



Public Service Mutuals:

A third way for delivering public services in Australia

WHITE PAPER



BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

Disclaimer

All statements and conclusions, unless specifically attributed to another source, are those of the authors and do not necessarily reflect those of any individual persons. The report has been prepared by the Net Balance Research Institute for the Business Council of Co-operatives and Mutuals and the Australian Public Service Mutuals Task Force.

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The authors would like to thank the BCCM and Task Force for their support and guidance during the development of this report.

About Net Balance

Net Balance is Australia's largest sustainability consultancy, providing research, assurance and advisory services. The Net Balance Research Institute conducts applied research to inform the development of innovative solutions and create lasting societal impact for clients and their stakeholders. The Research Institute focuses on strategically important emerging issues, theories and trends which have the potential to transform businesses, not-for-profit organisations, social enterprises and government. For more information see www.netbalance.com or join our social media site for public service mutuals: www.yammer.com/publicservicesmutualstaskforce

About the Business Council of Co-operatives and Mutuals

The Business Council of Co-operatives and Mutuals (BCCM) is an association of the chief executives of Australia's co-operative and mutual member based businesses and peak industry groups, representing a sector with a combined membership of more than 13 million. It is the only organisation that unites the entire, diverse range of co-operative and mutual businesses in Australia.

About the Australian Public Service Mutuals Task Force

Following a national roundtable on the role for co-operative and mutuals in public sector reform in November 2013, the BCCM established a national task force to explore the viability and roles for co-operatives and mutuals in delivering key public services. The Australian Public Service Mutuals Task Force was formed to oversee preparation of the Green Paper and White Paper which explore the potential for Public Service Mutuals in Australia. The Terms of Reference for the Task Force are included in the Appendix.

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Front cover montage:

Images (Clockwise from Top Left) RAC Rescue Helicopter, West Belconnen Health Co-operative (National Health Co-operative), Rathdowne Place Aged Care (Australian Unity), The Living Well Navigator Caravan (NRMA), Co-operative Home Care, Nundah Coop Parks Crew, Harmony Shepparton (Common Equity Housing Ltd) (Centre image) Chef from Nundah Coop's Espresso Train Cafe

August 2014

Foreword

The Hon Kevin Andrews MP
Minister for Social Services

The Abbott Government is committed to building community capacity and resilience in Australia by encouraging the growth in civil society. Civil society is based on the relationships and institutions that are neither created nor controlled by the State. Through these activities we can build character in individuals, foster social cohesion in communities, address community problems and provide positive role models for the next generation.

It was Lord Beveridge in his 'Report of the Inter-Departmental Committee on Social Insurance and Allied Services' published in 1942 who 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.

Over many decades the Beveridge ideals of a lighter-touch safety net have been swept away. Social insurance models have been replaced by state-run entitlement programmes and an overly complex social support system driven by bureaucracy and for some, an over-dependence on Government welfare.

I commissioned the McClure review of Australia's social welfare payments and system in response to the significant and well documented challenges we are facing. The review's 'Interim Report, A New System for Better Employment and Social Outcomes' has made many suggestions for change. It also highlights the key role co-operatives and mutuals can play in enhancing Australian civil society: "In developing intergenerational self-reliance, co-operatives help to reduce welfare dependency... provide jobs for local people, offer goods and services and use procurement practices that support local business. They are grassroots businesses, owned and operated at a local level, and their profits remain in the community contributing to local economic development. They are a great example of social and economic participation."

The Beveridge Report's enthusiasm for 'mutualising' risk and reward has a long Australian tradition. In the second half of the nineteenth Century, Australians pioneered mutuals and friendly societies across the six colonies. Found in every community, these institutions were voluntary and self-regulating. By the eve of the First World War, around 400,000 friendly society members helped to fund benefits for over one million Australians. Today, Australia's 13 million plus members of co-operative and mutually owned businesses are in our motorists mutuals, non-profit health funds, customer owned banks, agricultural-business giants, retail conglomerates, member-owned super funds and numerous local health and community services organisations.

Mutuals and co-operatives have demonstrated they are good for markets and for competition. Their different ownership structure allows them to focus on their customers rather than on short term shareholder returns. This enables them to pursue longer-term and sustainability-oriented growth strategies. Mutuals and co-operatives also help to spread risk in economies and provide stability through diversity.

This White Paper calls for the recognition and realisation of a third way of delivering public services based an expanding role for co-operative and mutual member based businesses. This includes the opportunity to explore the potential for employee run mutuals. Public Service Mutuals are also good for the economy. Through the process of unlocking the latent entrepreneurialism that exists in all communities – and especially amongst the workforce of the public sector - mutuals can increase productivity, create jobs and drive innovation at the local level.

Co-operative and mutual public services have potential to drive the reshaping of mainstream services. In managing public services as interconnected and decentralised systems, they promote stronger, local level relationships and neighbourhood-based approaches to the ownership and operation of key services. Over time mutuals could become a new form of institution that enables citizens to tackle shared problems together and makes the services on offer a better fit for the more complex times in which we live.

The UK Government is an international leader in this area and has supported the development of a huge diversity of Public Service Mutuals that address a broad range of public needs in the areas of health, human services, housing, disability, justice and emergency services. This White Paper calls for Australia to now create an expanded role for co-operatives and mutuals in delivering our public services. Through this White Paper, the Business Council of Co-operatives and Mutuals (BCCM) is bringing the term Public Service Mutual into the Australian lexicon.

It's a change in language and a developmental approach that this Government applauds. Rather than a cumbersome 'top-down, "government-knows-best' approach, this government believes in 'bottom-up', grass roots enterprise. We believe in adept and adroit for-purpose organisations and social enterprises that can adapt to changing circumstances and evolving needs. No group of Australian organisations better embodies these principles than the co-operative and mutual sector.

This same 'bottom-up' principle is also the motivating force behind our decision to set up a National Centre for Excellence for Civil Society. The Centre will support the wide range of organisations that make up civil society – regardless of size, type or mission. It will help build capacity of the civil society sector by supporting innovation, providing education and training, and working to reduce reporting and red tape.

It is time for government at all levels to help mobilise civil society and to actively support co-operative and mutual approaches as key to this. The Federal Government wholeheartedly supports the intent of this White Paper and will continue to work with the BCCM to further promote the value to civil society of co-operatives and mutuals. We believe that no-one knows local communities better than the community members themselves.

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1. A Message from the Task Force Chair

In 2013 the Business Council of Co-operatives and Mutuals (BCCM) and **bankmecu** commissioned Net Balance Research Institute to prepare a report exploring the potential for co-operatives and mutuals to deliver Australian public services. This report recommended the establishment of a Task Force to oversee the development of a Green Paper to provide evidence for the business case for mutuals delivering public services in Australia and to produce recommendations in a White Paper focused on implementing the findings.

I was invited to Chair the Public Service Mutuals Task Force, which has been both an honour and a revelation. I have always been an advocate of organisations that are genuinely in the business, and capable of responding to the needs of their customers. Mutuals and co-operatives have a natural ethos of their members as consumers being “first and last”, and shared value not share value. These values make them a natural fit for delivering consumer-directed public services. The full potential of co-operatives and mutuals to address some of Australia’s most complex social issues and budget pressures, was something that became evident over the course of this project. Throughout the development of the Green Paper, followed by this White Paper, the Task Force received enthusiastic support and a great deal of interest in how we deliver public services in this country by reengaging with the power of mutualism.

Co-operatives and mutuals are not speculative business and they are not charity, they are another form of self-help based on reciprocity, independence and democracy. This makes them very powerful when the outcome that you want from social services is more choice and control for the users of services.

The issue the Task Force is grappling with is why - if these member based, democratic models make sense and are so suitable for the times - don’t we know more about them? Why are they not front of mind?

The research undertaken to date, and the experience in the UK and other jurisdictions, shows that co-operatives and mutuals have the potential to generate better social outcomes, greater value for money, higher returns on investments, greater economic and social resilience, and higher levels of consumer engagement and employee wellbeing. Realising this potential in Australia will require the formulation of a

strong body of evidence, a compelling business case, sustained communications and implementation strategies. Above all, it requires a commitment from Government, mutual and co-operative businesses and the wider community to facilitate the growth of the co-operative and mutual sector in delivering public services.

I would like to take this opportunity to thank all members of the Task Force for their guidance, expertise and vision in helping to shape what I believe can be a pivotal document in a new era of public service innovation,

Gillian McFee

NRMA Motoring and Services
Chair, Public Service Mutuals Task Force

2. Overview

Co-operatives and mutuals are a form of organisation based on reciprocity, autonomy and democracy.¹ There are an estimated 1,600 co-operatives and mutual businesses with more than 13 million members in Australia. Examples range from large agricultural co-operatives and motorists' mutuals to small disability service co-operatives.

The unique ownership structure and ethos of serving members first enables co-operatives and mutuals to deliver services based on the needs of the people using those services.

