



BUSINESS COUNCIL  
OF CO-OPERATIVES AND MUTUALS

Senate Economics References Committee Secretariat  
PO Box 6100  
Parliament House  
Canberra ACT 2600

02 March 2016

Dear

RE: QUESTIONS ON NOTICE – SENATE ECONOMIC REFERENCES COMMITTEE  
INQUIRY INTO COOPERATIVE, MUTUAL AND MEMBER-OWNED FIRMS IN THE  
AUSTRALIAN ECONOMY

The Business Council of Co-operatives and Mutuals is pleased to provide the following supplementary material in response to the Committee's "Questions on Notice" to the BCCM.

The Committee requested the BCCM prepare a Supplemental Submission in response to the evidence of the CPSU given at the hearing on 30 October 2015.

The following information expands on the Questions on Notice material submitted on 7 December 2015 (Point 5. **Public Service Mutuals**).

I trust that the following information is of assistance. Should the Committee require any further information, I invite you to contact me directly by phone: or email:

Yours sincerely

Melina Morrison  
Chief Executive Officer



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#### Executive summary:

1. There is an historic link between unions and co-operatives; co-operatives recognising the importance of custom, labour and capital and women's suffrage.
2. Prior to the creation of the welfare state, friendly societies provided a range of health and welfare benefits to members of the community.
3. The 20<sup>th</sup>C nationalisation programme extended beyond core personal services to those things which modern states expected their citizens to have ready access to: water, drainage, electricity, gas, road, rail and air transport.
4. These all therefore became seen as public services.
5. Services previously thought of as public services have been extensively privatised.

The BCCM recommends appropriate amendments to the approach which was taken in the UK over the past five years. This approach has given rise to concerns, especially from unions, about the impacts on public sector employment and public sector employees, based on:

- a. A narrow definition of Public Service Mutuals (PSMs) as employee 'spin outs' (organisations that have left the public sector but continue delivering public services where employee control plays a significant role in their operation: <https://www.gov.uk/government/get-involved/take-part/start-a-public-service-mutual>) and;
- b. The formation of organisations, called 'mutuals', that do not meet the democratic and open criteria of genuine co-operatives i.e. privatised services under the cover of 'mutuals'.

#### Response and recommendations:

- a. The BCCM has adopted a broader definition of public service mutuals, which includes mutuals formed by service users (consumer co-operatives), providers of services (enterprise co-operatives) as well as by employees (worker co-operatives). This broader definition has the effect of promoting a plural business economy, with many types of firm.
- b. The two umbrella groups representing co-operatives and unions in the UK - the TUC and Co-operatives UK - were concerned that not enough public sector mutuals offered employees a genuine voice in the formation or the running of the new business. The TUC and Co-operatives UK have signed up to an historic joint set of best practice guidelines setting out the conditions that should be in place to ensure that public service mutuals are based on employee support and offer genuine employee ownership and representation.

The BCCM supports the mutual option for public services as a way to empower staff and engage service users but agrees with the TUC and Co-operatives UK that it must be done well. There are international principles, which safeguard the co-operative model, as a form of mutual. This guidance draws on these principles, and pioneering work with co-operative schools, to set out how to protect and promote the interests of employees and others who have a direct stake in the quality of public services.



Australian Senate Inquiry: Public Service Mutuals

## Supplemental Submission

### 1. What are co-operatives and mutuals?

In essence, co-operative and mutual societies are self-help projects started by ordinary people in their communities, who lacked access to something. Food at a fair price, finance to own their home, financial security in the event of sickness, death of the bread-winner or other catastrophic events – these are the basic needs of everyone; but in Victorian England they were only available to the more prosperous.

Other people realised that they could address these needs, community by community, if they did so collectively. By (1) coming together to acknowledge their shared needs, (2) recognising that they could not meet those needs individually but could do collectively, and (3) agreeing to work together in a common endeavour (co-operating), they could not only meet their individual identified needs, but do much else besides. This involved forging new relationships with each other, as fellow-citizens.

So they devised an organisational format involving open and voluntary membership (nobody was excluded, so it was open to everyone and not a private club; but it was optional); equality and democratic control through each member having one vote; a requirement for each member to contribute capital over a period of time; and the election of a board or committee to take charge of running the business. That was the model of democratic ownership and governance.

