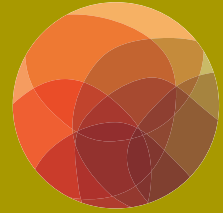




Farm Co-operatives
& Collaboration
Pilot Program



CO-OPS NSW

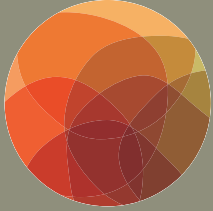
Co-operatives in Australia

A MANUAL

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



Second Edition



CO-OPS NSW

nsw.coop

Publisher

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Authors

Richard O'Leary – Chair, Co-ops NSW
Sam Byrne – Secretary, Co-ops NSW

Contributors

Professor Greg Patmore – University of Sydney
Ann Apps – Lecturer, University of Newcastle
Peter Wells – Secretary, Co-operatives WA

Editor

Paul Fitzgerald

Designer

Caro Toledo

Photographer

Erland Howden

First Edition Authors

Kay Cooper, Todd Green, Peter Tregilgas

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Contents

Preface	3
Introduction	4
Who should read this manual	5
Disclaimer	6
PART ONE: UNDERSTANDING CO-OPERATIVES	8
What are co-operatives?.....	8
How are they different to other businesses and organisations?	10
What types of co-operatives are there in Australia?	14
Why do people join co-operatives?	19
Co-operative identity, values and principles	20
A short history of co-operatives	22
Co-operatives today	26
Why co-operatives succeed.....	28
Why they can fail	29
Legislation	29
PART TWO: FORMING A CO-OPERATIVE	33
Is a co-operative model best for you?.....	33
Is a co-operative model best for your business?	33
The first steps	34
What is your product or service?	35
What type of structure do you need?	36
Who will be the members?.....	37
What capital and finance can you get?	38
Meeting the people – initial meetings.....	43
Can it work? The Feasibility Study and Business Plan	45
Making the rules	48
Drafting the disclosure statement.....	54
Meeting the members – formation meeting	56
Who are the other stakeholders?	58
More on registrations – and the tax man	60
Help!	64

PART THREE: RUNNING A CO-OPERATIVE	67
Staying on track: the directors.....	67
More meetings	71
Members’ rights and responsibilities and liabilities.....	75
Paperwork	78
Offences and penalties	81
Auditors – who needs them?.....	83
The Chief Executive Officer.....	85
Education for life	85
Challenges and growth.....	86
Co-operatives across borders.....	86
PART FOUR: CHANGING AND LEAVING CO-OPERATIVES	89
Changing a co-operative.....	89
Running into trouble	90
Ending membership	91
Removal of directors.....	95
Closing a co-operative	95
APPENDIX A: SUPPORT AND LINKS	97
Co-operative peak bodies and development assistance	97
State and Territory Registrars of Co-operatives.....	97
Australian Government	98
Other co-operative resources and sector peak bodies	98
International co-operative development information.....	99
APPENDIX B	100
The co-operative model business plan.....	100
GLOSSARY	118
Abbreviations used.....	120

Preface

Co-ops NSW is the peak body for co-operatives in NSW, supporting, representing and promoting co-operatives and co-operative enterprise. It is a co-operative itself, being made up of member co-operatives, large and small, from all co-operative business and community sectors.

The first edition of this manual was prepared by Regional Development Australia Mid North Coast with the support of Co-ops NSW following the United Nations International Year for Co-operatives in 2012.

This second updated edition has been prepared by Co-ops NSW with the support of the Federal Government's Farm Co-operatives and Collaboration Pilot Program.

Uniform law for co-operatives across Australia is now almost a reality with the Co-operatives National Law and Regulations adopted in all but one jurisdiction (Queensland) at this time.

This manual explains what co-operatives are and provides help for starting, running and closing co-operatives.

We hope that the information will assist everyone active in co-operatives in Australia, promote the value of co-operatives, and enhance the unique benefits that only co-operatives, member-owned and democratically controlled, deliver to their communities.

Richard O'Leary
Chair, Co-ops NSW

Introduction

We are in a time of growing community concern about the power of large companies that focus on share prices and quick profits rather than the needs of customers and the community; a time when affordable housing is lacking in most cities and regions; a time when many country areas are struggling to survive without services, employment and the reliable supply of goods.

This is the time to embrace practical, democratic alternatives to the large corporations and the paucity of basic services. It is time to support and strengthen socially responsible co-operatives.

Co-operatives have been called the enfants terribles of economics. Some regard them as too social for mainstream business, and others as too business-like for the not-for-profit sector.

Despite having more than a billion members worldwide, co-operatives are not well understood, nor given much attention by academia or the general public.

This manual follows the life cycle of co-operatives. There are sections to help readers 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 closing a co-operative.

Throughout the manual, we have provided readers with information about the Co-operatives National Law (CNL), a uniform set of national laws for co-operatives, and what co-operatives need to do to comply with the CNL and the Co-operatives National Regulations (CNR).

Where possible, this manual has been written in plain English to make it an easy read but, for precision when referring to the provisions of the CNL, we have needed to retain much of the wording of the law.

Who should read this manual

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

Co-operatives are usually formed by 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).

At the time of writing, the CNL or alternative consistent legislation has commenced in all jurisdictions except Queensland.

The CNL does not apply to certain financial mutuals such as co-operative banks, credit unions, building societies and friendly societies as these organisations are federally regulated. Subject to state and territory legislation, the CNL also does not apply to certain housing co-operatives.



Disclaimer

While we have endeavoured to provide as much information as possible to assist members of new and established co-operatives, this manual does not 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 has been taken, the contributors and Co-ops 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;
- 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 May 2017. 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 Co-ops 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 coming to their notice which could affect information in this manual.

This manual provides a basic guide to the CNL, and is intended to be useful in making 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 the CNL. 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.

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 join them. 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 members to share in the benefits of co-operation to meet social, economic and cultural needs. Members might be in a particular geographical community or might simply have a common business or social interest.

Co-operatives are people-centred. They are owned, controlled, used and invested in by their members. Members have a responsibility to support their co-operative by being actively involved and, in return, the co-operative must ethically serve the needs of its members.

Co-operatives are democratic. 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.

The basics

A co-operative is a business or organisation owned and controlled by its members who can be customers, staff, suppliers, local residents or a combination of these stakeholders.

Members have an equal say in how the co-operative is run.

Members choose what to do with profits, whether distributing among members, reinvesting in the business or giving to the community.

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 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.

The ability of a co-operative to operate with the purpose of making a profit in any market along with 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 who are not part of the membership or community that the co-operative serves.

The values and principles of the co-operative sector, particularly the value of solidarity and the principle of co-operation amongst co-operatives, means that any co-operative can find support and advice from other co-operatives. This is a stark contrast to other corporate entities that treat each other as competitors in a race for maximum profits.

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



SOURCE: MERCURY CO-OPERATIVE

How are they different to other businesses and organisations?

In many ways co-operatives are just like other businesses and organisations. They face the same economic challenges and often perform the same services; they must have robust business practices and they need to conform to legislation.

There are, however, significant differences which provide special challenges and benefits to their owners. The most important differences relate to structure, philosophy and purpose.

Democracy is a key difference between a co-operative business and a company. This can be a 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. 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 people with expertise or knowledge. Whether or not they are members, they can help the co-operative better balance member interests with the ongoing interests of the co-operative.