This White Paper has its focus on the potential role of co-operatives and mutuals in delivering public services through 'Public Service Mutuals' (PSMs). The recent interim report of the McClure Review of the Australian welfare system recognised this potential. It concluded co-operatives and mutuals are 'a great example of social and economic participation... premised on self-help and empowerment rather than aid and charity'.

Co-operatives and mutuals have a long history in Australia of supporting communities to self-organise in the interests of risk protection, social security, health care, education, consumer protection, income and job support. As the Minister's Foreword to this report details, by the early 20th Century there were over 400,000 Australians in friendly societies providing benefits for over one million members.

Co-operatives and mutuals lost momentum in the later part of the 20th Century due to increasing government regulation, the growth of the welfare state and the professionalisation of social services. In the 21st Century we are experiencing resurgence in the sector. It is a time when governments all over the world are looking for empowerment based public service delivery within increasing budget constraints and rising consumer expectations. This is a clear call to co-operatives and mutuals.

In other countries such as the USA, Spain and the United Kingdom the sector is responding with great vigour. Francis Maude of the UK Cabinet Office stated in July 2014 that: 'mutuals are the future of public services.'²

The UK Government has supported the development of 100 employee-owned PSMs since 2009, that now employ over 35,000 people generating more than 3000 new jobs and delivering over \$1.5 billion of public services.³

Recent UK evaluations of these developments highlight that mutuals lead to lower production costs and higher productivity. Mutuals were also demonstrated to be innovative, profitable and more resilient to changes in the economic climate. They show higher consumer satisfaction, lower absenteeism and sickness rates, less staff turnover, and increased levels of staff commitment to, and enthusiasm for, their work.⁴

In the context of increased demand, more complex cases, rising costs and dwindling resources, social services procurement is becoming a value-based commissioning activity to support individual choice and control.⁵

EY estimates up to \$100 billion of services will need to be delivered in this new 'public private production system'.⁶ This transition is creating unprecedented challenges in terms of workforce planning and ensuring equitable and efficient service markets.

The inherent characteristics of PSMs can help government and the market meet the demands of service consumers, and achieve the desired outcomes of user choice and control, efficient, productive and innovative service delivery, and social and economic 'return on investment' for taxpayers.

PSMs are well placed to support community resilience where public services cannot be delivered due to market or other service provision failure. Co-operatives and mutuals have many advantages in delivering public services in areas that are not well serviced because they are small, remote, complex or specialised. Co-operatives and mutuals have proven particularly useful when:

- Services are too expensive for government or market forces to provide
- There are low or variable profits
- Specialised service is needed
- User input is required in service design and delivery.

This White Paper states that co-operatives and mutuals should be playing an increasingly significant role in the social services sector. It details their key benefits including:

¹ Please note the terms 'mutual', 'co-operative' and 'friendly society' and PSM are used interchangeably throughout this response.

² The Cabinet Office and Hon. F. Maude MP, "Cabinet Office mutuals reach century success", 2014, www.gov.uk/government/news/cabinet-office-mutuals-reach-century-success

³ The Cabinet Office and Hon. F. Maude MP, 2014

⁴ Mutuals Taskforce, *Public Service Mutuals: The Next Steps*. Cabinet Office, 2012.

⁵ Ernst & Young, "Creating Public Value: Transforming Australia's Social Services," Ernst & Young, Australia, 2014

⁶ Estimate based on reported 2014-15 federal government social security and welfare expenditure of \$146 billion.

- Increasing organisational diversity in public service markets
- Harnessing the professionalism of employees and unleashing entrepreneurialism
- Increasing consumer choice and control
- Stimulating innovation.

A range of activities will be required to support the development of PSMs. The White Paper acknowledges that many communities will need a small amount of external

assistance with technical advice and business models to establish sustainable PSMs. Some will require access to start-up capital while most will need assistance with training, capacity building and expert advice.

The White Paper demonstrates that providing the support required to establish new mutuals will prove highly effective with a huge diversity of consumer outcomes. The opportunities for the co-operative and mutual sector itself, in the new context of public service provision, are unprecedented.

Back to the Future?

Edited excerpts from an article published by the Ludwig von Mises Institute.⁷

In Britain the friendly societies were the most important providers of social welfare during the nineteenth and early twentieth centuries.⁸ By the 1920s, at least one out of every three males in the US was a member of a mutual-aid society.

'Friendlies' served social, educational, and economic functions. They were an association of individuals who pledged to help each other when the occasion arose. Assistance was not a matter of largesse but of entitlement, earned by the regular contributions paid by every member and justified by the obligation to do the same for other members if hardship came their way.

By the early years of the twentieth century the friendly societies were offering benefits such as: sick pay, medical care, funeral insurance and financial and practical support for widows and orphans. Medical services were usually provided by the lodge or branch doctor and most large towns also had a medical institute. The societies also provided a network of support to enable members to travel in search of work.

The prevailing ethic in the earliest clubs was that everyone should have an equal say in common decisions. The societies prided themselves on the absence of barriers to the advancement of any member.

⁷ D Green, "Medical Care through Mutual Aid: The friendly Societies of Great Britain, in D.T. Beito, P. Gordon and A. Taborrok (eds), "The Voluntary City: Choice, Community and Civil Society, Ann Arbor, 2002, p. 205.

⁸ Friendly society is an early name for a mutual or co-operative form of organisation.

3. Introduction

This White Paper calls for the recognition and realisation of a third way for delivering public services based on an expanding role for co-operatives and mutuals. We call the mutual organisations delivering these services ‘Public Service Mutuals’ or ‘PSMs’.

The context for delivering public services in Australia is fundamentally changing and radical reform will be required to address the immediate and emerging challenges. Budget

and wider fiscal challenges mean the role of governments in funding and delivering public services is no longer a given. The outsourcing of public services, including sale and transfer of ownership, creates new opportunities for co-operatives and mutuals in Australia. As part of this reform, this White Paper calls for the inclusion of PSMs as a third way for the delivery of public services.

What is a Public Service Mutual?

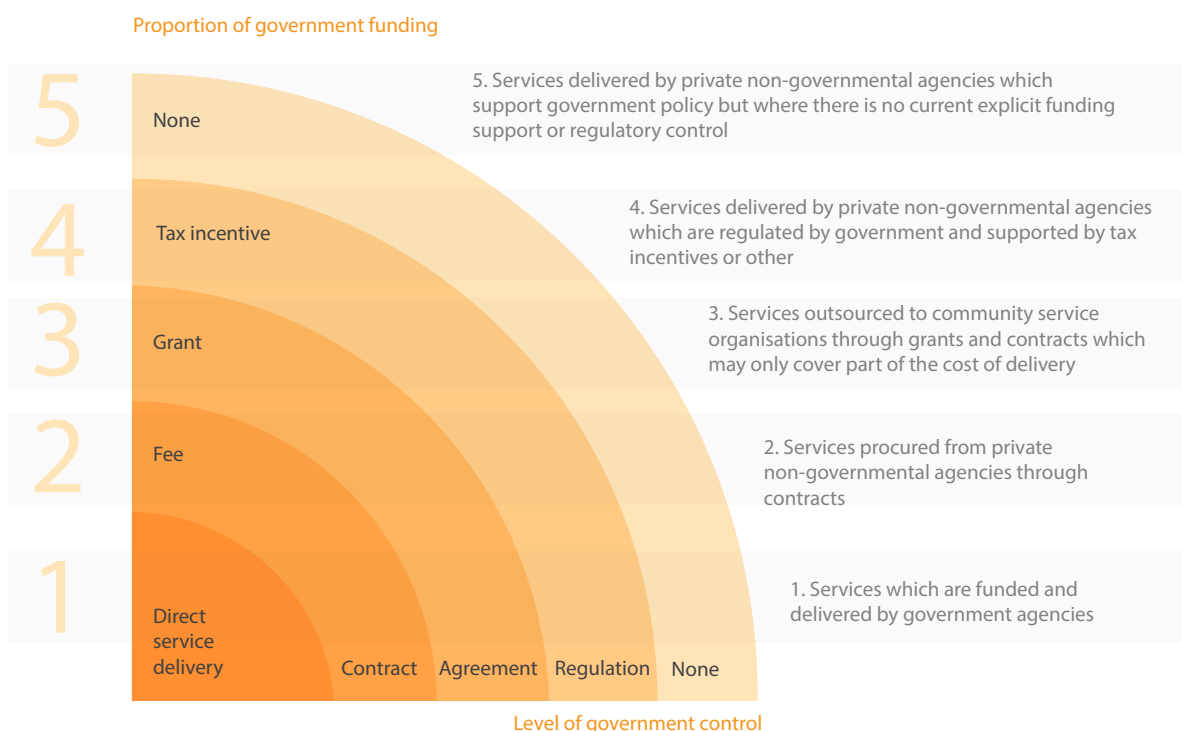
A Public Service Mutual or PSM is *“an organisation which wholly or in part delivers public services through a co-operative or mutual governance structure, whereby members of the organisation are able to be involved in decision-making, and benefit from its activities, including benefits emanating from the reinvestment of surpluses.”*

In Australia we have categorised PSMs into three main groups – consumer, producer or employee and enterprise PSMs. They can also be a combination of all three.⁹

Public Services

Public services are defined as the services, which support public policy, ranging from those funded and delivered by government agencies to services where there is no explicit government funding or control. They include services procured by government from private non-government organisations through contracts or supported through grant agreements and also include the use of tax incentives and regulatory mechanisms. This range is depicted in Figure 1. Public services are increasingly delivered through market mechanisms such as the National Disability Insurance Scheme where funding is controlled by service consumers which facilitates client directed care.

