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BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

Professor Stephen King
Monash Adjunct Professor and Productivity Commissioner
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Re: Supplementary submission from Business Council of Co-operatives and Mutuals

Dear Stephen

Thank you for your time, and also your team, when we met on 6 October in Melbourne to discuss the BCCM's submission to the Human Services inquiry. Su, Gillian and I appreciated the time you gave us. This was an opportunity for us to gain more clarity about how the BCCM can assist the inquiry and the issues involved for you and your team in considering how to enable increased user choice and competition in human services.

At our meeting, we agreed the BCCM would come back to you with a supplementary submission addressing the key discussion pointes we covered which were:

a) Why a diversity of business models matters in a world of increased informed user choice and competition in human services and the characteristics of CMEs that can give them comparative advantage in human services
b) The barriers that limit the participation of co-operatives and mutuals in delivering human services with examples
c) Case studies showing how co-operative and mutual business models have potential for the human services market in the priority areas identified for reform as part of a suite of solutions
d) Opportunities for further engagement with the BCCM, in particular around indigenous service delivery and the UK advisory panel on the role of Government in encouraging mutual forms in the delivery of public services; and
e) What the BCCM wants to see change for co-operatives and mutuals through the inquiry including a priority list of the Senate inquiry recommendations.

The supplementary submission is attached.

We understand the inquiry is working in a staged way; firstly, to consider the priority sectors for reform, followed by how to design a system that enables increased informed user choice and competition before considering questions about the market and provider side of what type of organisations are best suited to deliver human services in a world of increased user choice and competition. As such, the issues we have raised in both our submissions are about this last stage. The BCCM encourages the Commission to study initiatives here and overseas where co-operatives and mutuals of various types perform a vital role in adding diversity to the market for human services and indeed help to drive innovation around increased user choice and competition.

The BCCM welcomes the opportunity to engage further with you and your team early in 2017 to follow up on these discussion points and how the BCCM can assist the inquiry.

Yours sincerely,

Melina Morrison
CEO, Business Council of Co-operatives and Mutuals

Supplementary submission from the Business Council of Co-operatives and Mutuals to the Productivity Commission on Inquiry into introducing competition and informed user choice into Human Services

1. Introduction

This supplementary submission expands on some discussion points raised with the BCCM following a meeting on 6 October 2016 with the Productivity Commission team which is conducting the inquiry into introducing competition and informed user choice into human services.

Those discussion points raised are:

a) Why a diversity of business models matters in a world of increased informed user choice and competition in human services and the characteristics of CMEs that can give them comparative advantage in human services
b) The barriers that limit the participation of co-operatives and mutuals in delivering human services with examples
c) Case studies showing how co-operative and mutual business models have potential for the human services market in the priority areas identified for reform as part of a suite of solutions
d) Opportunities for further engagement with the BCCM, in particular around indigenous service delivery and the UK advisory panel on the role of Government in encouraging mutual forms in the delivery of public services; and
e) What the BCCM wants to see change for co-operatives and mutuals through the inquiry including a priority list of the Senate inquiry recommendations.

2. Why diversity of business models matters

Co-operative and mutual business models add diversity in the market of providers for human services. They do this in the following ways:

a) Co-operative and mutual enterprises (CMEs) are judged by the value they return to their members and the communities in which they operate. Depending on the type of CME, members can be consumers, workers, producers (including other social enterprises) and multi-stakeholders (e.g. place-based or service specific). CMEs place the member at the centre of the enterprise for devolved decision making. When the member is the service user, this is a powerful model for empowerment and enabling informed user choice. This is particularly important in highly regulated human services such as aged residential care and home care where residents and/or their intermediaries have little choice and are often confused by the challenges involved in getting access to services that meet their needs.
b) CMEs operate profitable businesses and reinvest surpluses back into the communities where they operate. They do this in the public interest rather than distributing to shareholders. CMEs are a powerful model, when you want commercial efficiency without loss of community control and when high levels of trust, transparency and accountability are required.
c) This reinvestment model captures value back to the service economy for the taxpayer. For example, the profit/surplus of a for profit listed health insurer is repatriated 100 per cent back to shareholders, where a non-profit mutual, such as HCF reinvests that for the benefit of members and improved quality.
d) Australian and overseas experience shows that CMEs are trusted in the community and in some circumstances (e.g. complex policy or politically sensitive areas) can be seen as a safe pair of hands as an alternative or "third way" to government and private service provision. This is because they have the scale, experience and can draw on a diverse membership base across industry segments both here in Australia and as part of the International Co-operative Alliance. For example, the selection of Australian Unity by the NSW Government for the transfer of the

