not more than \$100. If the member's whereabouts are unknown, and the amount to be repaid is more than \$100, notice can be published in a local newspaper. If the former member cannot be found after reasonable efforts, and the amount is less than \$100, the co-operative can retain the amount.

Within a year of an inactive member's membership being cancelled, the co-operative must either repay the amount owing to the former member or, if the Board considers repayment would adversely affect the financial position of the co-operative, or if the Board and former member agree:

- The amount may be used as a donation to the co-operative, if the former member consents in writing.
- The amount may be applied as a deposit by the former member if the co-operative is a deposit-taking co-operative, or,
- The co-operative can allot or issue CCUs or debentures to the former member in satisfaction of the amount.

The cancellation of a member's membership can be deferred by the Board by resolution for up to a year if there have been unusual circumstances preventing the member from being active, or if the Board thinks that an active membership resolution may be made during the deferral period which would be relevant in deciding if the member is an active member.

The Board cannot cancel membership based on active membership provisions if the co-operative is insolvent, under administration, if a compromise or arrangement is being administered, if the co-operative is being wound up, if an appointment of a receiver of any property is in force, or if the co-operative has decided to become a company and has filed a copy of the entry in the minutes with the Registrar.

If a member's shares have been cancelled due to inactive membership, the former member is taken to be the holder of those shares in the ensuing 2 years for the purposes of purchasing shares under a specific offer, entitlement of a shareholder if the co-operative become registered as a company, or entitlement to a distribution of surplus in a winding up of the co-operative. Conditions apply, and there is no entitlement to vote.

Removal of Directors

A co-operative's rules determine how Directors can leave or be removed from office, although a co-operative can remove a Director by an ordinary resolution despite anything in the rules or any agreements in place with the Director. Additionally, the Law determines that Directors are removed from their position if:

- They are disqualified under Co-operatives National Law, the Corporations Act or another co-operatives law.
- They are absent from 3 consecutive ordinary meetings without leave.
- They resign by written notice to the co-operative.
- They cease to hold the qualification which made them qualified to be a Director.
- They are the auditor of the co-operative, or a business partner, employee or employer of the auditor.
- An administrator is appointed.

If a resolution is proposed for the co-operative to remove a Director, the co-operative must give special notice

of the resolution and 21 days notice of the meeting.

Disqualification under the Corporations Act may occur if the Director has been an Officer of at least two entities that failed and the management of the entities was wholly or partly responsible for the entities failing.

Disqualification under Co-operatives National Law may occur if the Director has at least twice been an Officer of a co-operative that has contravened co-operatives legislation while they were an Officer and the Officer has failed to take reasonable steps to prevent the contravention.

The Registrar must be advised within 28 days of the cessation of appointment of a Director, Secretary or CEO. Information required includes the name of the co-operative, the name and position of the person providing notice, and details of the person ceasing to hold office, including full name, date and place of birth, office held and date appointment ceased.

Closing a co-operative

A co-operative may be wound up voluntarily by members on the passing of a special resolution by a special postal ballot in favour of voluntarily winding up. The ballot may also appoint one or more liquidators to wind up the co-operative's affairs and distribute its assets, and set the remuneration to be paid to the liquidator. The Registrar may exempt a co-operative from compliance. A members' voluntary winding up starts when the results of the special postal ballot is noted in the minutes by the Secretary of the co-operative. A co-operative may also be wound up by a creditors' voluntary winding up.

The members of the co-operative have limited liability. A member of a co-operative may be liable for any charges payable to the co-operative in accordance with its rules; a member of a co-operative with share capital is also liable to the co-operative for the amount remaining unpaid on the shares held. There are special rules for the liability of members who have cancelled shares, or where the co-operative has purchased the share or repaid some or all of its value to the member within 2 years of the winding up.

The rules of a non-distributing co-operative provide for how surplus property is to be distributed when the co-operative is wound up. Members only receive the nominal value of shares (if any) at winding up.

Under Co-operatives National Law, the Registrar may wind up a co-operative if:

- There are not enough members (unless the Registrar approves fewer members).
- It has not started business within a year of registration.
- The co-operative suspends business for more than 6 months.
- The registration was obtained by mistake or fraud.
- The co-operative exists for an illegal purpose.
- The co-operative has willfully violated the Act or its rules.
- The Registrar has sent notice that the rules do not contain active membership provisions and the Board has not since complied.
- There are, and have been for one month, insufficient Directors to form a quorum.
- An inquiry has found it to be in the interests of members or creditors or the public to wind it up.
- The co-operative was formed for a fixed time or event and the Registrar certifies the fixed duration has ended or the event has occurred.

A winding up on a certificate of the Registrar begins when the certificate is given. The Registrar may appoint a liquidator of the co-operative. When the winding up process is complete, the Registrar de-registers the co-operative.

A co-operative may also be deregistered by the Supreme Court in the same way, and for the same reasons, as a company under the Corporations Act.

