

A large, stylized graphic of the Australian map, composed of horizontal orange lines, serves as a background for the central text.

# The roles for co-operatives and mutuals in delivering Australian public services

Tomorrow's Agenda Research Institute  
Business Council of Co-operatives and Mutuals  
and bankmecu

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# Report

## Report preparation

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## Executive summary

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In the context of Australian's persistent wicked social problems and commitment to public sector reform, this paper considers the potential for Australian co-operatives and mutuals to play a larger and more significant role in delivering public services, specifically that co-operatives and mutuals have the potential for comparative advantage over other organising models.

This comparative advantage can generate better social outcomes for Australia citizens, greater value for money, higher returns on investments, greater economic and social resilience, and higher levels of employee wellbeing. However, despite its considerable economic scale, the Australian co-operative and mutuals sector is largely unknown. Australia has over 1600 co-operatives and mutuals, many are commercially focused with a smaller number of co-operatives and mutuals focused on the sustainable delivery of public services and social value. For those that are commercially focused, a significant number also create significant social value with some embracing the creation of shared value – with products and services that address social needs in a commercially viable way.

With the establishment of the Business Council for Co-operatives and Mutuals in July 2013 there is now an opportunity for Australian co-operatives and mutuals to come out of the shadows including promoting the increasing number of examples of co-operatives and mutuals delivering social innovation, social value and excellent public service.

### Comparative advantage of co-operatives and mutuals

The paper sets out the theory behind the comparative advantage of co-operatives and mutuals and illustrates the value that is created, specifically for producers, consumers and other stakeholders such as the broader community. The value of this comparative advantage manifests itself in a number of ways which are particularly relevant in relation to the delivery of public services in Australia.

Consumer co-operatives identify social problems and facilitate a collective response. Australia has an excellent example of this in terms of providing low income communities with access to affordable health care – the National Health Co-op Ltd. Consumer co-operatives can also address information asymmetry problems – where the customer is not able to make informed decisions as to which service is the most appropriate and offers the best value for money. Consumers can group together to purchase services, which not only achieves better value for money but facilitates access to expert advice. Consumer co-operatives can also provide a platform for social innovation.

Employee ownership in the form of producer co-operatives and mutuals, leads to high levels of engagement, low levels of absenteeism and grounded practice knowledge which can result in increased productivity. Producer co-operatives often utilise long term strategies which help

organisations navigate the cyclical highs and lows, encourages high levels of staff retention and talent recruitment, and economic resilience. The United Kingdom has an excellent example of a successful producer co-operative – the Sunderland Home Care Associates. A comparable Australian co-operative has recently registered – the Australian Independent Living Enterprises (AILE).

More generally the sovereignty of membership as a fundamental co-operative principle means that surpluses are perpetually recycled for the benefit of members / users which can result in accessible, affordable and high quality services and a greater level of value for money and return on investment for purchasers and funders such as government. The involvement of members, including employees, in democratic decision-making; transparency and accountability leads to empowered employees which can result in high levels of individual wellbeing. The high levels of stakeholder engagement can lead to strong customer and funding relationships which can result in consumer confidence and high levels of trust.

### **Learning from public policy in the United Kingdom**

This paper also looks at public policies in other jurisdictions, such as the United Kingdom, that promote and facilitate the role of public service delivery by co-operatives and mutuals. The incoming UK Coalition government explicitly recognised the roles for co-operatives and mutuals in their Programme for Government, which was restated in the 2011 Open Public Services White Paper and specifically identified the spinning out of parts of the government to employee-owned mutuals – Public Service Mutuals (PSMs) - as one option for ensuring that there was a diversity of service provision. The fundamental premise of the White Paper was that every public service has the potential to be delivered outside of government. This premise was the basis for a series of policies which have led to a rapid expansion of PSMs.

In July 2013 there were 71 PSMs employing 35,000 people and delivering over \$2 billion of public services. Public Service Mutuals are being established across a wide range of policy areas in the UK including: health, human services, disability, emergency Services, education – schools, adult education, vocational skills, justice, leisure, and housing. A recent report “found clear evidence that mutuals are improving service quality and driving innovation” and that three thousand new jobs had been created.

### **Case studies of comparative advantage**

The paper also utilises a number of case studies to illustrate the potential for Australian co-operatives and mutuals. These case studies consider the problem they are seeking to address, their legal and organising structure, membership involvement and comparative advantage. Further in-depth case studies are required if Australian co-operatives and mutuals are to come out of the shadows and to increase their role in public service delivery.

## The role for co-operatives and mutuals in the National Disability Insurance Scheme

The comparative advantages of co-operatives and mutuals are particularly relevant for disability services as Australia embarks on the transformational National Disability Insurance Scheme (NDIS).

The launch of NDIS will create volatility in the market place with increasing levels of activity and potentially new entrants to the disability service market including businesses. This volatility may increase the risk of the smaller community based organisations becoming unviable as they are not able to achieve the economies of scale or compete with market power of larger providers, which may lead to people with disabilities losing their trusted local service provider. This problem can be addressed by service providers working together as a collective, a producer co-operative could facilitate the development of joint strategies, unified marketing of services, co-ordinated service delivery, bulk-purchasing, and resource sharing.

The increased level of funding and the NDIS mechanism may increase the risk of information asymmetry where people with disabilities finding it difficult to select appropriate, affordable and high quality services. There is an opportunity for communities of place or disability to establish consumer co-operatives to reduce this risk. There may be a role for existing not-for-profit organisation that represent the interests of people with disabilities to promote and facilitate the creation of consumer co-operatives.

There may also be opportunities for the establishment of UK style public service mutuals for some of the disability services which are still delivered by government agencies.

## Strategies for expanding the public service role of co-operatives and mutuals

In terms of future scenarios, we consider that the potential of Australian co-operatives and mutuals can be achieved through the following strategies:

- Expanding the scale and scope of public service delivery by existing Australian co-operatives and mutuals.
- The establishment of new co-operatives and mutuals including, but not limited to, UK style public service mutuals that are spun out from government
- Shared value creation by commercial co-operatives and mutuals

These strategies will require action by not only co-operatives and mutuals but other stakeholders including government and communities.

## Next steps

The evidence from the United Kingdom and existing public service provision by Australian co-operatives and mutuals suggests that there is considerable potential to make a significant

contribution to the delivery of accessible, appropriate, high quality and affordable public services in Australia. This is particularly relevant to the delivery of disability services and the upcoming implementation of the National Disability Insurance Scheme (NDIS).

The growth of public service mutuals in the United Kingdom was supported by a Mutuals Taskforce, the development of a body of robust evidence to underpin the work of the taskforce, and a dedicated resource to transfer knowledge including the development of living case studies.

It is therefore proposed that a Public Services Mutuals Taskforce is established and a Green Paper prepared to:

- systematically assess the potential for co-operatives and mutuals to deliver public services including but not limited to the establishment of public service mutuals,
- identify and address all the challenges
- develop a pathway to implementation in the Australian context

It is also proposed that the staged implementation of the NDIS be used to provide a “system case study”, where the potential for co-operatives and mutuals and the role for market facilitation can be fully explored.



