



BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

Submission to the Independent Review of the Australian Public
Service

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About the BCCM

Formed in 2013 following the United Nations International Year of Co-operatives¹, the Business Council of Co-operatives and Mutuals (BCCM) is the peak body for Australian co-operatives, mutuals and member-owned enterprises. The BCCM represents a diverse range of enterprises operating in sectors including agriculture, finance and banking, insurance, motoring services, health services, aged care, disability employment, education, indigenous services, social housing and retail.

The BCCM advocates for recognition of the sector and for measures that create a level playing field between co-operatives and other businesses, including implementation of the recommendations of the Senate Economics References Committee report into Cooperative, mutual and member-owned firms², and implementation of the Hammond Review recommendations to improve access to capital for co-operatives and mutuals.³

¹ See <https://social.un.org/coopsyear/>

² http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Cooperatives/Report

³ <https://treasury.gov.au/publication/p2017-t235882/>

1 Introduction

The Australian Public Service (APS) has delivered excellent policy development and provision of services to the Australian Government and citizens over decades. Medicare and compulsory superannuation, for example, are widely regarded as two of the best examples of how to fund and administer a world-class public health system, and how to provide adequate income post-retirement.

It is crucial that the APS is supported to continue this work in the face of the global, technological and public policy developments that are transforming our economy and society. Innovation and Science Australia's *Australia 2030: Prosperity Through Innovation* report shows that Australia faces unprecedented challenges.

There is a broader social and economic context in which to review the APS. For example, the [CSIRO mega-trends report](#) highlights the impact of technology along with other trends including an ageing population, the depletion of our natural resources, increased demand for experiences over products and the rising importance of social relationships.

This review creates an opportunity to harness ideas and evidence about how the APS will remain fit for purpose in delivering high quality, reliable advice and policy development services to government into the future. The BCCM submits that this outcome can in part be achieved by ensuring that the APS is able to innovate its service delivery operating models and expand capability through engaging citizens, the end users of public services, in local service delivery.

Lord Beveridge, in his 'Report of the Inter-Departmental Committee on Social Insurance and Allied Services' published in 1942 said, "The state in organising security should not stifle incentive, opportunity, responsibility... it should leave room and encouragement for each individual to provide more than that minimum for himself and his family." Known as 'the Beveridge Report', it would become the blueprint of the UK's post war social security consensus and in time it would be adopted in Australia and New Zealand.

The BCCM strongly believes that a fit for purpose public service is one that engages meaningfully, robustly and authentically with citizens, the key stakeholders of the public service, and one that is able to unleash the latent entrepreneurialism of public servants without diminishing or jeopardizing the public service ethos or accountability. A strong and entrepreneurial public service can help build character in individuals, foster social cohesion in communities, address community problems and provide positive role models for the next generation.

The delivery of public services at the local level through public service mutuals may be one way to drive this entrepreneurial spirit, ensuring a retention of public service ethos while delivering high quality policy advice to government, and accountable services to the public at the local, place-based, level. Public service mutuals are commonly known as groups of public sector employees who 'spin out' of the public sector, form a mutual (an employee-owned co-operative) and then contract back with the government to provide the service concerned. However, they might also be organisations that are managed and governed by their user-stakeholders, their provider-stakeholders or a combination of these.

Evidence from existing public service mutuals shows that they have been very successful, generating high levels of user satisfaction, productivity, workforce retention and staff morale.

The BCCM looks forward to engaging further with the Review Panel as they chart a path for good government with a strong public service, focused on entrepreneurialism, a user-centred focus, and a commitment to public purpose.

2 Response to Terms of Reference

This submission responds primarily to the following aspects of the terms of reference, which the Independent Panel is to make practical recommendations on, namely:

Ensure the APS is ready, over the coming decades to best serve Australia in:

- **driving innovation and productivity in the economy**
- **delivering high quality policy advice, regulatory oversight, programs and services**
- **tackling complex, multi-sectoral challenges in collaboration with the community, business and citizens**

The BCCM supports the move towards a more user-centric culture in the APS as an effective means of achieving the above goals (innovation, productivity, quality of programs and services, addressing complex problems through collaboration).