The business model was simple. The funds contributed by members were used by the co-operative to buy wholesome produce on a wholesale basis, and to sell it back to the members without any profit mark-up. The selling price just needed to cover the costs of the venture, including provisioning for anticipated risks (reserves). This meant deciding a price for selling, and at the end of the year, if there was a surplus of income over expenditure, returning that surplus to members in proportion to their purchases. It was the original “fair trade”, seeking to cut out exploitation.

### 2. The UK background

Co-operatives in this form started in the UK in Rochdale in 1844 with £28. By 1900, there were 1,634 registered societies, with 1.8 million members, a turn-over exceeding £77 million and £23 million of members' capital. By this stage, the consumer or distributive societies owned their own wholesaling operation, as well as growing and production. Shops frequently had a reading room upstairs, and a percentage of surplus was dedicated to educating members. They started providing some forms of care, as well as cultural opportunities. They introduced weights and measures, a minimum wage, and a maximum length of working day. Women were equally entitled to membership, voting, and giving a receipt for money, long before Parliament addressed all these issues.<sup>1</sup>

By 1900, there were also 1,323 trade unions, whose members numbered over two million people. Advertisements from this period show how co-operatives honoured custom, labour and capital, paying full union rates to workers. There were many people involved in both the co-operative and trade union movements, and the former was seen as the voice of the customers, and the latter as the voice of workers. Self-help was at the core of both of them. When the Labour Party came into existence in the early twentieth century as the third wing of the Labour Movement, it gave political voice to the working class.

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<sup>1</sup> Animation of Rochdale Story <http://www.co-op.ac.uk/our-heritage/#.Vm6at-l0q0M>



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OF CO-OPERATIVES AND MUTUALS

Over the same period, friendly societies grew significantly, providing a range of health and welfare benefits initially to artisans and the self-employed, and then more widely. Prior to the creation of the welfare state in 1948, there were 19 million members of friendly societies. There was also a substantial growth at this time in health and care facilities and hospitals, provided by philanthropic and community subscriptions, including some of today's best known hospitals. The churches and other faiths meanwhile were greatly involved in providing education for children. Citizenship was at its high-point.

### ***“Public Services”***

When the welfare state was “created” in 1948, the state took over what citizens were already providing; and what subsequently became known as “public services” originated in self-help, philanthropy and faith, not an act of Parliament. Parliament just wanted to make universally available what was currently available, but only on a piece-meal basis – namely a vast and rich tapestry of extraordinary services organised and created by people in communities over the last 100 years or so. The state assumed responsibility for making them available, created statutory rights and duties, and arranged payment for them through central taxation. The state took over from communities; the modern welfare state was born; and sadly, citizenship was side-lined.

The 20<sup>th</sup>C nationalisation programme extended far beyond core personal services, the need for which had been such a source of personal misery a century before. The state also assumed responsibility for those things which modern states expected their citizens to have ready access to: water, drainage, electricity, gas, road, rail and air transport and much else besides. These all therefore became seen as “public services”, and in the minds of some today still should be, alongside the new century's needs such as internet access.

### ***Modern mutuality***

For the last 30 years, under both Conservative and Labour/Coalition administrations in the UK, services previously thought of as public services have been extensively privatised, either through sales of shares on the stock exchange, private sales to existing businesses, or outsourcing through tendered contracting arrangements. But since the late 1990s, there has been growing interest in the possibility of an alternative co-operative or mutual approach to the ownership and operation of such services, harking back to the public sector origins.

Infrastructure services were the first to be privatised, in the expectation that the market was a much better mechanism for ensuring investment, value and quality, though events proved this wrong. There remains interest in the UK in exploring potential forms of community (member-based or mutual) ownership for more asset-based, less personal services, and some of these are being actively pursued (the mutualisation of Post Office UK is an example), others trialled on a small and local scale (libraries) and in some cases rather larger scale (leisure, culture and sport services). Although a template for mutual ownership of major public assets was close to trialling in the late 1990s (water and sewerage services) this remains a longer term vision. The main exception to this is in social housing, where a strong member-based approach is being established (see below).

Returning to personal/people-based services, arguably the state can no longer afford to provide what an aging and longer-living population expects and needs. With the reduction of the state becoming increasingly inevitable there is a broad range of views about “public services”.

When a broader arc of history is considered (as summarised above), it is possible to imagine a more nuanced ideological position, where common cause could be made between workers and users (see below).



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OF CO-OPERATIVES AND MUTUALS

Some (whether from the left or the right) have seen the reduction in the size of the state as inevitable, and thought that it would be good to work on pragmatic options other than private-profit.