Figure 1. Scope of definition of ‘public services’ as delivered through PSMs



⁹ This definition is discussed in Section 2.2. of the Net Balance Research Institute Green Paper, “Public Service Mutuals; The case for a Third-way for delivering public services in Australia,” June 2014

3.1. The rationale for mutuals delivering public services

For many decades Australia has benefitted from a pluralistic approach where public service delivery by government is complemented and supplemented by services delivered by for-profit businesses, not-for-profit organisations, and co-operatives and mutuals. More recently, the provision of public services outside of government has become polarised with

emphasis on the roles for for-profit organisations (privatising) and community service organisations (outsourcing). However, Australian co-operatives and mutuals have a long history of delivering public services and continue to be an important participant in public service markets.

The Role of PSMs in Public Services

There are three main types of co-operatives and mutuals: consumer, producer (employee) and enterprise; with hybrids of these three types also occurring. Each has much to offer the social services sector.

Consumer Co-operatives

Consumer or community-owned co-operatives work best where people with a common sense of purpose collaborate towards agreed goals. Consumer co-operatives can be ideal for disadvantaged groups where there is the energy, commitment and expertise in their community to tackle problems.

Consumer co-operatives are built on the huge range of support groups and organisations in public services that have been developed by consumers throughout Australia. Consumer co-operatives recognise the importance of personal identity in public services. People want to identify with the support they receive and they want it to be culturally relevant.

Co-operatives provide consumers with enhanced networks, increased confidence and skills. They are an outstanding method of developing the capacity of their members to participate in the broader community.

Consumer co-operatives have demonstrated success and have enormous further potential with some of Australia's most disadvantaged groups including Indigenous groups, small rural communities, people from culturally and linguistically diverse (CALD) backgrounds, people with disability and their families and older Australians in need of care and their carers. If given the right support, many more of these groups will collaborate to find their own solutions to the issues they face.

Examples of community-owned co-operatives are Dandenong and District Aborigines Co-operative Ltd, and patient owned, National Health Co-operative. Customer owned banks like **bankmecu** and member owned mutuals like NRMA are also forms of consumer co-operatives.¹⁰

Producer Co-operatives

These co-operatives work best with employees who share a common goal and have the skills to co-operate. They provide staff with autonomy and the ability to make judgements as to how to provide the best service at the local level. They free staff to act entrepreneurially and to innovate.

Successful public services are characterised by strong relationships and personalised services. Employee co-operatives and employee governed businesses have proven highly effective for working with people with complex needs, where consistency of personnel is required, and where services are focused on being empowering. Staff based co-operatives could prove particularly effective in providing care services for people with disabilities or ageing Australians, and also in rural, CALD and Indigenous areas where staff attraction and retention has proven problematic.

Examples are Nundah Community Enterprise Co-operative and Co-operative Home Care.¹¹

Enterprise Co-operatives

Governments throughout Australia are seeking larger, more efficient public service organisations with a single point of entry for a wide range of complex social problems. Many smaller, yet highly effective social support organisations may not survive competing against these larger organisations with economies of scale.

In many jurisdictions this means larger organisations are replacing smaller local groups with long held relationships, local knowledge and specialist expertise. Many local people and organisations are becoming concerned over what is being lost in these reforms and industry restructuring.

Enterprise co-operatives can support smaller local providers to compete by enabling them to share corporate functions including bulk purchasing, accounting, HR, marketing, client software and OH&S services. Enterprise co-operatives can assist smaller and specialist organisations to increase productivity and market power whilst retaining local input and local jobs.

Community Child Care Co-operative Ltd and Common Equity Housing Limited are examples of enterprise co-operatives.¹²

¹⁰ For more information refer to the Summary of Case Studies Table in Appendix C

¹¹ See Appendix C

¹² See Appendix C

Emerging challenges for public services include increased demand created by an ageing population and community expectations to provide opportunities for all segments of the population, especially people with disabilities and people who are most disadvantaged. There are intractable or 'wicked' social problems that require new approaches including obesity, Indigenous disadvantage, affordable housing and homelessness, and there are rising expectations in terms of the quality and accessibility of public services, and a preference to have greater choice and control over services. This has changed the focus of public policy to empower the consumers of public services to direct how services are provided to them. Implementing consumer directed policies such as the National Disability Insurance Scheme (NDIS) is as challenging for government as it is for non-government service providers.

In Australia, like many jurisdictions, governments have recognised their limitations and are withdrawing from directly delivering public services in favour of public private partnerships (PPPs) and devolving service delivery to non-governmental organisations. However these options also have known limitations and there is an increasing emphasis on public service innovation. The most common risks for the failure of public service markets relate to insufficient available information for consumers to make optimal decisions, consumers being priced out of the market or not being able to access services because they are unprofitable, monopoly service provision, and increased costs or lower quality services to achieve profits. Community service organisations seek to address some of these failures but also face challenges including their inability to secure ongoing and reliable funding, limiting access to specific parts of the community, and paternalistic governance structures where service recipients do not have a voice.

Addressing Complex or Wicked Problems

Employee co-operatives provide a strong foundation for addressing intransigent or 'wicked' problems. Complex social service problems require approaches that engage the patience, expertise and commitment to learning on the part of the service provider. Often the service provided is cost intensive with low profit margins. Complex problems require:

- Holistic responses
- Local collaboration and communication
- Autonomy to act combined with transparent accountability
- User and expert multidisciplinary input
- Flexible, incremental approaches with review
- Information sharing and knowledge development
- The development of relationships and trust
- An empowerment approach modelled by staff and delivered to consumers.

These are also the key features of staff co-operatives that engage employees' hearts and minds. Public service staff are attracted to 'make a difference' in their work. Employee co-operatives tap into the commitment and goal orientation required to address complex problems.

This can be seen in Co-operative Home Care, a new worker co-operative that is responding in an innovative way to the devolution of home support services to the market and the increased client demand for high quality, consistent and culturally sensitive care. The enterprise is committed to best practice working conditions that support the integrity of service provision and the capacity of the employees, who are also the owners, to deliver the best care.



3.2. A third way for delivering public services

This White Paper provides findings and recommendations to support a viable alternative for delivering public services, a third way where co-operatives and mutuals play an expanded role using their inherent characteristics to generate comparative advantage over other methods of delivering public services and the potential to address the failures associated with government, for-profit and community service provision.

The process of developing recommendations for the White Paper involved collation of evidence in the Green Paper and

a program of consultation. The Green Paper was released for consultation in June 2014. Feedback was received through workshops (which occurred during the development of the Green Paper), an online discussion group and a survey. Approximately 300 stakeholders were engaged on the Green Paper.

Co-operative Housing

Housing co-operatives are the quiet achievers in the social housing sector. They have been highly successful in Australia and should be seen as a priority for expansion to assist in addressing the issues of affordability, homelessness and community engagement.

Co-operative housing can either be rental housing or based on a wide range of co-operative ownership models. In general, co-operative housing provides long term, secure and affordable housing for people on low to moderate incomes. Democratically run, a housing co-operative is managed by its residents who are responsible for managing tenancy

agreements and maintaining the housing. Co-operatives have formed for lower income households in various locations and around cohorts of particular social disadvantage including new arrivals, women escaping domestic violence, disability and aged pensioners.

In Victoria, Common Equity Housing Limited is a leading provider of co-operative managed housing, providing affordable housing to more than 2200 Victorian households. CEHL has developed expertise in assisting member co-operatives to function well and in developing appropriate housing for a diverse range of consumer groups. CEHL has won numerous awards for its development of low cost, sustainable and for-purpose housing.



4. Summary of findings from the Green Paper

The recommendations in this White Paper build on the Green Paper, which explored how co-operative and mutual models can be used to address particular problems, emerging issues or market need. The consultation process found, for instance, how innovation through consumer, employee or enterprise ownership structures can help address issues in areas such as disability, aged care, affordable housing and employment services. The findings of the Green Paper and consultation process are summarised in this section.

The full potential and distinctive contribution of co-operatives and mutuals delivering public services has yet to be recognised in Australia. This is largely due to lack of awareness of co-operative and mutual models and the unintended institutional bias favouring privately owned and traditional not-for-profit organisations. Despite this, there are many co-operatives and mutuals delivering public services. Many, like friendly societies are long established and pre-date government welfare. These organisations take different forms and operate across a range of service areas. This diversity is an essential element for co-operatives and mutuals to offer a viable third way to approach public service delivery.