Co-operatives and mutuals can play an important partner role in such a culture shift and increase the social and economic value created by the APS, so it is important APS staff have the capability to access information about, access to, and appropriate support to understand and work with these organisations. Further, a thorough understanding of the elements that drive the long-term success of co-operative and mutual businesses will assist the Review Panel in any restructure of the APS, as it will assist ensuring a focus on delivery of clearly defined outcomes to stakeholders.

Co-operatives and mutuals are organisations that are owned by the people or organisations who contribute to or use their services. Mutual ownership places control with the members and thereby ensures the purpose of an organisation is to serve its members rather than external stakeholders such as shareholders or other individuals or organisations who do not use the services of the organisation. Co-operatives and mutuals draw in community capital, both economic and social, and share it across their communities.

As locally owned and operated entities, co-operatives and mutuals reduce the time that public servants are required to spend reporting upstream, when the focus of the organisation is responsive service delivery to constituents. Furthermore, their democratic governance requires accountability of decision making to their local users. Other forms of enterprise such as investor-owned businesses are incentivised to reduce the local footprint, in order to deliver commercial return for shareholders.

Mutuality can have the following benefits in service delivery:

- For users and communities, mutualisation raises the quality of the services they receive; often at a reduced or static cost.
- For commissioners (funders), mutualisation increases both the value for money and the effectiveness of services they commission, as well as client satisfaction with those services.
- For workers, mutualisation improves their wellbeing, sense of autonomy, and the conditions under which they work.
- For service provider organisations, mutualisation can increase economies of scale and ability to tender while retaining local identity and community connection.

Mutualisation can deliver trust, accountability and confidence between institutions and the people they serve. The inclusion of users and other stakeholders in ownership builds in ongoing co-design, collaboration and consultation between stakeholders and sustainably apportion the costs and benefits of collaboration and service delivery to all stakeholders.

We refer the Independent Panel to our [submission to the Productivity Commission inquiry into reforming human services](#), which provides more information on the characteristics and advantages, especially in thin markets, of co-operatives and mutuals.

In its Final Report on reforming human services, the Productivity Commission recommended that service delivery should be open to all types of organisation and should be evaluated on a case-by-case basis based on attributes of organisations including governance and connection to community ([Final Report](#), 254). The BCCM agrees with this recommendation and notes that in 2016 the Senate Economics References Committee inquiry into cooperative, mutual and member-owned firms made 17 recommendations on how co-operatives and mutuals could be placed on a level playing field with other organisation types including “that co-operative and mutuals sector be better represented in government policy discussions, and is actively promoted as a possible option for service delivery particularly where community based initiatives are being considered” (Recommendation 2).

The [Harper Review of Competition Policy](#) (24) and the [McClure Welfare Review](#) (34-5) both recognised the benefits of a diversity of service providers, including co-operatives and mutuals. Those reviews noted that co-operatives and mutuals, by way of their mutual, place-based ownership structure, could increase productivity, local capacity and local employment, which contributes to social and economic outcomes. The Productivity Commission’s report into reforming human services acknowledges the potential for co-operatives and mutuals to deliver, among other things, housing, family and community services and indigenous services ([Final Report](#) at 97, 220 and 258).

In our view, it is important that government procurement and funding practices properly account for the social value generated through, for example, connection to community or local employment opportunities and capacity building. In the UK, recognition of the importance of evaluating contractors on clear social criteria is increasing.⁴

⁴ The [Public Services \(Social Value\) Act](#) came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits. See: <https://www.gov.uk/government/publications/social-value-act-information-and-resources/social-value-act-information-and-resources>

Changes in funding or contracting practices that will drive productivity, quality of service and collaboration with the community should extend beyond human services to government procurement and funding practices generally. Globally, social procurement policies are being adopted by governments of all levels as a means of maximising the social and economic value created from taxpayer funds.

