

INDIGENOUS BUSINESS AUSTRALIA

Submission to the inquiry into community stores in remote Aboriginal and Torres Strait Islander communities

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Introduction

Community stores have been a significant issue in Indigenous affairs and Indigenous people's lives in regional and remote areas for many decades. The Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) has the Government's lead policy responsibility for community stores. In the past few years, Indigenous Business Australia (IBA) has had a key role in establishing Outback Stores, which represented an innovative commercial approach to increase the supply of healthy foods in remote communities and address the ongoing poor management of stores. It is understood that Outback Stores Pty Ltd is making a separate submission which will address the more detailed operational and implementation issues and results, and that FaHCSIA, IBA's portfolio department, will be addressing the broader policy issues regarding securing access for Indigenous communities to nutritious food supplies.

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This submission will focus on the background and intention regarding the Outback Stores model - how effective it has been from the point of view of a business model and broadly, given the long term nature of the issues, how effective it has been in addressing the health and economic issues as originally envisaged.

In summary, IBA makes the following comments regarding the benefits of independent entities, such as Outback Stores, providing a management service for community stores. Such entities can provide:

- a) commercial expertise;
- b) a clear separation and costing of commercial versus social development objectives;
- c) achievement of broader economic and social development objectives, such as
 - preventing promoting/capitalising on sales of alcohol, cigarettes, soft drinks, unhealthy foods;
 - encourage establishment of small retail businesses;
- d) surpluses retained for broader community benefit, rather than going into private pockets or to distant shareholders;
- e) better safeguards against fraud, corruption or unscrupulous practices impacting adversely on customers;
- f) multi-store operations that offer opportunities to reduce input costs, and the ability to cross-subsidise poorer-performing stores;
- g) a stronger commitment to local employment and training; and
- h) improved efficiencies through greater purchasing power, bulk buying and a broader distribution network, resulting in lower prices for consumers.

Origins and purpose of Outback Stores

It has long been recognised that the high prevalence of poor health in rural and remote Indigenous communities indicates a need for increasing the supply of healthy food. This is acknowledged in the National Aboriginal and Torres Strait Islander Nutrition Strategy and Action Plan (2000-2010) and was also identified by the Council of Remote Area Nurses as one of the single most significant factors in reducing the life expectancy gap between Indigenous Australians and the rest of the community.

Community stores are the main economic activity in most remote Indigenous communities and, potentially, well managed, sustainable stores would provide an important platform for achieving the health and economic wellbeing of remote communities. However, community stores have generally performed poorly and in fact, historically, have been recognised as a major structural impediment to access to healthy food.

Historically, many of the community stores have not been commercially viable due to a range of reasons including poor governance and management, the prevalence of local vested interests over efficient commercial practices, poor pricing and stock control systems, high transport costs, inadequate infrastructure and small customer bases. Many community store premises are in a state of disrepair, requiring urgent renovation. These inefficiencies have also resulted in higher prices for consumers.

These difficulties are compounded with the effects of remoteness, low salaries for store managers, poor housing/accommodation for managers and staff, limited training and development opportunities and difficulties managing the expectations of shareholders and customers.

There have been several community-based models for improving the effectiveness of community stores that have met with some success, such as those of the Arnhem Land Progress Association (ALPA) and, in the Torres Strait, the Islanders Board of Industry (IBIS). These organisations have been striving to provide effective store services in the areas of governance, purchasing, logistics, and recruitment processes over many decades, and are now achieving a fair degree of success.

A survey commissioned by IBA in 2005/06 pointed to a significant demand across Australia at community level for improving the performance of community stores by making available healthy food at more affordable prices and by improving store management in general. It also documented the problems outlined above.

Past attempts at addressing these issues based on Federal and State government grants and loans had not yielded the desired results in terms of sustainable community stores. Financial assistance to existing management structures had failed to address fundamental issues relating to stores management, including conflicts between community obligations of locally engaged store management staff with management practices required to achieve commercial viability.

To respond to the need to improve this situation, IBA was asked to develop a model that would address the issues of viability of community stores and the need to increase the supply of affordable healthy foods.

Under its legislation (the *Aboriginal and Torres Strait Island Act 2005*), Indigenous Business Australia operates under a commercial charter to stimulate and support the sustainable economic advancement of Indigenous peoples for the benefit of current and future generations. Therefore IBA applied a commercial rigour to generating efficiencies and effectiveness in order to resolve the issues around community stores.

It has been IBA's experience that preserving the commercial nature of our activities is critical to the success of IBA's business. In instances where potential social outcomes have overtaken commercial drivers in decision making, the integrity and sustainability of the business fails and our Indigenous partners see the business as another source of government grants rather than a means of economic and social self-sufficiency for their community. This experience is supported by a number of other examples through the history of Indigenous affairs where potentially sustainable Indigenous economic development programs, such as those under the Aboriginal Development Commission (1980-90) and Aboriginal and Torres Strait Islander Commission (1990-2005), have ultimately failed due to the mixing of commercial and social programs and objectives.