Home Care Service of NSW. Another example is the formation of over 100 public service mutuals in the UK, mostly in health, social care and education without a single failure to date. This Government-led mutual development initiative enabled new and modernised forms of mutuals to emerge and appear to be particularly successful in human services such as health, social care and education. There are now recent reports of the UK Prime Minister, Theresa May advocating a "mutual manifesto" as a middle way to promote social democracy and enterprise in the delivery of public services.[1]

e) CMEs do not have the "scarcity mindset"[2] that emanates from a long-term reliance on limited pools of government block funding. Rather, they apply social enterprise and commercial principles to innovate and design services to deliver outcomes for the people they serve.

f) CME business models are designed around the international co-operative principles. This means members (as service users) must be democratically and economically engaged in service delivery. These principles executed well, are more likely to produce the right incentives for members to share a mutual responsibility for the achievement of outcomes rather than behave as passive recipients reliant on government service provision and funding.

3. The barriers that limit the participation of CMEs

Section 4.4 of the BCCM's submission outlines the significant barriers faced by CMEs in Australia which mean compared to alternative organisation forms they do not operate on a level playing field.

In March 2016, the Senate Economic References Committee handed down its findings following an inquiry into co-operative and member-owned firms. The 17 recommendations received bi-partisan support. Taken together, these recommendations address the most important areas of reform for enabling CMEs to compete on the same basis as other company structures.

The 17 recommendations covered areas for reform in three areas: recognition; regulation and education. The 17 recommendations are attached at BCCM Get Mutual Senate Recommendations and contain practical examples of the barriers faced by CMEs compared to other organisation forms.

Because of the difficulties associated with forming and operating CMEs in Australia, the preferred form tends to be incorporation under the Corporations Act. Additionally, the regulation of co-operatives through State and Territory Governments is a further impediment to the formation and operation of co-operatives. The BCCM has argued in its submission that there needs to be a single national regulation for CMEs, to accommodate distributing and non-distributing forms (See recommendation 10.3) rather than reliance on consistent nationally-aligned State-based regulation.

4. Case Studies showing how co-operative and mutual business models have potential for the human services market in the priority areas for reform as part of a suite of solutions

Section 8 of the BCCM's submission contained some Australian and overseas case studies across a range of human services that demonstrate the potential of CMEs to contribute to the reform agenda in human services. Some of these international case studies benefitted from deliberate Government policy initiatives designed to foster mutualism in the delivery of public services because this was seen to be an alternative or "third way" of delivering public services in the public interest.

The case studies that can potentially help inform the Commission's thinking in the 6 identified areas for reform in human services include:

- In Australia, National Health Co-operative (Section 8.2.1) which is a consumer co-operative operating 9 primary health care clinics in the ACT and expanding into rural NSW.

[1] UK Mutual Manifesto

[2] Bessie Graham, CEO The Difference Incubator at the CEDA 2016 State of the Nation event: "Why we need competition in human services"