3 Local Delivery Options

At the interface between the citizen-user of the public service and the government department, public service mutuals can be used to effectively deliver services and respond to users. This drives job satisfaction, workforce retention, and ultimately better user satisfaction. Devolving some of these services results in less time spent reporting upstream and more time ensuring place-based responsiveness.

3.1 Procurement policy in Preston

Small changes to government procurement can facilitate a broader range of social and economic benefits from that procurement.

In Preston in the aftermath of the GFC, the local council needed a new strategy to generate local employment and prosperity. Their strategy revolved around shifting the procurement practices of anchor institutions to favour local SMEs, co-operatives and social enterprises. Preston City Council recognised that such a shift in procurement practices to favour these locally-owned service providers kept more money in the local economy and therefore provided a boost to employment and the community more broadly.

The experience in Preston provides practical examples of how to institutionalise placed-based service delivery and of the broader benefits this can bring. The Council and anchor institution partners also recognised the benefits placed-based businesses would bring in terms of increased community engagement and participation in service design and delivery, local capacity building (including of voluntary organisations) and in the promotion of equitable and environmentally sustainable outcomes. To implement the shift in procurement practices the Council undertook [the following steps](#):

- Engagement with anchor institutions, including on commitment to share data so results could be measured
- Analysis of procurement spending
- Development of a Statement of Intent with anchor institutions
- Identification of gaps and 'influencable spend'
- Formation of a Procurement Practitioners Working Group to share new approaches to procurement that achieve the strategic goals
- Agreement on a measurement framework based on key goals (employment, local participation and engagement, etc)

SMEs, co-operatives and social enterprises within the region were mapped and identified as potential suppliers. A further aspect of mapping was identifying opportunities to develop local co-

operatives and social enterprises to deliver services where there is currently no local capacity to deliver the service.

3.2 Mutualisation of early childhood services in South Australia

The South Australian Government has recently announced the formation of the first employee-led mutual in Australia. Highly-skilled staff who currently deliver Early Childhood Early Intervention services in the South Australian public sector [will form a mutual to deliver these services in partnership with the NDIA](#). The project has support across political parties and from both levels of government, as well as the support of the relevant unions. Federal Minister for Social Services Dan Tehan MP [commented](#):

“The creation of the South Australian employee-led mutual is an example of the innovation and creativity required to deliver the NDIS, a world-first, ground-breaking scheme.”⁵

The BCCM provided expert advice to the workforce, the NDIA and the South Australian Government on the proposal to form an employee mutual.

Where similar employee mutuals have formed in the UK, they have mostly happened in health and social care. Case studies and early research has demonstrated the critical success factors are where staff (and their unions) have early “buy-in” and influence over the development of the mutual and are active members and owners of the new enterprises during and after the various stages of formation. Staff have reported that they value the increased flexibility to respond to participant’s needs when operating outside of a large bureaucracy. This active engagement by staff is supported in the UK in the form of a “*Right to Request*” where staff can nominate to form an employee mutual. Those staff can also apply to use a mutual development advisory service funded by government to support staff in developing a robust and realistic business model and in understanding the cultural differences between being an employee as opposed to an owner *and* employee of an enterprise.

In South Australia, the Commonwealth and South Australian governments have played the supporting role as envisaged in the Harper Competition Policy Review. The role of these two levels of government has been to provide the resources, time and support necessary for staff, including through their trade union, to make a democratic, informed decision about forming an employee-owned mutual. We believe this is an approach that should be emulated by all levels of government in relation to their involvement as a stakeholder in the formation of any employee-led mutual.

The BCCM observes this approach to workforce (and market) development could be applied in a range of situations, including start-ups and existing organisations as well as in the public sector. We consider this is worthy of further consideration as part of a move to a user-centric culture in the APS, including in how procurement and funding is undertaken.