The inherent characteristics of co-operatives and mutuals that generate comparative advantage when delivering services relates to their autonomy and independence, the control and decision-making by members, member economic participation, reinvestment of profits, and co-operation. These characteristics deliver four main benefits:

1. Increase organisational diversity in public service markets

- PSMs can address government, voluntary and market failure, such as information asymmetry, to better meet the needs of consumers. PSMs can help small and medium sized service providers collaborate and operate more efficiently in public service markets.

2. Harness the ethos and professionalism of public service employees and unleash their entrepreneurialism

- employee owned organisations 'spun out' of existing government organisations are an alternative to privatising and outsourcing services to markets. Employee owned organisations can play a role in developing a quality, innovative public service workforce.

3. Increase consumer choice and control

- by helping individuals and communities to formulate their own responses to problems in client directed care markets, such as the National Disability Insurance Scheme. PSMs develop community resilience and empowerment through community owned co-operatives. They develop civil society.

4. Stimulate public service innovation

- to focus on the needs of service consumers and public service staff. Existing member owned organisations such as motoring and health mutuals can transform their business models to focus on evolving member needs. As public service markets expand and become more competitive, PSMs can help facilitate collaboration between existing providers to achieve operating efficiencies and increase their market power.

Public Service Mutuals have the autonomy of the private sector, a social purpose comparable to a public sector ethos and self-determination. These characteristics enable PSMs to address some limitations of public service delivery by government, for-profits and community service providers.

The Green Paper presented a range of case studies of Australian and international co-operatives and mutuals. These provide insights into how co-operatives and mutuals have evolved to address particular needs and their diverse structures (see Appendix C). The Green Paper also presented a system level case study to illustrate how an expanded role for PSMs could support the implementation of the National Disability Insurance Scheme (NDIS).

For more information refer to the 'Green Paper, Public Service Mutuals: The case for a Third Way for delivering public services in Australia', June 2014

PSMs and Disability Services

The commitment required to underpin successful disability consumer co-operatives is demonstrated by the huge diversity of advocacy and support services in the sector, many of which were created and/or driven by people with disability and their families.

Purchasing or service delivery consumer co-operatives would be particularly effective for rural, CALD and Indigenous groups and for people that have common equipment, support or treatment needs. Co-operatives would address a number of issues confronting the roll-out of the NDIS; they would help maximise the ability to attract, retain and vet services and providers.

Staff based co-operatives align well with many of the key NDIS requirements and can create a strong foundation for effective disability service delivery. They could prove particularly effective in areas where staff attraction and retention has proven problematic. The NDIS trial site in Barkly NT could prove an ideal pilot area for a disability staff co-operative.

Many smaller yet highly effective disability support organisations may not survive in the emerging NDIS markets competing against larger organisations. Enterprise co-operatives can support smaller disability providers to compete through collaboration.

Nundah is an example of a successful disability worker co-operative. It has a track record of sustainable employment for its members, the majority of whom were long-term unemployed before starting the co-operative. 80 per cent of the original members have been employed by the co-op for more than a decade. The members with disability are employed on award wages, have job security and participate in the mainstream workforce - a number of them having substantially reduced their reliance on welfare income subsidies.



PSMs and Healthy Aging

Governments are concerned about the potential costs of an ageing population. Older people want to stay out of residential care and live in their communities for as long as possible.

Consumer expectations are rising and traditional block funding to providers is receding. Funding is rapidly shifting towards consumer directed approaches and contestable markets mean consumers will choose their services on the basis of customer service and value for money.

In this rapidly changing environment, aged services will have to find ways of being more competitive, productive and efficient. Mutuals have demonstrated they can play a key role in the innovation now essential to success. This is because they:

- Provide a source of capital for development of existing and new services
- Build capacity for individuals and communities and support 'ageing well'

- Achieve higher levels of consumer and staff engagement in service delivery
- Can deliver more effective services at a lower cost
- Tap into the resources of time and skill that older volunteers want to contribute.

Older people are already the backbone of volunteering in Australia. Waverton Hub is an example of this volunteering or mutual ethic at work. Waverton is a new mutual organisation based on the US Beacon Hill model where members are helping each other to stay in their own homes, be healthy and create a market for local service provision.¹³ Local communities of support like Waverton can support people to remain living in the community, and outside of residential care, for many years longer.



PSMs and Health Services

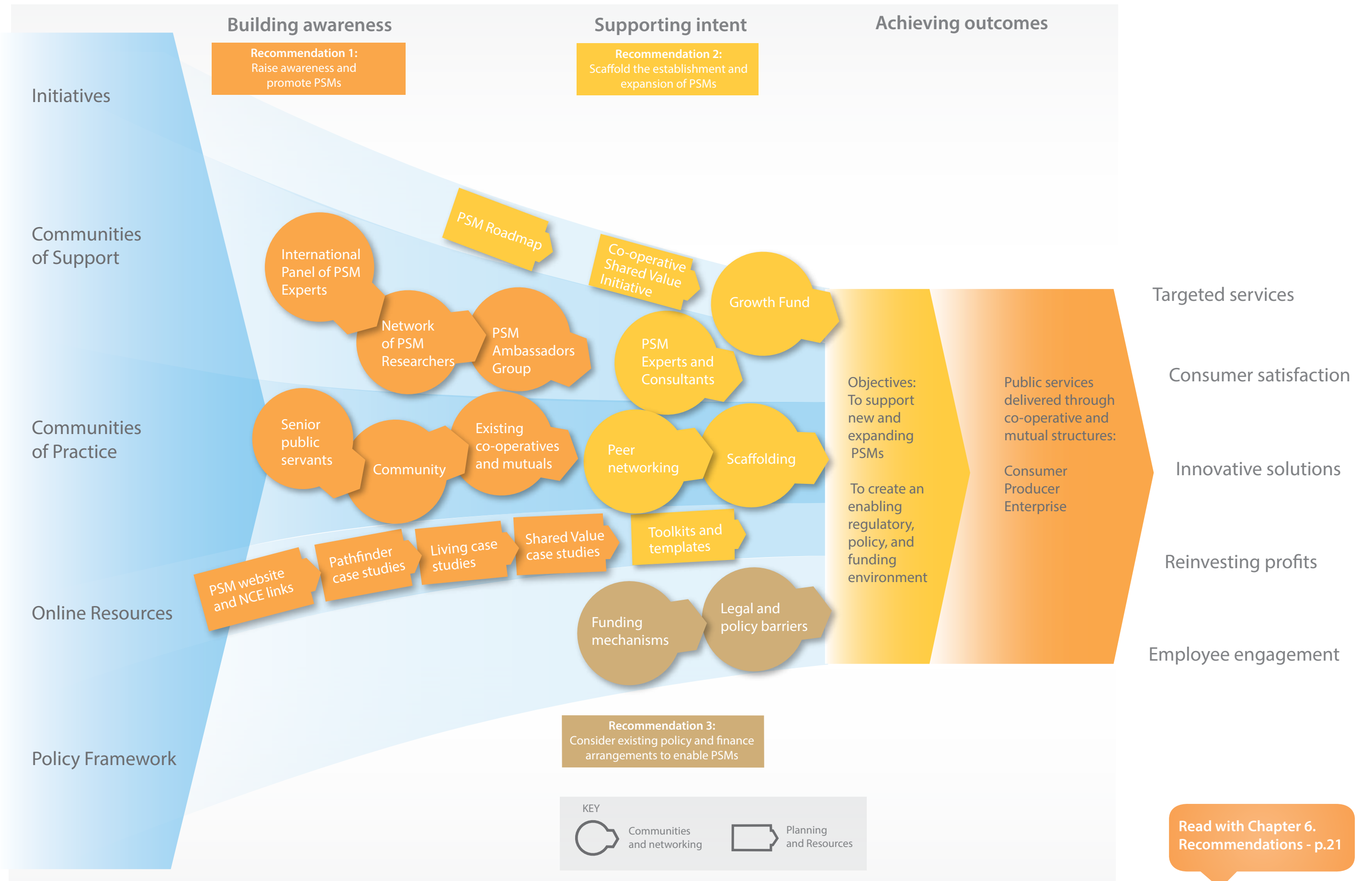
The UK Government argues that it is the benefits delivered by staff co-operatives that explain many of the recent improvements demonstrated in the UK health system. New health and social service mutuals in the UK are consistently demonstrating higher productivity and higher consumer and employee satisfaction in services that have moved to the mutual model.¹⁴

PSMs in the UK currently deliver approximately one billion pounds of health services. Many of the 40 health organisations that have become mutuals are staff run co-operatives. These mutuals have an average staff size of around 500 and average turnover of around £20m. Examples of success include the Hull Health Care Partnership that identified £600,000 savings a year while raising user satisfaction by 7 per cent and a staff co-operative in Surrey that boosted productivity by 41 per cent on the stroke ward in Epsom General Hospital.