- In the UK, NHS Foundation Trusts and Community Interest Companies in Health (Sections 8.2.2 – 8.2.4) where new mutual legal forms have emerged from the Government's reform agenda on Public Service Mutuals that enabled employees to "spin out" from Government. Examples include CSH Surry and the City Health Partnership CIC. These forms of mutuals have enabled communities to have more control and influence of local health services. They have been designed to maintain Ministerial control and accountability whilst enabling separation of funding/commissioning from service delivery.
- In the UK, examples of integrated health and social care Community Benefit Societies such as Your Health Care and Care Plus (Sections 8.8.4 – 8.8.5). These new forms of mutuals were also enabled by Government policy reform that enabled public servants to have a "Right to Request" to "spin out" and form new mutual businesses. There were challenges in securing capital to enable these new mutuals to form. This was achieved by negotiating continuity of funding for 3 years after which funding became contestable. The high performing services like Your Health Care and Care Plus were selected to form first and are now filling a major gap in the NGO market for integrated health including integrated personal commissioning of personal health budgets which have now started in the UK.
- In Australia, there is potential for mutuals already involved in health to diversify and scale to provide a wider range of integrated health and social care services (Section 8.8.1 – 8.8.2). For example, the recent acquisition of the Home Care Service of NSW by Australian Unity means this large established mutual now operates in health and wellbeing, aged care, retirement living, health insurance and financial advice
- In Social Housing, Australian examples include Common Equity NSW and Common Equity Housing Ltd in Victoria (Section 8.3.1 – 8.3.3). These are effectively examples of enterprise co-operatives that own and manage social and affordable housing and are registered nationally as community housing providers. An important point of difference with these co-operative models is that they because of their CME philosophy, they naturally enable tenant management and shared equity models through application of the international co-operative principles. These Australian examples are similar to UK examples such as the Rochdale Boroughwide Housing (RBH) which was formed when Local Government divested social housing stock to community providers similar to what is happening now in social housing in NSW.
- In community services and employment, there are examples of high performing co-operatives in Disability Employment (e.g. Nundah Community Enterprise) (Section 8.10.1). Nundah is a worker co-operative where the members are people with disabilities who have been gainfully employed through the business activities of the co-operative for over a decade without reliance on any Government funding. There is scope for models like Nundah to be replicated and to scale through the formation of enterprise co-operatives.
- In disability services, the BCCM is supporting the formation of an innovative family governance co-operative (Section 8.10.2) that operates in the NDIS in providing disability supported accommodation for young people with autism. There are now 3 family governance co-operatives operating in Sydney. An incubator enterprise co-operative has recently been registered in Victoria to enable the model to scale. This is being achieved with NDIA and BCCM support.
- In 2015, the BCCM worked with three community transport providers (Section 8.5.1) to guide them in the formation of an enterprise co-operative to enable them to develop a new business model with wider revenue streams in response to reforms in aged care and the NDIS. Whilst there have been cultural challenges with this initiative, the BCCM believes there is further potential to form enterprise co-operatives as an alternative to mergers and acquisitions especially in rural and regional areas. There are overseas examples in the UK, such as the HCT Group and Modo in Canada. They both demonstrate the potential of CMEs

to fill a gap in the provision of social or assisted transport which is fundamental for the efficient and effective delivery of health services (Sections 8.5.2 – 8.5.3).

- Another Australian example, in home care, Co-operative Home Care has formed as a worker co-operative operating in South Western Sydney. This co-operative is small and community based. It formed because its members all had poor experiences working with other providers and believed they could improve quality and outcomes for consumers without compromising efficiency if they owned the business. There are also overseas examples of similar worker co-operatives in home care especially in the UK and USA where co-operative franchising has enabled them to scale. Examples include CASA Care and Share Associates in the UK and Cooperative Home Care Associates in the US (Section 8.6.1 – 8.6.4)
- The co-operative business model is also well-suited to indigenous communities, especially where service delivery needs to be integrated in rural and remote areas. This is an area where there have been significant barriers to the formation of CMEs in Australia, because in order to operate as an Indigenous Corporation, companies have to be incorporated under the Corporations Act. Changing this requires amendment to the Indigenous Advancement Strategy. Australian examples of CME business models in indigenous service delivery included in the BCCM submission (Section 8.11) include ALPA Ltd – The Arnhem Land Progress Aboriginal Corporation which operates a range of community and employment services in 25 remote locations across the Northern Territory and Queensland; Tranby which provides services in education, business support, advocacy, leadership and land management; and Rumbalara aboriginal Co-operative Ltd providing health services to communities in and around Shepparton in Victoria.

In order to realise the potential of these case studies in contributing to the human services reform agenda in Australia, the BCCM believes there is a role for Government in re-framing incentives around the sustained achievement of improved outcomes for population groups and service users and in giving consideration to establishing a cost-shared start-up investment fund to enable innovation and start-up development of CMEs in each of the six priority areas of human services identified by the Commission where greater diversity in the market will enable informed user choice to be achieved (Recommendations 10.4-10.7).

In addition to this, the BCCM thinks that closer consideration should be given to the inclusion of aged care (especially residential aged care) because the high levels of complex regulation and poor consumer information have produced unequal power relationships between Government and providers to the exclusion of consumers and their intermediaries. This comment also applies to disability services, however the BCCM can see that under the NDIS, there is significant interest in the CME business model. The challenge in realizing this potential is that the magnitude of the change means many providers are struggling to keep up, with the result that innovative reform may not happen until some years into the NDIS. For example, the BCCM can see great merit in CME models around Local Area Co-ordination, service planning, advocacy and information. This applies equally to aged care, health and disability services where organisation forms that have consumers as members at the centre of governance are more likely to be independent of interests associated with funding, commissioning and service provision.

5. Opportunities for further engagement with the BCCM in particular areas of interest to the Commission.

Two areas for possible further engagement throughout the course of the inquiry were discussed: application of CMEs to indigenous service delivery and learning more from the UK experience with public service mutuals and individualised funding.