3.3 Increasing productivity while retaining community roots through the formation of the Community Care and Transport Co-operative

Mutualisation can involve users, workers, organisations or a combination thereof and can be used as a means of building sustainable collaboration between stakeholders. The formation of co-operatives of service provider organisations that tender for government services ('enterprise co-operatives') could help to drive productivity and increase the quality of government-funded services while retaining the benefit of local community connections.

Community Care and Transport Co-operative is a practical example of how an enterprise co-operative (a co-operative of businesses or organisations) can increase the ability of community organisations to deliver government-funded services, in particular where there are challenging policy setting reforms, such as the move from block funding to competitive, open market tendering.

CCAT was formed in 2015 by three community transport organisations in Sydney in response to policy shifts in how funding was to be allocated from the existing setting of provider block funding to transport users (through personalised NDIS funded budgets). The co-operative structure allows them to increase productivity and reduce costs through sharing back office services, invest more in services, improve benchmarking and build marketing and advocacy capability. At the same time, each member organisation is able to retain its local autonomy and connection to community, with the social value this can bring.

4 Government procurement and commissioning

APS procurement should ensure that all business models have access to even-handed treatment in relation to government procurement. The APS should also ensure that a clear set of social value criteria is accounted for in any procurement and funding practices. For example, APS procurement guidelines should require that procurement and commissioning be from companies that are:

- Domestically owned and operated
- Taxed domestically
- Have demonstrable local workforce participation

Government should actively consider mutual businesses as service providers when procurement is undertaken or when services are externalised.

Co-operatives and mutuals are an excellent choice for providing high trust and sensitive public services in aged care and in disability because of their focus on users and dedicated professionals. Where services users' needs are complex or where markets are thin, such as in remote and regional areas, it is the view of the sector that co-operatives and mutuals can be a better option than providing profit maximizing firms with access to vulnerable people.⁶

⁶ As noted in Professor Sir Julian Le Grand's opinion editorial to the Canberra Times on 6 December 2017, <https://www.smh.com.au/opinion/public-private-or-inbetween-staffed-mutuals-may-be-future-of-aged-and-disability-care-20171206-gzzrqw.html>

Other areas in which this policy could be adopted are:

- Provision of workers' compensation schemes or other government insurance services provided by mutual insurers which reinvest surplus in getting people back to work and/or reinvesting surplus in workplace injury prevention.
- Provision of health education by or sponsored by not-for-profit health organisations (health funds or co-operatives such as the National Health Co-operative⁷).
- Support for nutrition programs provided by agricultural co-operatives (e.g. where milk is provided in schools, this should be sourced from a dairy co-operative where possible thereby combining nutritional outcomes with support for local employment, regional economic development and food security).
- Driver education provided in partnership with motorist's mutuals.
- Service offerings provided to new migrants include a member-owned option (bank accounts, health insurance etc.).

⁷ The NHC is based in the ACT and serves more than 12 per cent of the population with bulk billed primary health care. See: www.nhc.coop

5 Recommendations

The Senate Economics References Committee identified recognition, education and regulation as the three areas where the co-operative and mutual sector faces barriers to growth and free competition. The APS has an important role to play in the reduction of these barriers.

APS staff should be even-handed in their treatment of all business models by plugging any knowledge gaps in understanding what co-operatives and mutuals are and the characteristics of mutual ownership that can deliver benefits to public service users at the local level.

As part of a user-centric culture, APS staff should especially understand how co-operatives can deliver member-focused services, build local capacity, and ongoing collaboration and co-design between a diverse range of stakeholders including government, service providers and service users.

APS staff should be able to provide business support to co-operatives and mutuals on an equal basis as for any other type of organisation.

APS procurement and funding practices should place all entities on a level playing field based on a clear set of social and economic value criteria.