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Appendix A : Support and links

Co-operative federations: peak representative bodies

The Business Council of Co-operatives and Mutuals is the national peak organisation representing the sector of co-operative and mutually owned businesses. It provides leadership in the important areas of education, research, promotion and advocacy, necessary to build a strong sector. www.bccm.coop

IYC Secretariat is the national focal point for the International Year of Co-operatives in Australia. www.australia2012.coop

The Co-operative Federation of NSW represents and assists co-operatives in their relationships with government; facilitates and provides assistance and services, including the Co-operatives Conference every 18 months; promotes public awareness and understanding of co-operative structures; promotes the exchange of information amongst co-operative entities; and works with other co-operative organisations interstate and internationally. www.coopsnsw.coop

Co-operative Federation of Victoria Ltd services include co-operative advocacy, co-operative education, co-operative information and co-operative legislation. Co-operative College has provided Co-operative Identity Workshops in NSW, Victoria and WA. www.victoria.coop

Co-operatives WA acts as a forum for consideration of legislative and policy development, provides an annual conference, training and development activities, professional advice, practical support and preliminary assistance to co-operatives and potential co-operatives. www.cooperativeswa.org.au

The Co-operative Federation of SA Inc. provides advice to members on co-operative matters, makes representation to State Government on legislative and other matters affecting co-operatives, and encourages the continual development of its members. cfsa@adam.com.au

The Cooperative Federation of Queensland

Phone (07) 3855 5888

Co-operatives Australia is the national body for State Co-operative Federations. It is an unincorporated body with membership by the State Co-operative Federations of New South Wales, Queensland, South Australia, Western Australia and Victoria. www.australia.coop/ca

State and Territory Government – registrars of co-operatives

Consumer Affairs and Fair Trading, Tasmania

www.consumer.tas.gov.au

Consumer Affairs Victoria

www.consumer.vic.gov.au

Department of Commerce, Western Australia

www.docep.wa.gov.au

Department of Justice, Northern Territory

www.nt.gov.au/justice/

Economic Development Directorate, Australian Capital Territory

www.economicdevelopment.act.gov.au

NSW Fair Trading

www.fairtrading.nsw.gov.au/Co-operatives_and_associations

Office of Consumer and Business Affairs, South Australia

www.ocba.sa.gov.au

Office of Fair Trading, Queensland

www.fairtrading.qld.gov.au

Australian Government

Austrade is the Australian Government's export and trade development site.

www.austrade.gov.au

Australian Business Register is an online database containing some of the information provided by businesses when they register for an ABN. www.abr.gov.au/

Australian Charities and Not-for-profits Commission

www.acnc.gov.au

Australian Competition and Consumer Commission

www.accc.gov.au

Australian Securities and Investments Commission

www.asic.gov.au

Australian Tax Office

www.ato.gov.au

Business Entry Point provides access to government information at both national and NSW State levels including information on starting a business. www.business.gov.au

Business License Information Service provides access to licensing requirements for all three levels of government. bli.net.au

Department of Education, Employment and Workplace Relations

www.deewr.gov.au

Enterprise Connect – Department of Industry, Innovation Science, Research and Tertiary Education

www.enterpriseconnect.gov.au/Pages/Home.aspx

IP Australia (Intellectual Property)

www.ipaustralia.gov.au

Personal Property Securities Register

www.ppsr.gov.au

Tax Practitioners Board

Register of Australian registered tax and BAS agents. www.tpb.gov.au

Australian co-operative development services and information

2012 International Year of Co-operatives Australia

www.australia2012.coop

Abacus Australian Mutuals Ltd

Industry body for the Australian mutual financial services sector. www.abacus.org.au

Association to Resource Co-operative Housing (NSW)

Not for profit organisation supporting NSW housing co-operatives. www.comnonequity.com.au

Australian Institute of Company Directors

Directors and Directors' duties. www.companydirectors.com.au

The Australian Travel Agents Co-operative

Group of independent travel agents offering a competitive alternative to franchise agency groups. www.travelagentsco-op.com.au

Business Council of Co-operatives and Mutuals

Exists to promote the role of co-operative and mutually owned businesses in the national economy and community development of Australia. It's members comprise member-owned businesses and industry peak bodies. www.bccm.coop

Centre for Innovation, Business and Manufacturing

South Australian company offering business development services. www.australianexporters.net/companyID1490.htm

Centre for Social Impact

Research, education and debate to build community capacity and facilitate social innovation www.csi.edu.au

Community Child Care Co-operative

Informs and inspires the children's services sector, and influence government policy, practices and programs in NSW. <http://cccnsw.org.au/>

Community Housing Federation of Victoria (CHFV)

Represents 73 community housing organisations in Victoria. www.chfv.org.au

Community Housing Council of South Australia Inc

Represents Community Housing Organisations and other Not-for-Profit Housing Providers in South Australia. www.chcsa.org.au/

.coop

Co-operative domain name registration. www.nic.coop

Co-operatives (Adoption of National Law) Bill 2012

www.legislation.nsw.gov.au

Co-operative Development Services Ltd

Victorian based co-operative that specialises in the formation of co-operatives. Also a great source of website links to over 600 Australian co-operatives and more than 200 national and international co-operative related organisations around the world. www.coopdevelopment.org.au

Co-operative Education

<http://education.victoria.coop>

CPS Co-operative Purchasing Services Inc

CPS is a specialist hardware supply co-operative with over 300 members in the hardware, home improvement, rural supplies, nursery and independent retail sectors. www.cpshardware.com.au

Credit Union Foundation Australia

www.cufa.com.au

Embark

Non-profit organisation focused on accelerating the uptake of community renewable energy projects. www.embark.com.au

Employee Ownership Australia and New Zealand

Helps companies that have or want to implement employee ownership or employee share plans.
<http://employeeownership.com.au>

Equilibrium Community Ecology Inc

Advocacy and support to form resident-owned housing co-operatives. www.equilibrium.org.au

The Estate Agents Co-operative (EAC)

The largest real estate co-operative in Australia. EAC provides its members with the latest in real estate technology & marketing products. www.eac.com.au

The Federation of Housing Collectives (FOHCOL)

