

## **SUBMISSION**

### **National Commission of Audit**

## **PREPARED BY**

### **Business Council of Co-operatives and Mutuals**

Dear Mr Shepherd

The Business Council of Co-operatives and Mutuals (BCCM) would like to thank the National Commission of Audit for the opportunity to make the following submission and welcomes the Government's examination of the scope for efficiency and productivity improvements across all areas of Commonwealth expenditure.

The BCCM also acknowledges the Government's steps to consult with a broad range of stakeholders across government, business and the community. This submission is made by the BCCM, on behalf of the Australian sector of customer and member owned businesses (co-operatives and mutuals) pursuant to the following areas of interest:

#### ***1. Scope of government***

In relation to activities performed by the Commonwealth, *where there remains a compelling case for the activity to continue to be undertaken*, whether the activity could be undertaken more efficiently by **the co-operative and mutual business sector (which is defined as both private and not for loss)**.

#### ***2. Efficiency and effectiveness of government expenditure***

**The potential role of co-operative and mutual businesses** in providing for greater efficiencies in the Australian Government, through:

- increasing contestability of services;

- rationalising the service delivery footprint to ensure better, more productive and efficient services for stakeholders;
  - flattening organisational structures and streamlining lines of responsibility and **improving** accountability;
  - privatisation of Commonwealth assets in the form of **public sector mutuals**; and
  - potential improvements to productivity, service quality, and value for money across the public sector, including better delivery of services to the regions.
3. ***State of the Commonwealth’s finances and medium-term risks to the integrity of the budget position***

Namely, **the role of co-operatives and mutuals** in providing for appropriate incentives to encourage self-provision of services by individuals, over time.

4. ***Public sector performance and accountability***

Specifically by the introduction of **user-directed services** and **public service mutuals** that engage service providers and employees in the control and management and provide for localised accountability.

**A. BACKGROUND**

**Commonwealth Government reform**

Despite the combined efforts of business, government and the not-for-profit sector there are significant and persistent social needs in Australia. Combined with decreasing tax revenues, this 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’. The terms of reference (TOR) indicate that the enduring process of outsourcing government services will continue; however, the terms of reference for the audit does not explicitly 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.**”*(Terms of Reference: National Commission of Audit).

**State Government reform**

There have also been public sector reform initiatives by state government 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 on outsourcing and recommends that the "default position should be an expectation that an increasing range of government services will be delivered by non-government organisations". 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 that are defined as organisations that "seek to make a surplus from trading activities that can be re-invested in their mission". There is however not explicit recognition of the roles for co-operatives and mutuals.

**This submission sets out the case for an expanding public service role for co-operative and mutuals in order to deliver on the cost, accountability and efficiency objectives of the National Commission of Audit.**

## **B. ABOUT THE ORGANISATION MAKING THIS SUBMISSION**

The BCCM<sup>1</sup> was formed in 2013 as a legacy of the United Nation's 2012 International Year of Co-operatives<sup>2</sup> to increase awareness of the contribution of co-operative and mutual businesses to Australia's economic and community development.

The BCCM is a non-profit organisation uniting the entire range of co-operatively and mutually owned enterprises across many industry sectors from agriculture, motoring and retail, to health, housing and financial services. The BCCM engages with government on the benefits of the co-operative business model for building dynamic local economies, sustainable, local employment, community reinvestment and community-generated, self-help solutions to shared needs.

The Board of the BCCM includes the chief executive officers of leading Australian co-operative and mutual businesses; **Mr Tony Stuart**, Group CEO of Australia's largest motorist mutual, NRMA, **Mr Shaun Larkin**, Managing Director of Australia's largest non-profit health fund, HCF, **Mr Peter Knock**, CEO of Australia's largest member owned retailer, The Co-op, formerly the University Co-operative Bookshop), **Mr Damien Walsh**, Managing Director of bankmecu, Australia's first customer owned bank, **Mr John McInerney**, former Managing Director of Victoria's largest co-operative housing provider, Common Equity Housing Limited (CEHL) and **Mr Greg Wall**, Group CEO of automotive purchasing co-operative, Capricorn Society, and board member (Asia-Pacific Region) of the International Co-operative Alliance. The Chairman of the

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<sup>1</sup> [www.bccm.coop](http://www.bccm.coop)

<sup>2</sup> [www.australia2012.coop](http://www.australia2012.coop)

BCCM is **Dr Andrew Crane**, CEO of Australia's largest co-operative, CBH Group. Dr Crane has been appointed to the B20 group of leaders to advise Government on the G20 agenda under Australia's G20 Presidency in 2014.