In a company the decision process is simpler. Decisions are made according to what will give the company the best profit.

Another key difference in 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 and 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.

Co-operatives are more difficult to form than companies and this is one factor that contributes to the smaller size of the co-operative sector.

The main difficulty in forming a co-operative is the need for agreement by 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 small business operators or service providers as a means of managing tax liability or separating personal and business liability from their trading operations. There are many other reasons for companies to be formed. Some companies are formed by groups of people seeking to co-operate to buy or provide cheaper services. As these companies grow, they might do more than provide services to members, and if they are successful then they might also be targets for takeover by other companies.

Co-ops can do what other business structures can do. What makes co-ops different is their balancing of business and social purpose through the co-operative principles, which are adhered to globally.

Co-operatives are also different from incorporated associations. An incorporated association by statute must not be 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, and low cost mechanism for social, sporting or charitable groups to conduct their activities.

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 (six in Western Australia)

	Co-operatives	Companies	Associations
Membership	Restricted to persons willing to commit to active membership and able to use 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
Share price	Rules set "nominal value" for issued shares although in some cases a premium may be payable on application (there are restrictions on how the premium may be applied). No opportunity for capital gain	Share price varies according to either asset-backing or market price, enabling opportunities for capital gain	No shares
Share disposal	Shares may be repurchased (with limits) at their nominal value or less	Shares may be sold at an agreed price	N/a
Surplus distribution	A surplus can be shared among members based on use of goods and services, or donated partly or fully to a charity or not-for-profit. Distributing co-operatives only may also declare dividends (franked or unfranked) based on shares	Dividends (franked or unfranked) are distributed to investors according to the class of share. Share profits are based on share ownership with no limit on the dividend	Surpluses belong to, and are retained by, the association. They cannot be distributed to the members
Member Liability	Member liability limited to unpaid amounts on shares and any other charges payable to the co-operative	Shareholder liability limited to any unpaid value of shares held	Member liability limited to any outstanding fees owing to the association
Decisions of entity	Democratic	According to majority of votes of shareholders (one vote per share)	Democratic
Member involvement	Active involvement of members required	No requirement for active involvement	Encouraged

Mutuals

Mutuals, like co-operatives, are member-owned but they might not be member-governed. Those electing the board of directors may be drawn from a specific group of members who have a particular expertise, such as medicine in the case of a health fund mutual. Mutuals only deal with their members while co-operatives can trade with non-members.

Industry superannuation funds are sometimes considered mutuals but their members are often compelled to join due to industrial agreements and they do not directly elect the governing body.

What types of co-operatives are there in Australia?

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

Co-operatives are always transforming, with some co-operatives beginning as agricultural co-operatives and becoming retail co-operatives. There are also new types forming such as platform co-operatives, which are co-operative internet-based platforms that, unlike Facebook and Twitter, are member-owned and member-governed.

It is generally said that there are four categories of Australian co-operatives:

- Consumer co-operatives, which buy and sell goods to members at competitive prices 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 communities.
- Financial co-operatives, including co-operative banks, credit unions, 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.

A co-operative store also provides goods to its community. Often when a community is not well serviced, or when an existing retail shop faces closure, the community will come together to establish a co-op or retain the threatened store as a co-op.

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 - BLUE MOUNTAINS FOOD CO-OP

The Blue Mountains Food Co-op is not-for-profit, and community-owned and managed. It began when a small group of local people joined together to purchase and share quality organic food at affordable prices.

Operating in 1981 out of a member's garage as a wholefoods buying group, food was freighted to the train station at Katoomba and picked up by members on a roster system. Originally there were around 20 households involved, opening the co-op only on Saturday mornings. After about 18 months the group amalgamated with another buying group from Wentworth Falls, and soon the opening hours included Thursdays as well.

As time passed, more tools of the trade were slowly accumulated, including big bins with lids, better scales and a (troublesome) food grinder. In 1986 the co-op rented its first premises in Megalong Street with a very supportive landlord charging a small rent and accepting modifications. At this time the co-op hired its first paid worker and opening times expanded to include Tuesdays. The business was still very much dependent on volunteers and word of mouth.

In 1997 the business officially became a co-operative and in 1998 moved to the current premises in Ha'Penny Lane. The co-op has come a long way since these early days, but the directions and visions of this initial buying group still influence who they are and what they do. There are currently more than 2,000 members, 26 paid staff and an annual turnover of \$3.6 million.

Wholesale

Wholesale co-operatives have been formed by plumbers, the automotive industry and others to obtain supplies at lower prices through the power of group buying. Other services may be available to members, including finance, insurance, 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, the taxi industry, government procurement and fishing.

Agricultural co-operatives

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

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.

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

NORTHERN CO-OPERATIVE MEAT COMPANY

Established in 1933 on the far north coast of New South Wales, NCMC is a farmer-owned industry-leading co-operative livestock processor producing beef, veal, pork, and other related products and services.

With annual revenue now in excess of \$300 million, NCMC is one of NSW's largest co-operatives.

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 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, people of a specific ethnic or religious background, artists, people with disabilities, or environmentally conscientious groups.

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, community-based, not-for-profit and any profits are reinvested in the 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 child care.

Financial co-operatives

Financial co-operatives (co-operative/mutual banks, credit unions, building societies and friendly societies) 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, at least 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. They might belong to a specific 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.

Australian customer-owned financial institutions operate under the principles of the World Council of Credit Unions:

- Open and voluntary membership
- Democratic control
- Non-discrimination
- Distribution to members
- Building financial stability
- Service to members
- Ongoing education
- Cooperation among cooperatives
- Social responsibility.

Why do people join co-operatives?

The co-operative structure enables people to achieve social and economic goals that are not possible working alone.

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

The co-operative structure enables sharing the effort with others of like mind, and gives members equality in determining the ways in which the goal is achieved.

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, communications, 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 members from more than 95 countries representing around a billion individual co-operative 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 these characteristics as “inherently practical principles, fashioned as much by generations of experience as by philosophical thought”. They are generally considered to be the standards for co-operatives.

Definition

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.

Co-operative values



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 (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3. Member economic participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members 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: developing the co-operative (possibly by setting up reserves, at least part of which would be indivisible), benefiting members in proportion to their transactions with the co-operative, and 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-operative. 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 work together through local, regional, national and international structures to serve their members more effectively and to strengthen the co-operative movement.

7. Concern for the community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Co-operative principles



A short history of co-operatives

The beginnings of modern co-operatives can be found in the industrial revolution when workers, farmers and the owners of small businesses found a need to combine resources to ensure access to good quality food, efficient processing of agricultural products, marketing and finance. While many date the foundation of the modern movement to the Rochdale Pioneers in England in 1844, similar organisations can be traced back to 1769 when local weavers in Fenwick in Scotland formed the Fenwick Weavers' Society to sell oatmeal at a discount, and even to 1498 with the establishment of the Shore Porters Society in Aberdeen.

However, Robert Owen (1771–1858), a Welshman, is usually 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 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 model for modern co-operatives.