The peak body for housing co-operatives in Western Australia. www.fohcol.org.au

Hairdressers' Co-operative Society Ltd

Supplies hairdressing products and equipment to its members. www.haircoop.com.au

Independent Liquor Group

ILG is a member owned co-operative wholesaler that services over 1,200 hotels, bottle shops, licensed clubs, bars and restaurants across NSW and Queensland. www.ilg.com.au

Independent Toy Specialists of Australia Co-op Limited

An organisation of toy retailers who are dedicated to the selling of quality products with learning value for children. www.itsagoodtoy.com.au

Liquor Barons

West Australian based independently owned and operated retail liquor co-operative.
www.liquorbarons.com.au

The Mercury Centre

Specialises in building collaborative enterprises through consultancy, research, information, advice and training. www.mercury.org.au

The NSW Federation of Housing Associations

The peak industry body for housing associations in NSW. www.communityhousing.org.au

Philanthropy Australia

National peak body for philanthropy. www.philanthropy.org.au

Plumbers' Supplies Co-operative Ltd

Membership of 5,000 plumbers and a network of 31 branches providing products to plumbers at group buying prices. <http://www.pscoop.com.au>

Regional Development Australia - Mid North Coast

www.rdamidnorthcoast.org.au

Social Business Australia

Assists Australian social businesses to develop and grow. www.socialbusiness.coop

Social Traders

Melbourne-based organisation providing workshops, business coaching and business plan reviews.
www.socialtraders.com.au

Tertiary Access Group

National buying co-operative for campus organisations. www.tertiaryaccessgroup.com.au

TFP Co-Operative Ltd

A services platform to the finance brokers and associated industries. www.tfp.coop

Wesbuilders Co-operative

A group of some of West Australia's higher quality new home and extension/renovation builders.
www.wesbuilders.com.au

International co-operative development information

Co-operatives Europe

www.coopseurope.coop

Co-operatives Research Unit

<http://cru.open.ac.uk>

Co-operatives UK

www.uk.coop

Coopzone (Canada)

www.coopzone.coop/en/

Energy4All Limited

Formed to expand the number of renewable energy co-operatives in the UK. www.energy4all.co.uk

International Co-operative Alliance

ICA is an independent, non-governmental association which unites, represents and serves co-operatives worldwide. www.ica.coop/al-ica/

Social Enterprise London

Offers a range of guides for the social enterprise sector. www.sel.org.uk

Stories.coop

Stories of cooperation from around the world. www.stories.coop

United Nations International Year of Co-operatives

www.2012.coop

World Council of Credit Unions

www.woccu.org

Appendix B:

The co-operative model business plan

This appendix provides a model business plan outline. Make the plan your own; your co-operative is unique in many ways, so you don't want the business plan to look just like anyone else's; you want it to be an expression of your co-operative's unique structure, products, plans, principles, values, environment and people.

Title page

BUSINESS PLAN

NAME OF CO-OPERATIVE

ADDRESS

Phone Number

Website

Email address

ABN

BUSINESS LOGO

DATE PREPARED

AUTHOR

The business plan itself does not need to have all the sections listed in the Table of Contents below, but you should put some effort into every section listed in it to have the co-operative well prepared before it is open for business.

Following the title page, the business plan should, at a minimum, have an executive summary, co-operative overview, market analysis, and plans for marketing, operations, production and finances.

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Appendices

Executive summary

Write the executive summary after you have finished the business plan. It's an overview of the business plan; highlighting the main points and putting them into context. Consider organising the executive summary in the same order as the business plan.

The executive summary is placed at the start of the business plan to entice the reader to read the entire business plan, making it one of the most important sections of the business plan.

It is not new information; it is a summary of information which is discussed in more depth throughout the business plan.

The executive summary should be able to stand on its own, and succinctly explain in one or two pages the distinctive characteristics of the co-operative and its products and why it will be successful.

It may include:

- The reason why the business plan has been written,
- An overview of the co-operative and its market opportunities,
- A description of the products or services,
- A summary of its expected financial performance.

Complete it with conclusions and recommendations and a summary of how you've arrived at your conclusions.

Another way of looking at what the executive summary says is: what is the problem? What is the solution? What will be the outcomes?

Introduction

This section provides background information about the co-operative; and could very briefly describe the co-operative type, when it was formed, who formed it and why, location, mission, vision, values and principles, objectives and strategy to achieve them, industry, products and services, target market, development stage and achievements to date, summary of members and management, and capital raised to date.

The mission statement says what you do, how you do it, and why you do it.

The vision statement is somewhat loftier – it describes what you want the co-operative to be in the long-term; it is a “planned wish”.

The objectives state what the co-operative wants to achieve, usually within a certain timeframe, and are guided by the mission and vision. Objectives are business, social and financial objectives, should be measurable, and have both short and long-term goals.

Values are statements about why the co-operative is in business, and who it serves. Values consider the social and environmental factors which the co-operative will be mindful of, in achieving its objectives.

The introduction may also explain why the business plan is being written, and for whom. If it is written to support an application for finance, include the name of the bank or other financier, the amount of funding sought, the term of the loan, the use of the loan, how it will be repaid, and the security the co-operative will provide.

Make it brief; one to two pages should do.

The co-operative

Co-operative structure

Outline the co-operative's structure. Remember that many people do not understand the democratic and social principles of co-operatives, so briefly explain how it works, its rules, and how it will support your business and social objectives.

Premises

Describe the location, size and capacity of premises and any warehouse facilities. If the premises are leased state the cost of rent and length of the lease; if purchased state the value of the property. Explain how long the co-operative has been at the premises, if there is a strategic advantage in its location, and, if any renovations or extensions are required, what they will cost.