## Introduction

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### Wicked social problems: Time for a different approach for delivering public services

Despite the combined efforts of business, government and the not-for-profit sector there are still significant and persistent social problems in Australia - wicked social problems. This impotence combined with decreasing tax revenues provides the context for the National Commission of Audit which considers 'the overall efficiency and effectiveness with which government services and policy advice are delivered' to ensure that 'taxpayers are receiving value for money'<sup>1</sup>. The terms of reference (TOR) indicate that the enduring process of outsourcing government services will continue; however, the terms of reference for the audit fails to recognise that there is a viable alternative to outsourcing to private business and not-for-profit sectors – the co-operative and mutuals sector.

This paper sets out the case for an expanding public service role for co-operative and mutuals.

### Government, market and not-for-profit sector failures

Government has the fundamental responsibility to deliver services which are needed for society to be economically, social and environmentally sustainable; however the scale and scope of these services are limited by the amount of funds it is able to mobilise primarily through taxes. The allocation of these funds to specific policy areas is the role of the elected government and in light of the limited resources it means that there are areas of public service which are not funded, which leads to *government failure*.

Whilst government has primary responsibility for delivering public services, increasingly this responsibility is by facilitating and funding non-government organisations to deliver these services. For some public service areas there are clear service definitions and a range of for-profit providers which means that Government can use market competition to achieve value for money, and regulates or issues licences to ensure service quality. However, many public service areas are complex and therefore difficult to serve and achieve a profit, which means there is *market failure*.

The not-for-profit sector is recognised as having primary responsibility for addressing the problems which businesses and government are not able to resolve i.e. the NFP sector responds to market and government failure. This role is fulfilled through use of a range of philanthropic resources

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<sup>1</sup> National Commission of Audit (2013) *Terms of Reference*. [URL: [http://www.financeminister.gov.au/docs/NCA\\_TERMS\\_OF\\_REFERENCE.pdf](http://www.financeminister.gov.au/docs/NCA_TERMS_OF_REFERENCE.pdf)]

including charitable donations, grants from charitable foundations, volunteering, returns on charitable investments, and the generation of funds from trading activities such as op shops.

Many Australian not-for-profit organisations, such as hospitals and social service providers with historical roots in Australian churches, have retained their traditional role in delivering public services which are directly or indirectly funded by government.

Over recent decades Australian not-for-profit organisations have joined for-profit businesses and taken on the role of delivering the public services which have been out-sourced by government. Outsourcing is seen as a method of achieving better quality services and greater value for money.

In fulfilling this public service role the NFP sector is recognised in public policy as a full social partner. The NFP sector also benefits significantly from the financial support of government and business, and most not-for-profit organisations have become inter-dependent on government and business.

Despite increasing levels of philanthropy and the strengthening of these interdependencies, the wicked social problems have persisted, which suggests that in addition to market and government failure there is also *not-for-profit sector failure*<sup>2</sup>.

### **Australian co-operatives and mutuals: Out of the shadows**

Despite its rich and diverse history, and economic scale the Australian co-operative and mutuals sector is largely unrecognised by both government and the general public. Whilst most co-operatives and mutuals are commercially focused, a significant number have a social purpose; and of those with a commercial focus some are also delivering significant social value. Co-operatives and mutuals typically have long-term sustainable and collaborative strategies which means that they have resilience when economic conditions worsen.

Like many not-for-profit organisations, some mutuals have retained their historical and traditional role of providing collective mechanisms to address social issues, such as health insurance. There are also many member owned community organisations which generate social capital to improve the quality of life of not only individuals but also whole communities.

Despite numerous examples of co-operatives and mutuals generating social value in a commercially sustainable way, they do not feature in Australian public policy and rarely feature in debates on public services. The recent launch of the Business Council for Co-operatives and Mutuals provides a mechanism and opportunity to bring co-operatives and mutuals out of the shadows – especially in terms of their existing and future roles in delivering public services.

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<sup>2</sup> Salamon, L. (1987) *Of Market Failure, Voluntary Failure, and Third-Party Government: Toward a Theory of Government-Nonprofit Relations in the Modern Welfare State*. [URL: <http://nvs.sagepub.com/content/16/1-2/29.abstract>]

## Alternative strategies are required

Governments in other jurisdictions have persisted with outsourcing but some, like the United Kingdom, have also invested in a range of alternative strategies such as:

- **Social impact bonds:** Mechanisms which harness the resources and interests of government, business and not-for-profit organisations to deliver better social outcomes for individuals, cost savings for government, and a blend of commercial and social returns for private investors.<sup>3</sup>
- **Social enterprises:** Organisations which seek to generate social value in a commercially sustainable way.<sup>4</sup> In the UK the co-operatives and mutuals that generate social value are recognised as social enterprises.
- **Community interest companies (CICs):** Some of these social enterprise deliver public services or community benefit, a new legal form for social enterprise – the CIC has been developed which facilitates this public service role.<sup>5</sup> CICs can be used by co-operatives and have an asset lock so that CICs will always benefit communities.
- **Public Service Mutuals (PSMs):** PSMs are organisations that have been ‘spun out’ of the public sector to deliver public services and where there is a high degree of employee control.<sup>6</sup>

Following the Global Finance Crisis (GFC) there has also been a response from the private sector with Harvard Professors Porter and Kramer encouraging businesses to create shared value (CSV) – the co-creation of commercial and social value – postulating that businesses can achieve competitive advantage and long-term viability by addressing social needs.<sup>7</sup> Porter and Kramer challenge businesses to reconceive products and markets, increase productivity in the value chain, and enable the development of clusters of stakeholders – and in doing so generate both commercial and social value. Australian businesses including co-operatives and mutuals are well positioned to create shared value.

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<sup>3</sup> Pro Bono Australia (2012) Social Impact Bonds a ‘Game Changer’ for Australia [URL: <http://www.probonoaustralia.com.au/news/2012/09/social-impact-bonds-%E2%80%98game-changer%E2%80%99-australia>]

<sup>4</sup> Social enterprise UK (2013) [URL: <http://www.socialenterprise.org.uk/about>]

<sup>5</sup> CIC Association (2013) *What is a CIC?* [URL: <http://www.cicassociation.org.uk/about/what-is-a-cic>]

<sup>6</sup> UK Cabinet Office (2012) *Open Public Services* [URL: [http://files.openpublicservices.cabinetoffice.gov.uk/HMG\\_OpenPublicServices\\_web.pdf](http://files.openpublicservices.cabinetoffice.gov.uk/HMG_OpenPublicServices_web.pdf)]

<sup>7</sup> Porter, ME, and Kramer MR (2011). *Creating Shared Value: How to re-invent capitalism and unleash a wave of innovation and growth.* Harvard Business Review 89, nos. 1-2 (January–February 2011).

## Challenging the three sector status quo: The roles for co-operatives and mutuals in delivering public services

This paper considers the potential for Australian co-operatives and mutuals to play a larger and more significant role in delivering public services, specifically that co-operatives and mutuals have the potential for holding comparative advantage over other organising models. This comparative advantage, if proven, should therefore generate a greater return on governments' investments in public services delivered by co-operatives and mutuals.