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, buy flour, sugar, butter and oatmeal at lower prices, and open 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 at 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

While the interest in forming co-operatives in NSW goes back to 1839 when there was a concern with the price of bread and flour, the first known co-operative in Australia was established in Brisbane in 1859 for consumers. Interest in co-operatives in Australia over the years has risen and fallen. 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 Cobargo Co-operative Society on the NSW far south coast began in 1900 as a butter factory but today sells rural supplies, hardware and fuel.

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-style 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 experienced cycles of growth and decline, with increased activity after an economic slump when consumers were seeking higher economic security. However, a long period of decline followed the war, 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. Few consumer co-operatives survived in metropolitan areas, and even those that had been prosperous 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, 67 years later, it ceased operating.

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 having 98,000 members, 1450 employees, 15 retail stores and 11 service stations in 1974 to closing seven years later.



Agricultural co-operatives

Australia's first agricultural co-operatives were formed in NSW and Victoria in the 1880s among dairy farmers to bypass agents, sell their products for a better return and raise capital to build factories for processing milk products. Since then, 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 Australia's first registered credit union in 1945, following the passing 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).

Bank Australia became Australia's first customer-owned bank in 2011.

Employee-owned co-operatives

Employee-owned co-operatives go back to at least 1861, when coal miners in the Hunter Valley formed a coal mining co-operative. The trade unions, busy with the formation of the Labor Party and the establishment of compulsory arbitration, did not see employee-owned co-operatives as a solution to economic issues, and employee-owned co-operatives were not even included in the 1923 NSW Co-operation Act.

Originally, employee-owned co-operatives were mainly formed to operate coal mines, but 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 in 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 Indigenous people's 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

Co-operatives are strong social and economic forces, with the ICA reporting that across the world co-operatives have approximately one billion people as members, about 250 million employees and US\$2.2 trillion in turnover. Co-operatives improve the livelihood of nearly 3 billion people. To put that into perspective, just 328 million people own shares traded on stock markets. (Co-operatives UK, 2012)

Canada

83% of Canadians say they would rather buy their products at a co-operative than a private business. Together, Canadian co-operatives have over 18 million members and employ more than 150,000 people. (www.cooperativedifference.coop, 2017)

USA

One third of Americans have ownership in a co-operative, and co-operatives provide nearly 2 million jobs and generate nearly US\$650 billion in revenue. (National Co-operative Business Association, 2015)

Japan

Consumer co-operatives have over 28 million members and turnover of more than USD 33 billion. (Co-op 2015 Facts & Figures, Japanese Consumers Co-operative Union)

Singapore

There are almost 1.5 million members of co-operatives which hold \$8,729 million in total assets. (Registry of Co-operative Societies, Singapore, 2016).

New Zealand

Almost 20% of New Zealand's GDP is generated by the co-operative sector and one in three people are members of a co-operative. (New Zealand Co-operative Association, 2017)

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. For a variety of historical reasons, financial co-operatives, as well as some co-operatives in other sectors such as agriculture, are registered under the federal Corporations Act with a co-operative constitution rather than under 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.

In 2012 there were around 1,700 general co-operatives registered in states and territories in Australia, compared to 2,350 in 2000 (Australian Bureau of Statistics, “Regulation of Co-operatives in Australia”, 1301.0 - Year Book Australia, 2012). The drop 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, a lack of training in the sector, and the lack in the past of a strong voice from co-operatives to develop a higher profile with the Australian public and governments.

The CNL addresses many of the historical disadvantages of registration under state-based co-operative legislation compared with registration under the Corporations Act, while preserving the advantages specialised co-operative legislation has always provided. For example, it enables all Australian co-operatives to issue co-operative capital units which enable co-operatives to access external capital without compromising member democratic control.

The Business Council for Co-operatives and Mutuals (BCCM), the national peak body, in its 2016 National Mutual Economy Report, estimated that the ‘Top 100’ co-operatives, credit unions and mutuals had a combined annual turnover of \$30.5 billion in the 2014–2015 financial year, with 29 million active members. The state with the highest annual turnover was New South Wales (32% of the national total), followed by Western Australia and Victoria (both 27%). In five years,

HASTINGS CO-OPERATIVE

Hastings Co-operative on the mid-north coast of New South Wales was established in 1916 with eight people working at their butter factory.

A century later, more than 270 people are employed running 15 businesses in Wauchope, Port Macquarie and Comboyne: two department stores, three IGA supermarkets, two Supa IGA Plus Liquor stores, one bottle shop, two service stations, a bulk fuel depot, two hardware and rural supplies stores, a café and a condiments range.

average annual turnover for the Top 100 grew by 18% while total combined assets for the group grew by 14%.

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 2015 in terms of turnover were agricultural co-operatives – Co-operative Bulk Handling Ltd in Western Australia and Murray Goulburn Co-operative Co. Limited in Victoria (BCCM, 2016).

In 1999, credit unions, friendly societies and building societies became companies governed by the Corporations Law. Through amalgamations and the uptake of new technologies, they are a viable alternative today to Australia's four major banks and remain very competitive.

Why co-operatives succeed

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

A successful co-operative has:

- 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, and who are committed to success and encouraging of other members.
- Competent management, which communicates well with the Board and members.
- Sound business planning and the ability to plan for change.
- A positive attitude, and the belief of their members that they can make a difference.
- A strong sense of the needs of its members and market(s), and meets them.
- A sufficient size to receive fair treatment from suppliers of its inputs and/or buyers of its products.
- Strong community bonds, awareness and involvement in the community, capacity for self-reliance, and vitality.
- The ability to provide a service or product at a price that an investor-owned business can't beat.
- A viable business opportunity and a realistic focus.
- Access to skilled advisors when necessary.
- Links with other co-operatives.
- Meetings that are clear and focused, open, and inviting to members to speak freely and raise questions.
- Clearly defined marketing agreements and returns to members.

- Members who are loyal to the co-operative and who 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, it is often 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

Positive changes in legislation for co-operatives in Australia have been made in recent years. Up until recently, 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 had 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 was inconsistent in regard to co-operatives having access to capital markets for 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 imposed on co-operatives compared to entities operating under the Corporations Act 2001.

Co-operatives National Law

NSW was the lead jurisdiction and, in May 2012, the NSW Parliament enacted the Co-operatives (Adoption of National Law) Act 2012. The other states and territories, with the exception of Queensland at the time of writing, have adopted the same laws, or corresponding co-operatives law, in their jurisdictions. 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 it updates some provisions. Its intention is to make it easier for co-operatives to set up and conduct business. The NSW Fair Trading Minister at the time, 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 its regulations.

In essence, the Co-operatives National Law:

- Allows co-operatives to have the freedom to operate on a national basis with reduced compliance costs. 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 are not permitted to be quoted on a stock exchange and can only be acquired by active members. Co-operatives can now issue a hybrid security, called "co-operative capital units" (CCUs), to access external capital without compromising member democratic control. Subject to a co-operative's rules, 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 removes the requirement for small co-operatives to lodge financial reports with the Registrar, and enables simplified financial reporting to members and has provisions

that allow the directors not to appoint an auditor unless directed to do so by a vote of the members.

