



The Co-operator

Newsletter of Co-operative Development Services Ltd

Summer 2007

Community enterprises make a comeback

There has been a resurgence in community owned enterprises in recent years as small rural communities in Australia act to save a vital service that is to be withdrawn from the community, such as a post office, petrol station, hotel or general store.

Rural businesses play a key role in keeping local rural communities alive, by providing essential goods and services and by enabling residents to work closer to where they live, instead of commuting to larger rural centers.

The closure of a rural business often hits the local community much harder than a larger town, where other businesses can fill the gap of lost services or employment.

The small Victorian rural town of Kaniva near the South Australian border is a classic example. When Mobil decided to close the town's only petrol station in 2004, residents faced an 80km round trip to the nearest town to buy fuel.

Community leaders feared that losing the town's only fuel outlet would increase the population drift to larger towns, threatening businesses and jobs that are needed to sustain the long term viability of Kaniva.

With the help of Co-operative Development Services Ltd, Kaniva residents formed a community owned co-operative in 2004 to buy and operate the fuel retailing business.

Other examples of recent community buyouts in Victoria include a post office at Lexton and Culgoa, a hotel at Devenish, a general store at Navarre and a petrol station at Inglewood near Bendigo.

What is a community enterprise?

A community enterprise is a business that is owned, controlled and used by people who live in a particular geographic area. It is a sustainable enterprise that does not rely on charitable donations or government grants for its continued existence.

Profits made may be distributed to owners of the enterprise and/or for community benefit. Some enterprises, such as community FM radio stations, operate on a non-profit basis, where profits are retained in the enterprise.

Most community enterprises in Australia are co-operatives. There are also a small number registered as unlisted public companies.

Community enterprises are not new

Community enterprises have existed in Australia since the mid 1800's. In the 19th century, community enterprises were known as Rochdale co-operatives, and in the 20th century, consumer co-operatives.

The first known community enterprise began in Brisbane in 1859. The community owned retail store was modelled on the principles established by the Rochdale Equitable Pioneers Society in the UK in 1844.

In the 1860's, co-operative stores appeared in isolated coal mining communities in New South Wales. As the population spread inland, rural communities around Australia formed co-operatives to supply household goods, food, clothing, and farm supplies.

By the 1920's, there were over 80 consumer owned co-operatives operating in Australia.

Over the last 30 years, demographic changes and the emergence of supermarkets has seen many of these community enterprises close.

In the past 20 years, new types of community enterprise have emerged, such as FM radio stations, internet service providers, organic food stores, bookshops and energy co-ops.

CDS has been active in fostering community enterprises in Victoria. Apart from assisting in forming community owned co-operatives, CDS has undertaken a number of projects to promote community enterprises -

- Conducted workshops in six rural towns across the Wimmera region of Victoria.
- Produced a community enterprise guide.
- Gave a presentation on community enterprises to a local government forum organised by the Municipal Association of Victoria.
- A founding member of the Employee and Community Buyout Network.
- Initiated a community enterprise web page with links to community owned co-operatives.
- Supplied information for articles on community buyouts in *The Weekly Times* (12 April 2006) and the *Ethical Investor* magazine (April 2006). □

**Co-operation is a priceless value -
you must give it to get it.**

Welcome to *The Co-operator*, the periodic newsletter of Co-operative Development Services Ltd.

CDS is a non-profit co-operative that provides specialised services to assist individuals, community groups and business owners form co-operatives to meet their common needs.

Since it was established in 1999, CDS has undertaken a diverse range of projects for community, business and government clients.

A major focus of CDS over the past two years has been to promote community enterprises in rural Victoria. The adjacent story gives an overview of the work of CDS in this area.

The main issue confronting the Victorian co-operative sector in 2007 is whether the Co-operative Federation of Victoria will survive beyond the end of this year.

Since its first restructure in 1999, the net assets of the federation has declined from \$28,643 at 30 June 1999 to just \$6,494 at 30 June 2006, putting the federation back to 1993, when its net assets were \$5,874.

This edition reviews the financial performance of the federation since 1993.

Also in this edition is a review by Gary Lewis of his new book, *The Democracy Principle*, and the case against the federation's plan to exempt small co-operatives from the audit requirements of the *Co-operatives Act*. □

Australian Co-operative Links a hit

Australian Co-operative Links has proved to be a hit with over 70,000 people from Australia and overseas visiting the web site since it was launched by CDS in 2002.