The paper considers the theory behind this comparative advantage and also looks at public policies in other jurisdictions, such as the United Kingdom, that promote and facilitate the role of public service delivery by co-operatives and mutuals. The paper also utilises a number of case studies to illustrate the potential for Australian co-operatives and mutuals.

In terms of future scenarios, we consider the potential in relation to the following strategies:

- Expanding the scale and scope of public service delivery by existing Australian co-operatives and mutuals.
- The establishment of new co-operatives and mutuals including, but not limited to, UK style public service mutuals that are spun out from government
- Shared value creation by commercial co-operatives and mutuals

## Australian cooperatives and mutuals

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The co-operative and mutual sector in Australia is historically important and economically significant yet largely unrecognised by government and the general public. The establishment of the Business Council of Co-operatives and Mutuals (BCCM) in July 2013 provides the foundation for not only increasing recognition of co-operatives and mutuals but also encouraging and supporting an increasing role in the economic and social lives of Australian citizens through public service delivery.

### Scale and scope of Australian cooperatives and mutuals

The economic scale of the Australian co-operative and mutuals sector is significant as is its scope in terms of both commercial and public service activities. The following are some of the key statistics<sup>8910</sup>:

- Estimated 1,600 Australian co-operatives and mutual businesses with over 13 million members.
- Turnover of the Top 100 co-operatives and mutuals is \$17 billion.
- Financial mutuals hold \$83 billion assets with 4.5 million members of credit unions, building societies and customer owned banks such as bankmecu.
- Estimated to be 2.3 million members of co-operative and mutual insurers.
- There are already a significant number of co-operatives and mutuals delivering public services, including National Health Co-op.
- Australian co-operatives and mutuals are creating shared value - co-creating commercial and social value — including HCF health insurance and bankmecu.

### Defining co-operatives and mutuals

Whilst there is specific legislation for co-operatives and mutuals in Australia, their most important defining attributes are the set of principles which, when combined, differentiate them from private business, government, charities and not-for-profit organisations<sup>11</sup>:

- voluntary and open membership

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<sup>8</sup> Dennis, R. & Baker, D. (2012) 'Who knew Australians were so co-operative': The size and scope of mutually owned co-ops in Australia' The Australian Institute

<sup>9</sup> National Health Co-op website. [URL: <http://www.westbelconnenhealth.coop/>]

<sup>10</sup> HCF website. [URL: <http://www.hcf.com.au/>]

<sup>11</sup> International Co-operative Alliance website [URL: <http://ica.coop/en/what-co-op/co-operative-identity-values-principles>]

- democratic member control
- members' economic participation
- autonomy and independence
- education, training and information
- co-operation among co-operatives
- concern for community

There are two broad types of co-operative and mutual<sup>12</sup>:

- *Producer co-operative*: where the ownership and governance is driven by the employees or a group of organisations providing goods and services. These may also be recognised as employee-owned businesses.
- *Consumer co-operative*: where the ownership and governance is driven by the membership. These may also be recognised as clubs and associations.

In addition, there is also recognition that some co-operatives and mutuals are established to specifically benefit the community (Bencomms).<sup>13</sup>

Whilst a large proportion of Australian co-operatives and mutuals are commercially focused there are a significant number of co-operatives and mutuals which deliver a wide range of public services and generate significant social value, for example the Nundah Community Enterprises Co-operative (see case study below).

Nundah Community Enterprises Co-operative <sup>14</sup>	
<b>Country:</b>	Australia
<b>Legal structure:</b>	Member owned
<b>Social purpose:</b>	To provide sustainable part-time employment and training opportunities for people with mental illness, learning difficulties or intellectual disabilities.
<b>Overview:</b>	

<sup>12</sup> *Co-operatives in Australia: A Manual Co-operatives*, Federation of New South Wales

<sup>13</sup> *A guide to mutual ownership models* Department for Business Innovation & Skills 2011

<sup>14</sup> Nundah Community Enterprise Co-operative website. [URL: [http://www.ncec.com.au/index.php?option=com\\_content&view=featured&Itemid=32](http://www.ncec.com.au/index.php?option=com_content&view=featured&Itemid=32)[http://www.ncec.com.au/index.php?option=com\\_content&view=featured&Itemid=32](http://www.ncec.com.au/index.php?option=com_content&view=featured&Itemid=32)]

[Nundah Community Enterprises Co-operative](#) was formed in 1998 out of an existing not-for-profit organisation in the Nundah area in the northern suburbs of Brisbane, Community Living Association (CLA). The co-op operates two business; a catering service and park and property maintenance service. Today the co-op provides part-time employment and training for 24 people previously excluded from the labour market. Together the two businesses turnover around \$350k.

The co-op was established with support (via grants and professional services) from Brisbane City Council, Queensland Department of Communities, Queensland Department of Employment, Economic Development and Innovation, Westpac Foundation and Social Ventures Australia.

**Comparative advantage:**

- Shared risk and reward
- Parent organisation, CLA, reduces risk during start-up phase
- Networking and community building for members

## Emergence of Public Service Mutuals

In the United Kingdom, PSMs have a definition which distinguishes them from the broader set of co-operatives and mutuals including those that deliver public services. PSMs are organisations that have been ‘spun out’ of the public sector to deliver public services and where there is a high degree of employee control<sup>15</sup>.

PSMs constitute an alternative public policy instrument for outsourcing or privatising public services. In the UK PSMs have a significant role with PSMs operating in many different policy fields and now having a dedicated unit inside the Cabinet Office.

There are a small number of examples of Australian public service mutuals where parts of the government apparatus have been spun out to employee-owned co-operatives.

## Co-operatives established as sustainable organisations

Unlike other legal forms, to establish a co-operative you are required to prepare a disclosure statement, akin to an information memorandum for financial investments, which sets out:

- Roles, responsibilities and liabilities of members (producers or consumers)
- The costs of formation and initial capital requirements
- Projected income and expenditure for its first year of operation

This disclosure statement is a quasi-business plan and is reviewed by the registrar as part of the registration process.

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<sup>15</sup> UK Cabinet Office (2012) *Open Public Services* [URL: [http://files.openpublicservices.cabinetoffice.gov.uk/HMG\\_OpenPublicServices\\_web.pdf](http://files.openpublicservices.cabinetoffice.gov.uk/HMG_OpenPublicServices_web.pdf)]

On the one hand this means the process may be longer than off-the-shelf options such as companies limited by shares or guarantee, however, on the other hand it means that the level of failure of co-operatives is much lower than the alternatives.

The robustness of the establishment process is equally applicable to co-operatives operating commercially or for social purpose. For the latter, this contrasts significantly with current debates regarding the lack of investor ready social enterprises and the need to invest in programs of capacity building for social enterprises.