- Puts the statutory duties of Directors and Officers of a co-operative in line with corporate governance standards under the Corporations Act 2001. The civil penalty regime ensures 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. This takes into account co-operative principles. A Director or Officer faces liability where there is a clear link between the Director's or Officer's responsibility and action or inaction, and the alleged breach. Liability for contraventions of compliance matters (e.g. lodgement of annual reports) lies with those Officers who have a duty to ensure compliance. The role of the Secretary is more clearly defined under the CNL and is linked to the requirement to lodge specified particulars or documents.
- Allows a business to use "co-operative" or "co-op" in their business name.
- Allows use of the CNL model rules providing for quick and affordable formation and ensuring appropriate governance.
- Ensures the co-operative's purpose is safeguarded with super majorities required for important decisions and the co-operative principles mandated.

Co-operatives National Regulations

The Co-operatives National Regulations (CNR) support the CNL.

There are two types of regulations under the CNL:

- National regulations provide additional information about CNL laws. These are uniform across all the states and territories (e.g. the minimum annual financial reporting requirements for a small co-operative).
- Local regulations deal with matters that 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.

Important inclusions in the CNR (Schedules 5, 6 and 7) are the model rules. These are rules that are compliant with the CNL and provide a basic model of good governance for a co-operative. Model rules are not compulsory under the CNL but they were drafted as part of the CNR and may be used in whole or in part by new or existing co-operatives. If registering a co-operative in Western Australia the equivalent model rule reference points are Schedules 2, 3 and 4 of Co-operatives Regulations 2010 (WA) that support the Co-operatives Act 2009 (WA) which is corresponding co-operatives law under the CNL.



PART TWO: FORMING A CO-OPERATIVE

Is a co-operative model best for you?

Part 2 of this manual 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, 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 that the co-operative model is right for your business or purpose, there are a number of important steps to get it off the ground. These will 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; they will need to have similar ideas and interests, a mutual need, and the same commitment to the success of the co-operative as you have. 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 contributing to it.

Starting any business or organisation, 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 an organisation of people, and will need strong foundations for it to be successful. While hundreds of thousands of co-operatives have been successfully launched and go on to thrive, many do not survive the first five years, often due to insufficient planning, resources, co-operation and knowledge.

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

It is important to get the co-operative registered for a number of reasons: the co-operative, not the individual members, will be liable for debts; the co-operative will have legal recognition; it will be able to continue regardless of changes in membership (subject to the minimum member requirement); it will be able to enter into loans and contracts; it will be able to sell and purchase property; and it may do by law all acts and things that an individual can do.

There are obligations attached to registering 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. It can 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.

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 in Appendix A. It is also highly recommended that you talk to co-operative peak

bodies as they are likely to know of resources, people and other co-operatives and associations in your community who 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. At other times, an opportunity arises when a local business is 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 might identify flaws or suggest ways in which the idea might be improved. You might then decide to abandon, adopt or further develop the idea.

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 need for a product or service, and that a co-operative structure is a suitable vehicle to meet that need.

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. The following table describes the attributes of each.

	Distributing co-operative	Non-distributing co-operative
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.
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.

	Distributing co-operative	Non-distributing co-operative
Benefits to members	Dividends, rebates, reduced costs, enhanced services.	Lower charges for, or access to, services or products, shared equipment and business services.
Legal capacity	Same as natural person.	Same as natural person.
Disclosure statement	Disclosure statement required for formation and issuing shares and co-operative capital units (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 members?

A co-operative (other than a group co-operative) must have at least 5 members (people or corporations). 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 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 at least one other joint member is not a minor.

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 need to have the capability to satisfy the 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 rules may require members to use or support a particular primary activity of the co-operative and contribute any required share of capital. If a member becomes inactive, or can't be found for three years (or less if stated in the co-operative's rules), the board must review their membership and take steps to cancel the membership where necessary.

Choose members wisely. A member 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.

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.

Before deciding 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 (not just a few) understanding the values and principles that make co-operatives unique.

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 ownership of the results to the group. Ensure each member has clear tasks and roles during the development of the co-operative, and is willing and capable of carrying out those duties.

If it is to be 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 might also co-ordinate and monitor the progress of the working groups. Often the members of the steering group become the first directors of the co-operative.

No matter how this initial stage is coordinated, 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 of 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, the 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. Details of all pre-registration contracts are required to be in the disclosure statement registered prior to the formation meeting.

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 three 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 four 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. It 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 (nominal value) 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 nominal value. The foundation members have invested in the co-operative and have accepted the risk that the co-operative might 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 might issue the shares at \$1,150 each i.e. nominal value plus 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, passed by a special postal ballot, 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.

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 the CNL.

The CNL 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 some 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 creditors, 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 CNL and CNR. 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 CNL provides legislation on debentures of a co-operative issued to members and/or employees, as well as people who become inactive members who have their share capital converted to debt. Before issuing debentures to a person, the co-operative must inform the person in writing that the person is entitled to receive a disclosure statement and then provide the disclosure statement if requested. A disclosure statement, which must be approved by the Registrar, must contain “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 relevant provisions in the Corporations Act 2001. In some situations, a board may issue debentures to extinguish debts owing to past 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.

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 each member
- issue a limited dividend for shares held by members
- pay bonuses to employees.

Non-distributing co-operatives are only permitted to use a surplus for the benefit of the co-operative, or for charitable donations. They are not permitted to issue bonus shares or pay limited dividends.

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, and 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 about 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, and 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 co-operative. If your members do not have the necessary skills, you should 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 and 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.

If the decision is to proceed, establish a steering committee, determining 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.

Decide 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 and 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 documents. However it is not essential that a co-operative have a seal.

Early consideration should be given to who will be on the first board of directors, bearing in mind 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 of Registrar of Co-operatives created under the legislation.

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 the business plan. The size and cost of the feasibility study will depend upon the complexity of the operations the co-operative intends 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 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 who 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 they can be reworked, or whether the venture shouldn't proceed at all.

However, if 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 an excellent group of supporters and your feasibility study looks positive. That's a good start, but that's all it is. 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 and/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 that 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 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.

A successful co-operative has a clear business plan outlining what it wants 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. It uses the plan to monitor and manage all the steps along the way to achieve its goals.

A business plan is more detailed than a feasibility study. How detailed it is will depend on the complexity of the activities that 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 be a glossy 100-page book, or a plain 20-page handwritten 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 will fit 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 longer-term, greater goals.

If the members decide to develop their own business plan, there are many resources to help beyond this manual. There are many 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
- coopzone.coop
- www.bplans.com
- cultivate.coop

Appendix B of this manual gives step-by-step guidance in building your business plan. 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 understand quickly, and convey your enthusiasm. Don't make statements that are vague or can't be substantiated, avoid using jargon that people will struggle to understand, and don't ramble.

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. It is the foundation for the ways in which it operates and fulfils its obligations to its members, and a contract with its members, binding them to 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 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 in some circumstances (see *Altering the rules*, below), 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 are available from the Registrar of Co-operatives in your state or territory, and are useful in drafting rules which comply with the CNR. Different sets of model rules will be

available for each type of 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 CNL and the CNR.

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 CNR 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 two 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 equal opportunity legislation.

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, or keep a relationship or arrangement with the co-operative for carrying out a primary activity, for them to be considered an active member.

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

The 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 or any other active membership provisions the Registrar may approve. An "active membership provision" usually states the level of participation required of members. The rules must also define the consequences for not being an active member. The CNR stipulate that if a member is inactive for three years, that member's membership is to be cancelled. The co-operative's rules may stipulate a shorter period than three years. There are however, exclusions to the cancellation requirement in certain prescribed situations.