Australian Co-operative Links is an on-line directory that contains web site links to over 300 Australian co-operatives and more than 150 co-operative related bodies world-wide.

CDS compiled *Australian Co-operative Links* to provide interested persons with an insight into the broad range of activities undertaken by Australian co-operatives and the extent of the world-wide co-operative movement.

During 2006, the site received over 19,000 visits from 84 countries, Australian media outlets, most of the nation's 40 universities, federal, state and overseas governments, legal and accounting firms, and a number of banks and other organisations. □

www.coopdevelopment.org.au/cooplinks.html

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In Memoriam

The two directors who precipitated the restructure of the Co-operative Federation of Victoria in 1999 passed away 3 years ago.

John Luckman and John Gill were the members of a committee formed by the federation board in 1999 to mediate a dispute between secretary Tony Gill and chairman David Griffiths over the application of the secretary's consultancy contract.

Tony had expressed concern that the chairman had exceeded his authority by making requests to undertake tasks not listed in his contract.

The two year contract, which the board renegotiated with Tony in 1998, required that requests to perform additional tasks or duties was to be negotiated between the secretary and the board.

In one month alone, the chairman sent over 60 emails to the secretary. As Tony was only paid for 10 hours per week, it was impossible for him to effectively manage the federation and service a growing membership while responding to all the chairman's requests.

The mediation process broke down after the chairman walked out of the meeting after being questioned about his behaviour.

Luckman and Gill reported to the June 1999 board meeting that Tony's 'strict' interpretation and application of his contract was the source of the friction between the chairman and the secretary, and that this was having an adverse affect on the performance of the federation.

They advised that while Tony may be legally correct in resisting the chairman's requests for work, there was a need for flexibility and common sense on his part in dealings with the chairman and other directors.

The board subsequently passed a resolution reprimanding Tony for (allegedly) undermining the chairman and that if he did not accept requests for unpaid work from the chairman or any one of the other nine directors, the board would take steps to terminate his contract.

As the board had breached his contract, Tony resigned as secretary and gave the required 3 months notice of termination of his contract. Directors accepted his resignation in July 1999.

The board then moved to change the status of the secretary from a contractor to an employee to enable the chairman and other directors to request work from the new secretary without the constraints of a consultancy arrangement.

John Luckman was elected a director in 1996 and continued as a director until his death in December 2003.

John Gill was chairman of the federation between 1993 and 1997, and resigned as a director in September 1999. Mr Gill died in early 2004. □

Loss puts federation back to 1993

The Co-operative Federation of Victoria faces an uncertain future following a loss of \$2,655 for the year ended 30 June 2006.

The loss reduced net assets to just \$6,494, compared to \$5,874 when the federation recommenced operations in July 1993.

In 1999, the federation was in a healthy position with net assets of \$28,643, cash reserves of over \$25,000 and growing income from new members and services.

The federation's decline began after its first restructure in late 1999.

Back then, the federation board changed the status of its secretary from a contractor to an employee to enable directors to request work from the secretary without constraint.

In the federation's 2000 annual report, members were informed that the aim of the restructure was to move the federation *... from an operational-based, piece meal and ad-hoc approach to a strategic value-adding services approach.*

The restructure proved to be a strategic failure. The new Executive Officer's focus of serving 'activist' directors came at the expense of serving members and the good financial management of the federation.

Dissatisfaction grew as services were withdrawn, resulting in over 20 members disaffiliating between 2000 and 2002.

The loss of income producing services, declining subscriptions and uncontrolled spending led to a financial crisis in 2002.

After recording losses totalling \$19,337 in the previous two years, the board was warned in early 2002 that the federation could run out of cash before 30 June if outstanding subscriptions weren't paid.