## Theory: The comparative advantage of co-operatives and mutuals

It can be argued that co-operatives and mutuals possess some characteristics which are common with businesses, government agencies and not-for-profit organisations however it is the defining attributes which make co-operatives and mutuals distinctive. In Australia co-operatives are independent organisations which seek to operate in a financially sustainable way, they have a concern for community, and are voluntary and open organisations which engage with communities through their membership. Co-operatives therefore have the autonomy of the private sector, a social purpose which for some may be comparable to a public sector ethos, and self-determination and community empowerment often found in the not-for-profit sector.<sup>16</sup>

### The nature of comparative advantage of co-operatives and mutuals

The hybrid nature of co-operatives makes them particularly suited to delivering high quality public services in a sustainable way and co-creating commercial and social value. The following table sets out the attributes which may be held by co-operatives and mutuals delivering public services – where each attribute may not be unique to co-operatives but when combined they constitute comparative advantage over alternative legal forms and organising models.

**Table 1- Attributes of co-operatives and mutuals that lead to their comparative advantage**

Key attributes		Outcomes	Value creation	
Member ownership and incentives – employees and/or customers	Engaged employees Low levels of absenteeism	Increased productivity	Commercial value	Co-creation of commercial and social value for public service
Long term strategy and business planning	Talent retention and recruitment Long term job security	Increased economic resilience		
Member and community interest and resources	Re-investment of surpluses and / or increased member value	Affordable high quality services		
Democratic governance and transparency	Empowered employees	Employee wellbeing	Social value	
Stakeholder engagement Transparency and accountability	Strong customer relationships Proximity to customers Responsive to consumers	Increased consumer confidence Trust		
Social purpose and concern for community	Service innovation Customer centric design	Appropriate “right” services		

<sup>16</sup> Sesnan, M. (2013) *The evolution of social enterprise*. [URL: <http://www.theguardian.com/social-enterprise-network/2013/aug/19/evolution-of-social-enterprise>]

## The value of comparative advantage

The value of this comparative advantage manifests itself in a number of ways which are particularly relevant in relation to the delivery of public services.

### Consumer co-operatives

- For consumer co-operatives, the identification of a problem which leads to a collective response has the potential to result in the resolution of that problem. Australia has an excellent example of this in terms of providing low income communities with access to affordable health care – the National Health Co-op Ltd (see case study below).
- Concern for community and social purpose can lead to innovation which can result in customers receiving the most appropriate or “right” service.

#### National Health Co-op Ltd (formerly West Belconnen Health Co-op Ltd)<sup>17</sup>

##### Country:

Australia

##### Legal structure:

Community owned

##### Social purpose:

To provide quality general practice and health services that are affordable for the local community.

##### Overview:

[National Health Co-op Ltd](#) (NHC) was established by community members to address concerns about the lack of affordable GPs and health services in a disadvantaged outer metropolitan area of Canberra.

It began in 2004 when a group of community members assessed the community needs and interest in a co-operative. With the support of an ACT government grant and management consultant advice, the committee tested the viability of the co-operative model. The set-up of the Co-op was completed through a partnership between the community, governments (Australian and ACT) and businesses.

Viability is achieved through bulk-billed Medicare rebates, fee-for other services and rental income from co-located services. The Co-op has also formed service delivery partnerships with organisations that provide complementary co-located and off-site health and community services

The governance arrangements include oversight by a board of 7-9 members elected at AGM, with day-to-day management undertaken by the CEO and Operations Manager.

NHC now has more than 24,000 patient owners (representing nearly 7% of the ACT population), 24 medical staff and 24 administrative and clerical staff. Since the opening of the original site in 2010, 5 more sites have been developed. Their membership is growing at a rate of more than 10% per quarter.

<sup>17</sup> National Health Co-op website. [URL: <http://www.westbelconnenhealth.coop/>]

**Comparative advantage:**

- Shared risk and reward
- Trusted service provider due to the fact that it is community owned
- Built on strong values and principles
- Enhances community cohesion
- Diverts taxpayer funded costs from primary health care  
(i.e. NHC focusses on the holistic treatment of patients in a clinic setting. Hence, mental health patients who previously had to seek treatment at the higher cost emergency department of the local hospital, are now treated within the NHC clinic. This includes engagement in a community health program which is run at a cost to the Co-op. A private super clinic would have no commercial or social incentive to do this.)

**Producer co-operatives**

- For producer co-operatives and mutuals, employee ownership leads to high levels of engagement and low level of absenteeism which can result in increased productivity.
- Long term strategies can lead to high levels of staff retention and talent recruitment which can result in economic resilience. The United Kingdom has an excellent example – the Sunderland Home Care Associates (see case study below). A comparable Australian co-operative has just been registered – the Australian Independent Living Enterprises (AILE) – a case study is provided below.

**Sunderland Home Care Associates<sup>18</sup>**

**Country:**

United Kingdom

**Legal structure:**

Employee owned

**Social purpose:**

To offer care in the community and improve access for vulnerable members of the community.

**Overview:**

[Sunderland Home Care](#) provide a range of services including in-home personal care, domestic help, support for students, and other specialist support for those in the community in need of complex and intensive support. It began in 1994 and is now owned by over 300 care workers from the local area.

As a result of the ownership model, staff play a significant role in decision-making. They take part in democratic general meetings and help to set budgets, pay and conditions.

All profits made are reinvested into the business to provide a better service or to train and reward staff.

<sup>18</sup> Sunderland Home Care Associates website. [URL: <http://www.sunderlandhomecare.co.uk/>]

Sunderland Home Care has been recognised by several awards for social innovation and entrepreneurship.

**Comparative advantage:**

- Shared risk and reward
- Democratic governance structure
- Reinvestment of profit builds trust in the community

**Australian Independent Living Enterprise (AILE)<sup>19</sup>**

**Country:**

Australia

**Legal structure:**

Employee owned

**Social purpose:**

To provide home support services to assist elderly people to live independent, healthy and happy lives in the community of their choice.

**Overview:**

[Australian Independent Living Enterprise](http://www.aile.com.au) (AILE) is a social co-operative that is owned by the workers and was recently registered under the Co-operatives Act 1992 (N.S.W) (June 2013).

AILE believes that the poor service delivery and inadequate client care is directly related to the poor quality of the home care jobs. The employee owned co-operatives model in the United Kingdom, Canada and the United States have proven it is possible to achieve consistent, reliable home care for clients by improving the terms and conditions of the aged care/community care workforce through training, increased wages, better work practices and a supportive working environment.

AILE provides equitable distribution of income generated, training and support services, effective marketing strategies in order for the enterprise to meet its objectives.

Rather than compete for the highly contested pool of Grad Certificate awarded home care staff, AILE has developed a staff training strategy which involves recruiting from culturally diverse communities. This provides sustainable pathways to long term employment, as well as enabling migrant women to receive training to gain skills that are useful for employment and in their personal lives (e.g. financial literacy).

**Comparative advantage:**

- Shared risk and reward
- Democratic governance structure
- Reinvestment of profit builds trust in the community

<sup>19</sup> Australian Independent Living Enterprise website. [URL: <http://www.aile.com.au>]

### *Co-operatives in general*

- The sovereignty of membership means that surpluses are perpetually recycled for the benefit of members / users which can result in affordable high quality services and a greater level of value for money and return on investment for funders such as government.
- The involvement of members, including employees, in democratic decision-making; transparency and accountability leads to empowered employees which can result in high levels of individual wellbeing.
- The high levels of stakeholder engagement can lead to strong customer relationships which can result in consumer confidence and high levels of trust.