Similar success has been demonstrated in Australia by consumer owned health practice, the National Health Co-operative (NHC). NHC was internationally recognised when it was selected as the only Australian health services case study presented at the International Co-operative Summit in 2014. NHC's success is demonstrated by its growth in market share of the ACT primary health care sector to 7 per cent of the population since 2010. NHC was started by community members to provide affordable and accessible medical and health services to the local community where there was a doctor shortage. Their membership is growing at a rate of more than 10 per cent per quarter.



¹⁴ J Le Grand, "The public service mutual: A revolution in the making?" *Making it Mutual: The ownership revolution that Britain needs*, London: ResPublica, 2013.



5. Opportunities to grow Public Service Mutuals

The Green Paper identified a range of opportunities for expanding the role of Public Service Mutuals, which were supported by the feedback from the consultation. These opportunities include the establishment of new co-operatives and mutuals, expanding existing co-operatives and mutuals, and extending the activities of co-operatives and mutuals to include public services to create shared value - the co-creation of commercial and social value.

5.1 Establishing new Public Service Mutuals

Federal and state governments' intentions to privatise and outsource public services provides an opportunity for **'spinning out'** staff owned public service mutuals as an alternative third way to for-profit businesses and community service organisations. These opportunities include some of the large national government agencies identified in the National Commission of Audit, along with teams of specialists and carers still operating in state and territory government agencies, such as the Large Residential Centres, Group Homes, Specialist Supported Living, Home Care Services and Aboriginal Home Care services identified in New South Wales.¹⁵ This approach has been particularly successful in the United Kingdom with the establishment of over 100 employee-owned PSMs since 2009 that now employ over 35,000 people generating more than 3000 new jobs and delivering over \$1.5 billion of public services.¹⁶

There are also opportunities for for-profit businesses and community service organisations to **'spin off'** teams of employees into staff owned PSMs. This may be of particular relevance to community service organisations that have invested in the establishment of social enterprises, are undergoing restructuring, or are considering the closure of non-core services.

Existing public service providers facing both the challenges and opportunities of the new public service markets may decide to operate collaboratively and **'spin together'** an enterprise owned PSM. Enterprise Co-operatives can support smaller local providers to compete by enabling them to share corporate functions including bulk purchasing, accounting, human resources, marketing, client software and occupational, health and safety services. Enterprise co-operatives can assist smaller and specialist organisations to increase productivity and market power whilst retaining local input and local jobs.

The emphasis on client directed care and consumer choice and control will be a stimulus for individuals and communities

to create or **'spin up'** new consumer owned PSMs, as will government policies aimed at community empowerment.

Individual carers may also decide to work collectively and create or 'spin up' an employee-owned PSM to address community needs. This approach to growing a quality care workforce will be of increasing importance as public service markets such as the National Disability Insurance Scheme (NDIS) and aged care expand.

5.2 Expanding the role of existing Public Service Mutuals

There is potential to expand the activities of existing Public Service Mutuals from the small local co-operative service providers operating under a government grant or contract to the larger national mutual organisations operating in regulated public service markets like health insurance. This expansion can take the form of organic incremental growth or through the process of emulation and replication. Alternatively, proactive strategies can be adopted such as social franchising and development strategies.

5.3 Existing co-operatives and mutuals creating shared value

A significant number of existing co-operatives and mutuals have the potential to extend their activities to include public service provision and thus create shared value. A number of large Australian co-operatives and mutuals have utilised insights of their members and their accumulated capital to innovate and create public services that address social problems.

Large membership organisations, such as those offering motoring services and providing health insurance, have established aged care facilities and other innovations to help their members and the wider public access affordable and appropriate aged care e.g. NRMA's Living Well Navigator¹⁷ and Emergency Home Assist.¹⁸ Customer owned banks also have the potential to address 'wicked' social problems such as financial exclusion. The ageing population and increasing demand for independent and supported living may provide considerable opportunity for existing co-operatives and mutuals to establish or expand aged care services.

¹⁵ Public Service Association of NSW (PSA), "News Archives", 2014, <http://psa.asn.au/category/other-news/departments/adhc/page/4/>

¹⁶ The Cabinet Office and Hon. F. Maude MP, 2014

¹⁷ NRMA, "Living Well Navigator", 2014, <http://www.mynrma.com.au/lwn.htm>

¹⁸ NRMA, "Emergency Home Assist", 2014, <http://www.mynrma.com.au/emergency-home-assist.htm>

5.4 Transforming organising models

The benefits and comparative advantage of Public Service Mutuals may stimulate businesses and community service organisations to transform their business model. This may be particularly relevant in consumer directed care markets where community service organisations or businesses seek to retain clients by offering them ownership stakes and a democratic mechanism for control. Similarly, community service sector advocacy and representative organisations may decide to transform themselves into a consumer co-operative in order to purchase services which they can design and where they can achieve market power and buy services which offer greater value for money.

5.5 Scaffolding the development and growth of Public Service Mutuals

The Green Paper identified a range of activities required to 'scaffold'¹⁹ the development and growth of PSMs and realise the opportunities. The scaffolding activities include the

following mechanisms which have been used to formulate the White Paper recommendations:

- Increase awareness of PSMs and co-operative and mutual models
- Provide training, capacity building and expert advice for the creation and expansion of PSMs
- Create an enabling legal, regulatory and policy environment for the creation and expansion of PSMs
- Provide access to start up and working capital
- Develop an ecosystem for existing co-operatives and mutuals to help create PSMs.

These activities require the involvement of a range of stakeholders including the co-operative and mutual sector, government, not-for-profit organisations and intermediary agencies.

¹⁹ Scaffolding refers to support structures to enable PSMs to develop effectively and successfully. It includes learning and development which seeks to maximise self-initiative and provide additional support through collaborative mechanisms such as mentoring, peer support and use of grounded expert knowledge.

The role of existing co-operatives and mutuals

The 2014-5 Federal Budget identified the need for cost saving measures in many areas of public service expenditure and the National Commission of Audit made recommendations about outsourcing some public services. The long history and track record of co-operatives and mutuals delivering social services in Australia is a compelling option when looking for innovative ways to deliver services more efficiently and build individual and community capacity.

Since the second half of the nineteenth Century Australians have been pioneering mutuals and friendly societies. Today's 'modern mutuals' have retained the philosophy of mutual social support. Co-operatives and mutuals are primary providers in key public service markets such as health insurance and they make significant contributions to service delivery where government procures services or provides support through grants. Mutuals also have a rich history of service innovation. Mutuals return all profits to members through service improvements, new products and affordability. They provide solutions in areas of public service delivery that are challenging for governments.

HCF is the largest non-profit private health insurer registered under the Private Health Insurance Act. However, HCF does more than provide health insurance, they also care for their 1.6 million members through an innovative range of health management programs and services. These are focused on what has been termed the 'Triple Aim' for health care: improving the health of all HCF members; improving the health care experience of each individual HCF member; and improving overall affordability as measured by the total cost.

Australian Unity's heritage dates back to 1840. Since then, it has been continually transforming services to members and the community as their needs have changed. For example, about eight years ago it launched a preventative health and chronic disease management business, Remedy Healthcare, which intervenes when members are hospitalised and provides evidence based (free to the member) coaching and support to assist the person to manage their disease and prevent future hospitalisations. The result is better health for the member, and reduced claims inflation for the fund as a whole. Remedy's services extend to rehabilitation in the home and are also provided to many other health funds and their members.

Australian mutuals use the insights of their members to develop new services that go beyond their historical focus.

Large membership organisations, such as those offering motoring services and providing health insurance, have established aged care services and other innovations to help their members and wider public access affordable and appropriate care.

The Royal Automobile Club of WA (RAC) formed in 1905 to represent the interests of road users, acquired retirement and aged care provider, the St Ives Group which operates throughout metropolitan and regional Western Australia, New South Wales, Queensland, Victoria, the Northern Territory and the ACT. Being consumer-directed the RAC responds to the changing needs and concerns of its members, in this case the concerns about aging well and independently.

The National Roads and Motorists' Association (NRMA) works with its 2.4 million members and with community organisations, such as the Council on the Ageing (COTA), to develop new products and services to meet their evolving needs. Health, wellbeing and ageing were the concerns raised by older members. In response, it has developed the Living Well Navigator digital platform providing information on independent living, health and wellbeing. It will offer a rating system for home, retirement villages and residential aged care services to address the information asymmetry experienced by many older Australians in accessing services.

Credit Unions and customer owned banks have a long track record of serving communities and these financial mutuals also have the potential to address 'wicked' social problems such as financial exclusion. When 34 year old Fitzroy and Carlton Community Co-operative merged with **bankmecu** in 2013, the disadvantaged communities it serves could continue to access affordable savings and loans services as an alternative to risky loans and payday lenders.

In regional Australia many communities have maintained their viability and resilience because of long established retail co-operatives. Indeed retail co-operatives, such as the Barossa Co-op, are the engine of the local economy. They generate social capital to create vibrant and sustainable communities. The McClure review of Australia's social welfare system references the role co-operatives and mutuals can play in enhancing regional areas.