Registrations and licences

List the registrations and licences that the co-operative has. If others are needed, explain what they are and when they will be obtained.

Insurances

Describe the insurances that the co-operative has and will be getting. These may include premises, contents, workers compensation, liability, professional indemnity, business interruption, and motor vehicle.

Plant and equipment

Itemise the plant and equipment that the co-operative has and needs. If the business plan supports an application for funds, explain the importance of acquiring the equipment and provide details of quotes for their supply and installation. Consider listing the equipment in two tables; the first table showing the equipment already acquired and its cost and written down value; the second table listing equipment to be acquired, its value and when it is planned to be purchased or leased.

Products and services

In simple terms, describe the features of the products and services the co-operative currently provides, and those to be developed in the future. You may like to include photographs. Explain how they are different to others available in the marketplace, and why customers will buy products or services from your co-operative instead of from a competitor.

Describe the key components or raw materials used in making products, where they come from, and whether there are any restrictions on supply or agreements with suppliers. If there are likely to be price fluctuations, you might explain how that will be dealt with. You may wish to explain if there is a backup supplier available.

If it's a new product under development, explain the progress made in research, product design and development, what tests are required and have been done, and any regulations applicable or licences or approvals

that are needed. List any intellectual property protection sought to avoid duplication by competitors. Provide a timetable.

If there has been product testing in the marketplace, explain the results. Describe plans to upgrade the product or service or increase the range on offer. Describe quality assurance controls to be instigated.

If the co-operative provides a service, explain what it is, why it is needed, and how it is or will be delivered, monitored and improved.

Inventory

If you have a product inventory, list the items in a table, or include an inventory list in the appendices.

Inventory Item	Quantity	Cost per unit	Total Cost

You may wish to include here how you are going to minimise shrinkage of inventory due to theft, damage, loss or accounting errors.

Current performance

If the co-operative has already been trading, include a short summary of the co-operative's turnover, gross profit and net profit for the current year and last year. More detailed information will be put into the financial section of the business plan. If the co-operative hasn't begun trading yet, use the projected financial figures.

Members and Directors

If the business plan is being written to assist you to ask for finance, use this section to show that the people who own and run the co-operative are competent and qualified. Give an overview of the number of members, active membership provisions, who the Directors are, and the offices they hold.

Include a summary of their skills, qualifications, experience and industry knowledge. Consider including resumes in the appendices.

Key personnel

If you plan to engage employees or already have staff, list the positions, names (if already employed) and skills of employees, and whether their employment is full-time, part-time or casual. Resumes for managerial positions could be included in the appendices. If your co-operative is fairly large, draw an organisational chart which shows who reports to whom, and the positions they hold, and include it in the appendices.

Co-operative advisors

Include the business names and addresses of professional advisers who have helped to establish and grow the co-operative. These may be bankers, solicitors, financial advisers or planners, insurance agents, accountants, chambers of commerce, another co-operative or a co-operative federation. This section shows that your co-operative is supported by a professional team.

Risk management

List the risks, in order of likelihood that they could occur, that the co-operative faces. State the impact this risk could have, how likely it is to occur, and what action you will take to prevent or minimise the risk to the co-operative. Key risks may include property damage, theft, electrical outages, pollution, legal liability, injury, loss of data, loss of customers, loss of suppliers, security, theft of copyright or inability to raise capital.

Operational plan

A new co-operative should explain how the co-operative will be run; the daily routines, people and functions that will make the co-operative run smoothly and successfully. Keep in mind the democratic nature of your co-operative and its social purpose; make it the focus of your actions. Directors and managers should use the operational plan to lead and inspire members and staff.

Break your operational plan down into actionable steps so it will be easier to implement. Identify what the task is, who will do it, when it will be done by, and how you'll know it has been done. Attention to detail will make the co-operative's operations run more efficiently.

Some areas to consider in operational planning are to devise and implement operating, accounting and management systems required for the first year of activities. Plan for staff selection and recruitment, duties and salary policies, performance monitoring, training, health and safety policies, technologies, record keeping, banking, taxation, accounts payable and receivable, meeting legal obligations, finding suitable premises and office equipment, use of professionals, service to customers, orders and delivery management, promoting innovation, further research and development, meeting schedules, developing a co-operative culture, appropriate management style, working with members and Directors, conflict resolution, compliance with regulations and inspections, and alliances with other co-operatives.

Existing co-operatives will need to consider many of the same issues, but have the advantage of having everything already in place. They should develop an operational plan to improve the day-to-day operations of the co-operative, reducing overheads, planning for growth, alleviating risk and increasing efficiency.

Production plan

The production plan will describe how the co-operative will manufacture, procure products or provide services; and provide the final product or service to customers.

It will describe:

- The complexity of manufacture.
- The equipment and tools required.
- The cost of raw materials and labour per unit.
- The cost to produce a product or deliver a service.
- The number of hours of production daily or weekly.
- The number of units to be produced or the number of services to be delivered.
- Average selling price.
- Managing inventory levels.
- Forecast number of days stock is to be held.
- Cost control.
- Manufacturing staff requirements.
- Source and delivery partners and contract terms.
- The time taken to produce the required stock levels.
- Environmental plans.
- Disposal of waste.

Quality assurance is crucial, whether the co-operative is providing a product or service. The co-operative relies on the loyalty of members and/or customers for repeat orders, so needs to provide value for money and consistently high quality products or services. A strong quality assurance system will consider employee motivation and skills, standards and testing, feedback from customers, and minimising waste and product returns.

The market

This is an important section of the business plan, as it demonstrates that you have done your homework and it is very likely that your product or service will be accepted by customers. There's not much point in having a great product if you don't have a market.