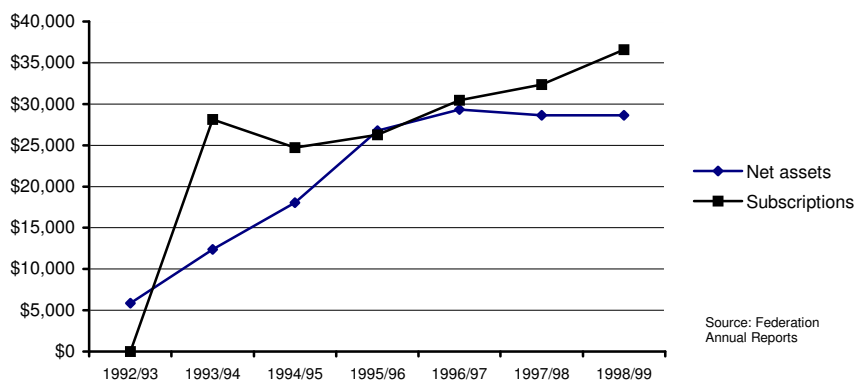
The board's response included changing the Executive Officer's title to Manager, Co-operative Development and Training, reducing Graeme Charles' paid hours to one day a week, and transferring the administrative and secretarial functions to the chairman, David Griffiths, who was appointed honorary secretary in 2001.

However, the restructure failed to arrest the decline in cash reserves. By 30 June 2002, the federation was on the brink of insolvency after recording an operating loss of \$5,553 for the year, leaving the federation with net assets of just \$4,674.

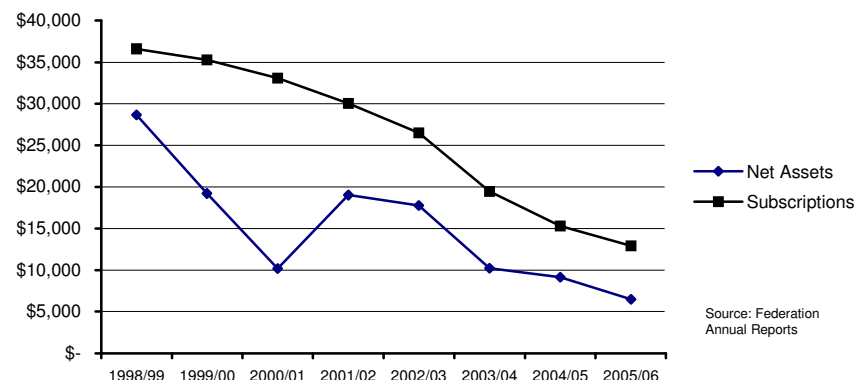
With subscription income not due until after the annual meeting later in the year, the federation faced imminent closure.

(Continued on page 4)

Graph 1: Financial performance 1993-1999



Graph 2: Financial performance 1999-2006



Federation's audit plan compromises co-operative principles

The Co-operative Federation of Victoria's proposal to the Victorian government seeking to relieve small co-operatives from the audit requirements of the *Co-operatives Act 1996* compromises the co-operative principles.

The federation has called for co-operatives with an annual turnover less than \$200,000 or assets under \$500,000 to be exempted from having their accounts independently audited because it "imposes a disproportionate cost" on small co-operatives.

A key element of the *Democratic Member Control* principle is that directors are accountable to the membership for the performance of the co-operative.

The main method of achieving accountability is for members to receive audited annual financial statements.

Purpose of an audit

The purpose of an audit is to verify that the annual financial statements prepared by directors comply with applicable Australian Accounting Standards, and give a true and fair view of the financial position of the co-operative at the end of each financial year.

The standards set out how corporations, including co-operatives, are to present the information summarised from the accounts and what information is to be presented for members' and public scrutiny.

Instead of the current reporting requirements, the federation proposes that directors prepare annual statements of income and expenditure, and assets and liabilities, and provide details of any mortgages and charges on property. It will be at the discretion of directors on the level of detail that is presented to members.

For members to properly evaluate how well their co-operative serves them, they must be kept fully informed about its performance. Without the use of applicable accounting standards, and an independent audit to verify the statements, members will not have the information necessary to carry out their democratic responsibilities effectively.

Competitive neutrality

In its submission, the federation argued that as small associations are not subject to audit requirements, neither should small co-operatives, as there should be a level playing field between the two entities on the basis of competitive neutrality.

An association is a non-commercial entity formed to attain the benefits of incorporation. Associations have limited powers in relation to fund raising, and trading must be ancillary to the principal purpose of the association.

In contrast, a co-operative is an enterprise formed to provide a service to its members. As co-operatives are given greater powers under legislation to trade and raise funds, they require a higher level of accountability than associations, irrespective of the size of the co-operative.

An aim of the *Co-operatives Act* was to put co-operatives on a level playing field with companies, *not* incorporated associations.