### *Addressing information asymmetry problems*

One area where the comparative advantage of co-operatives and mutuals delivering public services is particularly important relates to information asymmetry – where the customer is not able to make informed decisions as to what service is the most appropriate and offers the best value for money. This problem can be resolved by customers trusting a service provider to deliver the most appropriate service. Trust is often seen as a comparative advantage for not-for-profit organisations, where customers trust them because unlike businesses they do not have a desire to maximise profits for external stakeholders. However, this information asymmetry problem can also be resolved by using a consumer co-operative, where consumers group together to purchase services which not only achieve better value for money but where they can also collectively seek advice and also contribute to the design of services. There is an excellent example of such a consumer co-operative in the UK called MyTime Community Interest Company (see case study below).

#### **MyTime Community Interest Company<sup>20</sup>**

##### **Country:**

United Kingdom

##### **Legal structure:**

Member owned

##### **Social purpose:**

To provide holistic and intercultural psychological services to members with complex mental health issues, which are not being adequately served through other providers.

##### **Overview:**

[My Time Community Interest Company](http://www.mytime.org.uk/) is an enterprise based in the West Midlands that delivers evidence based, culturally sensitive and professional counselling and support services. The organisation was formed

<sup>20</sup> MyTime Community Interest Company website. [URL: <http://www.mytime.org.uk/>]

in 2002 by a group of psychologists and educationalists who were commissioned by a partnership between housing, faith, health and educational groups in the area, with the intention of supporting confidence building in women.

Since then My Time has grown steadily and been recognised by several awards for social innovation and entrepreneurship.

My Time services are created around the evolving needs of the service user. There a range of events and activities through which users can shape the services they use (e.g. community participatory research).

My Time are now providing the opportunity for others to create social franchises based on the My Time model.

**Comparative advantage:**

- User centred design
- Networking and community building for service users

The information asymmetry problem is prevalent across all public services but no more so than disability services as Australia embarks on the transformational National Disability Insurance Scheme (NDIS).

***Competing at scale without mergers and acquisitions***

Another important area of comparative advantage for co-operatives and mutuals delivering public services relates to producer co-operatives working collectively. Many organisations delivering public services are small and embedded in communities. Whilst this means that they are able to deliver services which respond to local need, they are not able to achieve the economies of scale or market power of larger providers. However, these problems can be addressed by service providers working together as a collective which means that they can buy resources in bulk and position themselves in the market as one larger entity.

Most public service delivery systems comprise a small number of large players and many small organisations. Once again this is the case in disability services, and with the launch of NDIS the market will become volatile with increasing activities and potentially new entrants including businesses. This volatility may increase the risk of smaller organisations becoming unviable and potentially clients losing their trusted local service provider. A producer co-operative could reduce these risks by facilitating the development of joint strategies, unified marketing of services, co-ordinated service delivery, bulk-purchasing, and resource sharing.

## Public policy analysis

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### Australian Public Sector Reform: missed opportunities to recognise the role for co-operatives and mutuals

It can be argued that the public sector is in a continuous process of reform; in recent months the newly elected Coalition Government has launched a National Commission of Audit and the Victorian state government has published a report on service sector reform. These two reform processes have failed to explicitly identify the potential roles for co-operatives and mutuals in delivering public services, which is in stark contrast to the United Kingdom, where both the incumbent Coalition and former Labour governments have placed significant emphasis on the role of public service mutuals in public sector reform.

#### Commonwealth government reform

The National Commission of Audit launched in October 2013 set out to ‘review the scope, efficiency and functions of the Commonwealth government’ with terms of reference (TOR) that included improving ‘the overall efficiency and effectiveness with which government services and policy advice are delivered’ and ensuring ‘taxpayers are receiving value for money’<sup>21</sup>. The TOR also indicates that the enduring process of outsourcing government services will continue; however, the TOR fails to recognise that there is a viable alternative to outsourcing to private business and not-for-profit sectors – the co-operative and mutuals sector:

*‘Whether there is a strong case for continued direct involvement of government, or whether the activity could be undertaken more efficiently by the private sector, the not-for-profit sector, the States, or local government.’*

#### State government reform

There have also been public sector reform initiatives by state governments including Victoria, which specifically considered service sector reform in community and human services, and focused on delivering better outcomes, ensuring sustainable and quality service provision, and enhancing productivity. Professor Peter Shergold’s report also focuses extensively on outsourcing and recommends that the ‘default position should be an expectation that an increasing range of

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<sup>21</sup> National Commission of Audit (2013) *Terms of Reference*. [URL: [http://www.financeminister.gov.au/docs/NCA\\_TERMS\\_OF\\_REFERENCE.pdf](http://www.financeminister.gov.au/docs/NCA_TERMS_OF_REFERENCE.pdf)]

government services will be delivered by non-government organisations'<sup>22</sup>. The term non-government is used 'to embrace the broad diversity of providers contracted to deliver government services', which, in addition to the not-for-profit and private sectors, also refers to social enterprises, which are defined as organisations that 'seek to make a surplus from trading activities that can be re-invested in their mission'. There is, however, no explicit recognition of the roles for co-operatives and mutuals.

## Policy context in the United Kingdom

In the United Kingdom, the potential for co-operatives and mutuals to deliver public services was highlighted in the 1990s by a number of high profile successful mutual organisations such as Greenwich Leisure Limited. This potential was reinforced by increasing recognition of the roles for social enterprises in delivering public services – where co-operatives and mutuals were seen as a major force in a sector which placed emphasis on achieving both social and commercial goals.

The emergence of Public Service Mutuals (PSMs) can be traced back to a Labour government policy – the 'Right to Request in Health Services'<sup>23</sup> – which encouraged and supported the spinning out of services and teams to independent employee-owned social enterprises.

The incoming Coalition government explicitly recognised the roles for co-operatives and mutuals in their Programme for Government, which was restated in the 2011 Open Public Services White Paper where PSMs were identified as one option for ensuring that there was a diversity of service provision<sup>24</sup>. The fundamental premise of the White Paper was that every public service has the potential to be delivered outside of government. This premise was the basis for a series of policies which have led to a rapid expansion of PSMs. The policy levers included:

- Right to Provide / Request: providing public sector employees the right to take over the delivery of services – releasing the enterprising and entrepreneurial skills of public sector employees.
- Community Right to Challenge: providing communities with a mechanism to take over control of the delivery of local services such as libraries.
- Community interest companies: Some of these social enterprise deliver public services or community benefit, a new legal form for social enterprise – the community interest company (CIC). CICs can be used by co-operatives and have an asset lock so that CICs will

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<sup>22</sup> Shergold, P. (2013) *Service Sector Reform: A Roadmap for community and human services reform*. [URL: <http://vcoss.org.au/documents/2013/11/FINAL-Report-Service-Sector-Reform.pdf>]

<sup>23</sup> UK Cabinet Office website. [URL: <http://mutuals.cabinetoffice.gov.uk/health/Rights>]

<sup>24</sup> UK Cabinet Office (2011) *Open Public Services White Paper*. [URL: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/200077/Open\\_Public\\_Services\\_2013\\_full\\_report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/200077/Open_Public_Services_2013_full_report.pdf)]



always benefit communities. An example of a CIC is provided below – the City Health Care Community Interest Company.