In fact, the creation of Indigenous Business Australia itself (in 1990), with a specific commercial imperative, is an example of Government attempting to apply the lessons learned from previous failures. The business model for IBA recognises that while commercial activities can support the achievement of social outcomes, the commercial operations must be allowed to operate in a purely business-like manner without social activities or objectives diluting this focus. In this way sustainable businesses can be generated that allow Indigenous Australians to become independent of welfare and government - and in the case of community stores, ensure there is a sustainable store in the community in the long term to provide healthy food.

The Outback Stores Model

This section sets out the general characteristics and intentions of the model IBA conceived to address the issues identified above. The Outback Stores submission explains in some detail the model as it currently operates. Development of the model focused especially on key aspects such as governance, staffing, systems (including IT), processes and supply chain arrangements that would have a significant impact on the sustainability of stores. A working group of retail experts played a major role in helping to develop the model.

Under the model, the broad objective of the Outback Stores initiative was to establish a network of self-funding and commercially viable community stores in regional and remote Indigenous communities, providing the foundations to improve the health and contribute to the economic sustainability of these communities.

This objective would be achieved through the establishment of a network of community stores managed and staffed through an IBA owned subsidiary company - Outback Stores - established as a limited liability company.

Outback Stores would provide existing community stores, identified as suitable programme candidates, with loans to renovate and upgrade the premises on condition of entering into ten year management agreements with Outback Stores (with the option to extend with community agreement).

Outback Stores would draw on the expertise of food industry retailers Coles and Woolworths in general food retailing as well as their previous involvement in community store management (for example, Woolworths in the Katherine area) by including senior executives from these organisations on the Outback Stores board.

Through the management agreements with participating communities, Outback Stores would provide day to day store management expertise (similar to that occurring in national grocery retailing chains) and address governance and performance issues. Outback Stores would provide a management service that addresses all business matters (procurement, pricing and ranging, and staffing policies) relating to the community stores. The company would charge a management fee drawn from store profits.

Outback Stores would develop appropriate strategies to progressively stop the practice of 'book-up' (encompassing a range of practices, from an implied line of credit, through to the store manager holding the customer's bank details and processing deductions on their behalf). Ownership of the store would be retained by the local community and profits returned to the community.

It was expected that the network would consist of about 40 stores under management by the fourth year of operation, with the potential in the following years for it to extend to all stores that wish to participate throughout Australia.

A progressive structuring and roll out of the model was designed to allow the development, review and improvement of detailed practices and procedures based on practical experience. The business plan for Outback Stores anticipated that the model would be rolled out progressively in the Northern Territory, Western Australia and Queensland.

The Outback Stores' central office would be located in Darwin, given its centrality in northern Australia where the majority of community stores are located. There would also be a network of regional offices and managers. Individual Store Managers would have responsibility for managing the store on a day to day basis, including ordering of stock, stock control and employment of local staff. The Store Manager would report to and be accountable to the Regional Offices.

Outback Stores would develop industry partnerships with leading retailers as well as established independent wholesalers and distributors, with a view to utilising their extensive expertise, purchasing power and supply chain arrangements. The central office would provide the back office support for the network, including accounting, human resources, IT, contracts and infrastructure loans administration as well as marketing, nutritionist and negotiations with stakeholders including Indigenous communities.

Central to the model is the employment of Indigenous people within each store and providing them with the opportunity to improve skills through access to accredited training and development programmes. Such training allows for the transference of skills in best practices in nutrition, food handling and food storage to the rest of the community. It was anticipated there may also be opportunities for store operators to have a role in improving individual financial literacy and money management skills of community members.

Under the Outback Stores model, the governance structure was a standard layered approach, which aims to ensure appropriate high level direction together with close management of the individual stores. Store managers at community level, would report through the Regional Managers to the CEO of Outback Stores. The CEO would report to the Outback Stores board and it to IBA. Indigenous Business Australia's governance and structure is specified in the *Aboriginal and Torres Strait Islander Act 2005* and the *Commonwealth Authorities and Companies Act 1997*. As Outback Stores would be a wholly owned subsidiary of IBA, it would be subject to annual audit by the Australian National Audit Office (ANAO).

Implementation and effectiveness of the business model – 2006-2009

Outback Stores is a wholly owned subsidiary of IBA, which was appropriated \$48.1 million over four years to establish the company in 2006-07 and a further \$29.1 million in 2007-08 to accelerate the rollout as part of the Northern Territory National Emergency Response. The bulk of the original appropriation was capital (\$40 million) to provide loans to refurbish or build community stores, with \$6.4 million additional capital to start up the company and the remaining \$1.7 million for departmental expenses. Indigenous Business Australia has been the primary point of accountability for this venture on behalf of the Government.