Much research is involved; you'll need to understand who your customers are, what will make them spend their money on your products or services, who your competitors are, what environmental factors could affect you, and how you are going to sell and promote your product or service. There are many places to go for information – try Australian Bureau of Statistics, government departments, councils, Regional Development Australia, trade and professional associations, chambers of commerce, consumer organisations, and the Internet.

Industry

Find which ANZSIC code is used for your business. ANZSIC is used by the government to produce and analyse industry statistics. ANZSIC codes for all industries are found at www.abs.gov.au.

An industry sector contains a range of other businesses which supply similar services or products. Provide an overview of the industry sector the co-operative is in, such as the size, growth, key clients and markets, the largest providers, and demand and supply trends that affect the industry now, or may in the future. Describe any other relevant factors that drive the industry, such as innovation, regulations, seasons, financial and technical issues, distribution and supply and whether the industry is new or mature.

Provide a summary of where the co-operative is positioned within that industry, and its vulnerability to competition and trends.

The environment

Describe important trends and issues that could affect your co-operative's operations and identify how you plan to deal with them.

Political

Issues may include changes of government, international relations and trade, employment, environment and competition regulations, taxation legislation, new policies and laws, consumer protection, and industrial relations.

Economic

Issues may include interest rates, government spending, consumer confidence, unemployment, exchange rates, inflation, national and state economic growth, global economic outlook, materials availability, import substitution and skills shortages.

Social

Issues may include demographics, education, standards of living, multiculturalism, housing availability, fashion, health awareness and income distribution.

Environmental

Issues may include environmental awareness, waste, pollution, energy, climate change and water.

Technological

Issues may include efficiencies, obsolescence, NBN, costs, savings, research, innovation and social networks.

Market research

It is likely that you will do two types of research to find out about the marketplace, your customers and whether they are likely to buy the co-operative's products or services. The first type is primary research, which is research you do to understand your market and how you will motivate customers. Research can be by observing competitors, meeting with potential customers, or by survey. The second type is secondary research, which is gathered from existing data.

What you will research will depend on what your products and services are, who your customers are, where your market is, and the level of competition in the marketplace.

Your market research may include:

- Customer profiles and characteristics – age groups, gender, occupation, income, location, buying habits.
- Customer preferences, needs and expectations.
- Target markets.
- The customer fit and demand for products and services.
- Your fit, barriers to entry and influence on the market.
- Product specifications, acceptance and new opportunities.
- Product pricing and sales forecasts.
- Market size (units and value).
- Market growth and trends.
- Market segmentation and definition.
- Competitor analysis.
- Advertising and promotional opportunities.
- Seasonal variations.
- Methods of distribution.

Describe the research you have done, and what it has revealed.

Competitors

Do not underestimate your competition. You need to understand and describe who your competitors are and the impact they will have on the co-operative's business. Provide details of their market share, resources, products and target market, strategies, strengths and weakness.

Explain where the co-operative fits within the industry; what level of market share you expect, any barriers to entry and how you will address them.

Also describe how the competitors are likely to react at your co-operative's entry into the market and the co-operative's response strategy.

Competitive advantage

Describe what is different about your products or services compared to those of competitors. Explain why customers are likely to buy enough of your products or services to make the co-operative sustainable.

Do you have a different target market?

Is there an unmet need in the target market you can fulfil?

Do you offer something different or new?

Does your product or service have superior quality or features?

Will the co-operative advantage work for you?

If your product or service is unique, describe difficulties competitors will have in copying it, giving a lead time from product launch to when a competitor can duplicate your product.

S.W.O.T.

List the co-operative's internal strengths and weaknesses.

Then list the external factors that could affect the co-operative's activities – the opportunities (e.g., market trends) and threats (e.g., competitors, economic uncertainty).

Describe how you can capitalise on the strengths and opportunities, and reduce the effect of weaknesses and threats.

Strengths	Weaknesses
Examples: <ul style="list-style-type: none"> • Strong membership • Well balanced social and commercial objectives • Great customer service • Excellent location • Unique product or service 	Examples: <ul style="list-style-type: none"> • Common product or service • Undertrained staff • Lack of capital • Underdeveloped systems • Inexperience
Opportunities	Threats
Examples: <ul style="list-style-type: none"> • Lack of competition • Competitor leaving the market • New government grant available • Improved economic conditions 	Examples: <ul style="list-style-type: none"> • Strong competitors • New regulations • New competitor entering the market • Poor exchange rate

Target markets

Describe the target markets for your product or service. Who are your customers? If you already know who they are, list the major clients if they agree to this information being made available to external parties. If you don't have major clients, or there are potentially many of them, you should define the markets you will be selling to.

How have you identified your target markets? What are the characteristics of the target markets? Are your

customers a certain age or gender, live in a particular location, have a certain type of job, ethnicity or income level? Are they members? What are their needs and preferences? How big is your target market? How often will they buy from you? Why and how will they buy your product or service? Are they end-users?

Consider if there are different segments to your target market. For example, would both students and professionals buy your products? Each segment may have different needs, and may be willing to pay different prices. If you understand the needs of each segment, you can adapt your marketing mix to provide what each segment wants.

Product pricing and terms

In determining the prices of your products or services, consider the costs to produce, or to deliver hourly services, your customers' sensitivity to the price and to price changes, and what the price reveals about the product's value or quality. Will you offer quantity discounts, or discounts for repeat sales? Will co-operative members receive a discount or rebate?

Describe the expected payment terms for customers, e.g., direct customers pay cash; distributors and members pay 30 days from invoice date.