- Academy Schools: the creation of new schools and the conversion of existing schools to independent status, which can include community ownership and governance.
- Payment by Results, Payment by Outcomes and Social Impact Bonds: new funding mechanisms which focus on early intervention and breaking the cycle and where there are high levels of accountability e.g. justice and children services.

The commitment to this strategy is reflected in the establishment of a dedicated unit within the Cabinet Office to promote these policies which also provides a significant amount of tangible capacity building material<sup>25</sup>.

City Health Care Partnership Community Interest Company <sup>26</sup>
<b>Country:</b>
United Kingdom
<b>Legal structure:</b>
Employee owned
<b>Social purpose:</b>
To provide accessible and quality community health and integrated social care services to the local community.
<b>Overview:</b>
<p><a href="#">City Health Care Partnership Community Interest Company</a> (CHCP CIC) began in 2010 as an independent health services provider separate to the commissioning organisation, National Health Services (NHS) Hull. It currently provides services to over a half a million local people and employs approximately 1500 people. The company aims to minimise the need for acute care in hospital through early interventions, community-based treatment and promotion of healthy lifestyles.</p> <p>As a result of the ownership model, employees have greater sense of belonging, accountability and influence over future planning.</p> <p>All profits are reinvested into services, staff and the communities in which CHCP CIC work.</p> <p>The company is also involved in running other business (e.g. City Health Pharmacy Ltd, a retail, care home and wholesale pharmacy business) and is one of four shareholders in Albion Care Alliance CIC, a national alliance of like-minded organisations offering an alternative to the traditional ‘for profit’ sector. CHCP CIC also has a Foundation which enables further support for local communities.</p>
<b>Comparative advantage:</b>
<ul style="list-style-type: none"> <li>▪ Shared risk and reward</li> </ul>

<sup>25</sup> UK Cabinet Office website. *Mutuals Information Service*. [URL: <http://mutuals.cabinetoffice.gov.uk/>]

<sup>26</sup> City Health Care Partnership Community Interest Company website. [URL: <http://www.chcphull.nhs.uk/>]

- Democratic governance structure
- Reinvestment of profit builds trust in the community

### *Scale, scope and impact of Public Service Mutuals*

In July 2013 there were 71 PSMs employing 35,000 people and delivering over \$2 billion of public services (Boston Consulting Group 2013). Public Service Mutuals are being established across a wide range of policy areas in the UK including:

- Health –primary care, mental health, hospice
- Disability – independent living
- Human services – care services
- Emergency Services – fire services (see Cleveland Fire Brigade Service case study)
- Education – schools, adult education, vocational skills
- Justice – probation services
- Leisure – sports centres
- Housing – pathways in to social housing

#### **Cleveland Fire Brigade<sup>27</sup>**

##### **Country:**

United Kingdom

##### **Legal structure:**

Employee owned

##### **Social purpose:**

To protect local communities and enhance their quality of life by providing statutory fire services and related services.

##### **Overview:**

[Cleveland Fire Brigade](http://www.clevelandfire.gov.uk/) (CFB) exists to deliver emergency fire and rescue services in five local councils. Rather than limiting their service offering to emergency fire and rescue, the CFB have diversified into a wide variety of emergency prevention, protection and response services. The organisation is driven by the desire to make a positive difference to the quality of people’s lives rather than just emergency protection. Hence CFB has become involved in community issues such as health and well-being. This includes offering services such as youth engagement programmes and health promotion initiatives.

CFB have been nationally recognised as being high performing and have achieved significant performance improvements (e.g. 64% reduction in property fires).

<sup>27</sup> Cleveland Fire Brigade website. [URL: <http://www.clevelandfire.gov.uk/>]

The success of CFB is a result of their deep understanding and management of local risks. CFB also use community partnerships to gain a common understanding of community needs, build mutual capacity and gain economies of scale.

**Comparative advantage:**

- Shared risk and reward
- User centred design
- Holistic and integrated service delivery

There is now evidence of a well-established process of emulation where once one Public Sector Mutual has been established in a policy area, then it provides the template for other localities to follow suit, for example, probation services.

A report by Boston Consulting Group in 2013 “found clear evidence that mutuals are improving service quality and driving innovation” and that three thousand new jobs have been created. The report focuses on the need to attract “social and private capital investments to ensure long-term sustainability”<sup>28</sup>.

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<sup>28</sup> Boston Consulting Group (2013) *Soft Finance, Hard Choices: A review of the finance market for public service mutuals*. [URL: <http://mutuals.cabinetoffice.gov.uk/sites/default/files/documents/Soft%20Finance%20Hard%20Choices.pdf>]

## Realising the potential for co-operatives and mutuals in Australia

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### How can co-operatives and mutuals contribute to public sector reform in Australia?

Co-operatives and mutuals can contribute to public sector reform by achieving the goals associated with out-sourcing i.e. delivering accessible, appropriate and high quality services which offer government and citizens' choice, value for money, and service innovation.

Reflecting on the Australian context and learning from other jurisdictions especially the United Kingdom, there are three broad strategies to exploit the potential and comparative advantage of co-operatives and mutuals:

1. Expanding the scale and scope of public service delivery by existing Australian co-operatives and mutuals
2. The establishment of new co-operatives and mutuals that are spun out from existing organisations:
  - UK style public service mutuals that are spun out from government
  - Public service mutuals that are spun out from not-for-profit organisations
  - Public service mutuals that are spun out from co-operatives and mutuals
  - Public service mutuals that are spun out from businesses
3. Shared value creation by commercial co-operatives and mutuals

### Expanding the scale and scope of public service delivery by existing Australian co-operatives and mutuals

As noted earlier, there are already a significant number of Australian co-operatives and mutuals successfully delivering public services. Some of these have emerged in response to problems where either producers or consumers recognised that the problem can best be addressed through use of a co-operative structure and operating model. For some other co-operatives, they offer an alternative mode of service delivery and therefore offer plurality and diversity.

In both cases there is an argument for replicating these successful co-operative structures. Replication can take a number of forms:

- Organic growth of existing co-operatives through expansion in to neighbouring areas or related client groups.
- Systematic growth strategies based on mechanisms such as social franchising where suitable
- Emulation of success, where individuals and / or communities recognise that they share the same problems and wish to adopt the same approach, and engage with existing providers.

- Intermediation where development agencies proactively identify opportunities for organic and systematic growth, and emulation.

## Establishment of new co-operatives and mutuals that are spun out from existing organisations

The focus in the United Kingdom has been on spin outs from the government apparatus, whilst opportunities for emulation may exist in Australia, the existing high levels of outsourcing may limit this potential. However, there may be further potential for public service mutual spin outs from not-for-profit organisations, co-operatives and mutuals, and even businesses.

### *UK style public service mutuals that are spun out from government*

There are a small number of precedents for Australian governments to spin out employee-owned businesses or producer co-operatives but there are currently no policy levers comparable to those implemented in the United Kingdom.