As part of a move to a user-centric culture in the APS, the BCCM recommends that:

- 1. The recommendations of the Senate Economics References Committee inquiry into cooperative, mutual and member-owned firms are implemented in full as they apply to the APS directly (including Recommendations 1, 2, 3, 7, 11).**
- 2. The procurement and funding practices of the APS place all potential service providers and suppliers including co-operatives and mutuals on a level playing field and adequately take into account social value creation of service providers and suppliers.**
- 3. Co-operation, utilizing co-operative and mutual legal structures, among service providers and suppliers tendering for contracts or funding is understood, encouraged and supported across the APS as a means of increasing productivity and quality of service delivery for service users.**

6 Appendix: Recommendations of the Senate Economics References Committee inquiry into cooperative, mutual and member-owned firms

Recommendation 1

The committee recommends that the Commonwealth Government ensures that a national collection of statistics and data is undertaken to provide an accurate picture of the scale and extent of the co-operative and mutual sector.

Recommendation 2

The committee recommends that co-operative and mutuals sector be better represented in government policy discussions, and is actively promoted as a possible option for service delivery particularly where community based initiatives are being considered.

Recommendation 3

The committee recommends the Commonwealth Government work with states and territories to develop a program of supports to encourage the establishment of new co-operatives and mutual enterprises.

Recommendation 4

The committee recommends that a mutual enterprise is explicitly defined in the Corporations Act 2001, and its associated regulations.

Recommendation 5

The committee recommends that the role of directors in mutual enterprises is defined in the Corporations Regulations to align with the proposed definition of a mutual enterprise in the Corporations Act.

Recommendation 6

The committee recommends the Commonwealth Government work with states and territories to ensure the continual improvement to advice, guidance and information provided at all stages in the establishment, governance and regulation of co-operatives.

Recommendation 7

The committee recommends that the Commonwealth Government to work with all relevant stakeholders to undertake a program of education and training to inform them about the role of co-operatives and mutuals.

Recommendation 8

The committee recommends that the Commonwealth Government examine ways in which it can improve the recognition and understanding of the co-operative and mutual sector in the national secondary school curriculum and that tertiary institutions consider the inclusion of co-operative and mutuals in accounting, business, commerce, economics and law degrees.

Recommendation 9

The Committee recommends that professional accreditation bodies, such as the Law Society and Institute of Chartered Accountants, require a demonstrated knowledge of the co-operatives and mutual structure before it will licence its members to practice accounting or law.

Recommendation 10

The committee recommends that the Commonwealth Government amend the Indigenous Advancement Strategy to allow registered co-operatives the same access to allow levels of grant funding as other entities.

Recommendation 11

The committee recommends that the Commonwealth Government review, and where necessary amend the eligibility criteria for grants and funds across all of government grants and program guidelines to ensure that co-operatives and mutual enterprises are not excluded on the basis of their business structure.

Recommendation 12

The committee recommends that the co-operative and mutual sector be considered when the government is preparing a Regulatory Impact Statement that accompanies new regulatory policies.

Recommendation 13

The committee recommends that the Commonwealth Government liaise with its state and territory counterparts to ensure that the regulatory burden for small and medium sized co-operative and mutual enterprise aligns with the needs of these organisations and ensures they are not disadvantaged relative to companies of a similar size.

Recommendation 14

The committee recommends that the Commonwealth Government closely monitor the progress of the International Accounting Standards Board in developing solutions to bring co-operative shares under the definition of capital under AASB 132, and, where possible, facilitate equivalent amendments as expeditiously as possible.

Recommendation 15

The committee recommends that Commonwealth and State Governments support the formalisation of some of innovative market-based approaches to raising capital for small and medium sized co-operative and mutual enterprises, in the form of advice and information, as they become available.

Recommendation 16

The committee recommends that APRA set a target date for the outcome of discussions with the co-operative and mutuals sector on issues of capital raising and bring those discussions to a timely conclusion.

Recommendation 17

The committee recommends that the Commonwealth Government examine proposals to amend the Corporations Act 2001 to provide co-operative and mutual enterprises with a mechanism to enable them access to a broader range of capital raising and investment opportunities.