



## Federation of Housing Collectives

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# Why Do Co-operatives Form?

Several triggers can result in the formation of co-operatives.

## 1) Market Failure

Co-operatives are created in situations where individuals cannot obtain essential products or services from other organizations such as for profit companies, the government or non-profit associations. The service or product may not be provided as it may be unprofitable for a business or other agency to do so. In economic theory this scenario is termed as market failure. Remedies to market failure can include group action such as forming co-operatives to provide the missing products or services.

## 2) Countervailing Power

Sometimes a co-operative will form when services or goods are available, but the profit-motivated prices are too high for individuals. By forming a co-operative, members can build countervailing market power to oppose the for profit company strategies.

## 3) Withdrawal of Government Services

Mutual, self-help strategies such as the co-operative model also become more attractive in an era of downsizing government and shrinking public support for delivering a range of services. The withdrawal of these services impacts particularly for certain demographic groups or geographic areas where markets tend to fail more often, such as low-income groups, rural locations with sparse populations, poor physical infrastructure, or areas with limited access to market information.

## 4) Pooling Resources – Economies of Scale

A practical motivation for the creation of co-operatives is related to the ability of members to pool their resources. For many, it is simply too expensive for individuals to solve their particular issue by themselves. Co-operatives provide a method for individuals to join together in an 'association', through which a group of people can acquire a better outcome, typically financial, than by going alone. This approach is aligned to the concept of economies of scale, where "two

or more agents working together to produce a result not obtainable by any of the agents independently".

### **5) Economic Downturn**

The first co-operatives were formed during the Industrial Revolution when economic conditions were extremely harsh for many people. By working together, these early co-operatives enabled people to gain some form of economic and social justice.

The global financial crisis has created an economic downturn affecting many aspects of the economy and government operations. In today's world of economic stress, uncertainty and distrust, can result in increased interest in exploring the potential of alternative economic enterprises or service delivery strategies. One strategy is the tried and true co-operative model which grew out of such economic difficulties.

### **6) Desire for Ownership and Control**

An important strength of a co-operative for the member is that they retain the governance of the association, thereby ensuring they have ultimate ownership and control. The co-operative model is owned and governed by members and is designed to create value for members. The democratic decision-making and ownership brings control. This ensures that the economic benefits of the co-operatives are shared only amongst the members, rather than shareholders as in a for profit company.

## **Housing Co-operatives**

Many of these triggers are evident in Western Australia and have resulted in growing interest in housing co-operatives:

**1) Market Failure** – private ownership of housing has become unattainable for many in the community

**2) Government Provision** – the government is struggling with its capacity to provide housing for all those who wish to be housed in social housing. Even emergency housing for high risk groups is difficult to obtain.

**3) Economic Downturn** – while Western Australia is fortunate in its economic well being resulting from the mining boom, the impact is uneven. Many people are not employed in the mining or affiliated industries and do not enjoy the economic benefits of the boom. Indeed, the boom has increased cost of living and housing for many Western Australians.

### ***Desire for Ownership and Control***

Housing co-operatives provide the opportunity to exercise control over a fundamental aspect of one's life. Housing co-operatives are also viewed as a mechanism to build community with fellow members.

These factors all suggest that the theoretical triggers for housing co-operatives should translate into the formation of new housing co-operatives in Western Australia. Clearly the market and the government has failed in the provision of affordable housing. The response is mutual self help by pooling resources to work collectively in solving our own housing problems.

### ***Why Choose a Co-operative Structure***

Adopting a co-operative structure is a proven strategy for solving particular problems, especially when individuals or entities with similar goals, recognise their goals can be better achieved by acting as a group.

A co-operative enables a group of individuals to collectively own and control the co-operative. By utilising a co-operative structure, members can capture in a very efficient manner the benefits from economies of scale, reducing risks and stabilising their particular situation.

### ***What Is a Co-operative***

A co-operative is a form of business organisation. The most universally recognised definition of a co-operative is

“an autonomous association of persons united voluntarily to meet their common economic, social and cultural need and aspiration through a jointly-owned and democratically-controlled enterprise.” (International Co-operative Alliance, 1995)

In essence a co-operative is organised, owned and democratically controlled by its members, who also use its products and services.

### ***Features of a Co-operative***

A co-operative has several unique features that differentiate it from other business structures. A co-operative:

- **is a mutual self help organisation.** It draws on the strength derived from ‘group action’ by focussing on the common goals of its members. It can therefore achieve results that are unattainable by an individual. A co-operative enables a ‘little operator’ to become a ‘bigger operator’ and gain economies of scale. Its success depends on member commitment to the co-operative.
- **is member controlled.** A co-operative applies a ‘one member, one vote’ rule, regardless of how many shares a member may have in the co-operative. The members, based on one member, one vote, elect the majority of Directors. A majority of Directors must be active members of the co-operative. Non-member Directors can be appointed to provide a complementary range of skills at Board level. The treatment of shares is discussed elsewhere.
- **is member owned.** As owners of the co-operative, active members are entitled to the benefits the co-operative.
- **is member focussed.** A co-operative concentrates on the primary objective of delivering benefits and services to its members.

- **is governed by State or Territory legislation.** In Western Australia, co-operatives are incorporated under the *Co-operatives Act 2009 (WA)*.
- **requires active membership criteria.** This criteria must be set out in the rules of the co-operative.
- **is often obligated to buy-back shares.** Members who cease to deal with their co-operative usually sell their shares back to the company at nominal value, less any authorised discount.
- **may take advantage of concessional income tax rules.** Qualifying co-operatives may be able to access taxation benefits under the *Income Tax Assessment Act (1936) (Cwlth)*.
- **may suspend and expel members.** This may occur when a member fails to discharge their obligations to the co-operative; prevents or hinders the co-operative from carrying on its primary activity or activities; brings the co-operative into disrepute; or acts in a manner contrary to one or more of the co-operative principles and in so doing has caused the co-operative harm.
- **has special rules for winding up.** A co-operative distributes all reserves and retained surpluses held by the co-operative on the basis of trading over a nominated period prior to the winding up.

Co-operatives as a form of organization that is distinct from a for profit business or a non-profit association. A business pursues profit maximization objectives, whereas co-operatives strive to maximize the benefits they generate for their members (which usually involves zero-profit operation).

The importance of a support network for successful co-operative development is crucial. FOHCOL and Co-operative Housing are starting points to this network, as they promote housing co-operatives as a viable housing option and support new and existing housing co-operatives.

## Summary

Forming a co-operative can be an effective approach in to addressing market failures and improving the socioeconomic well being of members. A supportive legislative and regulatory environment exists in Western Australia to support new co-operative development. A well qualified team of organizational, legal and accounting advisors can be beneficial to successful co-operative development. FOHCOL is a starting point for advice about housing co-operatives in Western Australia.

Well led, effectively managed, and adequately financed co-operatives with committed members have the best chance of growing into viable organisations that are able to create the expected benefits for members.

**Please note** – some of this material has been assembled from work provided freely by other co-operative ventures working for the benefit of all. We gratefully acknowledge their combined support.