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, and accept, the draft 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

Sometimes a co-operative will find that the rules no longer suit it. This might 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, or will result in the conversion of a co-operative from a non-distributing to a distributing co-operative (or vice versa), the Registrar must give formal pre-approval to the rule before it is approved by members.

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 from when the amendment is made (unless a different timeframe is given by the CNL), and be sent with a consolidated copy of the rules which includes the amendment.

The Registrar may require further information before approving the amendment, approve a different amendment, or refuse 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 the 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, or to advise that the Registrar is still considering the amendment or refuses to approve it.

Checklist: Amending the Rules

Draft the amendment	<input type="checkbox"/>
If the amendment changes the active membership provision or will result in the conversion of a co-operative from a non-distributing to a distributing co-operative (or vice versa), obtain pre-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"/>

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.

A distributing co-operative's 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.

A distributing co-operative cannot advertise an offer of shares to people who are not shareholders in the co-operative without a current disclosure statement relating to the shares which has been approved and registered 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.

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.

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 five prospective members who are eligible to join as active members must attend (unless the Registrar approves a smaller number).

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 on 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 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.

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

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 peak body, 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 two months of the meeting, the following must be forwarded to the Registrar:

- The completed application for registration form signed by at least five of the proposed members, including two of the elected directors, attending the formation meeting (unless fewer are approved by the Registrar).
- Two 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.

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 meeting chairperson and secretary



Two-thirds majority of proposed members to vote to adopt approved rules



Two-thirds majority of proposed members resolve to form a co-operative and authorise application for registration of the co-operative



All proposed members sign application for membership of the co-operative



Proposed members elect board of directors and members of any other committees



Proposed members authorise a person to apply for registration of the proposed co-operative and to be a contact person



Proposed members adopt business plan and if required, appoint external auditor



Within two months, submit application for registration, two copies of the certified approved rules, the approved disclosure statement if required, the statement of particulars of directors and officers, a statement of the co-operative's proposed registered address and the registration fee to the Registrar



Receive registration certificate, a copy of the registered rules (and approved disclosure statement if applicable) from Registrar



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 wellbeing.

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 a strong social purpose.

Suppliers

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

Investors and financiers

Financial co-operatives might be the best source of finance and insurance for 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 CNL and CNR, 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!, below, 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

The 6th principle of co-operatives deals with 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 might be opportunities to work together to achieve your aims. Join your co-operative peak bodies. 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 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.

A .coop domain name is the most cost effective way to let people know you are a co-operative. You can check to see if .coop domain names are available at domains.coop.

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 a Tax File Number (TFN) online at www.abr.gov.au.

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

GST

The 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 not 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.

When an entity with a turnover below the threshold elects not to be GST registered, 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 exempt from paying income tax; commercial activities that do not directly further a not-for-profit'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 expenses 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

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 into the employee's or director's superannuation fund. At the time of writing, the superannuation rate is 9.5% of ordinary time earnings. SuperStream is the way businesses must pay employee superannuation guarantee contributions. Go to www.ato.gov.au/super/superstream for details.

Not-for-profits and charities

Non-distributing co-operatives are sometimes also registered as charities. Concessions are available from the ATO depending on what type of not-for-profit entity the co-operative is (see following table). 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 May 2017

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

SOURCE: AUSTRALIAN TAXATION OFFICE

Notes to table

1. The organisation must be endorsed by the ATO 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 by the ATO 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 by the ATO as exempt from income tax or a deductible gift recipient to access this concession.
8. The organisation must be endorsed by the ATO 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"/>
Tax File Number	<input type="checkbox"/>
PAYG withholding (if required)	<input type="checkbox"/>
Fringe Benefits Tax (if required)	<input type="checkbox"/>
Superstream set up (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. But remember 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

State-based co-operative peak bodies currently operate only in New South Wales (Coops NSW) and Western Australia (Co-operatives WA). There are some less formal networks in other states (see Appendix A.)

Co-operative peak bodies 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 co-operative peak bodies 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 co-operative peak bodies. Joining a co-operative peak body strengthens the co-operative sector.

The Business Council of Co-operatives and Mutuals (BCCM) is the national peak body and Co-ops NSW and Co-operatives WA are associate members of BCCM. The BCCM publishes annually its National Mutual Economy Report, incorporating the list of Australia's Top 100 co-operatives and mutuals. The Top 100 annually demonstrates the economic and social impact of these co-operatives. BCCM's website www.bccm.coop is a great source of information, including news, events, links and resources.

The Customer Owned Banking Association (COBA) is the official industry body for the Australian mutual financial services sector. COBA 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.

COBA's website is www.customerownedbanking.asn.au.

Government

State and territory governments register and regulate all co-operatives, co-operative housing and 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 in 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 constraints, budget limitations and payment terms.

Interview and seek resumés 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.



NEW SOUTH WALES

SUGAR MILLING

CO-OPERATIVE LIMITED

BROADWATER MILL

EST. 1881

MOBILE 9047 8844

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 including the directors, chairperson and secretary, and perhaps vice-chairperson, treasurer and general manager.

The legislation also specifies as officers people who make, or participate in making, decisions that substantially affect the business of a co-operative or affect the co-operative's financial standing, including those who provide instructions that the directors are accustomed to follow (with some exceptions), and others including administrators, receivers, liquidators and trustees.

Choosing directors

It is important to have a diverse board of directors, so include people of different ages, skills, genders 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 three directors on the board, or many more. At least two 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 has 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 five years after the conviction or release from prison.

Penalties of up to \$24,000 or two 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 appointed 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, if the rules allow, 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 two 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 policies and the longer-term strategy. 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 might 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 bank account 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 a matter that could conflict with the director's duties, the conflict of interest must be declared at a meeting of the board of directors. Unless the board decides otherwise, the director cannot be present while the Board deliberates on the relevant matter. The conflicted director cannot take part in the board's decision on the matter. However, no conflict of interests exists if a member director simply holds an interest in common with all other members.

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-operative's 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 if at any time they are not held at the co-operative's registered office.
- Retaining financial records for seven years after transactions are completed.
- Lodging annual reports with the Registrar.
- Lodging half-year reports with the Registrar (disclosing entities).
- Relodging financial statements or directors' reports to the Registrar if they are amended after lodgement, 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, as a director, except for fees, concessions and other benefits approved at a general meeting, including 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 the directors. Decisions outside meetings are made by a majority of directors giving written approval for 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 at least one, or by more if required by the rules. No decisions can be made at a meeting without a quorum.

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 coming 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 rules and set the fees of directors. Decisions about such matters as

whether to join a co-operative peak body or other inter-co-operative organisation, merge with another co-operative or wind up the co-operative, are also made at an AGM.

At an AGM, large co-operatives must provide the financial report, directors' report, and auditor's report for the financial year that ended before the AGM, and provide a report on the state of affairs of the co-operative and allow questions.

Small co-operatives must provide a report on the state of affairs of the co-operative, and provide a directors' solvency resolution stating the co-operative can and will be able to pay its debts when due and payable; but small co-operatives 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 must set out 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.

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 book 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 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 two 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 chairperson or five 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 operation 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. There are two types of resolution: ordinary and special.

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

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

- 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.