Public companies, whether they operate on a for-profit or non-profit basis, have similar audit requirements to co-operatives.

It can therefore be argued that co-operatives have achieved competitive neutrality with the dominant form of corporate structure in Australia in relation to financial reporting.

Disincentive for forming co-operatives

The federation has suggested that one of the consequences of the audit cost is that it discourages individuals and community groups from forming co-operatives.

The audit requirement has been law since 1954 and has not discouraged the formation and growth of co-operatives in Victoria.

CDS director, Tony Gill, who has assisted in forming nearly 70 co-operatives, says the audit cost has never been raised as a concern with him during discussions with clients. "Clients recognise the need for transparency in a co-operative and that there is a cost to implementing the democracy principle."

The payment of the first audit fee (around \$700) is not usually due until after the first annual general meeting, which can be held up to 19 months after the date of registration of a co-operative.

By that time, new co-operatives should have sufficient funds to pay for their first audit. If not, one would have to question the viability of the co-operative.

Current exemption

The Registrar of Co-operatives has the power under section 239 of the *Co-operatives Act* to exempt a co-operative from compliance with regulations relating to accounts and audit.

It is therefore open for any co-operative to seek an exemption from the requirements, which the federation proposes should be automatic for most co-operatives in Victoria.

It is interesting to note that, according to the Registrar's office, few co-operatives have applied for an exemption under section 239. It therefore raises the question as to whether the federation's proposal has the support of small co-operatives in Victoria.

Unintended consequences

The proposal, if adopted, is likely to have some unintended consequences -

- Trust in directors and management will suffer if members are not kept adequately informed about the co-operative's affairs.
- With no independent verification of the financial statements, the Registrar may need to increase staff resources to more closely monitor small co-operatives.
- In public policy terms, comparing small co-operatives to associations belittles the co-operative business model and can only serve to marginalise co-operatives.

The principal reason used by the federation to justify its proposal is the expense of the audit. For all the consequences, the audit cost is a small price to pay for ensuring members remain in control of their co-operative. □

Directors get reprieve from Work Choices

Co-operative directors who are paid for performing their duties will no longer be required to keep time records under recent changes to the federal government's Work Choices legislation.

Previously, corporations were required to keep time records on employees earning up to \$55,000 per annum.

As paid directors are deemed employees for tax purposes, they faced the prospect of having to complete a time sheet whenever they performed their duties. □

CDS plays vital role in co-operative development

Co-operative Development Services Ltd is the only organisation in Victoria that provides specialised consultancy services to people wanting to establish a co-operative.

Since 1999, CDS has assisted in forming 14 co-operatives, ranging from agricultural services to community and social enterprises.

CDS has also conducted co-operative related projects for a range of clients, including the Victorian government, rural shire councils, and regional business groups.

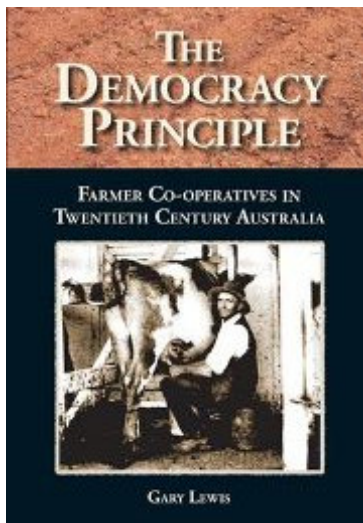
CDS is committed to working with other co-operatives for mutual benefit.

Since 1999, CDS has been a member of the Co-operative Federation of Victoria and Co-operative Purchasing Services Ltd, and has provided services to other co-operatives.

An important activity of CDS has been to promote co-operative education. CDS has contributed articles to national co-operative newsletters, provided information for media articles, conducted director training sessions, produced handbooks on co-operative practice, and assisted in compiling an on-line national co-operative database.

The activities and achievements of CDS can be found at www.coopdevelopment.org.au. □

NEW BOOK RELEASE



The Democracy Principle: Farmer Co-operatives in Twentieth Century Australia By Gary Lewis

Who says democracy and business don't mix?

Certainly not the thousands of Australian farmers, who built, owned and controlled hundreds of agricultural co-operatives in the twentieth century, operating them on a one person one vote basis.

They still do. Some co-operatives are among the mightiest businesses in the land.