"Rather than seek to create share value for shareholders, mutuals like the NRMA aim to deliver shared value for its members and the community, this means the profits of mutuals are invested back into the community and our industry has historically done this very well in Australia,"
Tony Stuart, Group CEO, NRMA

6. Recommendations

This section responds to the findings of the Green Paper and consultation, presenting three key recommendations and actions to support and guide delivery. The recommendations aim to support the growth of public service delivery through co-operative and mutual arrangements.

Recommendations to support the growth of Public Service Mutuals

1

Promoting a third way for delivering public services

Increase awareness of co-operative and mutual models and promote PSMs as a third way for delivering public services

2

Scaffolding to realise the potential of PSMs

Support the development and growth of Public Service Mutuals with scaffolding activities including capacity building, expert advice, mentorship and guidance

3

Creating an enabling environment for the growth of PSMs

Develop a coalition of committed stakeholders including mutuals and co-operatives, subject experts and government to consider any potential barriers to establishing Public Service Mutuals including any legal, regulatory, policy or funding barriers, and report on the findings

6.1 Promoting a third way for delivering public services

Finding: Public Service Mutuals have a legitimate and much needed role to play in the delivery of public services, however they are largely unrecognised. They are formed to meet the needs of members. In doing so they may address the limitations of government and market and community service sectors.

The Australian government has recognised the limitations of service delivery by government agencies. Combined with budgetary pressures, this is resulting in more delivery of public services being transferred to non-government organisations. Traditional divestment strategies have polarised in terms of privatising to profit maximising organisations and outsourcing to community service organisations.

Governments are required to have a clear accountability system, where there is a distinct division between those who control the agency, paid staff, and the users or clients, which combine to restrict the scope and nature of their activities.²⁰ Limitations can include missing markets or monopolising service provision leading to reduced service quality, perverse incentives in justifying costs, and short-term focus of political cycle on median voters at the expense of service recipients. Bureaucracies are best-suited to managing problems with well-defined boundaries (i.e. 'tame' problems) rather than ambiguous, complex issues that may require experimental and innovative approaches, and holistic thinking.²¹

Market delivery of public services is increasing through an ongoing process of outsourcing, privatisation and decentralisation.²² This is driven by the perceived weaknesses of traditional bureaucratic models of public administration as costly, ineffective and unresponsive to consumer needs.²³ The belief that delivering services through competitive market mechanisms would achieve better value for money²⁴ ignores where markets fail to distribute goods and services in an efficient and equitable way. The focus on increasing returns can lead to high costs for consumers and servicing more profitable users at the expense of other consumers.

The **community service sector** is recognised as having primary responsibility for addressing the problems, which businesses and government cannot fully resolve.²⁵ Many

community service 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.^{26,27} The challenges of community service organisations in delivering public services include insufficient resources leading to increased potential for lower quality services, susceptibility to focus on the interest areas of donors, and tendency to take a paternalistic approach to service delivery.²⁸

A high level and simplified analysis of these failures suggests that:

- **For-profit organisations operate where there are 'tame' problems** and potential to achieve efficiencies and market share to generate profits. Government intervenes through regulation if there is a risk of super-normal profits or poor quality, and through incentives if there are missing markets.
- **Community service sector providers operate where there are complex and 'wicked' problems** and use a range of resources to deliver services where there is market or government failure. Government intervenes through regulation to ensure that services are delivered with a minimum quality and subsidises services if there are missing markets.

Co-operatives and mutuals are able to address some of these limitations through their inherent characteristics:

- Democratic governance
- Autonomy and independence of operation
- Member economic contributions
- Re-invested profits
- Employee productivity and wellbeing
- Long-term value creation
- Co-operation

²⁰ D Billis & H Glennerster, "Human Services and the Voluntary Sector: Towards a Theory of Comparative Advantage," 1998, 79–98.

²¹ Australian Public Service Commission, *Tackling Wicked Problems: A Public Policy Perspective*. Routledge, 2007.

²² J Johnston, "The New Public Management in Australia," in *Administrative Theory & Praxis*, vol. 22, 2000, 345–368.

²³ R Muir & I Parker, "Many to many: How the relational state will transform public services," in *Institute of Public Policy Research*, 2014, <http://www.ippr.org/images/media/files/publication/2014/02/Many-to-many_Feb2014_11865.pdf>.

²⁴ K Brown, N Ryan & R Parker, "Delivery in the Public Sector: Commercialising Government Services," in *Journal of Public Sector Management*, vol. 13, 2000, 206–221.

²⁵ L Parker, "Non-Profit Prophets: Strategy in Non-Commercial Organizations," in *Australian CPA*, 1998, 50–52.

²⁶ Net Balance Research Institute, *The Role for Co-operatives and Mutuals in Delivering Australian Public Services*. 2013

²⁷ Deloitte, *Survey into the Not for Profit Sector: 2012 - Fundraising*, 2012, p. 15.

²⁸ D Billis & H Glennerster, 1998, 79–98.

The overarching comparative advantage is member control which generates the scale and nature of the benefits. High levels of engagement between consumers and employees is associated with higher levels of benefit, including better specified services, increased levels of satisfaction and increased social capital²⁹ – essential in delivering cost effective and consumer directed public services.³⁰ Higher levels of benefit are also achieved by the reinvestment of profits.

Recommendation 1: Increase awareness of co-operative and mutual models and promote PSMs as a third way for delivering public services.

The Business Council of Co-operatives and Mutuals (BCCM) could initiate and oversee a program of information and advocacy to respond to the lack of awareness of co-operative and mutual models and to promote the benefits of Public Service Mutuals.

The national Public Service Mutuals Task Force could be retained and expanded to co-ordinate and oversee the implementation of the recommendations.

The BCCM could engage all relevant stakeholders to support the program of awareness raising, and harness resources from partner organisations, such as Employee Ownership Australia and New Zealand (EOA).

The program could aim to inform all relevant groups and interested parties including government, the co-operative and mutual sector, community service organisations, professional services and training providers.

Detailed actions

1. Develop a Public Service Mutuals Information Website Provide accessible resources that demonstrate the benefits and business case of PSMs including:

- Pathfinder case studies of ‘exemplar’ co-operatives and mutuals that demonstrate their comparative advantage and can be used to raise awareness and support emulation.
- Living case studies which track the establishment of new PSMs, the expansion of existing PSMs, and the new public service activities of other co-operatives and mutuals.
- Shared value case studies of the commercial and social benefits created by co-operatives and mutuals.

The Website could link to the proposed National Centre for Excellence for Civil Society.

Funding will be required to support the development of case studies. This may be available through transition and development funds by state governments and the National Disability Insurance Agency (NDIA).

2. Set up Stakeholder Networks to build sector knowledge

- A PSM Researcher Network to undertake academic and applied research that will investigate and seek to verify the comparative advantage of Public Service Mutuals.
- An International PSM Experts Panel to capture learning from other jurisdictions including evidence of the performance of Public Service Mutuals.
- A PSM Ambassadors Program modelled on the UK Cabinet Office Mutuals Ambassadors Programme to provide fledgling and existing mutuals with the vital help of co-operative and mutual sector leaders and supporters of PSMs. The Ambassadors will promote the take up of PSMs in areas with the greatest potential such as where government has identified services for closure, privatisation or outsourcing.
- PSM Communities of Interest to connect and engage:
 - Senior public servants across all tiers of government to ensure co-operatives and mutuals are included in relevant privatising and commissioning activities.
 - Communities to raise awareness of the potential for PSMs to address community problems.
 - Existing co-operatives and mutuals considering a shared value strategy.

²⁶ Net Balance Research Institute, 2013

²⁷ Deloitte, 2012, p. 15.

²⁸ D Billis & H Glennerster, 1998, 79–98.

²⁹ Social capital is the expected collective or economic benefits derived from the co-operation between individuals and groups.

³⁰ Tuominen, T, Tuominen O, Tuominen, H & Jussila, I., “Social Capital: A source of sustained competitive advantage for consumer cooperatives” *International Business Research*, Vol 6, No. 12, 2013.

6.2 Scaffolding to realise the potential of PSMs

Finding: Specific support is required to assist the growth and development of Public Service Mutuals to deliver Australian public services. This includes capacity building, start up and working capital and mentoring and guidance.

A key learning from the United Kingdom is the link between programs of support for the establishment of Public Service Mutuals and the growth and expansion of the sector. Leadership from government with seed funding and regulation alongside collaborations with co-operative and mutual peak bodies and PSM experts providing information, guidance and case studies, were critical factors in the growth of PSMs in the United Kingdom.³¹

Capacity building and mentoring can assist the effective establishment of PSMs so that services can begin to deliver value to the community as quickly as possible.

There may also be challenges in accessing the working capital required to start up a PSM.