For a special resolution, 21 days notice must be given to members; the notice must state the special resolution that is intended to be proposed, reasons for it, and the consequences 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, and be served on the co-operative by being filed at its registered office. The ballot must be conducted within two months of the requisition being 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 they 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 make available to each person who intends to apply 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 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 will activate 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 Act, which state that a member is inactive if they have not been an active member for three years.

To enable a co-operative to operate to its full 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
- 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 that 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 seven 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 six months of the end of their reporting period.

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

Annual financial report, directors' report

Large co-operatives must prepare 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. Five percent 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 that a member may request the full reports.

The full reports or concise reports are to be sent within five months from the end of the financial year, free of charge, to members in hard copy or 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 three months of the end of the financial year, and within five 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, it must lodge an annual return with the Registrar within five months from 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 two people: either two directors, or a director and the 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-operative 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, the co-operative: this register must contain the full and former names of each 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 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 the co-operative and securities taken by the co-operative: refer to Co-operatives National Regulations Chapter 8, Schedule 1 for details required in this register and those that follow.
- Co-operative Capital Units (CCUs).
- Subordinated debt.
- Memberships cancelled under Part 2.6 of the CNL: details are required of members whose memberships have been cancelled because they are 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 seven 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 the 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, nor 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
- to make every business judgement in good faith for a proper purpose, without a material personal interest, having informed themselves to an extent they feel is appropriate, and for what they believe to be the best interests of the co-operative.

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

Persons not permitted to be directors

People who are not permitted to be directors include:

- 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 five years after the conviction or release from prison.

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

Concealment, destruction, mutilation or falsification

Any current or former officer, employee or member who engages 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 two years, or both.

Falsification and failure to record

Similar penalties apply to any current or former officer, employee or member who is guilty of falsification of books or computerised records, when the person knows they will be false or misleading, or who 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 person proves that they acted honestly.

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.

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, does not assess fraud risk and does not 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 from 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.

For a large co-operative, an auditor appointed by a vote of the members is appointed "for life", whereas an auditor appointed by the board holds office only until the co-operative's next AGM. Any vacancy in the office of auditor of a large co-operative is to be filled at an AGM by an ordinary resolution. Appointments for life means until the auditor dies or becomes insolvent, 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.

An auditor appointed to a small co-operative retires at the end of the AGM at which they report with the Act not requiring the position of auditor to be refilled, unless the members so direct.

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

Removal and resignation

An auditor of a large co-operative 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 two months before the meeting is held, unless a meeting is called after the notice of intention is given. The notice must be sent as soon as possible to the auditor and lodged with the Registrar.

Within seven 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 removal or the notice with the Registrar.

An auditor ceases to hold office if a co-operative is 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 who will perform a large part of the functions of the co-operative or direct 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 relevant 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, between directors and members, between members and the co-operative, and between 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 the products, services and merits of co-operation to those outside 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 peak body, 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.

Members should be educated to run their co-operative 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, like 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 good 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 the Co-operatives National Law, co-operatives had 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. The Co-operatives National Law has given "participating co-operatives" the freedom to operate nationally, giving them greater opportunities to respond

creatively and quickly to opportunities and threats, to access services, products and capital, and to provide services to their members and communities.

Participating co-operatives (PCs) are bodies that are registered and incorporated in one state or territory and carry on business, solicit for members, seek share capital, take deposits and/or offer securities such as debentures and CCUs in another state or territory.

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. 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 if 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 its activities in obtaining financial accommodation in another state or territory.



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 from 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. 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 the broader co-operative values.

Decisions to demutualise in the past have often been driven by the regulatory framework. It is hoped many of the reasons that co-operatives demutualise have now been removed with the Co-operatives National Law 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

Some companies which operated under co-operative principles opted to be corporations to be able to trade across state borders, reduce costs and obtain external finance. The Co-operatives National Law (CNL) was introduced to resolve those issues, so such companies might now become 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 the CNL, 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 might choose to become a co-operative if the scale of its activities has grown, it finds that the CNL 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 relevant 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

If a co-operative has such trouble paying its debts that it faces insolvency, a compromise or arrangement might be arranged between the co-operative and its creditors, or the 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 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 is in 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 become, 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
- the member is expelled or resigns in accordance with the rules
- the member becomes bankrupt, or an administrator has control over the member's property
- the member dies
- membership was granted 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 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 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 who has sold, transferred or disposed of the beneficial interest in all their shares, or agreed to do so, is no longer entitled to vote.

Sale or transfer of shares

The sale or transfer of shares is subject to the rules of the co-operative and can only occur 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 but only 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 if there is a relevant provision in 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 if 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 (who is not a joint member), the board must transfer the deceased member's share or interest in the co-operative to the personal representative of the deceased member, or to one or more persons whom the deceased's personal representative specifies within three months, unless the board reasonably believes the 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. In the case of a joint membership it is normal for the rules to specify that the membership transfers automatically to the surviving joint member or members. However, if using model rules an expressed succession rule would need to be added.

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 (three years, or a shorter period if stated in the rules)
- the member is not currently an active member and has not been an active member during a 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 two years for the purposes of purchasing shares under a specific offer, entitlement of a shareholder if the co-operative becomes 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 may 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 states 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 three 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, the office held and the 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 result 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 two years of the winding up.

The rules of a non-distributing co-operative provide for the ways in which 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)
- the co-operative has not started business within a year of registration
- the co-operative suspends business for more than six months
- the registration was obtained by mistake or fraud
- the co-operative exists for an illegal purpose
- the co-operative has wilfully 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.

APPENDIX A: SUPPORT AND LINKS

Co-operative peak bodies and development assistance

The Business Council of Co-operatives and Mutuals (BCCM) 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. bccm.coop

Co-ops NSW represents and assists co-operatives in their relationships with government, facilitates and provides assistance and services, 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. nsw.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. If considering, or required to register a co-operative in Western Australia you should contact Co-operatives WA for specific advice on the WA jurisdiction and the Co-operatives Act 2009 (WA) which is CNL corresponding co-operatives law. cooperativeswa.org.au

getmutual.coop is an initiative of the BCCM aimed at providing the tools and information to learn more about the co-operative sector and to assist people to set-up and run a co-operative or mutual enterprise.

Co-op Builder is another initiative of the BCCM that is a step-by-step online tool to assist people to draft and tailor the essential legal documents required to form a co-operative.