There is potentially a centrist view that whilst private-profit ownership may have its place, there are some areas where it is obviously inappropriate, or has failed. For example, the largest provider of care homes and long-term care beds in the UK (Southern Cross)<sup>2</sup> became insolvent, with much media comment that the business model was unsustainable. The approach that “put profit before people” was inappropriate.<sup>3</sup>

There have been other examples of private sector failure. One of these is Hinchinbrooke Hospital, a small district general hospital in Cambridgeshire.<sup>4</sup> Amidst great controversy, in 2011 the management of the hospital was contracted to a private company, Circle Health. By 2014, Circle wanted to withdraw as the hospital was no longer financially viable under current terms. There were serious criticisms of patient care and financial problems. Management was handed back to the NHS earlier this year.

### **“Public service mutuals”**

The term “public service mutual” has experienced brand damage in the UK as a result of egregious examples of privatisation masquerading as mutualisation.

The term “mutualisation” is itself a contradiction. Mutuals come into existence when people in communities come together to solve a collective problem where “the market” is failing to meet their needs, and nobody else is helping them out. Mutuals are created by people in communities not by governments trying to make a transaction happen.

Caution is needed when either phrase, “public service mutual” or “mutualisation” is used in the context of public sector reform. In each case, the following questions should be asked:

- Is it legally committed to carrying on business (and retaining any surplus) for a public or community purpose?
- Is it owned and controlled by local community members, including employees?

The following comments can be made about organisations referred to in the context of the CPSU’s submission (Hansard, Friday 30<sup>th</sup> October 2015 pages 30 and following), not already referred to above:

**Cleveland Fire Brigade** – a potential candidate in 2013 for a form of member-ownership, which encountered substantial regulatory, pension and staff-engagement issues and did not proceed.

**Central Surrey Health** – describes itself as a co-owned profit for purpose social enterprise<sup>5</sup>, rather than a mutual. It predated (2006) the Coalition/Cabinet Office Mutuals’ Taskforce (2010), but was used to champion its aims. Its owners are its employees, and it compares itself to John Lewis (see below), but making it clear that its employee members do not receive a financial dividend. CSH (as it is now known), failed to win a £500m tender for a

<sup>2</sup> [https://en.wikipedia.org/wiki/Southern\\_Cross\\_Healthcare\\_%28United\\_Kingdom%29](https://en.wikipedia.org/wiki/Southern_Cross_Healthcare_%28United_Kingdom%29)

<sup>3</sup> <http://www.theguardian.com/business/2011/jul/16/southern-cross-incurable-sick-business-model?INTCMP=ILCNETTXT3487>

<sup>4</sup> [https://en.wikipedia.org/wiki/Hinchinbrooke\\_Hospital](https://en.wikipedia.org/wiki/Hinchinbrooke_Hospital)

<sup>5</sup> <https://www.cshsurrey.co.uk/about-us/about-csh-surrey/co-ownership>



BUSINESS COUNCIL  
OF CO-OPERATIVES AND MUTUALS

contract in 2011 which the media portrayed at the time as a failure of government policy and the concept of social enterprise, but CSH continues to operate successfully.<sup>6</sup>

**John Lewis** – a well-known and highly successful retail business in the UK which operates as a for-profit company whose shares are owned through a trust by its employee members. It is a profit maximising business, but the profits go by way of an annual bonus to all employee members.

**Secure Healthcare** – this was a provider of healthcare to prisoners. It was an innovative organisation established in 2007 as a social enterprise which failed in 2009 due to an insufficiently robust business plan. This exposed the hazards in the public sector for organisations with limited influence over their income due to the power of commissioners.

### ***Emerging modern mutuality in the UK***

In response to cuts to funding and the current austerity programme, a self-help movement has been emerging within the last 10 years or so from within the public sector, where far-sighted individuals can see the need and opportunity for a new approach. This is not simply a view that a different legal or governance structure will somehow transform their area of service.

It is essentially a recognition that the current approach to “service delivery”, even the language we use to describe it, no longer works very well. The binary, consumer-based approach where public services are something done-to citizens is not only economically unsustainable it is also arguably inappropriate. Individual citizens demand a different relationship with the state. Whether motivated by a sense of civic duty, self-help, philanthropy or faith, citizens want to be working with the state, with the housing organisation, with the health and care professionals, to live healthier and more content lives, and have lesser demands on the public purse, so that the increasingly scarce resources are used for the highest priorities.