Without going into those details of Outback Stores operations and results to date that are more appropriately provided by the company, it is worth noting the following salient points regarding implementation and the outcomes achieved.

Coverage

At its inception, it was anticipated that Outback Stores would be present in 40 communities by the commencement of its fourth year (2009-10). It is understood that 30 stores will be under management by March 2009 and therefore Outback Stores is on target (noting the rollout in the Northern Territory was accelerated by the Northern Territory National Emergency Response described below). Given the development work, consultation and infrastructure required to make the model a reality, with implementation only commencing in late 2006, this is an impressive result. Most of these stores are located in the Northern Territory with three in Western Australia and one each in Queensland and South Australia.

Northern Territory National Emergency Response

While it was always intended that the initial focus of the Outback Stores rollout would be the Northern Territory because of the large number of discrete Indigenous communities reliant on community stores, this emphasis took on a new complexion under the Northern Territory National Emergency Response (NTNER) in 2007. Under the NTNER, Indigenous Business Australia was

appropriated extra funding for Outback Stores to facilitate an intensive effort in the 73 communities subject to the intervention, including complementary measures to assist welfare reform measures. The latter entailed government income support payments being quarantined for use on food and other essential items through the use of centralised accounting systems and sophisticated point-of-sale equipment.

Legislation was introduced creating a store licensing scheme to ensure all stores met minimum standards with respect to:

- Management and accounting of store income
- Quality, quantity, range and promotion of food and drink
- Financial and retail practices, including level of debt.

The NTNER accelerated Outback Stores initiative addressed the costs associated with servicing most of the NT communities, including compensation for assumption of some stores, a subsidy for some stores that are unviable, essential training and housing for store managers, stock and asset surveys and assumption of store debts.

Communities which have no store or where an existing store did not meet licensing requirements could contact Outback Stores directly to consult with them on the implementation of a new community store.

The effect of the NTNER initiative was to involve Outback Stores more closely, in terms of its day-to-day operations and broader decision-making, in assisting the Government achieve its social policy objectives.

Outcomes achieved

Details of the improvements that have been made are outlined in the Outback Stores submission, however the main points to make are:

- Stores under Outback Stores management have secured access for their clients to increased healthy food choices and product range, improved pricing, takeaway services and extended services, such as automatic teller machines and cheque cashing facilities.
- Increased turnover and gross profit have been achieved in the stores under management.
- Detailed surveys have demonstrated an improvement in the range of healthy foods and affordability in remote stores as compared with the stores in town centres.
- Outback Stores has been very successful in recruiting Indigenous employees, with over 100 in the Outback Stores Network with a number enrolled to commence training in March 2009.

The future of Outback Stores

The Government is committed to achieving its target of closing the gap in life expectancy between Indigenous and non-Indigenous Australians. It recognises

that ensuring access to affordable and healthy food for all Indigenous Australians will have an important part to play in achieving this target.

The Outback Stores Strategic Plan 2007-10 has as its primary goal achieving “beneficial and sustainable growth that delivers access to a constant supply of affordable nutritious food in all communities (commonly referred to as “food security”)”.

Given the Government’s strong resolve to achieve food security in remote Indigenous communities, IBA appreciates the desire to extend the benefits of the Outback Stores model to support stores even where their commercial viability may not be achievable.

IBA is keen to support the Government’s direction for food security and the income management scheme, however given IBA’s commercial charter, a decision was made to transfer Indigenous Business Australia’s interest in Outback Stores to the Commonwealth under the responsibility of the Department of Families, Housing, Community Services and Indigenous Affairs. This will allow a better alignment of Outback Stores with the Government’s social policy objectives.

We believe there should continue to be a focus on commercial development along the lines of the original concept for supporting retailing in remote communities. In establishing Outback Stores, IBA acknowledged the long history of government underpinning stores, with little sustainable change in the viability and effectiveness of these stores. Indigenous Business Australia required that Outback Stores maintain a commercial focus to ensure stores were viable in the long term and that they provided a quality service. Going forward, the challenge will be maintaining the positive gains of strong retail practices achieved by Outback Stores while balancing the need for food security in non-commercial operating environments.

It has also been the experience of IBA that to avoid commercial enterprise being seen as a government interference in the Indigenous way of life, IBA needed to ensure that Indigenous people actively participate at a board level in investments (as is the case for IBA itself which has a majority Indigenous board). The need to maintain an appropriate level of representation of Indigenous people on the Outback Stores board is an issue that the company and the Government will need to address with the transfer of responsibility for the company to the department.

The Outback Stores initiative is a creative and positive solution to the long standing problems experienced in community stores, combined with the capable membership of the current Outback Stores Board, there is a strong potential for the company to make a positive contribution to the wellbeing of a large number of Indigenous people.

Lastly IBA would also like to reiterate its commitment to finding commercial solution to issues, where it is sensible to replace existing welfare solutions.