Product sales, margins and distribution

If your co-operative is new, estimate the number of products or services to be sold in the first year, and consider using a table to show your estimates. If the co-operative is already established, use both past and projected performance levels. You may wish to break the table down into weeks or months. The table can form the basis of sales volume records and pricing over time, and identify changes to help you to plan future sales targets and purchases of raw materials.

Product	Forecast sales	Cost price	Mark-up	Selling price	Gross profit \$	Gross profit %
TOTAL:						

Describe how your products will be distributed – whether it is through direct sales, Internet marketing, direct mail, agents, wholesalers, representatives, retailers or consignments. Describe commissions or other fees involved.

Estimate the cost of other expenses such as shipping, warranties, contracts and liabilities.

Strategic alliances

List strategic partnerships the co-operative has, or plans to form, with other co-operatives or businesses.

These may be to work together in major ventures, to provide market access, supplies or other resources. Provide information about the arrangements.

List key suppliers, and describe their history and reliability, location, what and how much they can supply, credit policy and delivery details, and the cost and availability of materials.

Marketing plan

Explain your marketing objectives - what you aim to achieve; and then what you will do to achieve them. Ensure they can be measured and evaluated. An example might be "to obtain 20% of market share by the end of the first year", or "to ensure 50% of our target market recognise our brand, and 10% buy our products". Then determine what marketing activities will help you achieve your aim.

Determine your marketing activities and strategy for each month of the first year to create awareness and sales; this is your marketing mix, and relates to product, place, price, promotion, people and process.

Product strategy: consider the products' qualities, consistency, features, adaptability, packaging and design, how the customers will perceive the products' features, and how you will market them.

Place strategy: consider distribution channels, location of retail outlets, the geographic area your products will be available in.

Price strategy: consider the selling price to various customers and markets, including discounts for quantity and early payment.

Promotion strategy: consider what advertising, selling, sales promotion, trade shows, website, media and public relations activities you will undertake to differentiate your product and make consumers aware of your product or service.

People strategy: consider who will sell the product and delivery it. People may include staff, strategic partners and agents.

Process strategy: this is the strategy where you plan, target, cost, develop, implement, document and review the systems to attain the other aspects of the marketing plan. You'll plan to have the right product, in the right place, at the right price, in the right quantity at the right time for the right customers.

The finances

Often the last part in the business plan, the finance section is important as it demonstrates the likely financial viability of the co-operative, and is vital information for anyone considering investing in the co-operative.

It shows what financial resources are needed to set up and operate the co-operative, forecasts of the co-operative's performance based on expected sales levels, and the timing and the amount of investment needed from external sources.

Commencement capital - new co-operatives

List the amount of capital that has and will be raised from members, and funding confirmed from other sources.

List the costs to start the co-operative in a table, showing the month when the costs are expected to be paid.

- Setup the co-operative: this may include accounting and legal fees, registration of the co-operative and domain name, website, insurances and licences.
- Set up the premises: this may include a bond and advance rent, fit-out, electricity connection, telecommunications connections and stationery.
- Purchase plant and equipment: this may include machinery, tools, office furniture, vehicles, telecommunications, computers and software.
- Start of operations: this may include advertising, raw materials and supplies, wages, interest - and working capital to tide the co-operative over until it trades sustainably.

Subtract the set up costs from the confirmed capital raised; the balance is the amount of borrowings you will require each month.

Financial objectives

List the co-operative's financial objectives and how long you expect to take to achieve them. These may be profit targets, investment levels, returns to members and debt repayment.

Assumptions

Explain the key assumptions made in developing your financial forecasts:

- Sales and purchases forecasts.
- The time it will take to collect from debtors.
- The time it will take to pay creditors.
- Interest rates.
- Time between manufacture and sale.
- Timing of member contributions.
- Timing of external capital injections.
- Increasing membership.

If the co-operative has already been trading, describe its financial history, including equity, debt and profit levels.

Ratios

Include at least four key financial ratios:

Debt equity ratio = total liabilities/members' equity

Return on investment = % of interest over total loans received, and % dividend over members' capital injected

Break even point = the sales volume level where revenues and expenses are equal and provide no profit or loss. This will change each year with changes in costs, income, and interest levels.

Working capital = current assets – current liabilities

Monthly cash flow forecasts

The cash flow forecast demonstrates how and when cash comes into and out of the co-operative. Hopefully it also shows that income from sales will pay for bank loan repayments and other expenses. It will show you when you need an injection of cash to cover monthly bills, and when you need to conserve cash to pay for upcoming bills.

For the first year of trading, present monthly cash flow forecasts. After the first year, show yearly forecasts for at least 2 years.

Item	July \$	Aug \$	Sept \$	Etc \$
Bank balance at end of previous month	-			
Inflow of funds				
Sales				
GST collected on sales				
Members contributions				
Loans received				
Outflow of funds				
Expenses				
GST paid to suppliers				
GST/tax/PAYG paid to ATO				
Loan repayments				
Distribution to members				
Bank balance at end of month				

Monthly income and expenditure forecasts

Also called profit and loss forecasts, and forecasts of financial performance, income and expenditure forecasts show the co-operative's projected income less expenditure, resulting in a profit (or loss) over a specific period of time. For the first year of trading, provide monthly or quarterly forecasts, and annually for the following two years.

Just a few quick tips for the financially challenged – income is usually from sales, and expenditure is usually the costs to run the co-operative and interest payments. Loans (liabilities), purchase of equipment and inventory (assets), capital injections from members (equity) are all items for the balance sheet.

When you receive an invoice it is an expense, even if you haven't paid it yet; so it is shown in the month the expense was incurred. Show all items as GST exclusive (without GST).