This is an approach which seeks to break down barriers between those citizens receiving services and citizens administering services (“co-production”), for users and workers to collaborate in making the best use of resources available (“co-design”), and to increase the involvement of people in communities (family, friends, neighbours) in people meeting their needs and living better. Not only is this common sense, and good economics, it taps into our nature as social beings, interested in living in society.

It seeks not just to capture such motivation and work with it in meeting citizens’ needs; it seeks to re-imagine what is made available, reshaping and redesigning with workers and users as part of that process; but crucially also introducing much more effective and direct accountability.

It is also consistent with what experts in different fields are telling us is appropriate – e.g. the World Health Organisation puts “health services” as number 6 in its social determinants of health, after (1) social connections, (2) clear water, (3) nutritious food, (4) safe housing, and (5) the means to acquire these.

So in this context, modern mutuality in the UK would concentrate on the following features:

- organisations operating for the public benefit
- owned and controlled by members for that purpose

<sup>6</sup> [https://en.wikipedia.org/wiki/Central\\_Surrey\\_Health](https://en.wikipedia.org/wiki/Central_Surrey_Health)



- that are economically sustainable

A number of the member-based organisations illustrate some or all of these features.

- The tenant member-based model for housing for the Welsh Assembly Government (the Community Housing Mutual)<sup>7</sup> adopted by a number of housing providers in Wales.<sup>8</sup>
- Rochdale Boroughwide Housing (RBH) which developed a new tenant and employee based model which went fully live in 2013<sup>9</sup> now followed by Merthyr Valleys Homes in Wales<sup>10</sup>
- In healthcare, a member-based corporate model known as a Public Benefit Corporation (more popularly known as a Foundation Trust) was created by legislation in 2003, and now more than half of NHS Trusts (hospitals, mental health trusts and other specialist health providers) have adopted this format.
- In community health services a number of care providers have been established which are mainly employee-owned and controlled, including Care Plus Group, Anglia Community Services and Medway Community Services.<sup>11</sup>
- Youth services (Knowsley Youth Mutual and Circle Crew for Change)<sup>12</sup>, library services (York and Suffolk)<sup>13</sup>, leisure and culture (Salford Community Leisure)<sup>14</sup>.
- At national level, the approach commenced by the previous Coalition Government in relation to the potential transfer of Post Office out of state ownership into some kind of member-based model provides an illustration of an intelligent, government supported approach to the exploration of transition to mutual status by a national organisation.<sup>15</sup>

### ***Why mutual ownership will remain significant***

Given the demise of “public ownership” as it has existed over recent years, a strong viable alternative option to private for-profit ownership is needed for the modern age. Community-based provision was the historical origin, and some form of community-involved future seems the most likely next stage.

The establishment of this requires collaboration between government and communities, politicians and citizens. Neither can make it happen without the other. Those already operating in a mutual context may be able to help.

There is no easy blue-print, or simple replicable model. It requires people in communities, who want and are prepared to strive for a different approach.

<sup>7</sup> RCT Homes was the first to adopt this model – not until 2007; see

[http://www.rcthomes.co.uk/main.cfm?type=MORETHANALANDLORD&object\\_id=2594](http://www.rcthomes.co.uk/main.cfm?type=MORETHANALANDLORD&object_id=2594)

<sup>8</sup> See for example <http://gov.wales/topics/housing-and-regeneration/legislation/housing-act/specific-elements/co-operative-housing/?lang=en>

<sup>9</sup> See <http://www.rbh.org.uk/> and for a background explanation <http://www.mutuo.co.uk/news/socialhousing/>

<sup>10</sup> <http://www.mvhomes.org.uk/News-Detail.aspx?cmsid=2385&hash=01Fn6JeS%2FlecX1Fjoneupg>

<sup>11</sup> See <http://www.mutuo.co.uk/news/healthservices/>

<sup>12</sup> See <http://www.youthmutual.co.uk/> and <http://www.circlecrewforchange.com/>

<sup>13</sup> See [https://www.exploreyork.org.uk/client/en\\_GB/default](https://www.exploreyork.org.uk/client/en_GB/default) and

<http://suffolklibraries.co.uk/announcements/suffolk-libraries-celebrates-its-3rd-birthday>

<sup>14</sup> See <http://www.salfordcommunityleisure.co.uk/>

<sup>15</sup> See <http://www.uk.coop/resources/mutual-options-post-office-ltd>