



19 May 2017

Mr Greg Hammond OAM
Review Chair
Reforms for Cooperatives, Mutuals & Member-Owned Firms

By email to: coopsandmutualreview@treasury.gov.au

Dear Mr Hammond

Please accept this submission on behalf of the NRMA in relation to your review concerning *Reforms for cooperatives, mutuals and member-owned firms*.

The NRMA had previously made a submission to the 2015 Senate Economics References Committee *Inquiry into Cooperatives, Mutuals and Member-owned Firms*. That submission is **attached** as Appendix A. We commend our 2015 submission to you, and note that this submission to your review will not address matters that we have previously raised. This submission will therefore focus on your current Terms of Reference.

Executive Summary - The NRMA responses to the Terms of Reference

Term of Reference - *What regulatory and legislative barriers currently exist which impede Commonwealth-registered cooperatives and mutuals from accessing capital and how significant those barriers are;*

- The NRMA was established as a company limited by guarantee over 90 years ago and this corporate structure enables the NRMA to operate as one of Australia's largest mutuals. However, under the *Corporations Act 2001* companies limited by guarantee – such as the NRMA – are prevented from sourcing funding from its Members through an equity like instrument. The only way the NRMA can source equity funding is to change its corporate structure;
- Current funding sources available to mutuals of retained profits, debt and selling existing assets have limitations in the context of an organisation that needs to expand quickly to remain relevant to its Member base;
- The existing regulatory and legislative barriers to equity raising by the NRMA mean that once the limitations of current funding sources are reached the NRMA has no ability to fund future growth. This represents a significant barrier to the NRMA delivering its Corporate Strategy and meeting the Shared Value objectives which represent the new mutuality – namely harnessing the collective strength of our Members to deliver benefits not just to them, but also the wider community;
- The NRMA believes that the ability to access equity would offer a permanent, more flexible and less risky funding option for mutuals to continue to grow whilst still delivering the Member and community benefits that a mutual structure facilitates; and
- For these reasons, the NRMA supports the position taken by the Business Council of Cooperatives and Mutuals (BCCM) for a new investment instrument to enable mutually-owned businesses to raise investment capital from their Members and external investors.

Term of Reference – *The pros and cons of inserting a definition of “mutual enterprise” into the Corporations Act 2001;*

- The NRMA supports the position of the BCCM to amend the *Corporations Act 2001* to clearly establish the basis of an ‘incorporated mutual company’.

Background Information

- **The NRMA's structure and current capital raising abilities**

As a company limited by guarantee, the NRMA has no share capital and cannot raise equity or distribute profits to Members. To fund growth opportunities the only sources of capital the NRMA has are retained profits, raising debt or recycle existing assets. Without the option to raise equity the NRMA's risk profile in relation to use of debt and asset recycling is inherently more conservative than it otherwise would be, therefore further limiting the funding available to the NRMA through these sources.

Historically, the NRMA's traditional business operations had been relatively stable and therefore had not experienced any issues with capital constraints. However over the last five years the business environment in which the NRMA operates has changed dramatically due to a number of factors including new competitors in the roadside assistance market, improvements in vehicle technology that have reduced demand for roadside assistance and also changing customer trends.

For the NRMA to remain relevant we need to transform quickly through significant capital investment in existing businesses and move into new markets through acquisitions. The vision is to be able to offer opportunities for our Members in the transport and touring sectors to complement our strength in motoring.

To fund this transformation, the NRMA will be using a combination of the above mentioned capital sources which we expect will be sufficient to deliver our strategy to 2020. However post 2020 these capital sources have limitations, namely:

- While retained profits can support capital investment for existing businesses it is not of a scale that makes it an appropriate capital source for acquisition funding;
- Given the risks associated with debt, it can only be used to a level that is consistent with the NRMA's conservative risk appetite; and
- While asset recycling is a key part of the NRMA strategy as we liquidate part of our investment portfolio to support a pivot towards more Member focused businesses, a prudent level of investments needs to be maintained.

Without an alternative, stable capital source the NRMA's growth plans beyond 2020 are likely to be significantly constrained. In particular, the NRMA will not be able to take advantage of opportunistic acquisitions nor make significant capital investment which would further enable us to achieve our business transformation.

Equity capital provides a permanent, more flexible and less risky funding option for the NRMA which will be a key component in raising capital when the other available sources (debt and asset recycling) have been exhausted.

- **The strength of the mutual structure**

The current legislative regime would require the NRMA to change its corporate structure to access the equity it requires to continue to grow. However the mutual structure has an important role to play in the Australian economy and community.

From an economic perspective the mutual structure, without the constraints of a listed entity, can adopt a longer term view when making investments and can also adopt shared value as a key component of its corporate strategy.