Item	July \$	Aug \$	Etc \$
Income			
Sales, donations, grants, client fees			
Cost of Sales			
Raw material, subcontractors, freight, waste disposal			
Gross Profit (income less cost of sales)			
Expenses			
Wages and on-costs, interest, administration and marketing			
Net Profit (income less cost of sales and expenses)			

Balance sheet forecasts

The balance sheet, also known as the statement of financial position, shows the co-operative's net worth at a particular point in time – usually the last day of the financial year. Assets are usually objects and cash the business owns; liabilities are usually debts owed, and equity is the capital contribution and accrued profits. Assets less liabilities equal equity.

Provide balance sheet forecasts for three years.

Item	End of Year 1 \$	End of Year 2 \$	End of Year 3 \$
Current assets (cash, debtors, inventory)			
Non-current assets (plant and equipment, fittings, IP)			
Total assets			

Current liabilities (debts to be repaid within a year)			
Non-current liabilities (debts to be repaid after a year)			
Total liabilities			
Net assets (assets less liabilities)			
Equity (members' capital, accrued profits; equals net assets)			

Financial plan

Describe your plans for the co-operative's financial viability. What is the total investment required for start-up? What are your short and medium-term investment plans? Where will funds come from? Have they been confirmed? How much comes from each source, and what conditions do funds come under (e.g., interest rates, repayment terms). What security is offered?

When is the co-operative expected to make a profit? What level of sales is required to make a profit? When will members see a return? How much are profits expected to grow each year? How will cost be kept down? If not-for-profit, will you retain surpluses, and where do you plan to donate excess surpluses?

Do you have an exit strategy?

A note on financial management

This section on financial management is not meant for inclusion in the business plan, but nevertheless is very important. A summary of the financial management systems utilised could be included in the financial plan.

Members (and investors) need to know how the co-operative is performing and receive regular accurate reports. Systems must correctly identify, measure and communicate financial information.

Complete, accurate, and up-to-date financial records must be kept. These may be handwritten, or on computer spreadsheets, but it is recommended that unless the co-operative is very small, use financial software such as MYOB. This software doesn't replace an accountant, but usually knows what to debit and credit, and has a useful help function. Understand and abide by Accounting Principles.

Develop strong systems for handling cash. Provide numbered and dated receipts for money received. Provide numbered and dated invoices (tax invoices if the co-operative is GST registered) for purchases and to others who owe you money.

Every month, reconcile your expenses paid and income received with the bank statement. Produce a balance sheet and profit and loss statement to help you keep an eye on finances and to allow you to plan and control the co-operative.

Watch your creditor and debtor levels; ensuring you collect money owing and pay expenses when due.

The strategic plan

A strategic plan is usually a long-term plan for the next 3 to 5 years. It explains the goals and objectives to be reached, and the path to achieve them. It's a bit like a GPS for a very long journey, if you zoom out and ignore the minor roads.

Focus on a small number of key priorities; too many priorities will mean you lose focus of the major objectives.

Make the priorities easy to translate into action plans, and have clear timelines to achieve outcomes.

Appendices

Include information that will distract from the business plan's flow as appendices. Provide a summary within the business plan, and more detail in the appendices. It's also a good place to include information that is not part of the business plan. Start a new page for each appendix.

Appendices may include:

- Disclosure statement.
- Co-operative rules.
- Past 3 years financial statements.
- Directors' and key staff members' resumes.
- Pictures of products, premises or location.
- Purchases and payments to creditors forecasts.
- Sales and debtor collections forecasts.
- Letters of support; intent to buy/sell.
- Promotional materials.

Glossary & Index

Aboriginal Co-operatives: refer to page 25

Active member: a member who maintains a relationship with a co-operative in accordance with the co-operative's rules. Refer to pages 11, 36, 48, 49, 67-69, 81

Administrator: Qualified professional appointed to manage the affairs of a co-operative in place of the board either through voluntary administration process or appointed by the Registrar. Refer to pages 78-79

Agricultural Co-operatives: refer to pages 16, 24

Annual General Meeting (AGM): yearly event where the co-operative's leaders report to the members on the previous year's activities and give details of their plans for the upcoming year. Refer to pages 63-64

Auditor: person qualified to express an opinion giving reasonable assurance that financial statements are free from material error. Refer to pages 63, 72, 73-74, 81

Australian Business Number (ABN): a unique 11 digit identifier that makes it easier for businesses and all levels of government to interact. Refer to page 54

Ballot paper: electronic or paper record of vote. Refer to page 65

Board: the Board of Directors of a co-operative, including a person or committee exercising a power of the Board delegated to them under the rules of the co-operative. Refer to pages 49, 60-65

Books: include a register, minutes, any other record of information, financial reports and a document. Refer to pages 71-72

Business plan: refer to pages 43-45 and Appendix B

Child care co-operatives: refer to page 18

Compromises and arrangements: deals between different parties where each party gives up part of their demand. Refer to page 78

Consumer co-operatives: refer to pages 15, 24

Conversion: change of co-operative to a different type of co-operative. Refer to pages 77

Co-operative capital unit (CCU): a financial instrument used as a means of fundraising for co-operatives to inject funds from external sources. Refer to pages 27, 30, 38-39

Co-operative group: co-operative with membership of at least 2 other co-operatives or entities qualified to be members. Refer to pages 36, 51, 64

Co-operative principles and values: the shared core principles and values of co-operatives adopted by the International Co-operatives Alliance in 1995. Refer to pages 21-22

Co-operatives Australia: the national body for State Co-operative Federations. Refer to pages 27, 85 and Appendix A for contact details.