Section 9.6 of the BCCM's submission outlined a willingness to work with the Productivity Commission throughout the Inquiry process. Productivity Commissioner and Monash University Adjunct Professor, Stephen King indicated the Commission is following three sequential steps in the Inquiry. The first stage is identifying sectors where there is potential for reform in allowing more user choice. The second stage is to consider how to design a system that enables increased user choice and the third stage is how to provide those choices to people.[3] The BCCM understands the Commission's focus at this first stage of the Inquiry is on identifying those sectors most suited to reform. It follows from this that the Commission is "agnostic" at this stage about the organisational form of providers which is a central theme of the BCCM's submission.

Inevitably as the Commission moves through stages two and three, it will have to consider the capacity of the market to deliver better outcomes for people at an efficient price and in the public interest without compromising quality. This is where the BCCM considers much closer attention needs to be given to considering how Government can lead and invest in stimulating innovation and diversity in the market and actively consider how mutualism can empower citizens, giving them greater control over the services they use and through this, enabling increased user choice.

CMEs are worthy of further consideration because:

1. The CME governance model is based on enterprise and serving members rather than an entitlement approach and reliance on government funding which is the mindset of a significant proportion of non-government providers in human services.
2. The workforce challenges in human services are significant. The CME governance model provides for employee ownership in the form of distributing and non-distributing worker co-operatives. The reform agenda would benefit by the Commission considering the compelling evidence about the comparative advantages of employee ownership including all forms of co-operatives and mutuals[4][5][6]
3. Active membership, democratic governance (1 member 1 vote) and economic engagement are foundation principles of the CME governance model. Designed well, CMEs create shared value in communities by empowering their members either as consumers, workers or enterprises giving them a greater sense of control and responsibility for their lives. This is particularly powerful where people experience disempowerment and disadvantage.

To enable the Inquiry to be fully briefed about the attributes of CMEs as part of a suite of solutions in the provision of human services, the BCCM, in association with the Productivity Commission can arrange for UK experts in mutuals and public services to brief the Commission and possibly run a series of roundtable discussions with key stakeholders. The BCCM has also offered to provide resource material about indigenous co-operatives and to facilitate a roundtable discussion with the Commission and members from indigenous co-operatives in Australia.

From our discussions, we understand the best time for these further engagements to happen will be early in 2017.

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[3] Adjunct Professor and Productivity Commissioner, Stephen King speaking at the CEDA State of the Nation 2016 "Why we need competition in human services" October 2016

[4] Perotin, Virginie (2012) "*The Performance of Worker' Co-operatives*" in P. Battilani and H Schroeter (eds) *A Special Kind of Business: The Co-operative Movement 1950-2010 and beyond* Cambridge University Press.

[5] Perotin, Virginie (2013) "What do we really know about worker co-operatives?" in publication for co-operatives UK

[6] Perotin, Virginie (2014) "Worker Co-operatives: Good Sustainable Jobs in the Community" in Journal of Entrepreneurial and Organisational Diversity, 2 (2), p34-47

6. What changes the BCCM wants to see included in the Inquiry to increase recognition and adoption of CMEs in human services delivery

Section 10 of the BCCM's submission contained 7 recommendations for the Commission to consider.

Summarising, as a result of the Commission's Inquiry the BCCM wants to see:

1. Immediate and full implementation of the 17 recommendations from the Senate Inquiry on co-operative and member-owned firms to address the barriers that exist between CMEs and other organisational forms.
2. The top priorities in these Senate recommendations that will contribute to an equal operating environment for CMEs in human services delivery are: Recommendation 2 (CMEs must be represented in government policy discussions and actively promoted as a possible option for service delivery where community based initiatives are being considered); Recommendations 3 and 6 (CMEs must have access to the same quality and variety of start-up and business formation advice as all forms of business); Recommendations 10 and 11 (CMEs must be able to compete for all grants and programs as all forms of business); and Recommendation 17 (CMEs must have access to the full range of capital raising options as all other forms of business in order to not be disadvantaged in raising working capital to compete)
3. Recognition of the benefits of co-operatives and mutuals as a middle way in delivering human services and as a way to add diversity in the market for human services.
4. Specific consideration about how consumer co-operatives can support and enable informed user choice in a world of increased competition for human services particularly in areas like aged care, disability and health services where there is asymmetry of information.
5. Acknowledgement about the benefits of having Government policy on the role and contribution of mutuals in the reform agenda by funding a CME innovation development initiative as has occurred in the agricultural sector.

Melina Morrison
CEO, Business Council of Co-operatives and Mutuals