State and Territory Registrars of Co-operatives

ACT Government	accesscanberra.act.gov.au
Fair Trading, NSW	fairtrading.nsw.gov.au
Northern Territory Government	nt.gov.au/industry
Fair Trading, Queensland	qld.gov.au/law
Consumer and Business Services, South Australia	cbs.sa.gov.au
Consumer Affairs and Fair Trading, Tasmania	consumer.tas.gov.au
Consumer Affairs Victoria	consumer.vic.gov.au
Department of Commerce, Western Australia	commerce.wa.gov.au

Australian Government

The Australian Business Register	abr.gov.au
Australian Charities and Not-for-profits Commission	acnc.gov.au
Australian Competition and Consumer Commission	acc.gov.au
Australian Securities and Investments Commission	asic.gov.au
Australian Tax Office	ato.gov.au
The Australian Trade and Investment Commission	austrade.gov.au
Business Entry Point	business.gov.au
Business License and Information Service	ablis.business.gov.au
Department of Employment	employment.gov.au
Department of Industry, Innovation and Science	industry.gov.au
IP Australia (Intellectual Property)	ipaustralia.gov.au
Personal Property Securities Register	ppsr.gov.au
Regional Development Australia	rda.gov.au
Tax Practitioners Board	tpb.gov.au

Other co-operative resources and sector peak bodies

Common Equity (Co-operative Housing) NSW	commonequity.com.au
Common Equity Housing (Victoria)	cehl.com.au
Community Child Care Co-operative (NSW)	cccnsw.org.au
.coop Domains	nic.coop
Co-operative Development Services	coopdevelopment.org.au
Co-operatives Enterprise Research Unit, University of Western Australia	business.uwa.edu.au/research/ceru
Co-operatives Research Group, University of Sydney	sydney.edu.au/business/research/ co-operatives
Customer Owned Banking Association	customerownedbanking.asn.au
Employee Ownership Australia and New Zealand	employeeownership.com.au
Equilibrium Community Ecology (Housing Co-operatives)	equilibrium.org.au
Federation of Housing Collectives (FOHCOL) (Western Australia)	fohcol.org.au
Mercury Co-operative	mercury.org.au
Philanthropy Australia	philanthropy.org.au

International co-operative development information

Co-operatives Europe

coopseurope.coop

Co-operatives Research Unit

cru.open.ac.uk

Co-operatives UK

uk.coop

Coopzone (Canada)

coopzone.coop

Energy4All

energy4all.co.uk

The Hive (UK)

thehive.coop

International Co-operative Alliance

ica.coop

Stories.coop

stories.coop

World Council of Credit Unions

www.woccu.org



HUNTERNET CO-OPERATIVE

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 everyone 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

Cover page

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.

TABLE OF CONTENTS	Page No.
Executive summary	3
Introduction	5
The co-operative	7
Co-operative structure	7
Premises	7
Registrations and Licences	8
Insurances	8
Plant and equipment	9
Products and services	9
Inventory	10
Current performance	10
Members and Directors	11
Key Personnel	11
Co-operative advisors	12
Risk management	12
Operational plan	13
Production plan	15
The market	
Industry	17
The environment	18
Market research	19
Competitors	20
Competitive advantage	21
S.W.O.T.	22
Target markets	23
Product pricing and terms	23
Product sales, margins and distribution	24
Strategic alliances	25
Marketing plan	25
The Finances	
Commencement capital – new co-operatives	27
Financial objectives	27
Assumptions	28
Ratios	28
Monthly cash flow forecasts	29

TABLE OF CONTENTS	Page No.
Monthly income and expenditure forecasts	30
Balance sheet forecasts	31
Financial plan (A note on financial management)	32
The Strategies	
The strategic plan 33	33
Appendices	

Contents

Executive summary

Write the executive summary after you have finished the rest of 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.

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(s) 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, its 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 should say what you do, how you do it, and why you do it.

The vision statement should be somewhat loftier – describing what you want the co-operative to be in the long-term; it should be 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. They should be measurable, and there should be both short-term 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 they have been 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.

Insurance

Describe the insurance that the co-operative has and will be getting. It could include cover for premises, contents, workers' compensation, liability, professional indemnity, business interruption, and motor vehicles.

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 they 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 résumés 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. Résumés 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 might be bankers, solicitors, financial advisors or planners, insurance agents, accountants, chambers of commerce, another co-operative or a co-operative peak body. 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 the 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, shifts in the economy, 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 each 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.

The operational plan might include ways in which you intend 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 procedures already in place. They should develop an operational plan to improve the day-to-day operations of the co-operative, reduce overheads, plan for growth, alleviate risk and increase 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 the manufacturing
- 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 it 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 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 will be, 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 the Australian Bureau of Statistics, government departments, councils, Regional Development Australia, trade and professional associations, chambers of commerce and consumer organisations.

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's crucial to understand the marketplace and your customers, whether they are likely to buy the co-operative's products or services, and possible ways to motivate them. There are two types of research you can do that will help with this: primary research, done by observing competitors, meeting with potential customers, or by survey; and 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 might 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 effects they will have on the co-operative's business. Provide details of their market share, resources, products and target market, strategies, strengths and weaknesses.

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 memberships- 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 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, do they live in a particular location, have a certain type of job, ethnicity or income level? Are they members of the co-operative? 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 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 while distributors and members pay within 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 through direct sales, online 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, or on 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 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 strategies and activities 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 it details the timing and the amount of investment needed from external sources.

Commencement capital – new co-operatives

List the amount of capital that has been raised and will be raised from members, and funding confirmed from other sources.

List the costs to start the co-operative (below) in a table, and show the month when the costs are expected to be paid.

- Set up the co-operative: these costs might include accounting and legal fees, registration of the co-operative and domain name, website, insurances and licences.
- Set up the premises: these costs might include a bond and advance rent, fit-out, electricity connection, telecommunications connections and stationery.
- Purchase plant and equipment: these costs might include machinery, tools, office furniture, vehicles, telecommunications, computers and software.
- Start of operations: these costs might 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.

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 goes 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 two 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), purchased 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 (i.e. without GST).

Item	July \$	Aug \$	Etc \$
Income			
Sales, donations, grants, clients fees			
Cost of sales			
Raw materials, subcontractors, freight, waste disposal			
Gross profit (income less cost of sales)			
Expenses			
Wages and on-costs, interest, administration and marketing			
Net profit			

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 minus liabilities equals 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, equal 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 costs be kept down? If non-distributing, 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 note on financial management is not meant for inclusion in the business plan, but nevertheless is very important. (A summary of the financial management systems used could be included in the financial plan.)

Members (and investors) need to know how the co-operative is performing and need to receive regular accurate reports. Systems must correctly identify, measure and communicate financial information.

You need to understand and abide by accounting principles.

Complete, accurate, and up-to-date financial records must be kept. These may be handwritten, or on computer spreadsheets, but we recommend that unless the co-operative is very small, you should use financial software. Such software doesn't replace an accountant, but usually knows what to debit and credit, and has a useful help function.

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; ensure you collect money owing and pay expenses when due.

The strategic plan

A strategic plan is usually a long-term plan for the next three to five 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 on the major objectives.

Make the priorities easy to translate into action plans, and have clear timelines to achieve outcomes.

Appendices

Information that might distract from the business plan's flow should be included as appendices. Provide a summary of the information 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 might include the following:

- Disclosure statement.
- Co-operative rules.
- Past three years' financial statements.
- Directors' and key staff members' résumés.
- Pictures of products, premises or location.
- Forecasts of purchases and payments to creditors.
- Forecasts of sales and debtor collections.
- Letters of support.
- Promotional materials.

GLOSSARY

Active member: a member who maintains a relationship with a co-operative in accordance with the cooperative's rules.

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.

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.

Auditor: person qualified to express an opinion giving reasonable assurance that financial statements are free from material error.

Australian Business Number (ABN): a unique 11 digit identifier that makes it easier for businesses and all levels of government to interact.

Ballot paper: electronic or paper record of vote.

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.

Books: include a register, minutes, any other record of information, financial reports and documents.

Compromises and arrangements: deals between different parties where each party gives up part of their demand.

Conversion: change of co-operative to a different type of co-operative.