New co-operatives are forming, maintaining a long tradition of democratic business in rural Australia.

Why have farmers sought to conduct business differently in their co-operatives? It is because they have traditionally seen co-operatives as part of a rural heritage and as an independent alternative to state-driven or external investor-owned business models.

Farmers have understood that by combining democratically they are in a stronger position to deliver commodities reliably and freshly to market, value-add and exercise a measure of price control.

They know co-operation makes good economic sense and underpins the value of their primary business - the farm.

These are not benign times for co-operatives, which emphasize service and community solidarity before individualistic opportunism.

Indeed, co-operation's most distinctive quality, the democracy principle, has been hidden away recently by some co-operatives, as if a shameful secret from a radical past.

Some co-operatives, mimicking corporations, have ended up on the 'slippery slope' to demutualization. Why?

If democratic business is such a good idea, why conceal the very thing that makes co-operatives unique?

In *The Democracy Principle: Farmer Co-operatives in Twentieth Century Australia* (440 pages), the country's pre-eminent co-operatives historian, Gary Lewis, describes how farmer co-operatives began on the south coast of New South Wales in the 19th century and rapidly spread throughout Australia in the dairying, wheat and grain, rice, sugar, fruit, and other industries, growing into a major player in agriculture, rural community development and farmer politics.

He explains how the democracy principle evolved over time in a comprehensive account of Australian farmer co-operatives, and asks, "Does their pioneer experience provide a useful blueprint for others seeking 'self-help' business alternatives?"

Essential reading for anyone interested in Australia's farming heritage and economic democracy.

The Democracy Principle: Farmer Co-operatives in Twentieth Century Australia
Gary Lewis, 2006, ISBN 0-646-46587-2
\$39.95 inc GST and postage within Australia

Email Gary Lewis (yeslewis@bigpond.com) to order your copy of the book. □

Federation back to 1993

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To avoid insolvency, the board retrenched Graeme Charles and asked members for early payment of their 2002/03 subscription.

To present a more favourable annual report to members, directors reallocated \$16,254 in unspent grant funds (a current liability in the balance sheet) to Income, enabling the board to report a profit of \$10,701 for the year and net assets of \$19,003 at 30 June 2002.

Despite the reported turnaround, support for the federation continued to decline. With no paid staff to recruit and service members, subscriptions fell by \$17,115 over the next four years, with the loss of two co-operative company members (Ardmona and Bonlac) in consecutive years contributing \$7,400.

Cumulative losses of \$14,035 since 2002 has put the federation in a perilous financial position, with net assets of \$6,494 and cash reserves under \$3,000 at 30 June 2006.

The federation now finds itself in a similar situation to the mid 1980's, when a decline in support due to member neglect led to the federation suspending operations in 1987.

To avoid a repeat of 1987, the board must review its management structure, be pro-active in recruiting members, and develop services relevant to the needs of members. □

Federation must get back to basics

Tony Gill, who led the revival of the Victorian co-operative sector during the 1990's, offers some strategies to turn around the fortunes of the Co-operative Federation of Victoria.

Management structure

Since 1993, the federation has experimented with four management structures; contractor (1993-99), employee (1999-02), executive chairman (2002), and honorary secretary.

Of the structures used, the contractor model has proved the most successful in achieving the federation's objectives.

With the federation facing a similar financial situation to that in 1993, the board should again consider using the contractor model.

Member recruitment

A failing of the federation in recent years has been its inability to recruit sufficient members to replace those who disaffiliate.

Only 12 co-operatives have joined since 1999, with none affiliating after 2002.

The board should consider a pro-active strategy focusing on co-operative visits, which proved successful in the 1990's.

Nearly all of the members recruited by Tony Gill for the Australian Association of Co-operatives (70 co-ops) and the federation (81) resulted from co-operative visits.

Services

A co-operative exists to serve its members. During the 1990's, the federation initiated a broad range of services that underpinned the growth of membership over the period. After 1999, most of these services were withdrawn, resulting in a decline in membership. The board needs to develop new services if the federation is to attract and retain members.

Transparency and accountability

Transparency is the essence of accountability. From 1994 to 2001, the board produced annual reports detailing the achievements of and issues confronting the federation. Since 2001, however, the board has produced only the statutory report. Members must be kept fully informed of issues affecting the viability and performance of the federation. □

The Co-operator

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