## C. ABOUT THE SECTOR

The co-operative and mutual sector in Australia is historically important and economically significant yet largely under-recognised. 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 co-operatives 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>3</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 West Belconnen Health Co-op.
- Australian co-operatives and mutuals are co-creating commercial and social value – or creating shared value – including HCF health insurance.

\*Source: Denniss, R & Baker D (2012)

### Defining 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 makes 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

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<sup>3</sup> “Who Knew Australians were so cooperative? The size and scope of mutually owned coops in Australia”, The Australia Institute Paper 10, October 2012:  
<http://www.tai.org.au/index.php?q=node%2F19&pubid=1052&act=display>

sector ethos, and self-determination and community empowerment often found in the not-for-profit sector.

#### **D. GOVERNMENT, MARKET AND NOT-FOR-PROFIT SECTOR FAILURES**

Government has 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. 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.

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 social problems have persisted, which suggests that in addition to market and government failure there is also *not-for-profit sector failure* (Salamon L, 1987<sup>4</sup>).

#### **Australian co-operatives and mutuals**

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.

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<sup>4</sup> <http://nvs.sagepub.com/content/16/1-2/29.abstract>

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 – especially in terms of their existing and future roles in delivering public services.

### **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.
- **Social enterprises:** Organisations which seek to generate social value through enterprise including delivering social value in a commercially sustainable way. In the UK the co-operatives and mutuals that generate social value are recognised as social enterprises.
- **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) has been developed which facilitates this public service role. CICs can be used by co-operatives and have an asset lock so that CICs will always benefit communities.
- **Public Service Mutuals:** Public Service Mutuals (PSM) 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 (Open Public Services, Cabinet Office 2012).

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. 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.

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

This submission 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, should therefore generate a greater return on governments' investments in public services delivered by co-operatives and mutuals.

### **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 attached table (Table 1) 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.

### **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 attached).
- Concern for community and social purpose can lead to innovation which can result in customers receiving the most appropriate or “right” service.

#### ***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 attached). A comparable



Australian co-operative has just been registered – the Australian Independent Living Enterprises (AILE) (see case study attached).

### **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.

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.

#### **E. HOW CAN CO-OPERATIVES AND MUTUALS CONTRIBUTE TO IMPROVEMENTS IN PUBLIC SERVICE DELIVERY IN AUSTRALIA?**

Co-operatives and mutuals can contribute to improved public service delivery 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.

Cooperatives and mutuals can be described as hybrids which share some of the key attributes of businesses and not-for-profit organisations – especially when delivering public services. On the one hand the owners – producers or consumers – are incentivised to utilise a sustainable business model whilst on the other hand they share with not-for-profits the proximity to clients and communities which generates trust. It can therefore be argued that co-operatives and mutuals are well placed to deliver sustainable public services.

Reflecting on the Australian context and learning from other jurisdictions especially the United Kingdom (see case study attached), 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**

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.

#### **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.

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 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 Commonwealth Government’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. 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.

### **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.

There are a number of examples of Australian co-operatives and mutuals addressing social problems through their commercial activities. Given the current focus on shared value there may be an opportunity to encourage Australian co-operatives and mutuals to take a lead in Australia.

### **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.

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 markets 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 facilitation 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. However a number of challenges would need to be addressed. Some of these challenges and how they could be addressed are listed in Table 2 (attached).

## F. NEXT STEPS

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.

The BCCM has commenced establishing a Public Services Mutuals Taskforce and is preparing a Green Paper 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.

The BCCM welcomes the chance to discuss the role that co-operatives and mutuals can play in delivering on the stated objectives of the National Commission of Audit.

Please do not hesitate to contact the BCCM in relation to anything in this submission.

Yours sincerely,



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