- **The NRMA's Purpose – Shared Value**

The NRMA purpose is to deliver positive social outcomes for our Members, stakeholders and the broader community.

We were originally established as a mutual with the discrete purpose of delivering benefit for our Members. Throughout our 97 year history this purpose has expanded over time.

Our current Corporate Strategy is a commitment to deliver benefits to our Members as well as delivering for their communities as well all within a financially disciplined framework.

The NRMA is a mutual with a Shared Value approach and we are uniquely positioned to deliver positive social outcomes. Our Shared Value focus is to create Sustainable Communities, provide Safe Mobility and ensure Access for All.

The traditional mutual structure is run exclusively for the benefit of Members. The NRMA is extending this to create shared value for broader communities. Retaining a mutual structure is key to delivering these outcomes.

- **What regulatory and/or legislative changes would the NRMA like to see - the ability for companies limited by guarantee to raise Equity Capital**

The NRMA believes that a permanent, more flexible and less risky funding option is to allow companies limited by guarantee – such as the NRMA – the ability to access equity capital.

Equity capital would be a key component in raising capital for business expansion when other available sources (such as debt and asset recycling) have been exhausted or are not suitable. Additionally, the repayment and return characteristics of equity capital are inherently more flexible than those in the debt market.

For these reasons, the NRMA supports the position taken by the Business Council of Cooperatives and Mutuals (BCCM) for a new investment instrument to enable mutually-owned businesses to raise investment capital from their Members and external investors.

This would require a modest change to the *Corporations Act 2001* to mirror the custom and practice in many other parts of the world.

Should new legislation be introduced to create a mutual-specific capital instrument, it will be necessary to describe which firms may be permitted to issue a security. This gives a need to define, in law, what a mutual business actually constitutes.

The NRMA therefore also supports the position of the BCCM to amend the *Corporations Act 2001* to clearly establish the basis of an 'incorporated mutual company'.

- **Concluding Remarks**

The NRMA understands that once you have considered the submissions provided to this Review you will be undertaking stakeholder consultation. I can advise that the NRMA would be happy to participate.

Should you require any further information about this submission I invite you to contact Mr Sam Giddings, Senior Manager – Stakeholder and Events on 02 9276 7236 or Sam.Giddings@mynrma.com.au

Yours sincerely



Kyle Loades
Chairman

encl.

Attached - Appendix A: NRMA Submission to the Senate Economics References Committee *Inquiry into Cooperatives, Mutuals and Member-owned Firms* [2015]



9A York St
Sydney NSW 2000

PO Box 1026
Strathfield NSW 2135
Australia

T: 02 8741 6000
F: 02 8741 6123
mynrma.com.au

Appendix A

1 June 2015

Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

The National Roads and Motorists' Association (NRMA) submission to the Senate Standing Committee on Economics – Inquiry into cooperative, mutual and member-owned firms

NRMA welcomes the opportunity to contribute to the Senate Standing Committee on Economics inquiry into cooperative, mutual and member owned-firms. NRMA believes that mutual and cooperative organisations have an important role to play in the Australian economy.

NRMA is Australia's largest mutual organisation, and is comprised of 2.4 million Members in New South Wales and the Australian Capital Territory. NRMA is one of Australia's most trusted brands, with a strong track record of delivering results for our Members. For more than 90 years, NRMA has responded to the needs of our Members, providing legendary roadside assistance and advocating for better and safer roads, public transport priorities and other related public policy issues.

As a mutual organisation, NRMA is owned by our Members. This differentiates NRMA from other similar sized organisations across Australia, as NRMA is not controlled by investors, governments or charities. Rather than seeking to create share value for shareholders, the NRMA aims to deliver shared value for members and the community. This means that the profits made by NRMA are reinvested back into the community and back into services that provide a tangible benefit to our Members.

Mutual organisations like NRMA are often overlooked, but they play a significant role in the national economy. Mutual and cooperative organisations across Australia, including the NRMA, can help to revitalise the economy by redefining how public services are delivered into the future.

A. The role, importance and overall performance of cooperative, mutual and member-owned firms in the Australian economy.

The importance of mutual and cooperative organisations within Australia cannot be understated. More than 13.5 million people are members of 1,700 cooperative, mutual or member owned businesses across Australia. This equates to almost 8 in every 10 Australians. These figures suggest that Australians are more likely to be members of mutual or cooperative organisations than they are to hold shares in a company.

The Business Council of Cooperatives and Mutuals (of which NRMA is a member) estimates that mutual and cooperative organisations generate turnover of over \$25 billion each year, making a substantial contribution to the well-being of the Australian economy. Additionally, cooperative and mutuals, including member-owned super funds contribute to around 7 per cent of Australia's earnings.