The Green Paper proposed a scaffolding approach based on supportive structures. Scaffolding encourages organisations to develop their own capacity using the available resources but also provides access to grounded expertise when faced with challenges. The involvement of all relevant groups including co-operatives and mutuals, government, not-for-profit organisations and enterprise development agencies is critical.

Recommendation 2: Support the development and growth of Public Service Mutuals with scaffolding activities including capacity building, expert advice, mentorship and guidance.

Activities to scaffold the development and growth of Public Service Mutuals could build on the actions to raise awareness and promote PSMs (Recommendation 1).

1. Develop Public Service Mutuals tool kits and resources

- Provide accessible resources, templates and 'how to' guides to support the development of PSMs. Tool kits for establishing PSMs could include Pathfinder case studies, model structures, legal and finance guides, and "business in a box" packages.
- Resources could be housed on the PSM Website and could link to the proposed National Centre for Excellence for Civil Society.

- The BCCM and Public Service Mutuals Task Force could engage relevant groups and interested parties to harness existing resources to be shared with the sector.

2. Establish a network of Public Service Mutual Practitioners to provide support and develop a 'community of practice'

- The 'community' could include consultants and professional advisors with expert knowledge of co-operatives and mutuals. It could engage the PSM Researchers and International Experts Panel set up under Recommendation 1.
- The PSM Ambassadors and other co-operative and mutual leaders could be engaged to provide peer networking and mentoring.
- The Community could seek to engage the resources of relevant national, state and local business development agencies such as Business Enterprise Centres and Chambers of Commerce.

3. Develop a Public Service Mutuals Road Map

- Engage all relevant stakeholders in policy areas with the greatest potential for PSMs and link interested parties to develop PSMs in specific policy areas.
- Develop specific Road Maps for opportunities such as the National Disability Insurance Scheme and involve key agencies such as the National Disability Insurance Agency.
- Prioritise funding to ensure the investment is directed to opportunities, which can test and demonstrate pathways for future PSM establishment and expansion.

4. Develop a 'Shared Value' Initiative of co-operatives and mutuals

Co-operatives and mutuals could work together to identify opportunities and new markets in public service delivery where they can co-create commercial and social value – or shared value.

- A PSM Shared Value Initiative could provide capacity building and funding support for existing co-operatives and mutuals to develop new public services.
- Ideally, such a Co-operative Shared Value Initiative would adopt a mutual model such as a 'co-operative of co-operatives' or tertiary co-operative.

³¹ *Mutuals Taskforce, Our mutual friends: Making the Case for Public Service Mutuals. in Nursing times, , 2011, , XCV.*

6.3 Creating an enabling environment for the growth of PSMs

Finding: A supportive legal, regulatory, policy environment is needed to establish Public Service Mutuals and operate them effectively. Sources of start-up and working capital and funding mechanisms that recognise the structure of co-operatives and mutuals are also required.

The growth of Public Service Mutuals in other jurisdictions, especially the United Kingdom, has been achieved through supportive legal and regulatory systems, public policies, and funding mechanisms. Successful approaches are recognised as occurring within supportive government environments, which develop enabling frameworks for co-operatives and mutuals.³² Key supports identified through a review of international practices include:

- Enabling legal and financing frameworks
- Positive approaches to commissioning and procurement
- Access to capital

The 'Right to Request' and the 'Right to Provide' policies have provided public service employees with a mandate and a mechanism to consider transitioning their services into an employee owned mutual. These policies have been complimented by a dedicated unit in the heart of central government (the Cabinet Office) and a fund to facilitate capacity building and access to professional expertise. There have also been policies encouraging communities to take over public services with similar supports.

Over the past 15 years there has been a concerted effort to update co-operative and mutual legislation and regulation and a new legal form, the Community Interest Company (CIC) was created to promote social enterprise development. It has become the preferred legal model for PSMs. Outside of government, agencies that provide advice and funding to co-operatives and mutuals and those supporting social enterprises, have further facilitated the growth of PSMs.

In the European Union, a draft resolution from the European Parliament on procurement practices has provided support for mutual arrangements through consideration of social and economic value.³³ The co-operative and mutual model is applied to approximately 550 schools in Spain. These have benefited from long-term thinking from the government, which provides land and contract periods of up to forty years. In Italy the growth in co-operatives and mutuals delivering social care, health, and employment services (from 650 in 1985 to over 7000 in 2011) has been supported by reduced rates of taxation. The regulatory framework to support this, defines their purpose is to "pursue the general interest of the

community in promoting human concerns and in the social integration of citizens".³⁴

In Australia, the advent of national co-operative legislation is an important step towards an enabling legal and regulatory environment. However, existing capacity for legal advice and regulatory support is limited. The limits in current provision may be a barrier if there is significant demand for the creation of Public Service Mutuals.

A 'legal models' Working Group of the Social Innovation, Entrepreneurship and Enterprise Alliance (SIEEA)³⁵ is considering the need for a new legal form such as a Community Interest Company and how existing legal forms can be used for social enterprise development. The report from this working group could provide insights relevant to PSMs.

Recommendation 3: Develop a coalition of committed stakeholders including mutuals and co-operatives, subject experts and government to consider any potential barriers to establishing Public Service Mutuals including legal, regulatory, policy or funding barriers, and report on the findings.

Any push to increase the role of co-operatives and mutuals in delivering public services must start with removing potential barriers to entry. This includes innovative ways to ensure the necessary start-up and working capital is available and there is sufficient government and sector support for establishing new PSMs.

There are two areas of investigation - policy and finance.

1. Investigate legal, regulatory and policy issues

This White Paper recommends the BCCM work with the Public Service Mutuals Task Force and a coalition of experts, such as Employee Ownership Australia and New Zealand and the Legal Models Working Group, to investigate any barriers and actions necessary to remove these including:

- Barriers to the roll out of the National Act (Co-operatives National Law) in all states and territories.
- The existing legal and regulatory arrangements including the rationale for legal mechanisms to facilitate employee ownership of PSMs.

³² J Bland, *Time to get serious: International lessons for developing public service mutuals*,

J Bland, *Time to get serious: International lessons for developing public service mutuals, Co-operatives UK, 2011*

³³ European Parliament, *Easier Access to Public Procurement for Small and Medium Sized Firms, 2011*.

³⁴ J Bland, 2011

³⁵ *The Social Innovation Entrepreneurship and Enterprise Alliance, "Social Enterprise Manifesto", 2014, <http://socialenterprise.org.au/>*

- The creation of a new legal form for PSMs such as the UK's Community Interest Company.
- The potential to copy or emulate policies from other jurisdictions.

Government is a key stakeholder in enabling the growth and expansion of PSMs. An investigation of barriers to entry could be undertaken in partnership with government through a broad based review. The findings of these investigations could be presented to government where there is a need for legislative or regulatory reform and policy support measures.

2. Investigate funding mechanisms

This White Paper recommends the BCCM and the Public Service Mutuels Task Force investigates access to start-up and working capital suitable for co-operative and mutual structures including:

- The potential for Co-operative Capital Units (CCUs).
- The potential to access government funded business enterprise programs and social enterprise funding, such as Social Enterprise Development and Investment Funds (SEDIF) and sector development funding such as the NDIS transition funds.
- The potential for accessing mainstream capital.

3. Establish a Public Service Mutuels Capital Growth Fund

The co-operative and mutual sector is a key stakeholder in enabling the growth and expansion of PSMs. A Capital Growth Fund could be capitalised through support from existing co-operatives and mutuals including the customer owned banking sector and member owned superannuation funds. The Fund could address the current lack of start-up or working capital grants, capital investment and revolving loans.

7. A national strategy for the growth of Public Service Mutuals

This White Paper calls for a new dimension to the reform of public services in Australia, which could play a significant role in meeting the growing needs of society more efficiently and effectively. Public Service Mutuals provide an alternative and innovative third way for delivering public services. As with any new approach, the success of PSMs depends as much on the technical skills, structures, governance, and financial support available, as it does on the willingness to embrace systemic change in the pursuit of a greater good.

This leadership could be expressed through the development and implementation of a national strategy for the growth of PSMs. This strategy would provide a mechanism to identify opportunities and to prioritise them for action. This would constitute a road map for investing in the growth of PSMs.

The strategy could engage a range of interested parties and seek to harness their resources. The Business Council of Co-operatives and Mutuals and the Public Service Mutuals Task Force could be tasked with overseeing the development and implementation of this strategy. However, the capacity of the Task Force would need to expand to achieve this. This could include the appointment of mutual ambassadors drawn from the strong cohort of leaders of existing co-operatives and mutuals. PSM Ambassadors, with the support of their organisations, together with professional advisors, consultants and experts, would be vital in providing the scaffolding activities recommended in this White Paper.

The recommendations relating to the reform in the legal, regulatory, policy and funding environment require an active role for the apparatus of government especially at federal and state levels. It is envisaged that the proposed community of practice could provide a vehicle for engaging public servants in the national strategy.