At this stage of the lifecycle of the new Coalition Government it is not clear whether there is an appetite for developing and implementing such policies nor indeed if there is an appetite at state and local government levels. However, despite the existing high level of out-sourcing of public services, there is likely to be a range of candidates for spin outs from government.

The potential in Australia is strengthened when consideration is given to the drivers of the UK public service mutuals:

- The broad context in the UK is austerity, which is an accentuated version of the desire to do more with less which is common across Australian commonwealth, state and local government agencies.
- The persistent wicked social problems and impotence of existing funding mechanisms is driving the UK government to look at alternative funding and service delivery mechanisms.
- Whilst the Big Society rhetoric has largely disappeared there is still a strong desire to devolve responsibility for public services and to encourage individuals and communities to take on this responsibility. The process of devolution encourages place based approaches and breaking down the big silos of government. Place based mechanisms also encourage the sharing of resources, and the diversification of activities and funding.
- Unleashing the enterprising and entrepreneurial skills and energy of public sector employees – which are constrained by the fundamental command and control structures of government.
- Consumer choice is a primary driver of improving public services where – assuming perfect knowledge and competition – the best providers thrive and the worst fail.

Some of these drivers may resonate with the Coalition's policies on local control and management, and the building of civil partnerships with communities to build self-reliance, resilience, reciprocity, enterprising culture and self-interest.

#### ***Public service mutuals that are spun out from not-for-profit organisations***

Australian not-for-profit organisations have a long history of undertaking trading activities to generate revenue for their mission related activities, exemplified by the prevalence of op-shops. More recently some Australian not-for-profit organisations have created and invested in social enterprises which can either be mission related – where there is a co-creation of commercial and social value – or simply established to generate funds. The spin outs which are mission-related have the potential to be public service mutuals.

There may also be opportunities for public service mutual spin outs from NFPs when services come under pressure for closure. Currently, it is unlikely that NFPs consider the potential of spinning out a service. Whilst it would be inappropriate to offload a service which has no chance of viability, there may be broader opportunities through an employee or community owned social enterprise.

#### ***Public service mutuals that are spun out from co-operatives and mutuals***

Many commercial co-operatives and mutuals have developed a deep understanding of target groups which are recipients of public services. These insights may offer an opportunity to diversify their service offerings to include public services. The co-operative or mutual may decide that it is best to ring fence any risk and therefore set up a separate – spin out – organisation.

#### ***Public service mutuals that are spun out from businesses***

Similarly, businesses may also through customer insights identify opportunities for delivering public services but currently may not consider spinning out public service mutuals.

### **Shared value creation by commercial co-operatives and mutuals**

In response to the Global Finance Crisis (GFC) and the crisis for capitalism, Harvard Professors Porter and Kramer have encouraged businesses to create shared value (CSV) – the co-creation of commercial and social value – postulating that businesses can achieve competitive advantage and long-term viability by addressing social needs. Whilst this message is aimed at traditional business models the underlying message is as valid for co-operatives and mutuals.

Porter and Kramer challenges business to reconceive products and markets, increase productivity in the value chain, and enable the development of clusters of stakeholders – and in doing so

generate both commercial and social value.<sup>29</sup> Australian businesses including co-operatives and mutuals are well positioned to create shared value.

There are a number of examples of Australian co-operatives and mutuals addressing social problems through their commercial activities. HCF health insurance has a history of social innovation which if undertaken today would be categorised as shared value, for example, HCF introduced day surgery which not only achieved commercial value in terms of reducing costs but also delivered significant social value for key client groups in terms of improving the wellbeing of those receiving surgery and their partners and families. More recently HCF has pioneered condition management in relation to heart disease and diabetes which delivers shared value<sup>30</sup>.

The RAC WA was originally established by a group of car enthusiasts and although it may be commonly known for its core service for motorists it now has over 750,000 members and its vision is “to protect and enhance the lifestyle of its members”<sup>31</sup>. The ageing population and concerns over the availability of affordable quality aged care have prompted RAC WA to purchase an aged care business – St Ives. This acquisition diversifies RAC WA’s portfolio and addresses a significant social need.

Financial exclusion is one of Australia’s wicked social problems with over three million adult Australians not having access to either a transaction account, a modest amount of credit or basic insurance. The National Australia Bank have operated in partnership with Good Shepherd Microfinance and the Department of Social Services for many years to deliver a portfolio of microfinance products<sup>32</sup>. Bankmecu – is Australia’s first customer owned bank – providing responsible banking, personal service and benefits to its members in terms of better interest rates and lower fees. Bankmecu has developed a strategy to help low income communities by merging with credit unions such as Fitzroy and Carlton Community Credit Co-operative<sup>33</sup>. This strategy delivers shared value in terms of expanding commercial activities whilst addressing a social need.

Given the current focus on shared value there may be an opportunity to encourage Australian co-operatives and mutuals to take a lead in addressing social needs in Australia through commercial activities.

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<sup>29</sup> Porter, ME, and Kramer MR (2011). *Creating Shared Value: How to re-invent capitalism and unleash a wave of innovation and growth*. Harvard Business Review 89, nos. 1-2 (January–February 2011).

<sup>30</sup> G. Brent Hamar, Elizabeth Y. Rula, Aaron Wells, Carter Coberley, James E. Pope, and Shaun Larkin *Impact of a Chronic Disease Management Program on Hospital Admissions and Readmissions in an Australian Population with Heart Disease or Diabetes* <http://online.liebertpub.com/doi/pdfplus/10.1089/pop.2012.0027>

<sup>31</sup> RAC WA <http://rac.com.au/about-us/about-rac/our-history> St Ives <http://www.stivesgroup.com.au/about-us/>

<sup>32</sup> <http://cr.nab.com.au/what-we-do/tackling-financial-exclusion>

<sup>33</sup> <http://goo.gl/NmBhFk>

## Service delivery system case study: National Disability Insurance Scheme

There is an increasing preference for government to use mechanisms – such as the National Disability Insurance Scheme (NDIS) – where the users of public services can exercise choice over the services they use and the organisations providing them. However, as noted above, consumer choice requires users to be well informed of their needs and the options available. Often this is not the case and there is information asymmetry, so users have to trust organisations to deliver what is best. In such cases a ‘consumer co-operative’ could be utilised to ensure that users are fully formed and the services provided are properly specified.

For example, in relation to NDIS, consumer co-operatives could be established to help groups of users – either by disability or geography – to share knowledge, seek expert advice and define the services they required. This approach would also offer members the opportunity to purchase services in bulk from service providers, which, in addition to achieving greater value, may also allow users to access a broader range of services. Consumer co-operatives can also facilitate service innovation by involving users directly in the design of services offered by providers.

Commenting on the potential of co-operatives and mutuals, a disability service expert stated:

*The model of the company structure is neither here nor there unless it directly serves the key theme of the NDIS which is control and choice in the hands of people with a disability, so if working on the co-operative model and showing how that serves that goal and enhances control and choice for people with a disability, then I think it's got to be a winner in the NDIS environment.”*

Whilst a consumer co-operative could be newly established, there are also opportunities for not-for-profit organisations that do not deliver services but represent the interests of vulnerable groups. These not-for-profits could transform their organisations into member-owned organisations, or create subsidiary or associated member-owned organisations.