Co-operative capital unit (CCU): a financial instrument used as a means of fundraising for cooperatives to inject funds from external sources.

Co-operative group: co-operative with membership of at least 2 other co-operatives or entities qualified to be members.

Co-operative principles and values: the shared core principles and values of co-operatives last updated by the International Co-operatives Alliance in 1995.

Debentures: documents that either create or acknowledge an unsecured debt.

Demutualisation: changing a co-operative to a company.

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.

Fringe Benefits Tax (FBT): a tax payable for a benefit provided in respect of employment.

Goods and services tax (GST): a tax on consumption that is charged on the supply of both goods and services.

Grants: government or philanthropic financial contributions, usually tied to the performance of an action.

Inactive member: a member who has not been an active member of a co-operative or has whereabouts unknown for three years (or less, if stated in the rules).

International Co-operative Alliance: independent non-governmental organisation which unites, represents and serves co-operative organisations world-wide.

Jurisdiction: state or territory in which a co-operative is registered.

Large co-operative: not a small co-operative. See small co-operative.

Model rules: standard constitutions designed for co-operatives and associations.

Mutualisation: changing a company to a co-operative.

Ordinary resolution: a resolution passed by members by a simple majority vote.

Participating co-operative: a body that is registered and incorporated under, and is subject to, a corresponding co-operatives law of another jurisdiction.

Postal ballot: a convenient method for voting on a resolution, where members are widespread or have difficulty attending a meeting.

Pre-registration contracts: contracts entered into before an entity is registered.

Primary activity: main activity of a co-operative as per its rules.

Proposed rules: a co-operative's rules that have not yet been registered.

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.

Requisition: request by members to hold a meeting.

Resolution: decision by vote. Refer to ordinary and special resolutions.

Review: a small co-operative may choose to have financial reports reviewed rather than audited.

Secretary: person appointed by the directors who will usually be responsible for calling meetings, keeping minutes and documents, maintaining registers and reporting to the government.

Share: a share is issued to a member. It is personal property and may be bought at a premium but not a discount.

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.

Special postal ballot: postal ballot conducted to pass a special resolution.

Special resolution: resolution which requires at least 75% support of formal votes.

Surplus of a co-operative: excess of income over expenditure after making adequate allowance for taxation expense, depreciation and for future contingencies.

The Statement of Co-operative Identity: definition, values and principles adopted by the International Co-operative Alliance that define and guide co-operatives worldwide.

Transfer of engagement: form of merger where one entity transfers its members and property to another.

Winding up: process by which a co-operative is brought to an end.

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

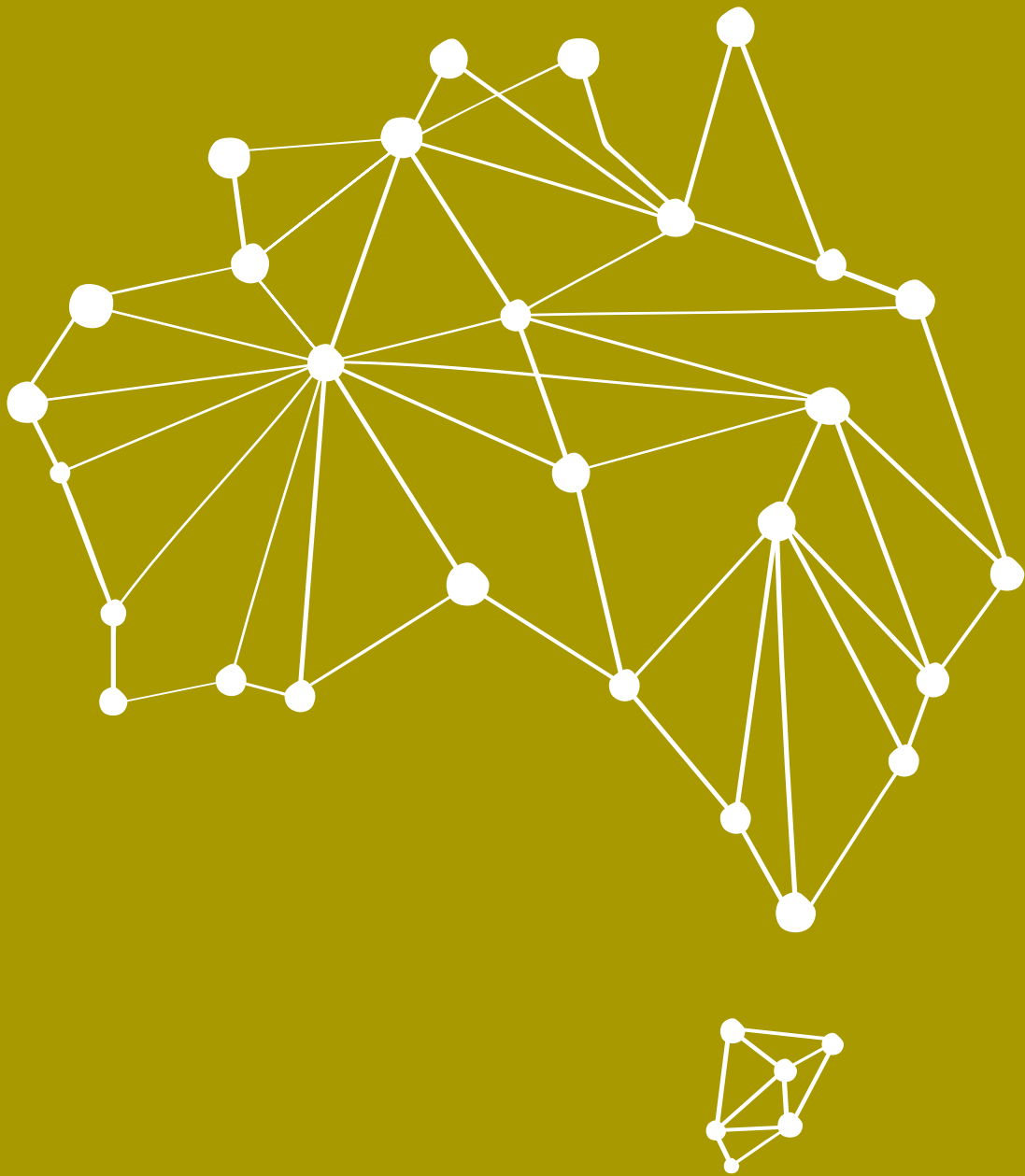
GST: Goods and Services Tax

Law: Co-operatives National Law

PAYG: Pay As You Go tax

PC: Participating co-operative

EQUITY &
COMMUNITY
OWNED
MEMBER
BASED
MARKET
SHIP
TEAMWORK
& SUPPORT
EQUALITY
STRENGTH
IN VALUES



Co-operatives are a significant force in our economy and society.

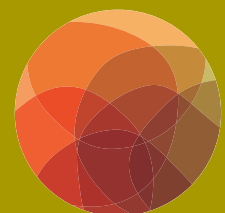
Guided by global principles including democracy and concern for community and the environment, they offer a business and organisational structure that delivers for people and their communities.

This manual explains co-operatives and provides guidance on how to form and run a co-operative.

We hope it will be a valuable resource for all those active in or considering becoming a part of the co-operative movement.



**Farm Co-operatives
& Collaboration**
Pilot Program



CO-OPS NSW