Co-operatives National Law (CNL): refer to pages 8, 30, 76

Co-operatives National Regulations (CNR): refer to pages 31, 46

Debentures: documents that either create or acknowledge an unsecured debt. Refer to pages 38-39

Deceased member: refer to page 80

Demutualisation: changing a co-operative to a company. Refer to pages 77

Director (of a co-operative): a person who occupies or acts in the position of a member of the Board of a

co-operative, whether or not the person is called a Director and whether or not the person is validly appointed or properly authorised to act in the position; and a person under whose directions or instructions the Directors or members of the Board of the co-operative are accustomed to act. Refer to pages 30, 33, 42, 51-52, 60-64, 70-72, 81-82

Fringe Benefits Tax (FBT): a tax payable for a benefit provided in respect of employment. Refer page 55

Goods and Services tax (GST): a tax on consumption that is charged on the supply of both goods and services. Refer to pages 55

Grants: government or philanthropic financial contributions, usually tied to the performance of an action. Refer to page 40

Health care co-operatives: refer to page 18

Housing co-operatives: refer to pages 7, 17-18

Inactive member: a member who has not been an active member of a co-operative or has whereabouts unknown for 3 years (or less, if stated in the rules). Refer to pages 81

Incorporating: refer to page 33

International Co-operative Alliance: independent non-governmental organisation which unites, represents and serves co-operative organisation world-wide. Refer to pages 20, 23 and Appendix A for contact details.

Jurisdiction: state or territory in which a co-operative is registered. Refer to pages 30-31, 76

Large co-operative: not a small co-operative. See small co-operative.

Members' liability to co-operative: refer to pages 67

Members' rights: refer to page 67

Merger: refer to page 78

Model rules: standard constitutions designed for co-operatives and associations. Refer to pages 31, 45-46

Mutualisation: changing a company to a co-operative. Refer to page 77

Non-distributing co-operative: refer to pages 34-35, 40, 46-47, 48, 50, 56, 77

Offences: refer to pages 71-73

Oppressive conduct of affairs: refer to pages 68

Ordinary resolution: a resolution passed by members by a simple majority vote. Refer to pages 65, 81

Participating co-operative: a body that is registered and incorporated under, and is subject to, a corresponding co-operatives law of another jurisdiction. Refer to pages 76

Penalties: refer to pages 61, 71-72

Postal ballot: a convenient method for voting on a resolution, where members are widespread or have difficulty attending a meeting. Refer pages 62, 65-66

Pre-registration contracts: contracts entered into before an entity is registered. Refer to pages 37

Primary activity: main activity of a co-operative as per its rules. Refer pages 46, 47-48, 66

Producer co-operative: refer to pages 14, 16

Proposed rules: a co-operative's rules that have not yet been registered. 48, 51-52

Registered office: refer to pages 41, 62

Registers: refer to pages 70-71

Registrar: officer who is to exercise functions as the Registrar of Co-operatives in a state or territory. Refer to Appendix A for contact details.

Reports: refer to pages 30, 62, 64, 69-70, 73

Requisition: request by members to hold a meeting. Refer to pages 64, 66

Resolution: decision by vote. Refer to ordinary and special resolutions.

Retail co-operatives: refer to pages 15

Review: a small co-operative may choose to have financial reports reviewed rather than audited. Refer to pages 30, 69, 73

Secretary: person elected by the Directors who will usually be responsible for calling meetings, keeping minutes and documents, maintaining registers and reporting to the government. Refer to pages 51, 60 - 62

Service co-operatives: refer to pages 17-18

Share: a share is issued to a member. It is personal property and may be bought at a premium but not a discount. Refer pages 12-13, 30, 34-35, 37-38, 46-47, 50, 64-65, 66-67, 77, 79-81, 82

Small co-operative: generally a co-operative which doesn't raise funds from the public issue of securities, and satisfies two of the following in the previous financial year: its consolidated revenue was less than \$8 million, the value of its consolidated gross assets and entities was less than \$4 million, and it had fewer than 30 employees. Refer to pages 31, 36, 64, 69-70, 73

Special postal ballot: postal ballot conducted to pass a special resolution. Refer to pages 65-66

Special resolution: resolution which requires at least 75% support of formal votes. Refer to page 64-66

Surplus of a co-operative: excess of income over expenditure after making adequate allowance for taxation expense, depreciation and for future contingencies. Refer to pages 11, 13, 35, 40, 47

The Statement of Co-operative Identity: definition, values and principles adopted by the International Co-operative Alliance that define and guide co-operatives worldwide. Refer to page 20

Transfer of engagement: form of merger where one entity transfers its members and property to another. Refer to page 78

Voting: refer to pages 12, 64-67

Wholesale co-operatives: refer to page 16

Winding up: process by which a co-operative is brought to an end. Refer to pages 81, 82

Abbreviations used

ABN: Australian Business Number

CCU: Co-operative capital unit

CNL: Co-operatives National Law

CNR: Co-operatives National Regulations

FBT: Fringe Benefits Tax

GST: Goods and Services Tax

Law: Co-operatives National Law

PAYG: Pay As You Go tax

PC: Participating co-operative

With over 13 million members and close to 30,000 employees in Australia, co-operatives are an important part of our economy and society. But how many Australians really understand how special co-operatives are, and what they do for our communities and the world?

This manual explains what co-operatives are, and how the 2012 Co-operatives National Law affects how they operate in Australia. It also provides help for starting, running and closing co-operatives.

We hope it will be a valuable resource for co-operative members and Directors, prospective members, and members of other organisations that are considering becoming co-operatives.