Not-for-profit organisations that fulfil an intermediary role, such as peak bodies, development councils and community forums; could facilitate the creation of new consumer co-operatives or encourage existing representative not-for-profits to transform.

### ***Help smaller service providers and carers to work together to become sustainable***

Many organisations providing human services are small and provide either specialist or local support. In the context of changing funding mechanisms and increasing competition – such as in disability services – small organisations may find it difficult to respond to change and the increasing competition, and therefore struggle to continue to operate and serve their clients. In such cases these small organisations could group together to form a ‘producer co-operative’ to share resources, purchase in bulk, offer a broader range of services, market themselves and enter into contracts as one larger organisation.



There are also opportunities for independent carers, small and family businesses to join together to form a producer co-operative in order to survive and be more competitive.

### ***Market facilitation and regulation***

It is the role of government to ensure that market function efficiently and effectively; where they can use either facilitation and / or regulation to achieve these goals. In the case of the NDIS the ultimate goal is to satisfy the needs of individuals with a disability. There are risks associated with allowing the emerging market to operate without some level of control. In markets where clients' needs range from simple short term low cost to complex long term high cost services; there is a risk of cherry picking where for-profit service providers are motivated to focus on simple profitable services. This will introduce the risk of market failure within the NDIS. Market facilitate may therefore be necessary to help clients to be served by alternative providers including not only independent not-for-profit organisations and co-operatives and mutuals but also organisations operating collectively as producer co-operatives.

The learning from other jurisdictions operating client directed services is that care workers are treated solely as units of labour with poor work conditions and employment contracts. The emergence of casualization and zero hour contracts may achieve cost efficiencies but is unlikely to lead to quality services. Market facilitation may therefore be required to reduce this risk however the emergence of producer co-operatives for care workers may pre-empt intervention.

## Responding to challenges

### Policy levers, capacity building and the power of emulation

The learnings from the United Kingdom, combined with the existence of Australian co-operatives and mutuals successfully delivering public services, suggests that there is considerable potential in Australia for the growth of co-operatives and mutuals delivering public services, and for public service mutuals (as defined by UK public policy). However a number of challenges would need to be addressed. Some of these challenges and how they could be addressed are listed below:

Challenge	Response
Currently there are no policies in Australia comparable to the 'right to provide' and 'community right to challenge' in the UK.	The National Commission of Audit and state public sector reform initiatives provide the opportunity to assess the merits of these types of policies in Australia.  There are, however, some innovative mechanisms which could be adapted; for example, the NSW government has a process to receive unsolicited bids e.g. Transurban F3 to M2 Link.
A large proportion of public services are already outsourced to not-for-profit organisations and businesses, so there is little scope for public sector 'spin outs'.	The research has identified a number of components of the government apparatus at both national and state levels – which suggests that there are opportunities for UK-style 'Public Sector Mutuals'.  The research has also identified the potential for large not-for-profits to 'spin out' parts of their organisation – especially where there is either the risk of closing a service or a social enterprise opportunity to exploit.
Lack of awareness of the option to use co-operative and mutual legal forms and organising models instead of not-for-profit and business legal forms and models.	The establishment of the BCCM and the proposed Taskforce and Green Paper will serve to increase awareness across all stakeholders groups including professional services such as lawyers and accountants who advise not-for-profits and social enterprises.  A key aspect of this will be the identification of successful organisations and the preparation of case studies.
Underlying preference for traditional outsourcing and privatisation mechanisms.	The emergence of social impact bonds and payment by outcomes mechanisms suggest that innovation can provide the basis for transformation. There may be

	<p>opportunities to trial alternatives at a modest scale. For example, the retail components of Australia Post, especially in remote and marginal communities, may present an opportunity for community ownership – using a co-operative structure.</p>
<p>A lack of infrastructure to encourage and support public service mutual initiatives relating to advice, funding and access to capital.</p>	<p>The growth of public service mutuals in the UK has been facilitated by a combination of support agencies and funding mechanisms. If the case for public service mutuals is made, then a key aspect of implementation will be the establishment of this infrastructure.</p>
<p>One or two organisations will not address the scale of the problems facing public service delivery.</p>	<p>Successful models such as that created by West Belconnen Health Co-op can provide the base for either organic growth into neighbouring areas or wider expansion through social franchising, through identification of other localities and host organisations.</p>
<p>There may be lines of resistance from key stakeholders including trade unions.</p>	<p>Transformational change will always create lines of resistance; however, the nature of resistance is often based on a lack of awareness and evidence. Establishment of the proposed Taskforce and preparation of a Green Paper will provide an opportunity to identify these lines of resistance, apply a critical lens to the available evidence and engage the full range of stakeholders.</p>

## Next steps

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The evidence from the United Kingdom and existing public service provision by Australian co-operatives and mutuals suggests that there is considerable potential to make a significant contribution to the delivery of accessible, appropriate, high quality and affordable public services in Australia. This is particularly relevant to the delivery of disability services and the upcoming implementation of the National Disability Insurance Scheme (NDIS).

The growth of public service mutuals in the United Kingdom was supported by a Mutuals Taskforce, the development of a body of robust evidence to underpin the work of the taskforce, and a dedicated resource to transfer knowledge including the development of living case studies.

It is therefore proposed that a Public Services Mutuals Taskforce is established and a Green Paper prepared to:

- systematically assess the potential for co-operatives and mutuals to deliver public services including but not limited to the establishment of public service mutuals,
- identify and address all the challenges
- develop a pathway to implementation in the Australian context

It is also proposed that the staged implementation of the NDIS is used to provide a “system case study”, where the potential for co-operatives and mutuals and the role for market facilitation can be fully explored.

### Taskforce and Green Paper

It is proposed that an independent task force be created to explore the potential and to hold the responsibility for specifying the work program for the preparation of the Green Paper. The Green Paper would seek to build on the work presented in this paper, specifically:

- Further exploration of the comparative advantage of co-operatives and mutuals delivering public services
- In depth comparative policy analysis to explore how UK policies could be contextualised in to Australia
- Further case studies including both desk based and in depth case studies
- The development of a framework to assess the returns on investment and outcomes of the use of co-operatives and mutuals
- Further exploration of the challenges
- The development of a pathway for achieving the potential of co-operatives and mutuals

The task force should comprise experts and practitioners that represent the range of relevant stakeholders. Given the strong and growing body of evidence and the context of a new government, it is proposed that the task force be established immediately and that it could

complete an initial phase of work within three months - culminating in the publication of a Green Paper for consultation.

The feedback from the Green Paper can be synthesised and utilised to prepare a White Paper which sets out the pathway for exploiting the potential of co-operatives and mutuals to deliver public services. It is anticipated that the White Paper would take two months to prepare.

### **System case study: National Disability Services**

The potential of co-operatives and mutuals can also be explored through a “system case study”. The staged implementation of the NDIS provides an opportunity to undertake this system case study. It is envisaged that this case study would be undertaken in a tightly defined geographical area to reduce the complexity. The success of such a case study would depend on the willingness of key agencies to participate in the study, the focus on the overall goal of delivering better outcomes for people with disabilities should be a significant incentive to participate in the study.

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