It is noted that the Australian Government also recognises the importance of the mutual and cooperative sectors in the Australian economy. The former Minister for Social Services, the Hon Kevin Andrews MP has stated that, "mutuals and cooperatives have demonstrated that they are good for markets and for competition. Their different ownership structure allows them to focus on their customers rather than on short term shareholder returns. This enables them to pursue longer-term and sustainability-oriented-growth strategies".¹

Mutual and cooperative organisations have great potential to expand and to continue to play an important role in the Australian economy into the future. These organisations have unlimited potential to create diversity in business, provide competition and choice for consumers in a range of markets, provide new employment opportunities across Australia, and help to grow the Australian economy.

B. The operations of cooperatives and mutuals in the Australian Economy

Cooperative and mutual organisations are unique within the Australian economy as they are owned by their customers and members. Cooperative and mutual organisations operate at the grassroots level, directly interacting with their members and contributing to and improving the local communities that they operate in.

The approach of the cooperative and mutual sector is to practice a prudent and common sense approach to business, focusing on long term and sustainable shared value rather than short term profits and growth. In contrast, many other private sector organisations focus on maximising financial metrics such as profitability and shareholder value to generate dividends and capital growth return to shareholders.

The business models of mutual organisations focus on returning the value generated through members back into the community through enhanced or new services. Member owned organisations like the NRMA make profit with a purpose and return shared value to its customers and members. As a consequence, member owned organisations are able to provide an increased focus on customer service and customer value.

¹ Business Council of Co-Operatives and Mutuals 2014, *Public Sector Mutuals: A third way for delivering public services in Australia*, p. 3, Sydney, NSW.

In addition to business as usual activities, mutual and cooperative organisations may also be a position to play a major role in delivering public services into the future. By combining the discipline of business with a commitment to public service that is accountable to taxpayers, cooperatives and mutuals can offer a new way of serving the public interest, particularly in relation to the delivery of human services.

Indeed this proposition is supported by the Australian Government's *Competition Policy Review*. The final report of the *Competition Policy Review* notes that "as user needs and preferences continue to evolve, public sector mutuals could play a greater role in meeting individual and community needs, possibly in conjunction with other significant government initiatives".²

In other jurisdictions including the USA, Spain and the United Kingdom, public sector mutuals are working closely with government to deliver services that have traditionally been in the domain of government departments and agencies. The *Competition Policy Review* notes that the United Kingdom in particular has made a "concerted effort through public policy levers and capacity-building activities to establish and expand public sector mutuals".³

The Business Council of Co-operatives and Mutuals has noted that the United Kingdom Government has supported the development of around 100 public sector mutuals since 2009. These mutual organisations now employ 35,000 people and deliver over \$1.5 billion of public services.⁴ The recent mobilisation of public sector mutuals in the United Kingdom has led to lower production costs and higher productivity and have demonstrated that they are innovative, profitable and more resilient to changes in the economic environment.⁵

NRMA strongly supports the notion that mutual and cooperative organisations can play a significant role in delivering and supporting human and social services, such as housing and job seeking. NRMA believes that governments at both the state and federal level should harness the unique capabilities and experiences of mutual and cooperative organisations into the future to help deliver government services.

C. Other issues

NRMA notes the submission made to this inquiry by the Business Council of Co-operatives and Mutuals. NRMA endorses the issues raised within the Business Council's *Public Service Mutuals White Paper* and agrees that cooperative and mutual organisations can provide an alternative pathway of providing and delivering government services.

² Commonwealth of Australia 2015, *Competition Policy Review: Final Report*, p. 248, Canberra, ACT.

³ Commonwealth of Australia 2015, *Competition Policy Review: Final Report*, p. 248, Canberra, ACT.

⁴ Business Council of Co-Operatives and Mutuals 2014, *Public Sector Mutuals: A third way for delivering public services in Australia*, p. 7, Sydney, NSW.

⁵ Business Council of Co-Operatives and Mutuals 2014, *Public Sector Mutuals: A third way for delivering public services in Australia*, p. 7, Sydney, NSW.

NRMA thanks the Committee for the opportunity to provide a submission to this inquiry. NRMA supports the intent of the inquiry and strongly believes that mutual and cooperative organisations will play an important role in the Australian economy now and into the future.

For further information about the contents of this submission, please contact Mr Ben Gommers - Government Relations & Policy Adviser on (02) 9276 7234 or ben.gommers@mynrma.com.au

Yours sincerely

A handwritten signature in blue ink, consisting of a long horizontal stroke followed by a stylized, cursive signature.

Tony Stuart
Group CEO