The most important stakeholders for the strategy are the individuals, communities, employees, community service organisations, and enterprises for whom co-operatives and mutuals provide a way of addressing a problem or exploiting an opportunity. Across all these groups there will be a large amount of co-operative entrepreneurship – and indeed co-operative ‘intrapreneurship’ – that will need support to transform ideas into action and ultimately to provide a better future for the participants, clients, beneficiaries and employees of public services.

The development and expansion of PSMs has untapped potential to benefit all Australians. The mutual ethos and participatory models of co-operatives and mutuals, which allow people to share responsibility for meeting their common needs, will help to build a stronger civil society – this is a nation building project from the ground up, by citizens for citizens.

Appendix A: The Public Service Mutuals Task Force Members

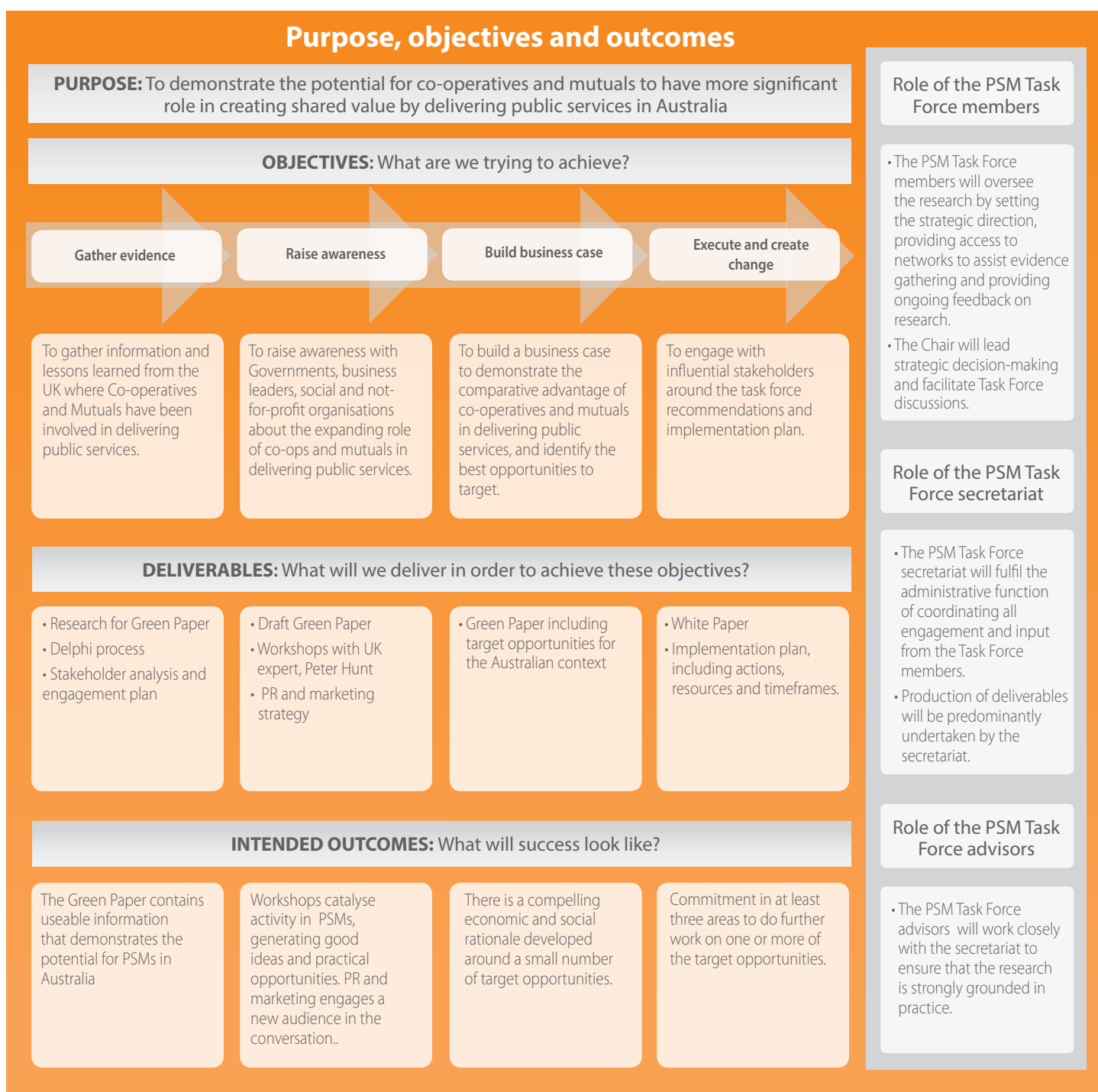
Name	Organisation & Role
Chair	
Gillian McFee	Chair of PSM Task Force, Strategic Adviser to NRMA, Former Director UnitingCare Ageing NSW/ACT
Members	
Rowan Dowland	bankmecu – General Manager Development
Melina Morrison	Business Council of Co-operatives and Mutuals – CEO
Angela Perry	Employee Ownership Australia Ltd – Chair
John McInerney	Common Equity Housing Ltd (CEHL) – Former Managing Director, BCCM Director
Kimina Lyall	Australian Unity – Group Executive Corporate Development
Patrick Walker	Royal Automobile Club of WA (RAC) – Executive General Manager, Advocacy and Member Benefits
Sheena Jack	HCF – Chief Strategy Officer
Advisors to the Task Force	
Gordon Duff	National Disability Services (NDS) – Executive Officer, National Policy Research Unit
Robyn Kaczmarek	Co-operative Home Care – Coordinator (founder)
Michael Pilbrow	National Health Co-operative – Director (founding Chairman)
Morrie O'Connor	Nundah Community Enterprise Co-operative – President
Secretariat	
Les Hems	Net Balance Research Institute – Director
Melinda Leth	Net Balance Research Institute – Senior Associate
Erica Olesson	Net Balance Research Institute – Associate
Alan Greig	Employee Ownership Australia and Social Business Australia – Board member

Appendix B: Australian Public Service Mutuals Task Force Terms of Reference

In 2013 the Business Council of Co-operatives and Mutuals (BCCM) and **bankmecu** commissioned the Net Balance Research Institute to prepare a report exploring the potential roles for co-operatives and mutuals in delivering Australian public services. This report recommended the establishment of a Public Service Mutual Task Force to oversee the development of:

- A Green Paper to evidence the business case for co-operatives and mutuals delivering public services in Australia
- A White Paper with recommendations for implementation.

The following diagram outlines the purpose, objectives, deliverables and outcomes for the Public Service Mutual Task Force.



Appendix C: Summary Table of Australian Case Studies in the Green Paper

Name	State	Business Structure	Policy area	Purpose
Dandenong and District Aborigines Co-operative Ltd	VIC	Community-owned co-operative	Health, Families and children, Housing support, Communities & Vulnerable People	To provide professional services to foster and support positive and fulfilling lifestyles for individuals and families within their Aboriginal community.
Ethnic Child Care, Family and Community Services Co-operative	NSW	Community-owned co-operative	Education, Settlement & Multicultural Affairs	To ensure people from Culturally and Linguistically Diverse (CALD) backgrounds have the opportunity to participate and receive services relevant, sensitive and appropriate to their linguistic, cultural, religious and lifestyle needs
bankmecu (and Fitzroy and Carlton Community Credit Co-operative)	VIC	Customer-owned bank	Financial inclusion	bankmecu is inspired to enhance the financial wellbeing of its customers in responsible ways. It provides its customers with value for money, responsible banking, insurance and financial planning solutions, as well as high value, customer service in a profitable and sustainable way
Community Child Care Co-operative Ltd	NSW	Producer co-operative	Education	To inform and inspire early education and care services, and influence government policy, practises and programs so that children within NSW have access to quality education and care services that meet the needs of their communities
National Health Co-operative	ACT	Consumer-owned co-operative	Health	To operate an affordable, community-owned health centre providing a range of quality health and related community services
Nundah Community Enterprise Co-operative	QLD	Employee owned co-operative	Disability employment	To provide long-term, sustainable employment for people with intellectual and cognitive disabilities
Co-operative Home Care	NSW	Employee owned co-operative	Ageing & aged care	To provide home support services to assist elderly people and the disabled to live independent, healthy lives; and to improve the quality of employment for the members.
Royal Automobile Club of Western Australia and St Ives Group	WA and National (Aged Care Services)	Member-owned mutual	Ageing & aged care	To protect and enhance the lifestyle of its members (services include roadside assistance, insurance, retirement and aged care)
Common Equity Housing Limited	VIC	Consumer and enterprise co-operative	Housing support	To be a successful promoter and facilitator of secure, affordable co-operative housing, where there are real opportunities for member participation
Independent Youth Housing Group	QLD	Non-profit member owned housing group	Housing support	To ensure the housing security of its members.
Australian Unity	National	Member mutual company	Ageing & aged care	To enable its members to achieve a sense of well-being through the provision of high trust products and services (including health and ageing services)

Public Service Mutuals:
A third way for delivering public services in Australia
WHITE PAPER

